# PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

## Public Bill Committee

# ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

*Fifth Sitting*

*Tuesday 1 November 2022*

*(Morning)*

CONTENTS

CLAUSES 1 TO 13 agreed to.
Adjourned till this day at Two o'clock.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

**not later than**

**Saturday 5 November 2022**

**The Committee consisted of the following Members:**

*Chairs:* † Mr Laurence Robertson, Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Hollinrake, Kevin *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Mann, Scott *(Lord Commissioner of His Majesty's Treasury)*
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

**† attended the Committee**

# Public Bill Committee

*Tuesday 1 November 2022*

*(Morning)*

[Mr Laurence Robertson *in the Chair*]

## Economic Crime and Corporate Transparency Bill

9.25 am

**The Chair:** I have a few preliminary reminders. Please switch electronic devices to silent. I am afraid no food or drink is permitted, other than water. *Hansard* colleagues will be grateful if Members could email their speaking notes to hansardnotes@parliament.uk; alternatively, pass them to the *Hansard* colleague in the room.

We now begin line-by-line consideration of the Bill. The selection list for today's sittings is available in the room. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or a similar issue. Please note that decisions on amendments do not take place in the order in which they are debated, but in the order in which they appear on the amendment paper. The selection and groupings list shows the order of debates. Decisions on each amendment are taken when we come to the clause to which the amendment relates. Decisions on new clauses will be taken once we have completed consideration of the existing clauses. Members wishing to press a grouped amendment or a new clause to a Division should indicate when speaking to it that they wish to do so. As Dame Margaret Hodge is not here, I call Seema Malhotra to move amendment 77.

### Clause 1

The registrar's objectives

**Seema Malhotra** (Feltham and Heston) (Lab/Co-op): I beg to move amendment 77, in clause 1, page 2, line 10, at end insert—

'*Objective 5*

*Objective 5 is to act proactively by—*

*(a) making full use of the information, intelligence and powers available to the registrar in order to identify issues of concern, and*

*(b) sharing information about any issues of concern with relevant public bodies and law enforcement agencies.*

(2) In this section, an "issue of concern" includes—

(a) inaccurate information,

(b) information that might create a false or misleading impression to members of the public,

(c) an unlawful activity.'

I will come back with further mention of the clause later. The amendment was tabled by my right hon. Friend the Member for Barking—*[Interruption.]* Who has just arrived—

**The Chair:** Order. Will Members take their seats quickly and press on?

**Seema Malhotra:** My right hon. Friend will want to speak to her own amendment, but I will lay out a few comments. She is right that we need Companies House to become a more active agent in our efforts to combat economic crime as a result of the Bill—I am sure the Minister will agree that we do not want an economic crime Bill No. 3 in the House, and nor do we have the time for delay in sharpening our response and defences against economic crime.

In evidence given to the Committee, Thom Townsend from Open Ownership stated that the clause—or the important objectives laid out in it—

"seems like a ridiculously low bar."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 63, Q136.]

He is absolutely right. I am sure that all Members listening to that evidence agreed. My right hon. Friend will speak to her own amendment, but we very much support it, because this House needs to send a clear message about our expectation of a proactive role for the registrar—not just a reactive role.

Why is it so important to do so now? As Companies House now begins its transformation to reform its systems, processes and capabilities, part of that will be about its culture, and in line with what this House will expect, the proceedings of this House and this Committee will be important in sending that message. It is our job to ensure that the objectives and powers are very clearly laid out in legislation, so that there is no confusion over our expectations.

The fifth objective in the amendment would raise the "ridiculously low bar" of the first four objectives, as stated by Thom Townsend, from minimising risk to proactively identifying suspected uses of the register for criminal purposes and acting accordingly. As the Secretary of State herself stated on Second Reading:

"We want to ensure that there are more restrictions on who can register with Companies House so that we prevent the abuse of the regime."—[*Official Report*, 13 October 2022; Vol. 720, c. 285.]

But I am sure that my right hon. Friend the Member for Barking will want to speak to her own notes on this. Thank you, Mr Robertson, for giving me the opportunity to do so.

**Dame Margaret Hodge** (Barking) (Lab): Sincere apologies for being late, Mr Robertson. I want to start by welcoming the Under-Secretary of State for Business, Energy and Industrial Strategy, the hon. Member for Thirsk and Malton, to his role. I have worked very closely with him over the past few years, and it is great to see somebody who understands the issues sitting in his seat. I hope that we can have very positive engagement with him while considering the Bill.

Like the hon. Gentleman, I welcome the reforms. The amendments that we have tabled, including this amendment, are all designed to improve the quality of the legislation that we pass. I hope that they will be taken in that spirit. Having been a Minister in my time, I am very aware of the fact that when amendments are tabled by hon. Members, whether they are on the Opposition or the Government Benches, there tends to be a mood of "reject" from the officials advising the Minister. I simply say to him that many of the amendments that we are putting forward, like this one, are really there to improve the Bill. They are not about trying to raise contentious issues. Perhaps as we proceed, we will come across more

contentious issues, but this amendment is not contentious; it is simply to secure an improvement. It is not party political, and I think it reflects common sense. I hope that the Minister will feel able to accept this particular amendment.

Why have we tabled the amendment? I draw the Minister's attention to the Government's own factsheet on the Bill, which states that broadening the powers of the registrar of Companies House is designed—that is my word—so that the registrar can become a "more active" gatekeeper over company creation and a custodian of more reliable data. Companies House itself has six strategic goals, one of which is to combat economic crime through active use of analysis and intelligence. We have there a commitment from Government and from the organisation itself that it should take a proactive role in using the information that it has.

Our amendment would embed in legislation the Government's intent and the organisation's goals. It would ensure that that intent and the goals were on the statute book and therefore implemented in the future. Too often, as the Minister knows, we have organisations and bodies that have powers but simply do not use them. We can think of His Majesty's Revenue and Customs and its oversight of company service providers as just one example of where there is a power but, without emphasis on that duty in legislation, it tends to get ignored. The aim of our amendment is just to ensure that what is a power becomes a strong duty.

Why does that matter? Companies House holds a massive amount of data: information about 4.5 million companies, with more than 800,000 new companies incorporated each year and more than 10 million documents filed annually. That data is full of red flags that should be proactively investigated to ensure that we really bear down on economic crime. We want to pursue the wrongdoers, and if we get that stronger investigation and it is known that Companies House does use its proactive powers, that is a good preventive measure because it is much less likely that the ne'er-do-goods will indulge in bad practice.

Let us look at the sort of stuff that has come out so far. There are endless examples: five beneficial owners control over 6,000 companies—a massive red flag. They are clearly not the real beneficial owners. Four thousand beneficial owners are under two years' old, including one who is not born yet. The company Atlas Integrate Services LLP was registered in September this year. The person of significant control in that company is just two months' old. In her two months of life, she has not just found time to start a business but apparently has got married, as she is listed as "Mrs" in the register.

We know from all the leaks how Companies House and our UK corporate structures are used and abused by bad people. I take just one example from the FinCEN files: 3,267 of the LLPs and the LPs were holders of bank accounts that involved suspicious transactions—British corporate structures. Of those 3,267 British corporations, 1,656—over half—were created by just four agencies. Nine agencies created more than 100 UK entities. One agency created 646 limited liability partnerships and limited partnerships. Those are examples of strong red flags that suggest malpractice.

It is not just the perpetrators who benefit but the victims who suffer, as the Minister knows. The only successful prosecution in this space is that of Kevin Brewer—the Minister will probably remember the case. This was a man in his 60s who deliberately set about showing the flaws in the system in Companies House. He set up a company called John Vincent Cable Services Ltd, when Vince Cable ran the Department that the Minister is now in. He did that in 2013. He then wrote to Vince Cable to tell him what he had done.

In 2016, he used the names of James Cleverly and Baroness Neville-Rolfe to set up another company. Again, he wrote to them. All he was doing with drawing attention to what was wrong with the system, but he was prosecuted. The Government proclaimed that prosecution as a great victory of how Companies House is vigilant over the quality of the data. Nothing could be more wrong. I think the Minister will agree that, in effect, he was a whistleblower. He was treated abominably by the authorities. That throws into stark relief the lack of action taken against others responsible for setting up bogus companies.

I urge the Minister to accept the amendment. It is common sense. It simply ensures that there is a strong duty on Companies House to use that wealth of data to investigate, proactively raise red flags and talk to the enforcement agencies. I hope that he sees the amendment as something that adds to the value of the Bill.

**The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake):** It is a pleasure to serve with you in the Chair, Mr Robertson, and to speak after the right hon. Member for Barking. As she knows, and I hope all Committee members know, I am—like her—incredibly ambitious for the Bill. Hopefully, the dialogue we have in this room over the next few weeks will serve a great purpose to ensure that this legislation is fit for purpose.

I entirely agree with the thrust of the amendment. Of course we want a proactive gatekeeper of the information. The right hon. Member for Barking highlights many examples, as does the shadow Minister, the hon. Member for Feltham and Heston, who talked about the culture of the organisation. She is absolutely right that the culture needs to be focused on making sure that the information held by Companies House is accurate, but we need a balance. We must avoid an impossibly bureaucratic and expensive system. The right hon. Member for Barking highlights some of the problems of dealing with a register of this size. There are between 4 million and 5 million companies and about 7 million or 8 million directors in the UK. To independently verify all those records, one by one, is clearly a huge challenge.

On changing the culture of the organisation, the Bill has its four objectives: accuracy, completeness of records, reducing risk and reducing the chances of unlawful activity. I would also point to the text in bold type in clause 1—the objective

"to promote integrity of registers".

That does exactly what the right hon. Lady intends with her amendment. To me, promoting the integrity of the registers speaks to the proactivity that we want to see. We definitely want to see Companies House sharing information with law enforcement agencies proactively, for example.

The right hon. Lady spoke about a number of obvious cases that would raise red flags, and that happens because Companies House is not operating as she wants it to. One of the key bases of the Bill is to change the

*[Kevin Hollinrake]*

role of Companies House from registry to gatekeeper, and to promote integrity properly and proactively by identifying information on a risk-based approach.

**Liam Byrne** (Birmingham, Hodge Hill) (Lab): I join my colleagues in welcoming the Minister to his post, in what is a very welcome appointment, and I apologise to you, Mr Robertson, for being slightly late this morning.

Surely the Minister must see that there is a world of difference between action to promote the virtue of something and action to prevent the badness of something. I have been a Minister too. I have created Government agencies. I have tried to enshrine objectives in agencies, from which a business plan is then written. It is incredibly important to say what we mean and mean what we say when we are specifying the objectives of an agency such as Companies House. I urge him to think again about the amendment. It is not simply a matter of word play. It is about doing what is needed to be done.

**Kevin Hollinrake:** I am grateful for the right hon. Gentleman's work in this area. We should not get into semantics. The key point, as he says, is making sure that we have a plan that sits behind the objectives, and Companies House is currently working on how it will perform its duties under the objectives. That is key. We can legislate all we want in here, but legislation is less important than implementation. The implementation of the rules is key. We must ensure that the plan is robust and that it identifies the red flags on a risk-based approach and shares that information with the relevant law enforcement agencies that have their duties to undertake. "Promoting integrity" does what the right hon. Member for Barking wants.

**Dame Margaret Hodge:** I am grateful to the Minister—I know he is struggling. Why not put this objective in? If Companies House is going to do this work anyway, what is the objection? Why not let it stand there? It will ensure the work over time. Our lives are always short as Ministers. The Minister is not going to be there all the time. Other people are going to take over from him. We want Companies House to be proactive throughout the time that the legislation lasts. Why not put this objective in?

The only reason I can think of for why the Minister is getting objections from his civil servants—I assume the objections are coming from them—is that Companies House will not carry out this proactive role, because it will prioritise its other role of verifying information, and we will lose the advantage of the wealth of data with integrity that we could use to eliminate the wrongdoers.

**Kevin Hollinrake:** I take the right hon. Lady's point, but I do not agree. Clearly, we will seek to improve many things as the Bill goes through its various stages. However, if we look at the objectives themselves, objective 1 is to

"ensure that any person who is required to deliver a document to the registrar does so."

That is, to me, a proactive condition and objective. We probably have arguments about the drafting, but the nature of what we seek to achieve is the same. I would therefore politely ask that the amendment is withdrawn.

9.45 am

**Seema Malhotra:** On this occasion, having heard what the Minister has said, I think that this is an ongoing debate. We will want to have some further discussion and perhaps come back to the issue on Report. I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.*

**Alison Thewliss** (Glasgow Central) (SNP): I beg to move amendment 71, in clause 1, page 2, line 10, at end insert—

"(4) The Secretary of State must ensure that the registrar has sufficient resources to fulfil the objectives set by subsection (3)."

*This amendment would require Companies House to be properly resourced in line with its new responsibilities.*

Much like with the previous amendment, it seemed sensible to bring things to the attention of the Government right at the very start of the Bill, because matters can get diluted over time. If we put this issue front and centre of the Bill, and say that the Secretary of State must ensure that the registrar has sufficient resources to fulfil the objectives set by subsection (3), that puts an obligation on the Government, and on future Governments, to follow through on the recommendations regarding the very worthy legislation in the Bill.

We heard a lot of evidence about earlier legislation. I served in Committee on some of it, such as in the evidence sessions for the Joint Committee on the Draft Registration of Overseas Entities Bill, and in Committee for the Sanctions and Anti-Money Laundering Act 2018. Over the years, there has been much legislation, but, as Bill Browder said in his evidence, without any enforcement of that legislation, and without the resources to ensure it is followed through, the Government can write as much law as they like but it does not actually matter.

We want to see resources put front and centre of the Bill, right up there at the start, and to hold future Governments to the important principle of funding this work. If the registrar is not funded to carry out the work it is being given to do, it just will not do that work. That has been the evidence of Companies House over many years. If it is not funded as well as empowered to do the work, it seems very unlikely that it will complete the tasks that the Government and all of us in this room expect of it. I therefore think the amendment is important and urge the Minister to accept it.

**Seema Malhotra:** The amendment tabled by our SNP colleagues would amend clause 1 to require the Secretary of State to ensure that Companies House is adequately resourced to achieve its objectives. I raised the matter on Second Reading, and I am sure we will come back to it.

On Second Reading, the Minister himself talked about legislation with implementation, and I am sure that he will have some sympathy for the sentiments of the amendment. As Jonathan Hall said in his evidence:

"The one thing that I think would make all the difference would be to resource Companies House."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 34, Q70.]

We support the principle of the amendment, but we are looking to address the same issue in our new clause 26, which we will discuss later. It is right to put the issue on the radar today and have it on there as we proceed

through Committee. I look forward to coming back to further discussions on how we ensure that Companies House is adequately resourced.

**Liam Byrne:** This is an important debate, and I think that the Minister's reply will be, in a sense, a useful "Second Reading" debate on how he will deal with the problem of resourcing. I know that he, as a new Minister, will have spent the weekend reading all of the evidence that we gathered last week. It was very much like an autopsy on the state of economic crime in our country—grisly and appalling. He will have been not shocked, because he is familiar with the facts, but reminded starkly that he is a Minister at a watershed in the debate. It is clear that the time to act is now.

The world is divided, and there is a great kleptosphere from Kaliningrad to Kamchatka, so it is important that we set out our stall as a place not just of free trade, but of fair trade, as well as, crucially, clean trade. That is where economic advantages will flow from in the years to come. It is therefore a matter of enormous national shame that we have become such a hotbed of money laundering. It is appalling that about 40% of the corporate structures used for Danske Bank money laundering were here in the UK, and appalling that we have become such a country.

Hundreds of billions of pounds-worth of money stolen from the Russian people has been laundered through UK corporate structures, yet last week we heard from Bill Browder and Catherine Belton that UK corporate structures are absolutely being used by friends and allies of President Putin to move money abroad to help to finance Russian intelligence operations and other nefarious activity. However, as Mr Browder said, we are not prosecuting the crime and, as my right hon. Friend the Member for Barking pointed out, there has been only one prosecution despite hundreds of billions being stolen and moved through UK corporate structures.

In part, we are not prosecuting the crime because we are not policing the crime, and all of us on the Committee will have heard loud and clear last week's evidence from City of London police and the National Police Chiefs' Council, which said that they need more resource. It is as simple as that. They cannot afford the specialists they need to police this area, and the task of policing such crime would be an awful lot easier if we ensured that there was a proper gateway doing its job in Companies House.

We know that Companies House needs more resource as there has already been a wide-ranging debate. Indeed, the Minister, in his pre-ministerial life, is on the record as having speculated about what some of the resources might need to look like. We hope he will repeat those comments on the record as a Minister of the Crown in the Committee today.

Let us be clear about the risks, which were starkly described for us last week by the independent reviewer of terrorism legislation: there is a direct relationship between economic crime and national security. This is not simply a question of bad people stealing lots of money from good people; it is about a threat to our country. The Minister has an opportunity to ensure not only that our economy is operating on a clean-trade basis, but that our national security defences are strengthened. That is why the amendment is important, and why it is important that the Minister set out clearly today how he is going to approach the solution to this problem.

**Kevin Hollinrake:** I am grateful to the hon. Member for Glasgow Central, who I worked closely with on the Treasury Committee, for all her work on economic crime. I absolutely agree we need the right resources to go alongside the Bill, so I am fully committed to anything I said before in the Chamber or otherwise about ensuring that that resourcing is available. I certainly agree with the right hon. Member for Birmingham, Hodge Hill when he talks about clean trade—absolutely right. We do not want this country associated with dirty money in any shape or form.

The right hon. Gentleman gave an interesting example about the money laundering through Danske Bank, which was, as he said, hundreds of billions of pounds-worth of Russian money stolen from the Russian people flowing through UK shell companies to its destination. That was subject to regulatory action and potential criminal enforcement; it is not as though the matter was held secretly until it was identified locally in Danske Bank. Danske Bank will get sanctioned for that, so it is not as though law enforcement is not happening. However, the right hon. Gentleman and I would agree that, too often, big banks turn a blind eye to the problem on the basis that it is quite profitable for them, and the fines are ultimately a cost of doing business. What we need to do is hold people properly to account, including individual directors.

**Dame Margaret Hodge:** I agree, but the point with Danske Bank, as with so many of these massive scandals, is that it was a whistleblower who uncovered wrongdoing, not the enforcement agencies. We will come to whistleblowing later in our considerations, but what we want is for the enforcement agencies—in this case, Companies House—to be equipped to do the work themselves and not to rely on whistleblowers.

**Kevin Hollinrake:** I agree with the right hon. Lady's point. As she knows, I am a big fan of improving the legislation on whistleblowers. I am delighted to say that role is part of my portfolio and I am determined to take that forward as quickly as possible.

**Liam Byrne:** The Minister is being characteristically generous in giving way. The point about Danske Bank is that the money was moved through UK corporate structures that should not have been set up in the first place. If we had a stronger verification regime—if we had a stronger set of obligations on Companies House and a better-resourced Companies House—we would surely have run a chance of the crime being prevented, because the checks would have created a tripwire that would have stopped the structures being set up and the money being moved through them. The point about resources and duties is incredibly important.

**Kevin Hollinrake:** I absolutely agree. That is the nature of and the substance behind the Bill—making sure that the resources fit the need and that Companies House can promote the integrity of the register and work with law enforcement agencies to share that information and identify the red flags with a risk-based approach. We

*[Kevin Hollinrake]*

need to make sure that the work it is doing is appropriate to the task it has been given and that it is sufficiently funded.

Currently, the fees for Companies House are set at a level commensurate with its activities. The Bill seeks to massively increase the scope of its functions to that gatekeeper approach, so it has to be sufficiently funded. The funding started in this spending round, with £63 million for personnel and improving technology to be able to more easily identify the red flags. Companies House is bringing in external expertise to look at its work and what it will need to do to take the expanded activities into account. We need to make sure that as we go forward the resources will be sufficient for it to deliver on its new duties. It is right not to put the cart before the horse. We cannot say, "It should be £50" or "It should be £100". Various figures have been thrown about. I think the Treasury Committee suggested £100. We need first to identify what it will cost for Companies House to cope with the new duties and then set the figure attached to that cost, to make sure that it has the right resources but does not become a huge bureaucracy that is out of control in terms of costs.

**Seema Malhotra:** We are very quickly getting to the crux of the issues on resourcing for implementation. He referred to independent experts coming in to work with Companies House on its new capabilities and how it will need to be resourced. Will there be a recommendation from those experts on how much resource will be required? We have the objectives and we have debated whether they are sufficient to achieve the goals of the Bill, and we will come back to that point, but will there be a recommendation on how much resource is required and will that recommendation be a matter of public debate?

**Kevin Hollinrake:** Yes, in both cases. That work is going on now. Those recommendations will then be discussed with me and my colleagues in the Department and we will come back to the House. The decisions we make will be approved by the House under the affirmative procedure.

**Liam Byrne:** I suppose we may as well get all the details out now. The estimates for how much extra resource Companies House might need range from three times to 10 times its current level. I was very surprised to hear from Companies House that it was proposing to employ only 100 extra people. That is an increment of about £5 million to £6 million extra, which feels radically short of what is proposed and for the implications of the Bill. Will the Minister therefore put our minds at rest by saying to the Committee that those figures will be radically improved when the Companies House business case for the next financial year is approved?

10 am

**Kevin Hollinrake:** The shadow Minister also wants to intervene, so I shall take the interventions together.

**Seema Malhotra:** My intervention also relates to that of my right hon. Friend the Member for Birmingham, Hodge Hill. There is a risk of underestimating the amount of work, and of that then being locked in. I hope that during the course of the Committee, if we are to use our time to best effect, there will be further challenge to the scope of the work or to the expectations of how much work happens. We do not want the scoping for resources to be based on the Bill at the start; that is not necessarily what it will be at the end. Will the Minister clarify that the resourcing plan will be made in light of the ambition of the Bill, because we do not want it to fall short? The Minister's words—about legislation with implementation—will keep coming back to him, and I am sure he is the first to want not to fall short of them.

**Kevin Hollinrake:** Those words will live with me as long as I am in Parliament.

**Seema Malhotra:** They are good words.

**Kevin Hollinrake:** That is hugely important. The hon. Lady makes exactly the right case: for us to give a figure now, whether that is £50 or £100, is to put the cart before the horse. We all agree that the right resources will be needed, but they will be based on the duties in the final version of the Bill approved by both Houses. That is what we will seek to do with Companies House. My intention is absolutely that Companies House will do that.

In response to the point made by the right hon. Member for Birmingham, Hodge Hill, it is not just about people. I do not yet know the extra numbers that Companies House will dedicate to this work, or when. That is what we need to see in a clear plan that it will set out. Technology, however, can also play a huge part. Companies House holds a huge amount of data, public and non-public, that law enforcement agencies can make use of with a risk-based approach. Technology can certainly play a part, and that is not always inexpensive.

**Liam Byrne:** My sense is that the Minister will steer clear of specifying the order of magnitude by which we need to increase Companies House resources. That is a disappointment to many of us, but will he therefore advise the Committee how as a House of Commons we best guard against the risk of under-resourcing Companies House once the Bill has reached Royal Assent?

**Kevin Hollinrake:** Scrutiny—by Ministers and by Back Benchers, such as those in Committee and in all parts of the House. Parliamentary scrutiny is the most important thing—scrutiny of the plans of Companies House, to ensure that they are fit for purpose. I promise that no one is keener to see that than me.

May I address one other point in this conversation? Parkinson, for all his work, came up with two laws: first, that work expands to fill the time available; and, secondly, that expenditure rises to meet income, which we probably all recognise from our personal lives, but we could say the same of Government. We do not want to set a figure now, because if we did so, Companies House might expand to fill that envelope—

**Liam Byrne:** We do. That is exactly what we want to do.

**Kevin Hollinrake:** But I do not. I want to see the plan, to ensure that it is fit for purpose and that it delivers an excellent service at the lowest cost to the taxpayer. That is what we need to do. Doing it this way around is a better way.

**Dame Margaret Hodge:** Several things arise from the Minister's great contribution. First, I look forward to his support for our amendment to ensure proper parliamentary scrutiny of the work of Companies House, which will come later in our consideration of the Bill. Secondly, one knows how spending reviews go, and this will never become a top priority. I hope that the Government will see it is a security issue, but until they do so, it will not become a top priority for expenditure. That is why the Opposition—supported by the Minister, I hope, given his passion—want to put a figure into the legislation, to link it to inflation and to ringfence it, so that no Treasury official down the line can get hold of it. The final thing I wanted to ask—

**The Chair:** Briefly, please.

**Dame Margaret Hodge:** I will be brief. We think that Companies House has to do more in a whole range of areas if it is to be effective, such as on information on directors and proper control of company service providers. We do not want to create another cohort of people who allow bad things to take place. Those things will require greater resources. Will the Minister make a commitment today on that? If we are successful in passing the amendment, will he take those things into account when thinking about the financing?

**The Chair:** Before I call the Minister, may I say that interventions need to be brief?

**Kevin Hollinrake:** Thank you, Mr Robertson. I think it is wrong to put a figure in the Bill. Do I believe that Companies House should be properly resourced? Absolutely, but we need to ensure that that happens through this process and through Companies House's plan. I can reassure the hon. Lady on one thing: Companies House is supposed to get paid by the fees that it collects to cover its activities. It is not like the Treasury, which goes and nicks some of the money. It does not want that to become a tax; the organisation is funded by its fees. I think we would all agree to ensure that it is self-funded to the level that it needs to properly deliver on its duties. For all those reasons, I hope the hon. Member will withdraw her amendment.

**Alison Thewliss:** I would like to press the amendment to a vote because it does not set a figure or commit the Government to any particular sum of money, but guards against the under-resourcing that has plagued Companies House for many years. According to openDemocracy, economic crime costs the UK £290 billion a year, whereas Spotlight on Corruption tells us that the Government spend only £852 million on enforcement, or 0.042% of GDP. A lot more needs to be done. I am not committing the Government to any figure whatsoever, but the amendment would ensure that the register has the resources to fulfil its objectives. It is a simple and neat amendment.

*Question put,* That the amendment be made.

*The Committee divided:* Ayes 7, Noes 8.

**Division No. 1]**

**AYES**

| | |
|---|---|
| Byrne, rh Liam | Morden, Jessica |
| Hodge, rh Dame Margaret | Newlands, Gavin |
| Kinnock, Stephen | |
| Malhotra, Seema | Thewliss, Alison |

**NOES**

| | |
|---|---|
| Anderson, Lee | Hughes, Eddie |
| Ansell, Caroline | Hunt, Jane |
| Daly, James | Mann, Scott |
| Hollinrake, Kevin | Stevenson, Jane |

*Question accordingly negatived.*

*Question proposed,* That the clause stand part of the Bill.

**Kevin Hollinrake:** The Government acknowledge the growing unease in many quarters about the limitations on the company registrar's ability to manage the quality of information that finds its way on to the register for which she is the custodian. The entirely new objectives introduced by the clause set the scene for the rest of the Companies House measures in the Bill. They signal the biggest step change in the whole ethos of Companies House and the registrar since that role was established in 1844, which I think the Committee will welcome.

The objectives make it clear to all that the registrar will no longer simply be the passive recipient of information; in performing her duties and functions as modified and expanded in the other Bill provisions that we will discuss in Committee; the registrar will be emboldened to be much more active in her guardianship role. No longer will Companies House be a passive receptacle for company information; nor will it simply accept in good faith what it is given. This Bill will give the registrar wide-ranging new powers to assist her to query more information and to reject filings that the registrar does not believe meet the standards of proper delivery or which do not tally with information that the registrar already holds. The registrar will be able to analyse and share information with other bodies, including law enforcement.

Those are just a few examples of how Companies House will operate differently in the future. The new powers will be exercised with the new objectives introduced by this clause firmly in mind. The objectives are geared towards ensuring that information that companies and others provide is complete, accurate and not misleading, and towards minimising the extent to which companies and others carry out or facilitate the carrying-out by others of unlawful activity. The Government are confident that, in aggregate, their introduction will make Companies House a far more effective gatekeeper.

**Seema Malhotra:** I am grateful to the Minister. Now that we are debating clause stand part, perhaps I can officially say "welcome" to him—I was saving it until now. It is indeed good to see him in his place and to be having the debates with him on the Front Bench.

We have debated aspects of clause 1, and have raised relevant questions. The issue is not whether we agree with the objectives, because of course we agree with all the objectives that have been outlined. The issue is whether they go far enough. Objective 1 is about delivering documents to the registrar. Objective 2 is about those documents containing all the information that they are required to contain. Objective 3 is designed to minimise the risk of information on the register creating a false or misleading impression to the public. Objective 4 is about minimising the extent to which companies and firms carry out or facilitate the carrying out by others of unlawful activities.

*[Seema Malhotra]*

I think we might ask ourselves the question again and again: why has it taken this long to get here when we have been having debates on the need to tighten up Companies House for so long and legislation has been promised for some time? When we read the provisions, I think we can say again: is this really the extent of our ambitions? Getting to second base is not the same as getting a home run, is it? I think that is the question and will remain the question. Although we agree with clause 1 and what is in it, we are going to keep asking the question about whether the basis on which so much else will be based in the Bill will be strong enough to give Companies House all it needs, along with the message about its duties to achieve its objectives.

This legislation is designed to tackle economic crime. As we have heard in the debate, it is also designed to protect UK national security. Those are two really serious matters that go together. We are talking about making it harder for kleptocrats, criminals and terrorists to engage in money laundering, with an impact on other crimes: crimes that go on in our streets, crimes related to drugs, crimes related to low-level theft and, now, even the security of our mobile phones and our data and conversations. So much more is at stake in terms of what goes on in people's everyday lives and their everyday security, much more than perhaps we envisaged when this legislation was first promised at least six years ago. The scale of the challenge has absolutely increased, and the question is as much about whether we will be forward-looking in the legislation as it is about tackling the scale of the problem, on the basis of which legislation began to be drafted perhaps one or two years ago.

10.15 am

In our view, we need to ensure that we can prevent problems, not just look at a cure, which is always much more expensive. We need to see investment in Companies House as an investment that will bring later savings in time and cost: cost not just in the form of Companies House resources but the cost to the nation—the hundreds of billions that are lost through economic crime. A key tool in our armoury must absolutely be the strengthened role of the registrar and the duties that go with it. The intention of the objectives is for the registrar to maintain the integrity of the registers that she maintains in relation to companies and other registrable entities. These are the very basics a nation should expect from a really important function of Government. The objectives are an important step forward, but in all honesty they do not go far enough in giving the registrar the focus that is needed to achieve the stated goals of the Bill.

The Government's White Paper on Companies House reform in February, which arguably was more ambitious than some of what has ended up in the Bill, stated that

"recent years have seen growing instances of misuse of companies".

Criminals are getting faster and cleverer. We must ensure that we have resources and safeguards in place. I know the Minister has only just taken up his role, but he has important decisions to make with this Bill. He knows that he has the will of Members on all sides of the House with him. I hope that he will ensure there are no back doors or Swiss cheese in this legislation and that it is as watertight and resourced as it needs to be to achieve its goals.

**Liam Byrne:** I think this has been a disappointing start to the Committee. Last week in the evidence sessions, I read out the objectives and asked the witnesses what they thought of them. We had anti-corruption organisations there—people who have given their lives to tackling corruption and economic crime—and they were very clear, saying the objectives were too weak and needed to be stronger. I will set out the politics of this for the Minister, new in his role as he is. He is on the wrong side of the argument. He risks going into the debates we are about to have as someone who it is too easy for His Majesty's Opposition to characterise as soft on economic crime. That is not his position. It is not a position he wants to be in. I hope he will reflect on the debate we have had today and come back with stronger and proactive anti-corruption objectives, including a duty to prevent corruption placed on Companies House.

To summarise the debate we have had, we are going to have a set of objectives for Companies House. Then we are going to match the resources to those objectives. The problem with setting the bar for our objectives too low, too soft and too weak is that we end up setting a resource base that is too low, too soft and too weak. On this side of the Committee—on both sides I think—we would rather see a much tougher set of policy objectives, and we would want Companies House to have the requisite resources to fill that role. I am afraid the Minister has found himself on the wrong side of the argument today. I hope that he reflects and comes back—possibly on Report or in the other place—with a strong set of objectives and the resources to match.

**Kevin Hollinrake:** I thank the right hon. Gentleman for his comments. I do not agree with what he has said. I read through much of the evidence given to the Committee before I was part of it, and Transparency International said that

"the Government has taken an important step toward cracking down on kleptocrats, criminals and terrorists—including associates of the Putin regime—who abuse UK companies for nefarious purposes."

It also says that the Bill

"presents a number of welcome reforms to the operation of Companies House that, if implemented effectively, would help to prevent money launderers from abusing the UK's company incorporation system".

There are people who agree with what we are doing here. We should of course reflect on the comments that have been made by hon. Members in the Committee, but I do think these objectives are important steps forward. We must ensure that they are effective, that there are no Swiss cheese loopholes, as the shadow Minister mentioned, and that the relevant bodies are properly resourced. That is a body of work I will continue with over the next few weeks.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

## Clause 2

### Memorandum of association: names to be included

**Seema Malhotra:** I beg to move amendment 85, in clause 2, page 2, line 15, at end insert—

"(2A) After subsection 1, insert—

'(1A) The memorandum must also state—

(a) the nationality of the each subscriber; and

(b) the country in which each subscriber is ordinarily resident.'"

*This amendment would require a memorandum on the formation of a company to include the nationality and country of ordinary residence of each subscriber (a subscriber being one of the company's initial shareholders at the time it was set up) along with their name.*

**The Chair:** With this it will be convenient to discuss clause stand part and clauses 3 to 8 stand part.

**Seema Malhotra:** Clause 2 is important, and we have no concerns with it at all. It amends section 8 of the Companies Act 2006 to state that, for individuals, "name" means a forename and surname, and it goes into further detail. It is another example of an area where it is extremely surprising that our system has lasted for so long while being so feeble in the extent of the information it requires of company subscribers. Subscribers are initial shareholders in the company when it was set up: those who sign the important memorandum of association in forming the company.

Currently, information about subscribers is extremely limited, and there is no verification or definition of what constitutes a subscriber's name. That relates to the deeper issue, to which we will continue to refer in Committee, around the transparency of shareholders. Alongside our discussions of directors and officials, we must ensure that we keep shareholder transparency very much centre stage. Not having clear names affects the reliability of the subscriber information held by Companies House.

We welcome the clarity provided by clause 2, but we believe that the Bill could go further in requiring information from company subscribers. That is why we tabled amendment 85, which would insert a new provision that would require the memorandum on company subscribers to include the nationality of each company subscriber and the country in which the subscriber is ordinarily resident. Without that information, which should be verifiable, the formation of a company that registers with Companies House could be questioned by the registrar.

Transparency International has remarked that the UK has a terrible reputation as a hub for dirty money. That is something we do not even need to keep saying, because we are so used to hearing it. That is exacerbated and enabled by a lack of transparency about those who own and control UK-registered companies. If the Bill is to fulfil its ambition of clamping down on dirty money flowing through our economy, the Minister should support the amendment, which would provide that greater transparency and scrutiny of who owns companies registered with Companies House. I look forward to the Minister's response.

**Alison Thewliss:** I rise to support this useful amendment. It is fundamentally about enhancing the transparency of the register and what we know about the people on the register. It is also about tracing control: who owns what and where they happen to be. That is useful. Those are things that the Bill should look to fix. The Bill is about putting right things that are not quite right. The amendment adds to the richness of the information that is available to people. It seems perfectly logical that the Minister should support it.

**Liam Byrne:** Let me go back to 1855 for a moment, which is when this House last debated the creation of limited liability companies. It is worth every member of the Committee studying the *Hansards* of those debates, because the speeches reveal that, when our ancestors in this place made it possible for people to pool together small amounts of capital but nevertheless receive a limit on the liability that they would encounter if things went bad, their view was that it was in the common good of the country to allow in Britain the invention of limited liability, which had operated in the United States for some time. The common good of the country was the guiding principle by which the debate was shaped, and eventually the Bill was passed.

Right now, too many people are not contributing to the common good, and are using UK corporate structures to circumvent their obligations to pay tax and obey the law of the land. We should be trying to crusade against that, and this amendment would help us do that.

At the end of this year, the register of beneficial ownership for property will be published, but it is already clear that there are shell companies that own assets, including property in expensive parts of this country, whose nominal shareholders are resident abroad. There has been an enormous surge in non-resident, foreign national shareholders of shell companies that own property in this country. We have not only the phenomenon of shell companies but, as Oliver Bullough made clear, the new phenomenon of shell people.

The Minister has a decision to take. Will he put in place measures that help us guard against that risk and ensure that we honour the principles that were agreed back in 1855, or will he leave our enforcement regime as weak as it is today?

**Kevin Hollinrake:** Before I turn to the amendment tabled by the hon. Members for Feltham and Heston and for Aberavon, it might be helpful if I set out the intentions and effect of the clause.

The purpose of the companies register is to provide details of company ownership, and via these clauses the Government are introducing measures in this Bill to improve transparency requirements and increase the usefulness of the information held on the shareholders, subscribers and guarantors of UK companies. Clause 2 provides that each person who decides to form a company—a subscriber—must state their name on the memorandum of association. Currently, a subscriber does not need to state their full name—they can merely state their name as J. Bloggs, for example—as there is no definition of "name" for subscribers in the Companies Act 2006 or the associated regulations. This clause provides that, in relation to a subscriber, "name" means forename and surname. In that example, the person would have to state "Joe Bloggs".

The shadow Minister and the right hon. Member for Birmingham, Hodge Hill are absolutely right to try to get to the basis of ownership and control of companies. That is why we are focusing our attentions on the people who control companies—namely, the directors and persons of significant control. As the right hon. Gentleman states, if somebody really owns the company, that information would have to be disclosed and that person's identity would have to be fully verified.

I remind the Committee that persons of significant control are not just those who hold more than 25% of shares in a company. They can also be people who own

*[Kevin Hollinrake]*

more than 25% of the voting rights of a company, people who have the right to appoint or remove the majority of the board of directors, and people who might influence or control the company through other means—namely, a nominee. The company may also be controlled by a trust or firm without a legal personality. The provisions really focus on directors and persons of significant control, which are defined in a number of ways.

Amendment 85 would require that the memorandum of association also states the nationality of the subscriber and the country in which each subscriber is ordinarily resident. Subscribers are the persons who agree to form a company and become its members by subscribing their name to a memorandum of association. Upon incorporation of the company, they become its members and usually, but not always, its shareholders. Their details are recorded in the company's register of members.

The Bill already contains provisions that could not only achieve the intent behind the amendment, but require the same information from a wider category of person. Clause 45 inserts new section 113A into the Companies Act 2006. New section 113A provides a power for the Secretary of State to make regulations that amend the particulars required to be entered into a company's register of members. That power could be used to require the nationality and country of ordinary residence of all members to be entered into a company's register of members.

10.30 am

**Dame Margaret Hodge:** Is the Minister minded to use that power to enter the nationality of individuals on a company's register of members?

**Kevin Hollinrake:** I am certainly minded to consider all aspects of the debate we have had in Committee and to discuss the matter with the Secretary of State and others. We are here to inform the debate, and Members on both sides of the House are better informed as a result.

**Liam Byrne:** In the light of that remark, will the Minister go further and tell the Committee how he will tackle the problem of shell people if we are unable to get information about them? Shell people is the phenomenon of having what look like foreign nationals or residents of other countries controlling shell companies, which may, in turn, own assets in this country. If it is not possible for us to establish the nationality or the ordinary residence of those people, how will we know whether we have a problem? If, for example, people put down their nationality as British, we would know where to find them, but if we do not have that information, we risk getting a little lost.

**Kevin Hollinrake:** If the person is a director or owns more than 25% of the shares in a company, they have to have their identity verified. If the right hon. Gentleman means nominees, such a person could easily be living in the UK. I am not sure that the right hon. Gentleman would be better served by knowing where they were based, unless we were taking a risk-based approach to people from a certain nation.

**Liam Byrne:** Such as Russia.

**Kevin Hollinrake:** Such as Russia. It is key that the ID verification works for directors and persons of significant control—that is where we are on that. We need to debate whether the amendment, which seeks to find out the nationality of company members, who are not necessarily shareholders or directors, serves any purpose at all.

**Liam Byrne:** We might as well pursue this point while we have the time. The 25% threshold is obviously very high, and an amendment will be tabled seeking to lower it. If that does not go through, however, the risk is that there will be members on the register with a significant or even a controlling stake of below 25% in a company, yet we will not know where they are resident or where they live. We are now running that risk.

**Kevin Hollinrake:** The definition of "persons with significant control" accounts for exactly that—it accounts for the fact that a person with influence on a company might have any level of shareholding, even including zero shares. That is catered for in the definition of "persons with significant control." Of course, there is always discussion about how we find out about and verify such information, which is very difficult to ascertain in any circumstance. The subject of ID verification is interesting to debate. I have discussed different aspects of it with officials and we should definitely consider it further.

The regulations under new section 113A will be subject to the affirmative resolution procedure, so the overall intent behind the amendment would be better addressed in a wider conversation about what additional information, if any, it would be proportionate to require every company to provide about its members via these regulations. I hope I have provided some assurance that this amendment is not necessary. Therefore, I would be grateful if the hon. Member for Feltham and Heston would withdraw it.

Clauses 3 to 8 will require those seeking to form a company to confirm that they are doing so for lawful purposes. The clauses make it absolutely explicit that those forming companies are welcome to do so only if they intend to do so for a lawful purpose. Through the requirement and provision of the new statement, subscribers to a new company can be in no doubt that if they are found not to be telling the truth, action can be taken against them.

Clause 4 will require applications to register a company to include a statement that none of the company's subscribers, founding members or initial shareholders is a disqualified director. The definition of "disqualified person" is provided in proposed new section 159A(2) of the Companies Act 2006. Clause 4 enables the registrar of companies to reject the application if any subscriber is a disqualified director. The registrar should reject such applications, because by being involved in the formation of a company, a disqualified person breaches the law.

Under clause 5, an application to incorporate a company must include a statement confirming that all the company's proposed directors have either verified their identity or are exempt from verification requirements.

**Dame Margaret Hodge:** How will the exemption be defined? Will the regulations confirming the exemption be subject to the affirmative procedure? Also, I draw to the Minister's attention an example that he could look

at: Fedotov took advantage of exemptions to use Russian stolen wealth in the UK. These exemptions are very dangerous; I want to hear from the Minister how we will ensure that they are properly regulated and monitored by Parliament.

**Kevin Hollinrake:** The right hon. Lady makes a fair point. I am sure that she will accept that the Secretary of State is as keen as she is to clamp down on this activity. Exemptions can be made when directors undergo sufficient scrutiny on employment. Also, the director's ID can be confirmed without verification when the prohibition to act as a director while unverified does not apply. An example would be directors appointed by the community interest companies regulator under section 45 of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

**Dame Margaret Hodge:** I am worried about this. Will the Minister look at how Fedotov managed to get an exemption, and then perhaps write to Committee members about it? Then we could see whether there is a systemic issue, and whether we ought to have a better overview of the way in which exemptions are determined.

**Kevin Hollinrake:** I can see the officials writing like mad. I am sure that they will have picked up on that. I am happy to look at this as well. I reassure the Committee that the affirmative procedure is required, so that we can ensure sufficient scrutiny of exemptions from the obligation on directors to verify their identity, and so that Members can see why those exemptions are proposed.

We will come to other identity verification clauses later in Committee, but I am confident that Members will agree that clause 5 is vital. It improves the accuracy and integrity of the companies register by allowing the registrar to refuse incorporation of a company if the directors are neither ID-verified nor exempt from the requirement to be ID-verified.

Clause 6 requires a company's subscribers to provide a statement when an application to register a company is filed confirming that none of its proposed directors is disqualified or ineligible to be a director. Disqualified or ineligible people include undischarged bankrupts and individuals subject to asset freezes. The clause allows a registrar to reject an application to register a company if a proposed director is disqualified or ineligible for appointment. The registrar's rejection prevents the company from being formed. If the statement confirms that a proposed director who is disqualified has received a court's permission to act, the registrar will accept the registration. The clause helps to ensure that disqualified and ineligible directors do not make it on to the companies register.

Clause 7 requires that applications to register a company include a statement that none of the people with initial significant control is a disqualified director. People with initial significant control are individuals or legal entities that will own or control the company once it is registered. The clause will ensure that the registrar has the necessary information and power to reject an application if the person with initial significant control is a disqualified director.

**Alison Thewliss:** This is about new registrations. Will the registrar go back through the Companies House records to find people who may still be on the register but ought not to be, because they have been disqualified?

**Kevin Hollinrake:** All directors and people with significant control need to be ID-verified for existing companies, and the same obligation will be placed on new corporations.

Finally, clause 8 will permit an application for the registration of a company to contain a statement that the identities of its persons with significant control have been verified. The clause will allow persons with initial significant control to comply with the ID verification requirements at the point of registering a company. Where a company's subscribers cannot make a statement confirming that persons with significant control have complied with ID verification requirements, the company will nevertheless be registered. The registrar will then direct the persons with significant control to comply with the identity verification requirements.

**Seema Malhotra:** It is a pleasure to speak to clause 2 and to clauses 3 to 8. I have been listening carefully to the Minister and have a few questions. I have made extensive remarks in support for clause 2, so I do not intend to go much further on that. Suffice to say that we have had an important debate, and I think the Minister will find that we will continue to come back to some of these matters.

On the point about the nationality of the subscriber and the country in which they are ordinarily resident, I did not hear the Minister give a clear answer as to whether the Government might consider tabling future amendments if they do not want to support ours. I have good faith in the Minister and want him, on day one of taking up his responsibilities, to take on board hon. Members' points, so I would be grateful if he could come back to us on how he plans to consider that matter. My hon. Friend the Member for Aberavon may want to apply a similar principle to other clauses, so it would be most helpful if the Minister could take away the point about the subscriber's nationality and the country in which they are ordinarily resident.

We support clause 3, which will ensure that when a company registers, it cannot be formed for unlawful purposes. It is extraordinary that we have not made that clear before or sought such a declaration previously, but it is a necessary provision in the light of the scale of abuse of Companies House by those whom we are now seeking to prevent from doing so in the future. We need to clear out companies that are not performing the functions that we would expect of a company registered in the UK. As the Minister goes through the resources question as to how quickly we will be looking to Companies House to go through and verify existing company records, this will fall into that important cleaning-up exercise. It is a necessary provision and is intended to ensure that if such a declaration turns out to be inaccurate, the registrar can reject the company's filing on the basis that a false filing offence will have been committed. That is an important step forward.

Clause 4 will ensure that when a company registers, it must declare that none of its subscribers—its initial shareholders—is a disqualified director. We welcome the clause, because it is important to think about people's roles and how games could be played with Companies House, and therefore with Britain and the British public, without cross-checks and balances in place. The clause is necessary to ensure that the registrar is able to actively reject and remove company subscribers who have been

*[Seema Malhotra]*

disqualified as directors. It cannot be right that somebody who has been found unwilling or unable to meet their legal responsibilities as a director could still be involved in, and have control of, the formation of a new company. It was a loophole in the Companies Act 2006 that a disqualified director was not prevented from owning a newly established company. It was a loophole ripe for exploitation, but we welcome clause 4.

10.45 am

I will say a few more words about clause 5. My right hon. Friend the Member for Barking made an intervention about it, and I hope that the Minister made a note to write back to her on the matter that she raised. Clause 5 will ensure that company directors, on application to the registrar, have verified their identity. We cannot disagree that that is vital; it is important to have it in the legislation to ensure the accuracy of the information on the register.

We welcome the measure, but it does not appear to be the strongest of safeguards, although any missing or false declaration rightly allows the registrar to reject the application to form a company. There are still many unanswered questions in this legislation, not least about the roll-out of the verification procedures and whether they will be of as high a standard as possible. The Minister referred to other secondary legislation that may be coming, but it is frankly extraordinary that we are debating this Bill in Committee without having further detail on verification processes and procedures. Will the Minister clarify how he would expect the registrar to be able to confirm the veracity of directors' identities? For example, would there be an expectation to check against any other databases?

We also want greater clarity about the power of the Secretary of State, as has been highlighted, to set out exemptions to the director verification requirements on company formation. That has the potential to be a serious and worrying point of entry through the back door. The issue is really important: in the course of the Bill, we have seen a number of Henry VIII powers and Secretary of State's powers to allow for these exemptions without accountability, necessarily, and without transparency.

I would be grateful if the Minister clarified, at this stage, when it is intended that such powers to exempt may be used; he may have scenarios and situations. We have talked about the importance of the Bill for tackling not just economic crime—in relation to money laundering and oligarchs buying yachts and homes and buying up our town centres—but national security.

As a Committee, we need to understand how we should expect these exemptions to be used, under what circumstances and with what safeguards. If we cannot have those scenarios to give us the confidence that it is important for the Secretary of State to have those exemptions, or clarity about some way the use of that power will be published—or maybe scrutiny through other mechanisms in the House, which could be on Privy Council terms—how can we expect the powers of the Secretary of State to be subject to accountability and scrutiny? If we cannot get that clarity, we have to ask why the provision is necessary. I look forward to the Minister's response.

I have a few brief comments on clauses 6, 7 and 8. We support the new provision brought in by clause 6. We recognise that it is an important step for subscribers to introduce a statement to the memorandum of association that none of the proposed directors is disqualified or ineligible to be a director. That will force that question to be asked of directors as well, because they are legally responsible for running a company, with statutory responsibilities and duties that they must adhere to. Ensuring that that is delivered is part of the important step of prevention, which the Bill should be looking to fulfil.

My question to the Minister is: have the Government considered the case of a director with previous multiple disqualifications, perhaps all of which have been spent? Is there any interest in there being a box to tick to state that someone has been disqualified more than three times, say? Has that been considered? Have any conclusions been drawn about that?

Clause 7 introduces the same provisions as clause 6, but in relation to persons with initial significant control. Again, it is an important step, but similar questions might apply. Finally, clause 8 amends the Companies Act 2006 to allow company subscribers to make statements confirming that the future company's people with significant control have verified their identities. We all agree on the importance of verifying identities for company directors, shareholders and people with significant control; that has been proposed by predecessors in the Department for at least the last three years, if not six.

The Labour party welcomes the introduction of the measure, but why has it taken so long? It is important to learn lessons and to be clear on the consequences of that wasted time. Perhaps in due course, as Companies House does its verification of existing companies, the Minister will report the number of bogus company incorporations made for fraudulent and criminal purposes—particularly in the last three years since identity verification was first suggested, but even prior to that, because maybe the mere suggestion caused a change in behaviour. As we look at cleaning up the Companies House database, it is important that we get some feedback on what the scale of abuse may have been and what we can learn to make sure that we are as tight as possible for the future. That may even test whether the legislation requires amendments in due course.

**Liam Byrne:** I want to reinforce the last point made by my hon. Friend the Member for Feltham and Heston. If we are going to equip the Minister with new powers, it is important that he tells the Committee, at this stage, how he intends to use them. The key question is: what is his deadline for ensuring that every single company on the register has fulfilled the obligations created by these clauses? Can he clarify what his risk tolerance for bad behaviour will be?

I ask the Minister that because I was forced to table parliamentary questions in October last year, which revealed—extraordinarily—that 11,000 companies on the Companies House register had still not disclosed their persons of significant control, even though it was a legal requirement at the time. That is a very big number, but despite that fact, only 119 convictions had been secured for wayward directors.

If we are going to give Companies House the new obligations and new duties that the Minister is taking through, but they are not going to be enforced, then

frankly there is very little point in the Bill. If the Minister is not able to today, I hope that he will write to us later to confirm two things. First, will he confirm that his intention is for 100% of companies to meet their obligations under the Bill? Secondly, I think the whole Committee would welcome his setting out a timescale for seeing that target secured.

**Kevin Hollinrake:** A number of points have been raised. The shadow Minister talks about the veracity of information and how we can become certain of it. As she knows, we are talking about a huge number of records—double-digit millions when adding up companies and directors. If we added shareholders, that would be many millions more.

The focus of this debate should be on who is controlling a company, be it a zero shareholding, small shareholding or larger shareholding. That is why traditional ID verification focuses on directors, who are obviously the officers of a company and control it, or a person of significant control—someone who sits behind that organisation. That is why we ask for those IDs to be verified. That can be done by Companies House or a corporate service provider. Some of those have a dubious reputation—I am sure that will be discussed in Committee—but let us see this for what it is: many of them are bona fide, reputable organisations such as Deloitte, EY and PwC. If someone has proven their identity to those organisations *[Interruption.]*—I am someone who can see his wrongdoing, but I do not see wrongdoing on every single corner. Most people working in commercial enterprise are decent, honourable people who seem to do the right thing. We should keep that in the context of this debate.

The duty is on a director of an organisation to make a statement to say that their identity has been verified. If that statement is false, criminal sanctions are attached. That is how this is regulated. It would make no sense for Companies House to revisit tens of millions of records to ensure that people at Ernst & Young and Deloitte have properly verified the identity of an individual. They are subject to those criminal sanctions.

On multiple disqualifications, I think the hon. Member for Feltham and Heston was talking about some kind of "three strikes and you're out" system for a director. The Insolvency Service has the opportunity to ban a director for up to 15 years. It is fair to say that if someone had constantly not paid their tax or filed their accounts and had been banned, their days as a director would be just about done by the time they had got three penalties of 15 years.

The exemptions, as I said before, will be brought forward by affirmative regulations. The provision is intended for when there is no need or purpose to going through another round of ID checks, to avoid needless bureaucracy. We should all welcome that because, as anyone who has been at any organisation knows, bureaucracy equals cost for somebody—whether that be a cost on commercial enterprises or on the taxpayer. We have to be careful not to step too far unnecessarily.

**Liam Byrne:** That is an important point. The Minister is basically telling the Committee that he wants to ensure that the verification checks are proportionate, but across Government—in the Passport Office, the visa service and benefits agencies—there is a well-established infrastructure for verifying identities. If people are applying to become a director or a person of significant control, it is hard for many of us on the Committee to understand why the checks on their identity should be much lighter than those applying for other benefits from the state.

**Kevin Hollinrake:** I do not understand why the right hon. Gentleman says that the checks are lighter. This is ID verification where the individual has to be identified against a form of ID such as a passport. It is a proper ID verification. That process will be brought forward so that the Committee can decide whether it is fit for purpose. It is absolutely right that we do that, but these are proper ID verification requirements.

The deadline for ID checking of existing directors is 28 days from the commencement of this legislation—*[Interruption.]* The right hon. Member for Birmingham, Hodge Hill is not even listening, even though I am answering his question. Existing directors will need to be verified within 28 days. The deadline that he asked for is 28 days from the commencement of the legislation.

**Liam Byrne:** And the target?

**Kevin Hollinrake:** It is 28 days.

11 am

**Seema Malhotra:** I thank the Minister for his comments. I think he has committed to write to me about nationality and country; he did make a note. Did he make a note? Did I get that right? It is a matter that my colleague will also be raising, but I think he said that he would write to me with the Government's view on that matter. On the basis of that, I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.*

*Clause 2 ordered to stand part of the Bill.*

*Clauses 3 to 8 ordered to stand part of the Bill.*

**Clause 9**

NAMES FOR CRIMINAL PURPOSES

*Question proposed*, That the clause stand part of the Bill.

**The Chair:** With this it will be convenient to consider clauses 10 to 13 stand part.

**Kevin Hollinrake:** I do not think I did commit to write to the hon. Member for Feltham and Heston, but I am happy to do so if she would like. I am definitely committed to considering all the contributions to the debate.

The Companies Act 2006 contains a range of provisions, whose focus it is to mitigate potentially undesirable impacts arising from a company's choice of name. For example, it is already unlawful to incorporate a company the name of which, in the opinion of the Secretary of State, constitutes an offence or is offensive. Clauses 9, 10, 11, 12 and 13 will place further controls and restrictions around the choosing of company names by making amendments to the Companies Act 2006.

Clause 9 will give the Secretary of State the ability to prevent the registration of a company name that, in his view, is intended to facilitate the commission of an offence involving dishonesty or deception, such as fraud. It is sadly all too common for Companies House to

*[Kevin Hollinrake]*

observe the opportunistic establishment of new companies, whose names, for example, appear to exploit natural disasters or humanitarian crises. At present, Companies House has no means of preventing the registration of company names capable of facilitating deception of this nature. This provision will provide that power.

Clause 10 builds on existing safeguards in the Companies Act 2006, which restrict the extent to which companies can adopt names that give the false impression of a connection with a UK public authority. At present, if a name was to suggest association with UK national or local government, the devolved Administrations or specified local authorities, the Act and associated regulations provide a framework within which consent needs to be sought. The clause supplements that framework by providing safeguards in the international sphere. However, rather than applying a system of consenting, the starting assumption will be to prohibit names that, in the opinion of the Secretary of State, give a misleading impression that the associated company is linked to a foreign Government or its agencies.

Such a prohibition will also apply to names that reference recognised international organisations—for example, NATO or the United Nations. Of course, there may be occasions where overseas Governments and international bodies quite legitimately wish to incorporate companies in the UK. The clause would not prevent those companies from having names that connect them with a Government or body where that connection is a true reflection of reality.

Clause 11 will give the Secretary of State the responsibility to reject the registration of names that comprise or contain what, in his opinion, constitutes computer code. Company names are a potential vehicle through which bad actors can infiltrate the systems of those who access or download them. Computer code embedded or incorporated within a company name has the potential to subvert and to exploit the networks of unwitting third parties. That is clearly something we would wish to guard against.

Clause 12 inserts a provision that effectively prevents a company from re-registering a name that has already been the subject of a direction. That change will prevent an administratively burdensome cycle of repeat name-change directions, which is clearly better avoided.

Clause 13 prevents directors and shareholders from carrying a name to another company when they have already been denied its usage, as a consequence of either a direction from the Secretary of State or an order made by a company names adjudicator. It does, however, recognise that there might be instances in which secondary use would be quite legitimate. Scope is therefore provided for the Secretary of State to approve a name, notwithstanding the general prohibition introduced by the clause.

**Seema Malhotra:** We support clause 9. We recognise that it amends the Companies Act to give the Secretary of State the ability to prevent registration of a company if they think the name of that company is intended to facilitate dishonesty or deception. Companies House deals with up to 100 cases of corporate identity theft every month, and given that this form of fraud and others are starting to become more prevalent, it is right that there be these new powers to prevent registration, stemming—we hope—the flow of new fraudulent registrations. An incredible amount of distress arises from the impact of that dishonesty and deception.

Clause 10 inserts into the Companies Act a new section prohibiting company names falsely connected to foreign Governments and international organisations, and the Minister has spoken about why that section is important. It gives the Secretary of State the ability to prevent the registration of a company with a proposed name that, in the Secretary of State's opinion, suggests a connection with a foreign Government, its offshoots or international bodies where none actually exists. As has been mentioned, that could be the UN or NATO, or any other body. Of course, we support the principle behind that measure, but in the interests of transparency about the use of that power, could the Minister clarify whether, when the Secretary of State is asked to make a judgment in such a situation, he expects that the judgment will be publicly shared—that, for example, Companies House might report on the uses of that power as part of its reporting?

I also want to clarify how the power will be used. When a company is formed that the Companies House registrar suspects is not actually connected with a foreign Government or other international body, but looks like it might be, will the registrar have a duty to flag such instances with the Secretary of State? That is important, because it comes back to the question of the proactiveness of the registrar's duties, so it would be helpful to clarify it. What about the scenario where an attempt is made to register a company with a proposed name that, were it to be raised, would go through that process and very correctly be stopped by the Secretary of State, but it is not picked up by Companies House? If that situation arose for any reason—it could be new staff, or it could be the pressure of time because of insufficient resources; mistakes can be made in those circumstances—could a third party then apply for the name of that company to be changed? How would that work if it were an international organisation?

If uses of the power were reported by Companies House, would we be able to search and see that a number of people had sought to set up a company called United Nations Associates, or something like that? Would we be able to have a sense of how Companies House is perhaps being used in that way?

Should a company that has had its name changed by direction of the Secretary of State continue to seek to trade under that company name—perhaps in an overseas jurisdiction, if the name is falsely connected with foreign Governments—it would be helpful to clarify what measures could be taken, and by whom, to seek to put an end to that. There may be an obvious answer.

**Alison Thewliss:** I want to highlight again to the Minister the issues in these clauses that Graham Barrow raised in the excellent evidence that he gave to the Committee last week. He said:

> "The Bill does include the ability for Companies House to reject similar names, but if you have 3,000 companies a day—and that extends to companies across the world that may have similarities—I do not see how you are going to enforce that reasonably. There is just too much volume and too many potential comparative data points to compare them to."

His suggestion was that the system needs to have

"a little bit of friction".—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 109, Q204.]

Instead of Companies House turning around an application in less than 24 hours, a little bit of time should be taken to assess and analyse it.

The human element of this process is also important. Some of it may be possible to achieve with clever computer algorithms to sift out any companies whose names are too similar to existing ones, but there needs to be human judgment as well. This goes to the point of Companies House resourcing and staff being able to understand what they see in front of them. That will take expertise and long-term knowledge, not only of the company in front of them but of the existing companies on the register—and they are there in their millions.

I will address a point that has not really been raised before about clause 11 and names containing computer code. When these kinds of things come up, I reach for the expertise that I have pretty much at hand. I went to my husband and asked him about this, because it is his profession—he is a computer coder by trade—so I thank Mr Joe Wright for his assistance. I said, "Is this really a problem, and what does it actually mean?" My understanding is that the clause is to guard against SQL injection into the Companies House register, because anyone pulling that out of the register can have their systems corrupted by companies that register with computer code.

My husband directed me to a very useful article, which people should have a wee look at, by Neil Brown on decoded.legal that looks into this in some detail. A company has been registered using computer code. It was registered under the name ; DROP TABLE ″COMPANIES″;-- LTD, which has some computer code around it. Dr Michael Tandy registered that company name, but Companies House did not publish the name on its register; it said that the name was available on request. Can the Minister clarify whether the clause will deal with that specific case, or whether it is broader than that?

The article by Neil Brown raises some questions. What exactly would be prohibited? The Bill does not define computer code; it prohibits the use of names that "in the opinion of the Secretary of State" are computer code. I do not know whether the Minister knows his SQL from his JavaScript, but that seems like a big judgment and responsibility to put on Government Ministers. In its very essence, computer code is just an instruction to a computer, and that instruction can be in plain English text as well. Can the Minister tell us exactly how this will be assessed and what systems will be put in place at Companies House to define what computer code is, in practice? That, again, comes down to the human element—someone understanding exactly what is in front of them.

I urge the Minister to give a wee bit more clarity about what is code, what is not code and what exactly the clause is intended to catch. There are such companies on the Companies House register, and because code can be in text that we would understand—rather than a series of numbers, letters and symbols—it might be more difficult to enforce this. I would be grateful if the Minister could help us understand a wee bit better how the Secretary of State's complete discretion to define what is and what is not computer code will be used in practice.

**Dame Margaret Hodge:** This question is really just for information. Can the Minister explain why the three categories were chosen for inclusion in the Bill? Why are we only looking at these? What was rejected, and why did these three come about? I cannot understand it. Is there a right to appeal if somebody chooses a name for a legitimate reason but it is misunderstood by Companies House? Who will take the decision? Is that something the Secretary of State will delegate to Companies House, or will it have to come up for ministerial approval every time?

A slight aside: some of us had dinner last night with Catherine Belton, and she talks convincingly about the way that companies linked to the Kremlin have individuals who do not reveal that link. The link to foreign Governments is more worrying than the idea of someone abusing the name of foreign Governments to set up, say, a travel agency to go to Russia. That sort of thing seems to me perfectly all right. The other side of this coin is what causes great concern. It can become a vehicle for money laundering and hiding a lot of the Kremlin's money in banks abroad.

11.15 am

**Seema Malhotra:** I echo the concerns raised by my right hon. Friend the Member for Barking. She has drawn out some important distinctions. One is where there has been duplicity in setting up a company with a particular name, and there may be good reason for wanting to challenge that. She has highlighted the safeguards, but she is right that we need clarity in relation to kleptocrats and real connections to foreign Governments, which the Bill is trying to stop.

I thank Joe Wright. The hon. Member for Glasgow Central is right, because technology and people who use it are getting more and more sophisticated. Embedded computer code can maliciously infect the systems of those who access or download data. I saw the very real impact of data getting on to servers when I recently visited a company in Liverpool for a roundtable. Their systems had gone down, but luckily they had safeguards to stop what had happened. How quickly viruses, spyware and other means of destruction can travel, and they pose such security risks for companies and countries. That is an important part of our security, so it would be helpful to have some further information on that.

We welcome clauses 12 and 13 as important provisions. Clause 12 ensures that companies cannot use names that are misleading or used to mask criminal purposes. Clause 13 provides a mechanism to ensure that where there is good reason for a direction to change company names, it is not bypassed by those who use the registrar for fraudulent purposes. What enforcement mechanisms would come into force in such situations?

**Kevin Hollinrake:** On a point of correction, I said in answer to a question from the right hon. Member for Birmingham, Hodge Hill that existing directors and people with significant control had 28 days to verify their identity. That figure has not been set yet. It will be set in a commencement order, which I will find out more about. The 28 days applies to relevant legal entities.

**Liam Byrne:** Will the Minister give way?

**Kevin Hollinrake:** I have only six minutes left, so if the right hon. Member wants to hear from me on all those points, he will have to keep it very short.

**Liam Byrne:** Could the Minister also clarify his target for compliance? I hope it is 100%, but if he could clarify that as well, I would be grateful.

**Kevin Hollinrake:** I am grateful. Of course, my target will certainly be 100%; I cannot imagine why it would not be. The 28 days refers to the time that relevant legal entities will have to rectify their identity from receipt of the registrar's direction.

To answer the hon. Member for Glasgow Central on computer code, there have been a small number of instances where Companies House systems have identified computer code. What constitutes that may change and evolve over time, so the drafting is future proof. Companies House already has a security capability that will develop and evolve over time. Where necessary, Companies House's internal scrutiny functions will consult other experts.

The right hon. Member for Barking asked what had been rejected. No other categories were rejected in the course of policy development. I think that these categories were deemed important, but I do not know of any others that were considered. The right to appeal regarding the name change would be through a judicial review. Clearly, it is fair to say that Companies House will use its judgment.

To answer the right hon. Lady's point on the Secretary of State's functions, Companies House exercises those functions. There is a well-established administrative process by which Companies House makes the Department aware of potentially problematic names, so the Secretary of State can also exercise their judgment. On how we identify any of those names, of course, a lot of that is technology-based.

**Dame Margaret Hodge:** I am really sorry, but I just want clarification. Does that mean the decision is taken by both Companies House and the Secretary of State—or a Minister on their behalf?

**Kevin Hollinrake:** As I understand it, Companies House makes the decision under delegated authority.

On trading styles or business names, which the shadow Minister mentioned, that is clearly not something that Companies House oversees directly, because it does not have a register of trading styles or business names. However, it does rely on third-party information to understand what a company may be trying to do regarding its trading style.

On the other problem—the other side of the coin, as the right hon. Member for Barking says—of money laundering and people supporting the Russian state, those matters are, of course, principally dealt with through money-laundering regulations or, indeed, sanctions regimes. People supporting the Russian regime, for example, should very often be subject to sanctions.

*Question put and agreed to.*

*Clause 9 accordingly ordered to stand part of the Bill.*

*Clauses 10 to 13 ordered to stand part of the Bill.*

*Ordered,* That further consideration be now adjourned.—*(Scott Mann)*

11.23 am

*Adjourned till this day at Two o'clock.*