PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Sixth Sitting

Tuesday 1 November 2022

(Afternoon)

CONTENTS

Clauses 14 to 29 agreed to.
Motion to transfer clause 29 agreed to.
Clauses 30 and 31 agreed to.
Adjourned till Thursday 3 November at half-past Eleven o'clock.
Written evidence reported to the House.

PBC (Bill 154) 2022 - 2023

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

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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

(Afternoon)

[HANNAH BARDELL *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 14

DIRECTIONS TO CHANGE NAME: PERIOD FOR COMPLIANCE

2 pm

Stephen Kinnock (Aberavon) (Lab): I beg to move amendment 87, in clause 14, page 8, line 11, leave out "at least" and insert "no more than".

This amendment, and Amendments 88 to 93 would require that, when a company is ordered to change its name under the provisions of this Bill (including in cases where the name is considered misleading or it may facilitate criminal activity) the company must comply with the order within 28 days. This requirement would replace the Bill's provision to provide the company with a potentially unlimited period of time to comply with the order.

The Chair: With this it will be convenient to discuss the following:

Amendment 72, in clause 14, page 8, line 16, at end insert—

"(2C) The Secretary of State must publish the use of any such direction as set out in subsection (2B) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (2B) on the Companies House website.

Amendment 88, in clause 14, page 8, line 19, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 89, in clause 14, page 8, line 23, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 90, in clause 14, page 8, line 29, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 73, in clause 14, page 8, line 34, at end insert—

"(3B) The Secretary of State must publish the use of any such direction as set out in subsection (5)(a)(3) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (5) on the Companies House website.

Clauses 14 to 16 stand part.

Amendment 91, in clause 17, page 10, line 5, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 74, in clause 17, page 10, line 10, at end insert—

"(The Secretary of State must publish the use of any such direction as set out in subsection (4) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (3) on the Companies House website.

Clause 17 stand part.

Amendment 92, in clause 18, page 11, line 13, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 75, in clause 18, page 11, line 18, at end insert—

"(4A) The Secretary of State must publish the use of any such direction as set out in subsection (4) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance on the Companies House website.

Clauses 18 to 26 stand part.

Amendment 76, in clause 27, page 16, line 19, after "person" insert—

"and published on the registrar's website".

This amendment would add a requirement for the Secretary of State to publish any written notice of exception based on the national security etc. on the Companies House website.

Clause 27 stand part.

Stephen Kinnock: It is a pleasure to serve under your chairship, Ms Bardell.

I add to the comments of my right hon. and hon. Friends in welcoming the Under-Secretary of State for Business, Energy and Industrial Strategy, the hon. Member for Thirsk and Malton, to his place. Over the past few weeks and months, it has been a bit difficult to keep track of who is going where and of the blizzard of appointments. His appointment in particular stood out as a very wise decision by the Prime Minister. We very much look forward to working with the Minister on the Bill and on other issues.

I must add that I am looking forward to working with my colleague the shadow Minister, my hon. Friend the Member for Feltham and Heston. We will work together on the Bill, but I represent the shadow Home Affairs team, looking at the issues through the lens of security, which is so important to our country and is very much the other side of the coin from the economic resilience issue that we are also exploring.

I will speak to clauses 14 to 28 and the amendments to them. Economic crime has a devastating impact on an individual level for our constituents and businesses, and at a national level for our national security and economic resilience.

The Chair: Order. May I say that clause 28 stand part will be a separate debate? I remind the hon. Gentleman that in this group, we are debating up to clause 27 stand part.

Stephen Kinnock: Up to and including clause 27, finishing, and then moving on to clause 28. Thank you for that clarification, Ms Bardell.

The National Crime Agency estimates that £100 billion of dirty money flows through the UK every year and that fraud is causing £190 billion of damage to our economy. According to PwC, 64% of businesses have experienced fraud, corruption, or other economic or financial crime within the past two years, which is up from 50% only four years ago.

The Labour party believes in stronger action to defend our national interest, our economy and our national security from the organised criminals, fraudsters, corrupt oligarchs and kleptocrats. Indeed, as the shadow Home Secretary, the right hon. Member for Normanton, Pontefract and Castleford (Yvette Cooper), said on Second Reading:

> "Ours is a country that has long prided itself on the rule of law and on strong economic institutions, which is what traditionally made it a good place in which to invest, but that is being undermined by economic crime".—[*Official Report*, 13 October 2022; Vol. 720, c. 291.]

It is also being undermined by the illicit money flowing through what many call "Londongrad". As much as that brings shame, it should also bring pride that we are coming together as parliamentarians to debate and scrutinise this important Bill.

We support the Bill, but the devil is in the detail. With 250 pages, a huge amount of detail needs extensive discussion. Part 1 is critical, because it aims to get to the crux of one of the major barriers to tackling economic crime. That problem is the underfunding, lack of regulation and lack of teeth at the heart of Companies House.

Clauses 9 to 22 cover legislation on changes to company names. I have moved amendment 87 and tabled amendments 72, 88 to 90, and 73 to clause 14, as well as amendment 91 to clause 17 and amendment 92 to clause 18. We are surprised that the Bill states that when a company is directed to change its name under the Companies Act 2006, including in cases where the name is considered misleading or might facilitate criminal activity, that company must comply with the direction in "at least 28 days". That requirement would replace the provision to provide the company with a potentially unlimited period of time to comply with the order. In a moment, I will pause to allow the Minister to clarify whether that provision is deliberate, because it appears to be both rather confusing and rather too generous. Surely, it should say that the company must comply with the order within 28 days. That is what the amendment seeks to achieve—as opposed to "at least" 28 days, it must be within 28 days.

The Bill includes lengthy provisions on company names, and sets out how and for what reason a company may be required to change its registered name. The aim of those provisions is to enable companies' names to be prohibited in cases where they may be intended to facilitate dishonesty, deception or another criminal offence. Although that aim is laudable, there appears to be a disconnect between the seriousness of the offences that the Government are seeking to prevent, and the lengthy periods of time that Ministers are prepared to allow for a company to comply with an order to change its name.

Given that such an order will generally be made only when a Minister has identified a clear risk of harm in relation to a company's name—including a risk of fraudulent or other serious criminal activity—it is hard to understand why a company would then be given potentially limitless timeframes to comply with that order. The Opposition believe there should be, at the very least, a time limit on orders to change a name believed to be intended to deceive the public of the company's true purpose. Companies that fail to comply with such an order within a reasonable period of time, and a 28-day limit seems reasonable to us, should also be penalised if they cannot provide a good reason for any delay or refusal to comply. I am happy to pause here if there is anything that the Minister would like to clarify.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I am happy to do that. The issue is in the drafting. I had to read this on a number of occasions and speak to officials before I got my head around it, but the provision achieves the purpose that the hon. Gentleman sets out. Clause 14(5)(2) states:

> "The direction must be in writing and must specify the period within which the company is to change its name."

It is a fixed period of time. It sets out the ability to give a company more time in certain circumstances, but the intention is to do exactly as the hon. Gentleman wants: a company has 28 days to comply. It will be told how long it has to comply, and that may well be 28 days.

Stephen Kinnock: I thank the Minister for that response. As he pointed out, he had to read the provision several times in order to be clear on the drafting. Clause 14 (5)(3) says:

> "The period must be a period of at least 28 days".

Our intention is to make it clear that it has to happen within 28 days. There is a clear difference between "at least" and "within". "At least" gives the impression that a company could have an unlimited period of time beyond those 28 days, whereas if we clearly state that it must happen within 28 days, then there is no room for doubt whatsoever. Would the Minister like to come back to me on that?

Kevin Hollinrake: Again, if the hon. Gentleman reads that in the context of clause 14(5)(2), he will understand that it is a fixed period of time. That is what companies will be given.

Stephen Kinnock: Maybe the Minister and I are just not seeing it through the same lens. I agree that there should be a fixed period, but I think it should be clearly defined that the fixed period must be a maximum of 28 days. Does the Minister think that the Bill as drafted makes that clear?

Kevin Hollinrake: The point is there may well be valid circumstances where a company might take longer than 28 days, for example if it needs to seek a resolution from its shareholders or directors. In those cases, a company might then apply to Companies House or the Secretary of State to extend that time period. That is where the "at least" comes in, and it must be seen in the context of the "within". Listen, I am not a lawyer. I do not think the hon. Gentleman is a lawyer. The lawyers have chosen to draft the legislation in this way. I do think it serves the purpose, but I can understand why the hon. Gentleman is seeking clarification.

Stephen Kinnock *rose*—

Dame Margaret Hodge (Barking) (Lab): Will my hon. Friend give way?

The Chair: Order. The hon. Member needs to respond first. Then the right hon. Lady can intervene.

Stephen Kinnock: You are absolutely right to keep us in line, Ms Bardell. We need to ensure we can operationalise the Bill in the clearest and most succinct way that leaves absolutely no room for doubt. The Bill is designed to regulate a sector of the economy that is like water; if it can find cracks to slip through, it will find them. We are trying to close those loopholes.

Dame Margaret Hodge: I am bewildered. The Minister may be too. Proposed new subsection (4A) in clause 14(5)(b) sets out that an application must be made "within the period of three weeks". Obviously the lawyers do not think it is bad to put "within a period of three weeks" in that particular context. If someone says "at least", that is a minimum, not a maximum. At least is a minimum. I cannot think that a lawyer would not have common sense about it. Perhaps the Minister wants to go away, reflect on this and move an amendment later. I do not believe lawyers are quite that removed from reality and common sense. It literally says in that clause "made within". The lawyers do not mind using that term sometimes, so why can they not use it always?

Stephen Kinnock: My right hon. Friend has hit the nail on the head. I hope the Minister will reflect on that.

Moving on to clauses 15 to 22, we are content with clause 15, which would allow for objections based on the company name being misleading outside the UK and for the shareholders and directors of said company to be joined as respondents or defenders in the claim. In their February 2022 White Paper, the Government explained the rationale for expanding the grounds for objections to be made to a company's name. It was broadly accepted that the current restrictions, for instance on names that imply a link to the UK Government, were too narrowly drawn.

Responses to the consultation reflected widespread concern about the impact company names that are clearly deliberately misleading might have on legitimate businesses in cases where rogue companies try to suggest they have a connection to a well-known business and thus benefit from wider public recognition of, and perhaps even loyalty to, an established brand. Such appropriation of company names is now understood as a means of scamming would-be investors out of their money. Earlier this year, for example, there were high-profile reports of a scam involving a company calling itself Diageo Partners Ltd. It attempted to solicit an investment by presenting itself as an arm of the well-known drinks company of that name. Another case flagged by the Financial Conduct Authority in January involved similar attempts by scammers to link themselves with the financial institution Wells Fargo.

Clause 15 is a welcome recognition of those issues and should go some way toward addressing them. However, many legitimate companies that raise objections via the Company Names Tribunal are currently facing delays of three months or more before they can get a decision. I wonder whether the Minister could explain what steps the Government will take to help speed up the Company Names Tribunal process and ensure that fraudulent company names are corrected as quickly as possible.

Kevin Hollinrake: I will address the hon. Gentleman's points in my full response. There are some amendments we have tabled that address his exact points, and I would like to speak to those in detail.

2.15 pm

Stephen Kinnock: Excellent.

We support clause 16, which gives extra powers to the Secretary of State to direct a company to change its name only if he or she deems it to be as little as "a risk of harm" and makes it clear that harm can apply outside the UK. However, in clauses 15 and 16, the Bill seeks to broaden the scope of misleading or otherwise harmful effect, which can be used as grounds to require a change of name. The provisions cover the potential for a misleading company name to cause harm in any part of the world, not just in the UK, and that is surely welcome recognition of the reality of today's landscape of online fraud. Clearly, scammers and fraudsters have no respect for national borders and it is right that a UK company that is causing or attempting to cause harm in another country should be subject to enforcement actions requiring it to stop. The wording used in clause 16 and elsewhere, referring to actions that pose a risk of harm to the public, is exceptionally broad. Will the Minister expand on how that definition might be given greater clarity and, indeed, clearer definition? Will he provide some practical examples of how those powers might be used? I look forward to his insights.

Clause 18 introduces a procedure that allows the Secretary of State to direct a company to change its name where the name breaches the requirements of the Companies Act 2006, including as amended by the Bill. Failure to comply would be a criminal offence by the company and all responsible officers. The provisions in clause 20 would empower the registrar forcibly to change the name of the company if the company does not do so. That all sounds eminently sensible and we support the measures.

We support clause 21, which makes consequential amendments to the new powers to change a company name under the Bill, for example, because it contains computer code. That requires the registrar to replace the old name with the new one on the register. We also support clause 22, which provides for the Secretary of State to allow company names that are otherwise prohibited where considered necessary for national security or to prevent or detect serious crime.

While the previous clauses refer to company names, clauses 23 to 27 refer to a company's trading name or business name, which can be different from the company name registered with Companies House. Business or trading names do not need to be registered with Companies House, but they need to adhere to the general restrictions listed in part 41 of the Companies Act 2006.

Clauses 23, 24 and 27 make similar changes to trading names as clauses 10, 16 and 22 in respect of company names. We have no objections there, although my hon. Friend the Member for Feltham and Heston might wish to speak to her amendment to clause 27 shortly. Clause 25 prohibits a company from using a business or trading name that is the same as a company name that it has been ordered to change. Continuing to use a trading name in such circumstances amounts to a criminal offence by the company and every responsible officer. Clause 26 states that where a company has been ordered to change its name, it is a criminal offence for an officer or shareholder of that company, with some exceptions, to use that company's name as the business name for another company. We recognise the sound reasoning behind each of those clauses.

Kevin Hollinrake *rose—*

The Chair: Order. Will the Minister take a seat for a second? Seema Malhotra wants to make a contribution. If Members are looking to speak to amendments, may I remind them of the convention of bobbing? It helps the Chair out.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): Thank you, Ms Bardell. I do not think we were fully clear between us. It is a pleasure to serve under your chairship. I rise to speak to amendment 76, which is in my name and the name of my hon. Friend the Member for Aberavon. I want to conclude on the remarks he has already made.

Clause 27 sets out exceptions to name change directions if the Secretary of State is satisfied that it is in the interests of national security, or of preventing and detecting serious crime, for a business to carry on operating under a name that goes against regulations. We have tabled this amendment to require any exemption to a name change direction on the grounds of national security to also be subject to appropriate transparency.

Amendment 76 is a probing amendment designed to clarify the purpose and circumstances in which the Secretary of State can use their powers of exemption, and who will be aware of how the exemption is being used. The Minister may tell me that some of this is subject to greater security. In that case, which body or Committee would be aware, even under Privy Council rules, of the use of these powers?

Kevin Hollinrake: It is a pleasure to serve with you in the Chair, Ms Bardell.

As Members will have noted, this group is large and includes both amendments and clauses. The hon. Member for Aberavon—I appreciate his kind words and those of the hon. Member for Feltham and Heston—has tabled many amendments, and they would make changes across multiple clauses. It will therefore be helpful for all Members if I lay out the effects of the clause as currently drafted, before turning to the amendments and the many points made during the debate.

Clauses 14 to 22 together form the majority of the chapter on registered company names. At present, the Companies Act 2006 leaves it to the discretion of the Secretary of State to determine the time period within which a company must comply with a direction to change its name. Clause 14 amends that to standardise the various direction-issuing powers already found in part 5 of the Companies Act 2006 and those that are inserted by this Bill. This means that in all instances where companies are directed to change their registered names, they must do so within at least 28 days of the date of the direction. *[Interruption.]* There are two things I would say to the hon. Member for Aberavon. Clause 14 must be looked at in context, and the point is that proposed new subsection (2A) of section 64 of the Companies Act would give

“a period of at least 28 days beginning with the date of the direction.”

Combined with new subsection (2) of section 76 of that Act, as inserted by clause 14(5) of this Bill, that means the direction will be a fixed period. There will be a fixed period, just as he wants, and in all likelihood it will be 28 days. It may sound like odd drafting, but the “at least” part is to ensure that the direction cannot be less than 28 days to give companies a reasonable chance to make the change. Once the decision has been made on how long the company will get, that will be a fixed period, unless the company provides justification for changing it.

Dame Margaret Hodge: Further on in the Bill, there are a lot of Henry VIII powers. I cannot see the justification in this context, and perhaps the Minister can advise us why we cannot put 28 days in the Bill. It has to be “at least”, but it also has to be “at most”. Let us just put that in the Bill. I do not know why we give any Minister discretion on this. It ought to be in the Bill.

Kevin Hollinrake: It is in the Bill. The point is that the company, in some circumstances, can effectively apply to have that time period extended. That is the point of this; that is where the “at least” bit comes in.

Seema Malhotra: Perhaps the Minister can clarify whether a period of 128 days given in writing would be in line with the terms of the clause. Did he go back to the lawyers to see whether the clause could be redrafted to read that the period must be a maximum of 28 days, beginning with the date of direction? That would still allow for the terms of proposed new subsection (2B) and a permitted extension within three weeks.

Kevin Hollinrake: We need to allow for some discretion when certain companies cannot comply because of certain consequences and for whatever reason. As a simple example, a company might have to get an agreed resolution between directors or shareholders to change its name. That is why the term “at least” applies in the clause.

I would like to move on, because there is more that I would like to share with you, which deals with the issue from a different direction. I will come back to you, I promise you.

The Chair: Order. May I remind the Minister and other Members to speak through the Chair?

Kevin Hollinrake: I apologise. I will not do it again.

Clause 15 makes a set of changes in how objections to a company name are to be considered by the company names adjudicator, established under section 70 of the Companies Act 2006. In cases brought before the adjudicator under section 69 of the Act, the company complaining over another’s misuse of a name is known as the applicant, and the counterparty to that complaint is the respondent. Clause 15 amends section 69 in several ways. First, in recognising that the activities of companies registered in the UK are not constrained by our borders, it removes the geographic scope of complaints that the adjudicator can consider. That allows the adjudicator to consider the ability of a company name to mislead members of the public in jurisdictions other than the UK.

Secondly, the clause plugs a loophole in the existing legislation that allows directors of respondent companies to resign their position to avoid being joined alongside the company itself in the adjudication proceedings. Finally, at present it is the case that unless it can be demonstrated that the respondent registered a name in order to obtain money from the applicant, an application

[Kevin Hollinrake]

must be dismissed if the respondent has begun trading under the name or has incurred substantial start-up costs. That defence will no longer be available.

Clause 16 amends the Companies Act to lower the bar in terms of the harm test. Currently, section 76 of the Act allows the Secretary of State to direct a company to change its name if, in his opinion, the name gives such a misleading indication of its activities that it is likely to cause harm to members of the public. In future, the Secretary of State will form a view on the basis of whether the name poses a risk of harm, instead of considering whether the name is likely to cause harm, thus giving the Secretary of State greater discretion in the exercise of that power. The clause also clarifies that the potential harm at issue need not manifest itself in the UK alone, but might do so anywhere in the world.

Stephen Kinnock: The Minister is being very generous in giving way. The issue with clause 16 is the term

"pose a risk of harm to the public",

which seems to be very broad. Can he expand on how that risk might be more clearly defined? Can he give a practical example of how the proposed powers might be used?

Kevin Hollinrake: If I may, I will come back to the hon. Gentleman on that point once I have some information on it from my officials.

Clause 17 will give the Secretary of State the ability to direct a change of a company name where, in his view, it has been used, or is intended to be used, to facilitate the commission of an offence involving dishonesty or deception, such as fraud.

Stephen Kinnock: Briefly on clause 17, I would just like to mark the card because, again, there is an issue with the use of the phrase:

"The period must be a period of at least 28 days"

in proposed new section 76A(3) of the Companies Act. I suggest that that phrase should be replaced with "This period must be a period of no more than 28 days, beginning with the date of direction", because I think it would be so much clearer and tighter.

Kevin Hollinrake: I will come to that, but the hon. Gentleman's solution to that does not give any discretion should a company need more time. *[Interruption.]*

The Chair: Order. If Members wish to contribute, they should do so in the usual way.

2.30 pm

Kevin Hollinrake: That is the reason why the clause is drafted in that way, but I will come back to the hon. Gentleman's point before the end of my remarks.

The ability to direct a change of a company name recognises that there may already be some companies, among the 4.5 million or so companies already on the register, with names that are facilitating criminal conduct or have the ability to do so. In order to address those instances that may come to the Secretary of State's attention, the clause will give him the ability to direct a company to change its name. The clause also sets time frames for compliance, penalties and methods of appeal.

I turn now to clause 18, which gives the Secretary of State the ability to direct the change of any company name already on the register of companies that appears to them to contravene any requirement of part 5 of the Companies Act 2006. The Secretary of State can also direct a change of name if, at the time of registration, they had proper grounds for forming an opinion on whether the name was in itself an offence or was offensive, being used for criminal purposes or contained computer code. Without the ability to take action to address such names once incorporated, undesirable impacts can go unchecked. A consequential amendment applies this section to provision on overseas companies.

Clause 19 complements clause 11 of the Bill. Clause 11 makes it unlawful for a company to be registered with a name that contains or comprises computer code. Clause 19 addresses the possibility that computer code lurks among the names of the 4.5 million or so companies already on the register, empowering the registrar to determine a new name.

Clause 20 provides the registrar with the power, by her own action, to change a company's name where it has not followed a direction to do that itself. Where she does so, she must inform the company and annotate the register accordingly.

Clause 21 makes a consequential amendment related to the administrative aspects of the company name-changing powers contained within the Bill, specifically the duty of the registrar to issue a new certificate of incorporation following a change of a company's name.

Clause 22 introduces a section into part 5 of the Companies Act that gives the Secretary of State discretion to disapply any prohibition on naming a company or operating under a company name where, in his view, that is justified in the interests of national security or for the purposes of preventing serious crime. On the point about the exercise of national security, commitments to transparency on security exemptions might well by their nature defeat the purpose of the exemption's use.

I turn now to amendments 87 to 92, tabled by the hon. Members for Aberavon and for Feltham and Heston. The amendments concern clauses 14, 17 and 18, which I have just taken Members through. I thank the hon. Members for the amendments, as they have helpfully highlighted a gap in the Bill. We acted on that yesterday by tabling amendments that address the issue and, I hope, resolve it, albeit in a different way. I refer hon. Members to new clause 34, which effectively allows the registrar to instantly suspend the material on the register referring to the name. In that way, the Bill gives the Secretary of State a new range of powers to direct companies to change their names that supplement and strengthen the existing powers under the Companies Act. *[Interruption.]* That is on page 65 of today's amendment paper.

In respect of the existing provisions, it is at the Secretary of State's discretion to determine the period within which a company must comply with directions. Clause 14 of the Bill seeks to regularise that period across both existing and new direction provisions in part 5 of the Companies Act. That period would be a

minimum of 28 days from the date of direction. These amendments seek to make the period no more than 28 days.

I have sympathy with the view that companies should not be afforded longer than necessary to take the steps to comply with a direction. I would, however, draw hon. Members' attention to the fact that, in respect of the new classes of prohibited name, the Bill is drafted to provide the registrar with the discretion to remove the name of the subject of the direction from the publicly accessible register where a direction has been issued. I assure hon. Members that where there is potential for harm to be caused, the registrar will exercise that discretion and, therefore, the harm will cease at the point the direction is issued, regardless of the length of the compliance period.

Where a name is removed from the register, it would normally be replaced with a company registration number. I anticipate that we will legislate in secondary legislation for the registrar to annotate the register, explaining that the name had been changed because it was the subject of a direction. The Opposition's amendments have highlighted that the suppression capability is not at present available to the registrar in all circumstances where a direction might have been issued. The Government amendments will ensure that in future it will be. Members can see those amendments in the amendment paper and will have the chance to debate them in a future sitting.

Clauses 23 to 27 comprise a chapter on business names. Clause 23 mimics clause 10, which I explained earlier, in the context of the use of business names in the UK. It builds on existing safeguards in part 41 of the Companies Act 2006, which makes it an offence for a person to carry on business that gives the impression of a connection with the UK Government and public authorities. The clause supports that framework by making an amendment to the 2006 Act that provides safeguards in the international sphere. The clause also contains the same safeguards for those conducting business with legitimate connections.

Clause 24 amends section 1198 of the 2006 Act to lower the threshold for the likelihood of harm required to satisfy the legal test. Currently, it is an offence for a person to carry on business in the UK under a name that gives such a misleading indication of activities that it is likely to cause harm to members of the public. In future, the offence will be based on whether the name poses a risk of harm to the public.

Clause 25 closes a loophole in existing legislation. At present, there is nothing to prevent a company that is the subject of a direction or order from carrying on business in the name that it has been directed or ordered to change. The clause makes it an offence to do so. There are exceptions to that where the period for complying with the direction or order has not passed, where the company has since been registered with the name following approval under proposed new section 57B of the 2006 Act, or where the direction or order was given before the clause commences.

Clause 26 introduces a proposed new section in the 2006 Act and builds on what is done in clause 25. Clause 26 makes it an offence for a company to carry on business in the UK under a name that another company has been directed or ordered to change where both companies share, or have shared, the same officers or shareholders.

Clause 27, the final clause in the group, introduces a proposed new section in the 2006 Act and gives the Secretary of State discretion to disapply any restriction or prohibition on carrying on business under a name, if it is in the interests of national security or for the purposes of preventing or detecting serious crime. Where such discretion is exercised, the Secretary of State must give written notice of confirmation to any relevant person. It is necessary that sufficient flexibilities exist in all areas to take the steps most appropriate to safeguard security and target serious crime.

Amendments 72 to 76 would impose a duty on the Secretary of State to publish details of instances where he had extended the deadline for companies to comply with directions that he had issued to them to change their company name. I am not sure, however, that it would achieve what the Opposition really intend it to. It is of course always dangerous to make assumptions, but I suspect that what those who have tabled the amendment really want is for information to be published about each and every direction that the Secretary of State has issued, and that is not what it would do. I reassure hon. Members that we will consider how that information might best be made available—potentially, for example, through annotations of the companies register, which would of course be available to view through the Companies House online service.

I thank Members for their patience. I have taken them through a technical but important part of the Bill. I hope that they will appreciate that their amendments perhaps do not have the desired effect, particularly taking into account the Government amendments that have been tabled.

Stephen Kinnock: I thank the Minister for coming back in such detail on our points. We certainly look forward to studying new clause 34. We have not really had an opportunity to look at it yet, but it is great to see that the Minister and his team have taken our amendments on board and come up with something that will hopefully enable us to find common ground.

I want to make two additional points. The first goes back over the ground of "at least" versus "within" debate. I spoke earlier about proposed new section 76A(3), on page 10, as introduced by clause 17(4), which says that the period must be a period of "at least" 28 days; our amendment suggests that it should be "no more than" 28 days. The Minister said that making that change would give no leeway to the Secretary of State to be able to override in certain cases. We accept that there are certain cases where further direction is required to extend the period; there may well be extenuating circumstances, and we certainly do not want to create a straitjacket for businesses—we take that point. However, proposed new subsection (4) does precisely that. That is why we should lay out in proposed new subsection (3) that the basic principle is "no more than" 28 days. We have no desire to change the provisions of proposed new subsection (4)—with extenuating circumstances, the Secretary of State should be able to extend the period.

We would be more than happy with that change. It only requires the insertion of "no more than" in proposed new subsection (3), and no change to proposed new subsection (4). That would give the right balance between

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the need for a basic, tightly defined standard and still having the ability for the Secretary of State to extend the period where required.

Kevin Hollinrake: As I said before, I think the Bill achieves the same objective; it might not be with the words of the hon. Gentleman's choosing, but I think the objective is served by the drafting we have. It may well also be served by the drafting he suggests, but I do not see the point of changing the wording when it already does the same thing.

Stephen Kinnock: I thank the Minister for that response.

My second point is on clause 15, which considers changing names. As we have said, the clause is a welcome recognition of the issues around name changes and companies using names for fraudulent purposes—trying to give themselves connections to well-known brands and so on. Many legitimate companies that raise objections via the company names tribunal are facing delays of three months or more before they get a decision. I asked whether the Minister could assure us that the Government are alive to the issue. What steps might they be taking to speed that process up?

Kevin Hollinrake: I am happy to. I think we would all acknowledge that, due to various reasons beyond any of our controls, tribunals have fallen behind in the cases they are hearing. I am very happy to look at the timeframes that the hon. Gentleman refers to, as I was not aware of specific issues. The important principle behind the clauses is that they allow the Secretary of State, via Companies House, to bear down very quickly when there is the risk of harm to individuals, companies or others.

Stephen Kinnock: In the light of the fact that new clause 34 has been tabled, which we have not yet had the opportunity to study, we will not press the amendment. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

The Chair: Does the hon. Member for Feltham and Heston wish to move any of the other amendments?

Seema Malhotra: In the light of there being some connection between them all, I think we will not press them.

Clause 14 ordered to stand part of the Bill.

Clauses 15 to 27 ordered to stand part of the Bill.

Clause 28

Registered office: appropriate addresses

2.45 pm

Stephen Kinnock: I beg to move amendment 86, in clause 28, page 17, line 14, at end insert—

"(2A) An address is not an 'appropriate address' if—

(a) it is not a place where the business of the company is regularly carried out;

(b) the registrar, upon inspection, has reasonable grounds to suspect that the company does not have permission to use the address; or

(c) it is a PO Box address.

(2B) The Secretary of State may by regulations make provision—

(a) for exceptions to subsection (2A) above; and

(b) for the registrar to exercise discretion to disapply subsection (2A) in exceptional cases."

This amendment seeks to clarify the Bill's definition of an "appropriate address" for a company's registration.

The Chair: With this it will be convenient to discuss the following:

Amendment 94, in clause 28, page 17, line 32, at end insert—

"(4A) After section 87, insert—

'87A Duty of the registrar to verify appropriateness of address of registered office

(1) This section applies where the registrar has received—

(a) a statement of the intended address of a company's registered office (under section 9(5)(a)), or

(b) notice of change of address of a registered office of a company (under section 87(1)).

(2) The registrar must assess the risk that the company is involved in economic crime.

(3) If following the assessment required by subsection (2) the registrar considers that there is a real risk that the company is involved in economic crime, the registrar must—

(a) take steps to determine whether the address which has been supplied is an appropriate address within the meaning of section 86(2), and

(b) refer the matter to the relevant law enforcement agency.'"

Clause 28 stand part.

Clause 29 stand part.

Stephen Kinnock: This important amendment seeks to clarify the Bill's definition of an appropriate address for a company's registration. We have talked many times, both in this Committee and elsewhere, about red flags in company formation and registration. It must be an overriding aim of the Bill to ensure that any indicators of suspicious activity can be swiftly and easily identified in order to ensure that the appropriate investigations and, where necessary, enforcement actions are carried out at the earliest possible opportunity.

One thing is glaringly obvious from the many recent reports on how criminals are able to exploit weaknesses in the company registration system. The widespread, unchecked use of false addresses for criminal purposes is surely one of the most urgent problems for the Bill to address. In evidence to the Committee last week, there was a high degree of consensus from all our witnesses that the fraudulent use of addresses is among the most serious problem within the current register.

Bill Browder provided a cogent summary of the issue. I will not quote him in his New York accent, but I am sure you can imagine it. He said,

"This whole post-box idea just lends itself to anonymity and so on. Why do people not just register their companies at their own home or their own business address if there is a legit company? What is this business with 2,000 companies in one strange industrial park in Glasgow?"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q152.]

Though all due respect to SNP colleagues—I am quoting, Ms Bardell, please don't shoot the messenger!

It is now a well-established fact that there can be hundreds, perhaps even thousands, of different companies registered to a single address. It is hard to think of a more obvious red flag. Ensuring that Companies House can more quickly and easily identify and investigate

specific addresses used illegitimately by multiple companies is a vital prerequisite for better enforcement of laws on economic crime.

There are other fairly basic steps that the Government could take to tighten up rules on the kinds of addresses companies can provide as part of the registration process. Amendment 86 provides some specific examples of how that could be done. We hope that the amendment can serve as a starting point for efforts to ensure a much more rigorous set of registration requirements than those currently in place. An obvious place to start is to tackle the apparent overuse of PO box addresses. They have been linked with fraud and other criminal activity in several high-profile cases highlighted in recent media reports.

The FinCEN files also provide evidence of the scale of the problem in the UK. In its February 2022 report on economic crime, the Treasury Committee also described how PO boxes provide many criminal enterprises with a highly convenient way to establish a front for illicit activities while making detection and tracing of those involved much more of a challenge for law enforcement. Amendment 86 would seek to tackle the issue by establishing a general presumption against allowing companies to designate PO box addresses when registering, while leaving open the possibility for exceptions to be made in some cases where there may be legitimate reasons to do so.

Our amendment also goes further by introducing a general requirement for companies to provide a UK address where it actually conducts its business on a regular basis. The absence of such a requirement under the current rules makes it much easier to obscure the true purpose of a company and much harder for law enforcement to trace that and control it.

In part 2 of the Bill, the Government are seeking to strengthen requirements for limited partnerships to provide an address that is its principal place of business in the UK. The Opposition welcome that approach and believe that it could and should be applied more broadly. Therefore, amendment 86 proposes that the address requirement for all companies should be brought closer in line with those of limited partnerships under part 2, as proposed by the Government.

The amendments are all designed with our shared aims and values at heart. I hope that the Minister will take time to reflect and consider their worth.

Alison Thewliss (Glasgow Central) (SNP): I support the amendment tabled by the hon. Member for Aberavon, and that tabled by the right hon. Member for Barking, because a lot more needs to be done to regulate what is an appropriate address and to verify it in the real world.

In his evidence, Graham Barrow mentioned a 92-year-old gentleman whose name has just been used by scammers for a second time. People fraudulently use names and addresses that belong to real people to set up companies and those people have no idea that their names have been abused. Graham Barrow also highlighted a piece on "You and Yours" on Radio 4 where a lady who had had Asda Limited registered to her terraced house in Huddersfield received 7 kg of post, and all kinds of other threats from bailiffs and others who turned up at her door. That goes to show how the current system is not working. I seek to be reassured by the Minister that the proposed clauses will be sufficient to deal with the problem.

Over many years I have been familiar with problems associated with Scottish limited partnerships—SLPs. The Ferret reported in October 2021 about a company named The Edinburgh Office—a company formation, agent-type of business—which had registered 2,000 companies at their registered address of 101 Rose Street South Lane in Edinburgh—there are no such things in Glasgow, obviously, but these things happen in Edinburgh. Perhaps they do not happen in Aberavon, but they happen in many, many places around the country. Such companies hide behind mailbox addresses. Many of them were at best iffy, others involved outright criminality and all kinds of nefarious activities.

There was a photograph in The Ferret article—I cannot pass it on to include in *Hansard*—which showed a boarded-up building. That should be a red flag: 2,000 companies registered to a boarded-up building that does not look like a working building at all, but those companies were allowed to carry on their business. I do not know whether the clauses will make a real difference and people will be empowered to check whether those addresses exist in the real world and are being used.

There is also the issue of companies abusing actual companies' real addresses too. David Leask and Richard Smith, who have been excellent investigative journalists, taking Scottish limited partnerships to task for many years, reported in *The Times* back in April this year that an SLP in the name of Alexey Krapivin called Clover Consulting Partners gave its listed address as that of the Edinburgh legal firm Burness Paull. Burness Paull said that it knew nothing about it. Clearly, it had been receiving mail, so I do not know the extent to which it checks such things, after receiving mail for a company that does not exist. In any event, it ceased to offer services for company formation to companies of that kind back in 2018.

This company had been using Burness Paull's address with absolute impunity, and it was not new to dodging the Companies House rules. The company was formed in 2005 and made no meaningful filings to Companies House until it was forced to register a person of significant control in 2017. That was 12 years of non-compliance with the existing Companies House rules, yet there was no comeback on that. I seek from the Minister provisions in the clauses around enforcement, which is not happening under the current rules. I need to be convinced by him that it will happen under the rules that he is laying out.

The clauses talk about fines on a standard scale, and all those kinds of things. Those fines are not even being issued. I have asked parliamentary questions about that. Since the rules came into force only one Scottish limited partnership has been fined for failing to register a person of significant control, and that fine was £210—nothing, in the scheme of things. I ask the Minister whether the rules will be enforced. Will addresses be checked, to ensure that they are real businesses, carrying out real work, with real companies and real people? If not, will he accept the amendment, which goes some way to ensuring that the companies exist at the addresses that they say they do. Without boots on the ground to check such things, it does not matter whether we set it up in Aberavon, Glasgow or Edinburgh; nobody will know that it is not true.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It is a pleasure to serve under your chairmanship, Ms Bardell. I support the amendment, and that tabled by my right hon. Friend the Member for Barking, because in many ways they go to the heart of whether the Minister is serious about stripping economic criminals of their balaclavas and cloaks of anonymity, which currently allow them to perpetrate some of the worst economic crime on the planet.

I said this morning that when we offer privileges to people in this country, whether benefits or a visa, we put them through the most substantial identification checks. We put those applying for visas for this country through a whole set of biometric checks, which I introduced. When we introduced them the first time around, and began washing those biometric checks against police computers, we discovered that visas had been issued in the past to some of the most obnoxious criminals on earth.

Verification checks are a good thing. I would say that they are required if we are to grant individuals the economic privileges that come through limited liability. That is the privilege that we are giving people when they register a company at Companies House. It is not just a free-for-all; it is a privilege that we created for the common good, and we should therefore ensure that we give it to not just anybody who happens to turn up but people we know. That is why we need a very clear story from the Minister about the regime that he will bring forward to ensure that the cloak of anonymity—these balaclavas on economic criminals—are gone once and for all. Unless we have that reassurance, the Bill will not be worth the paper that it is written on.

Dame Margaret Hodge: I rise to support amendment 86 and to speak to amendment 94 in my name. I have to say to the Minister that this is the first debate where there is a flaw in how the legislation is drafted, such that when the Bill becomes active, it will not serve the purpose that we all desire of it. I can see how we got there, but I ask him to consider looking at it in another way.

3 pm

Clauses 61 and 62, which we will consider later, set out specific clear duties on identify verification. That is very important. However, address verification is also important to prevent even people whose identities have been—we hope—clearly established from still being involved in setting up shell companies to be used for nefarious purposes at a whole range of addresses. I can see nothing at all in the Bill to say that there is a duty on Companies House to do a check on addresses.

I understand that we do not want Companies House to go knocking at every door—that would be hard—but we could introduce a risk-based assessment, as we are trying to through my amendment 94. With a risk-based assessment, one would check addresses on some sort of sample basis. Why is that important? As I understand it, at present people do not need to get the permission of someone whose address they choose to use. In the example given by the hon. Member for Glasgow Central, people did not need to get the permission of the person occupying an address in order to use it to establish a company. If I am wrong about that, the Minister can clarify that point. Am I wrong?

Kevin Hollinrake: Permission should certainly be sought; it is just that some people do not seek permission. That is the point behind the clause. We are putting provisions in place to clamp down on that behaviour and completely eradicate the possibility of someone doing that.

Dame Margaret Hodge: Okay, but I have not read anywhere in the Bill of a legal duty placed on an individual establishing a company to seek the permission of the person whose address it is, whether a householder or a business. I cannot see that in the Bill, so it would be helpful if the Minister could direct me to it.

That is point No. 1. My second point is that there is massive abuse of addresses, to which other Members have already pointed. In the FinCEN files, which I happened to have looked at again recently, one case involved a private address in Leicester that was used as the company address of 36 shell companies.

Kevin Hollinrake: I draw the Committee's attention to the wording of clause 28, on an "appropriate address":

"A company must ensure that its registered office is at all times at an appropriate address…An address is an 'appropriate address' if, in the ordinary course of events…a document addressed to the company, and delivered there by hand or by post, would be expected to come to the attention of a person acting on behalf of the company".

It is therefore impossible to see how people could just pick any address, as some do now; that clearly would not be an appropriate address, because there would be nobody there to hand the correspondence on.

Dame Margaret Hodge: Interestingly enough, the example that I was halfway through describing proves that one could still choose an address and have documents delivered to it, but, if one had not sought permission of the person whose address it is, it could still be a phoney address.

To follow through on the example in the FinCEN files, a private address in Leicester had 36 shell companies, all with accounts in the Danske Bank in Estonia. The address was in fact that of the home of a Latvian cleaner called Dace Streipa—I hope I pronounced that correctly. When she was confronted by the journalist investigating the FinCEN files, she claimed to know nothing about it. Letters had kept appearing at her house, but she did not know what to do with them.

The other FinCEN files example was that of 175 Darkes Lane, Potters Bar, which I am sure the Minister will remember. It was home to more than 1,000 companies. It may be, then, that there is an obligation, but someone could choose any address, including my home address if they so wanted, and I am not sure that there is an obligation for the person who chooses that address to seek my permission to do so. If I am wrong, I am happy to take that back, but I do not think the clause that the Minister directed me to covers that. We want to stop the cuckooing activity.

Clauses 61 and 62 put duties on Companies House to ensure that identities are verified, but there is no duty to ensure the verification of addresses. That duty is needed: it is part of the proactive role that we talked about at the beginning of this morning's debate. It should be proportionate and could be done with a risk-based assessment, but if we do not place a duty on Companies

House to perform some sort of check on the addresses that are submitted in relation to the formation of each company, as well as a check on the identity of the individuals, we are digging a hole for ourselves and will find that the legislation we pass is not effective in the way that is wanted. I ask the Minister to give the idea really serious consideration, because I do not think the Bill goes far enough to give us the certainty that we seek on the legitimacy of companies that are formed.

The Chair: Order. Before I call the Minister, I remind the Committee that it is helpful if Members indicate in their substantive contribution whether they are going to press or withdraw an amendment.

Kevin Hollinrake: I hear clearly the comments made on both sides of the argument, but I think the provisions in the Bill do tackle the issues that Members are trying to tackle—

Dame Margaret Hodge: They don't.

Kevin Hollinrake: The right hon. Lady should let me develop my argument, if she does not mind.

We are all aware of the frequent problems that arise when criminals incorporate companies using an address that belongs to a person who has nothing to do with that company, or when criminals hijack the details of a legitimate company and change the address to one that is invalid or ineffective. The Bill contains provisions that will not only reduce the risk of that happening, but mean that when it does happen the registrar can take swifter action to remedy the situation, which I think is what Members are asking for.

The Bill will operate like this. Clause 28 imposes new duties on companies to ensure at all times that their registered office address is an appropriate address. The companies and individuals involved would be guilty of an offence if they did not make sure that the address was appropriate—

Dame Margaret Hodge: Will the Minister give way?

Kevin Hollinrake: Let me develop my point a little bit. The meaning is clearly defined in the Bill: an appropriate address is an address where it can be reasonably expected that documents sent to the company will come to the attention of a person acting on the behalf of the company. It is inconceivable that a Latvian lady in Leicester who does not know why she is getting correspondence could be defined as somebody who is able to pass on the documentation to a person acting on behalf of the company.

Dame Margaret Hodge: Will the Minister give way at this point?

Kevin Hollinrake: Let me just finish the other critical part of the definition. An appropriate address is an address where an acknowledgement of the delivery of documents is capable of being recorded.

Dame Margaret Hodge: The Minister has not answered the point about whether, in the Latvian cleaner example, her permission would legally have had to be sought for that address to be used, but let us put that to one side. He says that if it does happen, swift action will be taken; how on earth would that ever come to the knowledge of Companies House? How would it ever know if there is no system of spot checking to ensure that the addresses that are used are true? There is no system in the Bill. The main point of this whole argument is that we need a checking system—I accept that not every address would be checked, but it could be a spot-checking system—to ensure that the addresses are valid. That is not in the Bill.

Kevin Hollinrake: There are 4.5 million companies in the UK—

Dame Margaret Hodge: I know; there should be spot checks.

Kevin Hollinrake: And I do not think the right hon. Lady imagines that the registrar could go around them all. I am glad we agree on that.

Seema Malhotra: Will the Minister give way?

Kevin Hollinrake: I would like to finish the point. The key point is that the measure requires the people who control the company, be it the directors or persons of significant control, to make statements. If they make false statements or fail to comply with the requirement, they will be committing a criminal offence, as is every officer of the company who is in default.

What the right hon. Member for Barking seems to want is to have armies of address checkers going around the country. This is ex post regulation, which is a more effective means of regulation. I do not suppose that anybody on this Committee wants to inhibit the lawful, commercial activity of the vast majority of companies that go about their normal commercial business every single day.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: No, not at this point in time.

We are striking a balance between the two. These measures have to be seen in the context of the wider provisions of the Bill on checking the identity of directors and persons of significant control—the people who are controlling the company. If people make false statements, those people and that company will be guilty of an offence.

The shadow Minister wanted to intervene.

Seema Malhotra: Does the Minister agree that being able to use analytics to determine that 1,000 companies are registered at one address would not mean manually going through and using resources in that manner, and would mean—taking a risk-based approach—that we would identify where something needed to be done?

Kevin Hollinrake: Absolutely. We all agree with that. The registrar will look at that.

Seema Malhotra: When?

Kevin Hollinrake: If it is an example where 2,000 companies are registered at an address near Edinburgh, and somebody tries to register that address, that may well lead to a red flag. Companies House is investing in that capability, as part of its work. It is not just about people, but systems and automation of systems, in order to see those red flags. At that point in time, the

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system would potentially do what the right hon. Member for Barking wants it to do—raise a red flag. That could then be queried with the directors and the people who control the company, and could alert law enforcement authorities. I do not think anybody here is suggesting that Companies House becomes another law enforcement authority. There has to be information sharing between Companies House and the law enforcement authorities.

Liam Byrne: The Minister is being characteristically generous in giving way. The problem the Committee has with the argument about ex post facto regulation is that, if we take the example I gave this morning of the requirement to register persons of significant control, there are still 11,000 companies that have not registered persons of significant control, but there have only been 119 convictions. There is an enormous enforcement gap, which is a real concern to the Committee, not least because the powers that the Minister is seeking are for companies to verify an address, rather than creating a duty to verify the address. Witness after witness gave evidence to the Foreign Affairs Committee on the duty to verify the address, which is why that Committee, of which the Minister for Security was Chair, concluded that there must be a tough verification regime in place at Companies House.

Kevin Hollinrake: The right hon. Gentleman may think a duty to check 4.5 million addresses is proportionate. I think it would be disproportionate. The vast majority of those addresses are bona fide addresses of bona fide companies. We have to take a risk-based approach; I think we would both agree on that.

The right hon. Gentleman returns to resources. We have already had a long debate on resources. He knows that I agree that the registrar, and the law enforcement agencies for that matter, must have sufficient resources to ensure that the registration of persons of significant control is undertaken. That body of work is ongoing now with Companies House.

Stephen Kinnock: Would the Minister consider a PO box address to be an appropriate address—yes or no?

Kevin Hollinrake: No, and I will come to that point shortly.

Clause 29 provides an important new power for the registrar to deal effectively with those abusing our systems. As we have discussed and all agree, for too long criminals have acted with impunity, providing fraudulent addresses for companies set up deliberately to scam people, many of them vulnerable. We know the distress and inconvenience that can cause to many constituents, including when bailiffs arrive at the door in connection with a matter with which that person has no connection.

3.15 pm

Until now, the registrar has been able to act only when a third party makes an application to remove an address that has been used fraudulently. The key thing to note here is that that situation will end. The innocent third party is required to provide evidence to demonstrate that the company has no right to use the address. That sounds perverse, given that the person will have been using it without their permission. Once satisfied that the complainant has a case, the registrar can default the address, and the address can be immediately moved to Companies House, which means that mail addressed to the company is sent to Companies House and is likely never to be received by the company.

Although this assists the victim, there is currently no easy way for the registrar to deal with the abuse. There is also an administrative cost that cannot be recovered. Clause 29 will help to stop such criminal behaviour. Many Members will have heard from their constituents about the distress caused in these instances. I am making no criticism of the registrar; it is an effect of the currently inadequate powers that she has on which to act. The clause provides that regulations can be made to ensure that she can act and can do so effectively.

Companies will no longer be able to squat indefinitely at a default address. If they fail to provide an appropriate address, they may be struck off the register. They may also be subject to a criminal offence and daily default fines. These new powers in the Bill are one of the key ways in which we are taking action to reduce criminal activity facilitated by abuse of the companies register. They will empower the registrar to act in accordance with her new objectives and improve the quality of the information on the register. That goes back to objective 4, which requires the registrar to minimise unlawful activity.

Let me turn to amendment 86. I fully support the motivation behind ensuring that such addresses are always appropriate. Clause 28 introduces a revision to section 86 of the Companies Act 2006 to better define what constitutes an acceptable and effective address. Hon. Members will be pleased to note that the definition already prevents companies from registering with PO boxes, which is an aim of this amendment. A PO box would not satisfy the requirement to reassure the sender that their delivery would reach the hands of a company representative, and it would certainly not be capable of acknowledging delivery.

Alison Thewliss: What happens to all the companies that currently have a PO box, and how long do they have to comply with this measure?

Kevin Hollinrake: As for the period of compliance, we will let hon. Member know. There is a huge volume of records. We want Companies House to be more proactive. We do not want it to be swamped by information being supplied to it all at once. We need to make sure that the commencement order is carried out sensibly. Red flags could well be applied to a company address that has many other companies attached to it. If a company had registered multiple company directors or persons of significant control or had recognised multiple companies at one particular address, that should be the kind of red flag that, following a risk-based approach, would require checks and balances to be put in place. Those companies would be struck off the register and other actions would be taken against the individuals.

The new definition in clause 28 negates the need to include the reasonable suspicion element of amendment 86. Where the registrar, informed by the intelligence and information available to her, has reasonable grounds to suspect that the company does not have permission to use the address, she may come to the view that in the

ordinary course of events, the appropriate address conditions will not be met. The registrar will then either reject it or change it according to the circumstances.

Seema Malhotra: If I am following the Minister's arguments as he intends, is he saying that his view of objective 4 and how it would be interpreted means it would be implicit that the registrar would be expected to check addresses and ensure minimum fraudulent activity and so on? In response to the amendment tabled by my right hon. Friend the Member for Barking, which called for a duty on the registrar to verify the appropriateness of the address using a risk-based approach, I believe the Minister argued that that was implied and would therefore be done under the objectives as they stand.

I put it on the record that we agree with the new clauses and amendments that he has outlined and that were debated with clause 29. They are important. Does the Minister think that, even after his new powers and requirements are in place, the gap will be closed sufficiently? To say that the registrar could act on intelligence available to her either implies that somebody will give it to her or that there will be a function that will operate as if there were a duty. Is that his intention?

The Chair: I remind Members that interventions are supposed to be interventions and not substantive contributions.

Kevin Hollinrake: The objectives promote the integrity of the register. That is quite clear. The registrar therefore has the responsibility to act. The intelligence and information available to her could come from a number of sources, such as third-party sources, law enforcement agencies or financial institutions. Red flags within an organisation can come from a number of places. If a red flag leads to the conclusion that there are reasonable grounds to suspect the company does not have permission to use the address, the conditions will not be met and the registrar will either reject it or change it, according to the circumstances. The golden thread running through that is that the registrar has the power to act on information based on the risk-based approach, which conforms to the request from the right hon. Member for Barking that we do spot checks. A risk-based approach is far more effective than random spot checks. That is what we are trying to get to here.

The hon. Member for Glasgow Central asked about when people would have to move away from PO box addresses to an appropriate address. The earliest commencement by regulation is two months after Royal Assent.

Lastly, I turn my attention to the first element of amendment 86, which would have the effect of compelling companies to register their main place of business as their registered office. That would be problematic for many good companies. Let us take, for example, a company with a large, rural manufacturing facility, which might be considered its main place of business, and a city centre showroom. There are perfectly legitimate reasons for such a company to favour the city over the country as its registered office location. The amendment would prevent that. I hope hon. Members will be reassured that the provisions will be an effective means by which to monitor and police the accuracy of company address information and will feel able to withdraw their amendment.

Turning to amendment 94, I hope the right hon. Member for Barking will agree with me that the Bill's new definition of what constitutes an appropriate address for the purposes of a company's registered office address is an improvement on what has existed up to now. It requires the company to have authority to use the address on pain of criminal sanction for the company in breach and every one of its officers in default. I trust she and the Committee members will welcome the provisions that I have just described. I do not think it is proportionate to agree to routine or spot checking for each and every company and, in our view, we need to take a risk-based approach, which I think we all agree with, to make sure Companies House resources are used fruitfully.

In the light of the reforms proposed in the Bill, Companies House, armed as it will be with new powers and objectives, will home in on those companies that are most likely to be engaged in criminal activity. In some cases, intelligence and information-sharing enabled by measures in the Bill might suggest that the registered office address is a clue to that criminal behaviour and might prompt any one of a number of different approaches on the part of the registrar and, potentially, law enforcement agencies. For example, it is my expectation that in future Companies House will consider carefully whether to process multiple incorporations emanating from a single address, as described earlier, and deploy the new querying powers available to it before doing so.

Ultimately, the Bill seeks throughout to focus effort and resource where it will achieve the most meaningful impact. I hope that the right hon. Member for Barking will be reassured that proactive intervention, based on sound risk assessment, is a more cost-effective approach to take and that she will feel able to withdraw her amendment.

Liam Byrne: Perhaps the Committee could take more comfort from the approach the Minister has enunciated this afternoon if he could give us a sense of how many companies he thinks Companies House would be able to check under the new regime each year? Can he give us a sense of the scale and proportion?

Kevin Hollinrake: That is something that we will need to see—the plan for Companies House and the resources needed for that. A figure of £50 or £100 was quoted; if the company formation fee was £50, that would raise £20 million a year. That is quite a significant amount of money. As I said, cart and horse, first we need to see what powers and resources Companies House needs, and then we can apply the right levy in terms of the company formation fee to ensure that the resources are available. A review will also be conducted to ensure that those resources will still be available as time goes on. On that note, I conclude my remarks.

Dame Margaret Hodge: I want to say a number of things. First, may I say to Conservative Back Benchers that I do not think anyone in the room wants to do anything other than encourage maximum commercial activity to maximise growth? Right? I have looked at the issue for a long time, and my view, which I believe is shared by the Minister, is that if we do not sort out the dirty money, Britain will become a less attractive place in which to invest and grow. Let us be clear that we are not in any way trying to over-regulate or impede economic and commercial activity; we want to encourage it. Let us have that as a shared objective.

[Dame Margaret Hodge]

Secondly, I accept and applaud the work the Government have done on trying to hone down the definition of appropriate address. The proposed clauses and amendments on that are really important, but then comes the "but", which is that all the evidence we have, from all the leaks we have had over the past decade or so, demonstrates that shell companies abuse addresses for nefarious purposes. That is how they work.

In his concluding remarks, the Minister said that Companies House would intervene "where intelligence and reasonable information was made available to her". We are not asking for the addresses of 4.5 million companies, or whatever the figure is. The idea of knocking on the door of all such companies is obviously completely and utterly totally absurd, and that is why we are calling for a risk-based approach. The shadow Minister, my hon. Friend the Member for Aberavon, made a very good point; if we could just use the technology intelligently, we could then see whether the same address was being used by 10, 20 or 30 companies. There are ways of doing that, but at present, there is no duty or obligation on Companies Houses to check. I have not found it, but perhaps the Minister will be able to show it to me. We also know that if we do not make that duty clear, it will fall out of the in-tray and go to the back of the to-do list. We then leave the opportunity available for dirty money to enter the country and not be checked by Companies House.

Kevin Hollinrake: If the right hon. Lady looks at the literal interpretation of her amendment, she will see that it puts an obligation on Companies House to check every single address in the UK. It says:

"Duty of the registrar to verify appropriateness of address of registered office".

It does not say "on a spot-check basis". It seems to be a blanket provision. I agree with much of what the right hon. Lady has said, but I think we need to be careful. The drafting of this has to be right, because, as she rightly says, we do not want to impede the normal commercial activity of 4.5 million businesses in the UK. That would be detrimental to our constituents and the citizens of this country.

3.30 pm

Dame Margaret Hodge: What I would say in answer is that we have had incredibly good advice on drafting, from both the House itself and our own advisers. I would urge the Minister to look at subsection (2) of my amendment, which looks at risk. If the amendment is not drafted absolutely perfectly, then I apologise, but we have done the best we can with the resources available to us. I am not in any way suggesting a 100% check. I am suggesting a risk-based check. If this provision is not included, we will be back in three years' time and the Minister will be saying, "Oh my god, there's a massive loophole, and we have to fix it." Fix it now. That is all we are saying.

If I have the drafting wrong, I am happy to talk to the Minister and get it right. I want a risk-based check by Companies House for when red flags come out. By looking at and interrogating computer data, the registrar actually does it herself, instead of waiting for and depending on intelligence and reasonable information that is available—as the Minister said, in his words, which I assume were provided for him.

Liam Byrne: When my right hon. Friend has those conversations with the Minister, will she ensure she also talks to the Minister for Security? He was Chair of the Foreign Affairs Committee when it took evidence from a number of witnesses who explicitly called for a duty to verify addresses. That point was underlined in the Foreign Affairs Committee's last report on illicit finance.

Dame Margaret Hodge: I am very happy to do that. I think we all want the same thing. All we are trying to do is find the best way of doing it. I will be pressing this amendment to a vote, I am afraid. My warning to the Minister is that if he does not do the work in this area, he will find that he has left a very wide loophole, which will be exploited by those who want to use us as a destination for illicit finance.

Stephen Kinnock: It is difficult for me to match what my right hon. Friend the Member for Barking has so eloquently said and what other colleagues have said. I think we need to reinforce the point that we need somewhere in the Bill a very clear indication that it is the duty of the registrar to conduct risk-based assessments. If not, the Bill will leave a loophole, and we should not allow that to happen. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 94, in clause 28, page 17, line 32, at end insert—

'(4A) After section 87, insert—

"87A Duty of the registrar to verify appropriateness of address of registered office

(1) This section applies where the registrar has received—

(a) a statement of the intended address of a company's registered office (under section 9(5)(a)), or

(b) notice of change of address of a registered office of a company (under section 87(1)).

(2) The registrar must assess the risk that the company is involved in economic crime.

(3) If following the assessment required by subsection (2) the registrar considers that there is a real risk that the company is involved in economic crime, the registrar must—

(a) take steps to determine whether the address which has been supplied is an appropriate address within the meaning of section 86(2), and

(b) refer the matter to the relevant law enforcement agency."'—*(Dame Margaret Hodge.)*

The Committee divided: Ayes 7, Noes 9.

Division No. 2]

AYES

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

NOES

Anderson, Lee
Ansell, Caroline
Crosbie, Virginia
Hollinrake, Kevin
Hughes, Eddie
Hunt, Jane
Mann, Scott
Stevenson, Jane
Tugendhat, rh Tom

Question accordingly negatived.

Clause 28 ordered to stand part of the Bill.

Clause 29 ordered to stand part of the Bill.

Kevin Hollinrake: I beg to move, That clause 29 be transferred to the end of line 33 on page 76.

This motion would move clause 29 to the end of Part 1 of the Bill. It is proposed that it would be placed there under a new italic cross-heading, alongside other new clauses about moving addresses in the companies context (see NC5 and NC6).

The Chair: With this it will be convenient to discuss the following: Government amendment 7.

Government new clause 5—*Rectification of register: service addresses*.

Government new clause 6—*Rectification of register: principal office addresses.*

Government new clause 8—*Power to require businesses to report discrepancies*.

Government amendments 44 to 48.

Government amendment 50.

Kevin Hollinrake: The purpose of this set of amendments and new clauses is to better standardise address information requirements across the Companies Act 2006 to allow the registrar to take appropriate action when information is erroneous or misleading.

It is important for users of the company register that the information they find on it is accurate and has genuine utility for them. The amendments standardise the address information that companies will be required to file in relation to corporate directors, company secretaries, relevant legal entities and registerable persons—the latter two being the categories of people with significant control of a company. In future, a service address and a principal office address will be required for all those categories. The former measure will give certainty about where documents can be served, and the latter will give clarity about the physical whereabouts of the party concerned.

New clauses 5 and 6 address the circumstances in which it appears that the stated service address does not fulfil its requirements or that the person of significant control or the company cannot demonstrate that the stated address is their principal office address. The new clauses imitate section 1097A of the Companies Act 2006 as amended by clause 29 of the Bill.

Clause 29 amends the 2006 Act to give the Secretary of State the power to make regulations enabling the registrar to change a company's registered office address when there is reason to believe that it is no longer appropriate. That power, and those contained within this group of amendments, will be an important weapon in the fight against identity hijack and abuses of innocent people's address details.

Similarly, the purposes of the remaining amendments in the group are to strengthen the framework for changing address when it is expedient to do so, and to improve the utility of address data. I trust that the Committee will agree that these well-considered amendments and additions will add value for users of the Companies House registers and afford further protection against the nefarious use of private individuals' information.

Seema Malhotra: I am grateful for the opportunity to speak in support the Government's amendments and new clauses, which we welcome.

As the Minister has set out, new clauses 5, 6 and 8 give the Government the power to introduce regulations that authorise or require the registrar to change addresses and to serve documents to those with significant control. He also mentioned that new clause 5 mirrors section 1097A of the Companies Act, which confers a regulation-making power to enable the registrar to change a company's registered address, and an equivalent power for a company's service address. New clause 6 does the same for the registered principal address of a relevant person

As we have been discussing today, registering an address at Companies House does not require the permission of the owner or occupier of that location. It goes without saying that the negative impacts are significant, from visits from debt collectors or bailiffs to damage to a company's credit rating. Under the regulations, anyone can apply to the registrar to have the registered office of a company changed, following a procedure. It is right that the Bill broadens that power to service addresses and principal addresses. Those are important steps, and the wider amendments close loopholes on company addresses.

New clause 8 allows documents to be served on persons of significant control over a company as well as on directors, secretaries and others. Amendment 44 requires a corporate director to include a principal office in all cases, rather than its registered or principal office. Amendments 46 and 47 do the same for corporate secretaries. Amendment 45 requires a company to provide a service address for directors who are not individuals. Amendment 48 requires a company to provide a service address for persons of significant control who are not individuals. Amendment 50 requires a principal office to be provided for all partners that are a legal entity in a limited partnership.

It goes without saying that all those amendments are welcome in limiting the value of registered offices used as a way of concealing where a company does its business. We support them, but a question remains about the missing link in the chain. We must ensure that, in the use of the powers that we have been talking about, the registrar will—I hope, from our discussions with the Minister—in due course have a duty to ensure that whatever can be done with a risk-based approach can make the most use of the additional powers and requirements being introduced in the Bill. Without that, it feels as if their impact will be far less, and the achievement of the goals of those powers and requirements will be considerably less than otherwise.

Question put and agreed to.

Clause 30

REGISTERED EMAIL ADDRESSES ETC

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

The Chair: With this it will be convenient to discuss clause 31 stand part.

Kevin Hollinrake: Clauses 30 and 31 relate to new requirements for companies to provide an email address to the registrar. When the Companies Act 2006 was drafted, the vast majority of filings presented by companies to Companies House were on paper, and communications

[Kevin Hollinrake]

to companies from Companies House were posted to the company. The effect of that, especially in the modern digital world, is to slow things down. These days, the vast majority of filings are made digitally, and the Companies Act needs to change to reflect that reality and more modern working practices.

Clause 30 will require that all companies maintain an appropriate email address. One benefit of that is that communications with a company can be expected to be quicker. In addition, it is a cheaper way to communicate and will provide savings for both Companies House and businesses. A failure to provide an appropriate email address will be an offence, and when a company notifies a change to its registered email address it will be obliged to provide a statement that the email address is appropriate. That will assist the registrar in instances where the email address is found not to be appropriate, and it turns out to be something other than a genuine mistake. I provide reassurance, however, that the effect of subsection (7) is that registered email addresses will not be made available for public inspection. That will reduce the risk of their being used fraudulently.

Clause 31 describes the means by which companies already on the register must provide their appropriate email address. Companies will be required to provide the appropriate email address in a statement submitted alongside their first confirmation statement after the requirements outlined in clause 30 come into effect. That transitional period has been selected to reduce the burden both on companies and on Companies House. Given the number of companies already registered with Companies House, it will provide a staggering of notifications of appropriate email addresses, allowing Companies House to deal with them in a timely manner. Companies will not have to provide an extra document to Companies House until they already have to make a required filing. That is a sensible and proportionate method of ensuring compliance with the new requirements. If the company does not supply the appropriate email address with its confirmation statement, it will be in breach of the requirements.

Seema Malhotra: I have just a few remarks. We have no issues at all with the clauses, and welcome them. Amending the Companies Act to require all companies to maintain an appropriate email address that can be used in correspondence and administrative matters with Companies House seems appropriate. The email address would be trusted, and any emails sent by the registrar would be expected to come to the attention of a person acting on behalf of the company. We therefore support clause 30.

It is also very sensible to have a transitional period. I am not sure whether clause 31 says how long the transitional period will last before the previous clause comes into effect, and I am not sure whether the Minister said so either. He may have a view on that, or he may come forward with it later.

Kevin Hollinrake: I am happy to come back to the shadow Minister with that information in due course.

Question put and agreed to.

Clause 30 accordingly ordered to stand part of the Bill.

Clause 31 ordered to stand part of the Bill.

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

3.47 pm

Adjourned till Thursday 3 November at half-past Eleven o'clock.

Written evidence reported to the House

ECCTB 06 Transparency International UK, prepared with support from Open Ownership

ECCTB 07 Letter from Kevin Hollinrake MP, Parliamentary Under-Secretary of State at the Department for Business, Energy and Industrial Strategy, dated 31 October 2022, re: further Government Amendments