

Sanctions and Anti-Money Laundering Bill

Written Evidence to the Public Bills Committee

Submitted by Richard Osborne, February 2018

Introduction

- 1. I am the founder of eFiling, a user-friendly online registration alternative to the previously paper-based services of Companies House. We operate within the company formation industry to process more than 200,000 company registrations every year.**
- 2. We welcome the opportunity to provide evidence to the Public Bills Committee and would be happy to provide further evidence as necessary.**

Evidence

3. All limited companies and their directors are required to be registered in the UK. Companies House maintains the official register. Registration provides a clear record of financial and legal identity, which offers confidence to investors, business partners and customers. There is therefore a strong public interest in registry information being as accurate as possible.
4. Companies can register with Companies House directly (by paper forms or online), or they can use a Company Service Provider (Formation Agent) to help them do this. Currently, 42% of companies (more than 250,000) are set up directly with Companies House.
5. In July 2017, the 4th EU Anti-Money Laundering Directive came into force. This requires company formation agents to carry out enhanced due diligence checks when registering a company. Although this adds to the workload and costs for company formation agents, it has been welcomed by the industry as a positive step forward and results in a more accurate register at Companies House.
6. The 4th EU Anti-Money Laundering Directive does not cover Companies House. Legally, Companies House has to accept all documents sent to them in 'good faith', and it does not have any statutory powers to verify or validate the information contained on them. It can only act within the parameters of the Companies Act and it has no investigatory powers under this legislation. Therefore, there are no significant checks being done on companies registered through Companies House.
7. This means that for just £12, someone can set up a company using entirely false details without having to go through any verification checks on beneficial ownership, and limited checks on registered directors. Therefore, individuals who have been involved in money laundering, have convictions, or have been disbarred as owners in other jurisdictions can gain access to UK companies through Companies House.
8. Unfortunately, some companies are being set up for the principal purpose of committing crime, or subsequently lend themselves to being used for that purpose. In extreme cases,

incorporation is used purely as a front to enable fraud to flourish. This loophole leaves British businesses, consumers and the taxpayer open to abuse.

9. In a report released in November 2017, Transparency International found that there were hundreds of British shell companies implicated in nearly £80bn of money laundering. The 'Hiding in Plain Sight' report goes on to say that *"the fact that a large proportion of firms are incorporated directly through Companies House and undergo no due diligence checks creates a significant money laundering risk to the UK framework"*.¹
10. Additionally, the lack of checks harms Britain's reputation as a leading place to do business, something that must be addressed in the run up to Brexit.
11. The Government has previously argued that forming a company in itself is not suspicious activity, and this is one reason why due diligence by Companies House is not needed. However, these requirements have been imposed on the private sector, suggesting that there is enough of a risk for the Government to feel the need to take action. The Government must have a consistent approach, for both formation agents and Companies House.
12. The Financial Action Task Force is coming to the UK in March to evaluate the UK's anti-money laundering regime, and will publish a report by the end of the year. Although we welcome this, waiting for the publication of the report is unacceptable when action is needed so urgently.
13. The UK is one of the cheapest places in the world to register businesses. Although I do not support burdening business with unnecessary additional expense, due to advances in technology the cost of carrying out due diligence checks is now minimal. For example, the cost of forming a company through an agent is approximately £14-15, compared to £12 at Companies House.
- 14. I am therefore fully supportive of New Clause 12, as it will help to prevent fraud and money laundering. I hope that the Committee adopts it.**

¹ Transparency International UK, "Hiding in Plain Sight: How UK Companies Are Used To Launder Corrupt Wealth", November 2017.