

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT REGISTER OF PEOPLE WITH
SIGNIFICANT CONTROL REGULATIONS 2016

DRAFT LIMITED LIABILITY PARTNERSHIPS
(REGISTER OF PEOPLE WITH SIGNIFICANT
CONTROL) REGULATIONS 2016

Monday 22 February 2016

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The Committee consisted of the following Members:

Chair: ANDREW ROSINDELL

† Ali, Rushanara (*Bethnal Green and Bow*) (Lab)
 † Allen, Mr Graham (*Nottingham North*) (Lab)
 † Barclay, Stephen (*North East Cambridgeshire*)
 (Con)
 † Brennan, Kevin (*Cardiff West*) (Lab)
 † Fuller, Richard (*Bedford*) (Con)
 † Huddleston, Nigel (*Mid Worcestershire*) (Con)
 † Jackson, Mr Stewart (*Peterborough*) (Con)
 † Kawczynski, Daniel (*Shrewsbury and Atcham*)
 (Con)
 † Kinnock, Stephen (*Aberavon*) (Lab)
 † Morden, Jessica (*Newport East*) (Lab)

† Pawsey, Mark (*Rugby*) (Con)
 † Poulter, Dr Daniel (*Central Suffolk and North
 Ipswich*) (Con)
 Shapps, Grant (*Welwyn Hatfield*) (Con)
 † Sherriff, Paula (*Dewsbury*) (Lab)
 † Soubry, Anna (*Minister for Small Business, Industry
 and Enterprise*)
 † Wollaston, Dr Sarah (*Totnes*) (Con)

Katy Stout, *Committee Clerk*

† **attended the Committee**

Second Delegated Legislation Committee

Monday 22 February 2016

[ANDREW ROSINDELL *in the Chair*]

Draft Register of People with Significant Control Regulations 2016

4.30 pm

The Minister for Small Business, Industry and Enterprise (Anna Soubry): I beg to move,

That the Committee has considered the draft Register of People with Significant Control Regulations 2016.

The Chair: With this it will be convenient to consider the draft Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016.

Anna Soubry: It is a pleasure to serve under your chairmanship, Mr Rosindell. This area is covered by an uncontroversial Act of the previous Government. There was much collaboration and co-operation between both sides and an important part of the legislation is now being introduced through regulations. I will not go into all the detail. My officials have kindly provided me with a speech that might, with a fair wind behind me, take me 15 minutes to read. In any event, the regulations are clear about what they set up and why. I want to deal with why the regulations are now before us. In 2013 the Prime Minister set out the UK's ambition to improve corporate transparency and tackle criminal abuse of UK corporate entities. The regulations, which I am pleased we are considering today, underpin the detail of the register of people with significant control and bring that ambition one step closer to reality.

The register is the central pillar of the United Kingdom's ambition to increase the transparency of UK corporate entities. It will record the people who own and control UK companies, limited liability partnerships and societies *Europaeae*—a little-used pan-European form of company. Information about the ownership and control of UK corporate entities will bring benefits for law enforcement, business, civil society and citizens. By making such information publicly available, free of charge, via a central register, the Government are setting the standard for open government that we are encouraging international partners to follow. It was therefore gratifying to see that the Dutch Government recently announced their intention to make public their beneficial ownership register.

The register of people with significant control, or PSC register, will record the details of those who own or control UK companies. There are five conditions for being a PSC: an individual holds, directly or indirectly, more than 25% of a company's shares; an individual holds, directly or indirectly, more than 25% of the voting rights in a company; an individual holds the right, directly or indirectly, to appoint the majority of the board of directors; an individual has the right to exercise, or actually exercises, significant influence or control over a company; and, finally, the trustees of a

trust or the members of a firm that is not a legal person would meet one of the first four conditions in relation to a company, or would do so if they were individuals, and have the right to exercise, or actually exercise, significant influence or control over the activities of the trust or the firm.

The regulations set out the detailed requirements for the PSC register and are self-explanatory, so, as I said, I will not go into the details. In short, they set out the scope of the register, the fees that a company can charge for providing copies of its own register, the information to be included on the register, the contents of warning and restriction notices, and how the protection regime will work for PSCs at risk of harm through their information being made public. The limited liability partnership regulations, or LLP regulations, apply the provisions contained in part 21A of the Companies Act 2006 and the companies regulations to limited liability partnerships with appropriate modifications.

Rather than going into all the details, I will happily take questions and answer them as best I can. The regulations are an invaluable part of improving corporate transparency in the United Kingdom.

Richard Fuller (Bedford) (Con): My right hon. Friend says that she will answer questions, so I will get mine in early. Do these regulations come under the one-in, two-out rule for regulation, and can she give some advice on what the consequential changes to other regulation will be when she sums up the debate?

Anna Soubry: Of course I undertake to answer my hon. Friend's question. As he will know, with all regulation we are absolutely determined—and indeed we do this—to check the cost, if any, to business and to mitigate it in any way we can; and in any event we have as an overarching principle the absolute determination to cut red tape and to reduce bureaucracy and regulation as much as we can.

Dr Sarah Wollaston (Totnes) (Con): Will my right hon. Friend also set out what the penalties will be? Will there be a sliding scale depending on the size of the company? We so often see with these kinds of regulations that the penalties can be meaningless, so it would be interesting to hear more on that.

Anna Soubry: Of course I will also answer that question when I sum up the debate. If there are any more questions, I will be more than happy to take them. If not, that is all I will say. I will listen, of course, to the hon. Member for Cardiff West.

4.36 pm

Kevin Brennan (Cardiff West) (Lab): Government Members have anticipated a couple of the questions that I had planned to ask, so for the sake of brevity I will not repeat them; I know that the Minister will want to answer them.

These measures are about improving trust in UK companies—an aim that we share across the House. As the Minister rightly said at the outset, they have their genesis in some of the work of the previous Government; it has attracted cross-party support. They apply a new requirement in relation to different business forms.

The requirement is aimed at increasing the transparency of the ownership of companies, and it will have most impact on unlisted companies. Obviously, the measures also have a basis in the Small Business, Enterprise and Employment Act 2015—the Bill was broadly supported by both sides of the House when it was discussed last year. In general, there has been little criticism of these measures outside the House and, broadly speaking, the Opposition are content to support the Government today and not to oppose the measures should there be a Division.

There has been an indication that some groups—perhaps trustees, for example—have a lower awareness of the requirements than might be hoped. Can the Minister say something about how awareness of the requirements under these provisions will be made more widespread? Is there a plan in place to ensure that there is greater awareness of what is being proposed today?

Clearly, much of this work is the result of disquiet about anonymous owners of companies and their actions. That can operate on many levels; it ranges from concern in Government about connections between companies and terrorist groups, for example, to people who fear for their jobs as shadowy funds try to buy their company, and to local worries about who is buying up a town's offices and shops. Transparency around all these issues is therefore very important, which is why, broadly speaking, the Opposition are content to support what the Government are doing today.

I note that in this area the biggest opposition seems to have come from the British Bankers Association and the British Private Equity & Venture Capital Association. What is the Minister's view of their objections that all of this might be a time-consuming process that interferes with enterprise? The British Bankers Association also has concerns about the dangers of public access to the proposed register. As I said, we intend to support the measures, but we look forward to hearing the Minister's answers to our questions and to any questions that her hon. Friends might have.

4.39 pm

Mr Graham Allen (Nottingham North) (Lab): It is a great pleasure to serve under your chairmanship, Mr Rosindell. I strongly welcome the regulations, but I do not want us to get too carried away in thinking that this is the end of the process or the answer to all our questions. It is a welcome baby step, but the problems we face are enormous. I am sure that the Minister will underline how serious a longer term effort is, particularly when it comes to transparency.

The Prime Minister referred to transparency in his 2013 remarks about the abuse of company power, and we need to stay vigilant. We are very much at the penny farthing end of legislative regulation while the enemy—if I can put it that way—is at the cutting edge of digital technology. Our attempts to run after some of the problems are forlorn and sometimes quite pathetic, so we need to continue to be as serious as we can on a number of these issues.

International co-operation is key. Perhaps I am mirroring some of the debate that is happening at this very moment about whether we should be in or out of the European Union. The question of whether we should be in or out of European and, indeed, international

co-operation surely unites the Committee, because we have to work together. It is absolutely pointless if one nation—even our own—regulates at a particular level and is then perhaps joined by the Dutch but by very few others; international capital and international companies can move swiftly and defeat the efforts of even the best domestic regulators.

Looking at that level is important because the regulations apply only to UK-registered companies, and companies have been known to switch their base of operations. There have been clear examples recently of companies avoiding tax by moving their base and their tax designation. We need to develop an international level of regulation so that people cannot evade due process. In taxation that is very clear; whether it is Google or Starbucks, that level of interaction and co-operation is needed, and that is relevant to the regulations before us.

At the European level, we are seeing some small steps. However, perhaps there is an argument for those who are arguing to be outers today—I do not know whether we need a show of hands to see who in the Committee is an outer and who is an inner. If the European Union is yet to deliver a directive, that might give strength to the outers. It is yet to finalise its proposals, which apparently will be the fourth money laundering directive—clearly the first three were not as effective as we might have liked—and they might be launched in the near future. The Minister might know better than I do, but the directive was kicked off way back in 2013.

However, at the global level there seems to be very little progress indeed. The sub-prime crash seems many moons ago, but have we learnt the lessons of that? Is the regulation in place on a European and an international basis? Despite the devastating consequences in all our constituencies, progress has been very, very slow. I suspect that it will also be very, very slow when we discuss taxation internationally and it may well be very, very slow in terms of transparency internationally, as my hon. Friend the Member for Cardiff West said.

I understand that British bankers and British venture capitalists constantly send letters to the Minister talking about the administrative burden and how difficult it is to actually figure out who owns 25% of any given company. What absolute nonsense. I hope that she will dismiss that, as she has done in bringing forward the regulation. We should show the legislative door to the idea that, in this day and age, we might use what was called, under the previous Labour Government, a “light touch” on the regulations, because it can be a matter of such significance when we cannot find out who owns and manages companies.

In essence, I am suggesting that all companies, no matter where they are registered, should have to publish a list of people who have a significant say in the running of their businesses. It is important for transparency and taxation and so that we know—so that everyone knows—where big money is going and who controls it. International capital has an important say in, and sway over, what can happen in domestic economies—far greater than at any point in our history. I therefore hope that the Minister will listen to the comments and be able to respond that today we are not at the end of the process, but just at the beginning.

4.46 pm

Anna Soubry: Perhaps I may begin by answering the question from my hon. Friend the Member for Bedford. The regulations were out of scope because they were an international requirement, so the one in, two out principle did not apply to them. We had international obligations.

I am sure my hon. Friend will be interested to know that the final state impact assessment estimated the costs as a net cost to business per year of £97.5 million. Over 10 years it is £1,086.2 million, so it is not exactly small. What will please my hon. Friend, however, is that that final assessment also found that there would be a cost of £10 to small simple companies in relation to updating beneficial ownership information annually and, of course, £10 in relation to providing information to the central register annually. The good news is that for the smaller businesses the amount of money involved is very small. It has been argued, and I would argue, that it is well worth paying because of the importance of making sure that we tackle the problem.

Kevin Brennan: I think I heard the figure that the Minister used then, but the impact assessment documents for the two regulations that we are considering state that the net cost to business in relation to the PSC register would be £10.09 million per year, and that the net cost to business per year in relation to the other one would be £4.7 million per year—both on 2014 prices. I think she gave a considerably higher figure, so I wonder whether she could explain the difference.

Anna Soubry: I am afraid I cannot. I would be delighted if the figure that I had been given is wrong and the one that the hon. Gentleman has is correct. One thing that is for sure is that if I am wrong—if the figure I have been given is incorrect, as I hope it is—I will happily write to all members of the Committee to correct that. If the hon. Gentleman is right, that will be good news all round. Obviously we are determined to make sure we keep the cost as low as possible. The regulations are serious and important, with the aim of tackling a genuine problem; it is sometimes a mark of their seriousness that such things cost money. However, I will sort that matter out.

Richard Fuller: Of course the Minister will come back with the answer, and I very much appreciate that. However, the Government's objective over the next five years is to reduce the burden of regulation by £10 billion. So if the figure is close to the Minister's number, and the matter is out of scope, it rather calls into question the veracity of the Government's deregulation agenda. If we can have an extra £1 billion of regulation that is out of scope, while we are trying to get rid of £10 billion, that seems a matter of concern. Can the Minister assure the Committee that she will not only validate the number but consider the issue of what is in scope or out of scope about the regulations, and perhaps give us some advice on that?

Anna Soubry: I think the best thing I can do, although I am always happy to talk to my hon. Friend, is to write to him in more detail. We have saved a huge amount of money—around £5 billion—for businesses over the past five years through deregulation, and it is now accepted

that we are one of the best places in the world to do business, specifically because we do not over-regulate in the way that we did. We have made huge strides. There is more to be done in the next five years, but we have made enormous progress, which is now being recognised. When I meet smaller businesses and, notably, the Federation of Small Businesses, they do not complain as they used to about the amount of regulation, but it is absolutely accepted that more can be done.

On the question asked by my hon. Friend the Member for Totnes, I am told that the Act introduced robust penalties to deter and sanction those who seek to misuse UK companies. Those penalties will, of course, support law enforcement tax authorities' existing powers of investigation. The details, if I may be so bold, are in the Act, but if she would like me to point to them, I am more than happy to do so. However, as I have said from the outset, this is a serious piece of work due to the nature of the threat to the security of our nation, particularly in the business sector.

I agree with some of what the hon. Member for Nottingham North said, but it is often the case that the United Kingdom is doing all that it can, and this is a good example. Others will no doubt come and play, but we cannot force other countries to follow our example, any more than we can force companies registered in other countries to abide by our law. That has always been the case, and rightly so.

I hope that I have been able to answer right hon. and hon. Members' questions. It is an important new regime for companies, increasing the transparency of who owns and controls UK companies. It is important to maintain the United Kingdom's high standards of corporate trust. Anti-corruption is a key priority for this Government, and our Prime Minister has taken a serious personal interest in it. I know that there is, quite rightly, cross-party support for the issue.

Kevin Brennan: I am grateful to the Minister for giving way, which will undoubtedly save us time. Although we are content, as I said earlier, to let these regulations pass without asking for a Division, I would like to put it on record that it is important to get accurate figures on the impact assessments and the cost to business when we discuss such matters. Who knows; inspiration might come to the Minister while I am on my feet. However, if she is unable to clarify that matter now, I would welcome an early communication from her, as I am sure would other Committee members, about the correct figure. We are content to let the regulations go through on trust because we think that they are good measures, but nevertheless, it is important when we debate such things that the Minister has the correct information before her—it is not her fault—so that the Committee can discuss them with the full information before it.

Anna Soubry: I apologise for being unable to give the definitive figure. I can tell the Committee only what I have been given, and it is not the same as the figure that the hon. Gentleman has. However, there is some indication that he might be right and that, for reasons that I do not understand, the figure that I have been given is not. Either way, we will sort out the matter, and I apologise. One would think from the abundance of papers and officials that I have that somebody might be able to give a definitive answer.

Notwithstanding that, these are important regulations and I am pleased that they have cross-party support. I commend both statutory instruments to the Committee.

Question put and agreed to.

Resolved,

That the Committee has considered the draft Register of People with Significant Control Regulations 2016.

**DRAFT LIMITED LIABILITY PARTNERSHIPS
(REGISTER OF PEOPLE WITH SIGNIFICANT
CONTROL) REGULATIONS 2016**

Resolved,

That the Committee has considered the draft Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016.—(*Anna Soubry.*)

4.54 pm

Committee rose.

