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GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Ninth Sitting

Tuesday 8 November 2022

(Morning)

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Saturday 12 November 2022

The Committee consisted of the following Members:

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

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

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

† **attended the Committee**

Public Bill Committee

Tuesday 8 November 2022

(Morning)

[Hannah Bardell *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

The Chair: Before we begin, I have a few preliminary reminders for the Committee. Please switch electronic devices to silent. No food or drink is permitted except the water provided.

Clause 65

Exemption from identity verification: national security grounds

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 9, in clause 65, page 55, line 3, at end insert

"and section 167M(2) does not impose any obligation on a company in relation to the person".

This amendment ensures that where a company director is exempt on national security grounds etc from being a person whose ID is verified, the company can also be relieved from the obligation to ensure that the director is ID verified.

The Chair: With this it will be convenient to discuss amendment 101, in clause 65, page 55, line 22, at end insert—

"(4) The Secretary of State must report any use of the identity verification exemption on national security grounds as provided for by this section to the Intelligence and Security Committee of Parliament. Each report—

(a) made under subsection (4) must include the name of the person and company exempt from identity verification.

(b) must include the Secretary of State's reason for granting exemption on national security grounds."

This amendment would place a requirement on the Secretary of State to report any use of the identity verification exemption on national security grounds to the Intelligence and Security Committee.

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

Amendment 9 is a technical amendment. Clause 65 enables the Secretary of State to exempt a person from identity verification requirements by written notice, if necessary in the interests of national security or to prevent or detect serious crime. The consequence of someone being subject to such a written notice is that they will not be obliged to observe certain rules. For example, an unverified individual benefiting from an exemption will not need to refrain from acting as a director and will not be liable for an offence for acting as such.

The amendment clarifies that companies whose directors are exempt from the prohibition to act when unverified are relieved of their duty to ensure that such a director has their identity verified. Therefore, they will not be criminally liable for failing to comply with that duty in relation to the exempted person. Relieving companies of the duty meets the original policy intention and is a logical consequence of the exemption granted to individuals on these grounds. I hope that my explanation has provided further clarity on why that is needed.

On amendment 101, any proposed use of the national security exemption in clause 65 will be carefully considered by the Secretary of State. A duty to report to Parliament's Intelligence and Security Committee on the use of that exemption is unnecessary. The ISC's oversight functions are clearly set out in the Justice and Security Act 2013 and the accompanying memorandum of understanding. It is inappropriate to include a specific oversight role for the ISC in relation to the deployment of this exemption. The amendment is therefore not necessary, and I ask hon. Members not to press it.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Ms Bardell. I thank the Minister for his opening remarks. I recognise that clause 65 gives the Secretary of State the power to provide written notice to exempt someone from identity requirements if necessary in the interests of national security or for preventing or detecting crime. The Opposition recognises the importance of protecting national security, but the Minister will know from previous debates that we seek greater clarity about where exemptions may be granted, and the transparency and accountability around the use of those powers. The Government have tabled amendment 9, which is consequential to clause 65. If the clause is agreed to, the amendment makes sense.

Amendment 101, which my hon. Friend the Member for Aberavon and I tabled, comes back to scrutiny of the use of the exemption powers. I will probably say a few times today that the title of the Bill includes is the Economic Crime and Corporate Transparency Bill. Where there are questions about a potential lack of or reduced transparency and possible serious impacts, there should be accountability, even from the Secretary of State. We live in a democracy where the Government should be and are accountable for actions of the Secretary of State.

The amendment simply states that there should be a process by which any use of the identity verification exemption on national security grounds provided by the clause should be subject to some scrutiny. The Minister may have better ideas on how to deal with that question if the Intelligence and Security Committee is not the right place. We have used the ISC because it is a parliamentary Committee that deals with national security matters, is on Privy Council terms, and will have the confidence of Parliament and the Government in reviewing these matters and raising any questions. All the amendment does is provide scrutiny for the exemption process by referring a report to the Intelligence and Security Committee, which ensures that the information remains privileged and not publicly accessible. If the Minister is, as he intimated, unable to support the amendment, I urge him to give us confidence about how he would provide assurances.

Kevin Hollinrake: Perhaps I could give the hon. Lady some examples of the kinds of individuals the exemption might apply to. We expect the exemption to be used on very rare occasions, for individuals including, but not limited to, those working for the UK intelligence community or law enforcement agencies. She should bear in mind that the Secretary of State is introducing the provisions. I hope that she will be reassured that the powers will be used sparingly but wisely.

Seema Malhotra: I thank the Minister for his intervention. The issue is not what we assume and hope might happen, but having some checks and balances on the use of powers. It is part of our responsibility on the Committee to think that through.

Dame Margaret Hodge (Barking) (Lab): That is always the case. Perhaps the Minister will reflect that Usmanov was a case in point. He exploited an exemption to hide some of the information around his ownership. It is worth all of us reflecting on that. Obviously the provision has to be there for good people, but it may become yet another opportunity for bad people. The Usmanov case was a classic one. I think Fedotov was another, if my memory serves me right. Apologies if I have this wrong, but Fedotov was another one who managed to get an exemption in some way. If these things are not done properly, and are not then properly monitored, they can go wrong.

Seema Malhotra: I thank my right hon. Friend for highlighting an important case in point.

Kevin Hollinrake: May I speak to that case very quickly? The Usmanov case was entirely different. A Secretary of State did not introduce legislation providing for a Russian oligarch to move, in that case, billions of pounds-worth of assets to his sister, I think. What we are talking about here is the Secretary of State using a power to remove somebody whose identity is sensitive from a public register—not allowing an oligarch to subvert the regulations.

Seema Malhotra: I thank the Minister for his intervention.

Dame Margaret Hodge: I think the Minister is right about Usmanov, but on Fedotov I think it was something different. I cannot quite remember the details, but he managed to use an exemption to hide his identity. We raised it last week, and I think that officials were going to come back with a response. They may not have had time to read the letter yet, but that is more the case that one would think of.

The Chair: Order. For the benefit of those following our proceedings, I remind Members of the flow of debate: the Minister will respond to the shadow spokesperson, and the right hon. Member for Barking will have an opportunity to intervene on him then.

Seema Malhotra: Thank you, Ms Bardell. I thank my right hon. Friend for her intervention. To wrap up my remarks on this point, the Minister makes a valid point in relation to the types of cases and the circumstances under which people might be given exemptions, identified on national security grounds. My right hon. Friend makes a good point as well about where things might come through the system inadvertently. That is partly why we have checks and balances.

I take the Minister's point about individuals who may be working for the intelligence and security community, but he could give us some reassurance by saying that every single Secretary of State in whose hands this power lies in future will consider every case carefully so we need have no cause for concern about that, given the transparency and accountability. We set up systems such that there are ways in which the decisions of Secretaries of State and Ministers have controls, checks and balances around them.

In circumstances in which a Secretary of State might say that a name is too secret to divulge, even knowing whether there has been use of the power—the number of times used and the categories for which it has been used—could still be important information. For example, what if suddenly in future the Secretary of State was determining 10 a month—I am not saying that they would? The Minister and I have no idea who the Secretary of State might be in five or 10 years' time, so we have no idea whether there might be an abuse of the power. However, sometimes even having the number can be a red flag, because ordinarily we might expect one every three months, so why do we have five a month coming through?

There are therefore ways in which we can have such controls without putting someone's identity or security—or the nation's security—at risk. Having some controls over those powers is a big and important theme of the report. I ask the Minister to consider that and to say: "Look, we will consider whether we can have, without it being too onerous a job, some mechanism for controls and reporting on use of the powers, such as through Privy Council routes." I would then be happy not to press my amendment.

Kevin Hollinrake: I am happy to reflect on that and have further discussion. As the hon. Lady and other Members know, I am keen for Parliament to have scrutiny of any measures that we introduce. We will take it away to consider.

Seema Malhotra: I appreciate the opportunity. I therefore will not press amendment 10.

Amendment 9 agreed to.

Clause 65, as amended, ordered to stand part of the Bill.

Clause 66

Allocation of unique identifiers

Seema Malhotra: I beg to move amendment 102, in clause 66, page 55, line 36, leave out "power" and insert "a duty".

This amendment would ensure that all directors would be issued with a unique director identifier to be used for all their directorships regardless of whether they or an ACSP form the company.

The Chair: With this it will be convenient to discuss amendment 103, in clause 66, page 55, line 37, at end insert—

"which the registrar must make publicly available on the registrar's website".

This amendment would make all unique director identifiers available on the registrar's website.

Seema Malhotra: The clause expands the existing powers of the Secretary of State to allocate individuals who have had their identity verified with unique identifiers, which are reference numbers used by the registrar to help to identify people. That is of course a welcome step but, following an earlier debate in Committee, there are three key issues that we touched on which I want to explore further: can we have confirmation, first, that each director will have a unique identifier; secondly, that that will be public, whether published as it is or in proxy form, so something is searchable as a unique identifier published for a director; and, thirdly, that all directorships for one person will be searchable under their unique ID?

Amendments 102 and 103 were tabled by my hon. Friend the Member for Aberavon and me. We first made reference to them in the debate on the SNP's amendments 68 to 70 to schedule 2. Our amendments would amend clause 66. Amendment 102 would ensure that all directors would be issued with a unique director identifier to be used for all their directorships, regardless of whether they or a member of the Association of Corporate Service Providers forms the company, and regardless of other factors. It explicitly seeks to amend the legislation to make it a duty to give a unique ID, not a power. It is possible that the drafting of my amendment does not fully do that, based on this being underlying legislation as well, but that is certainly our intention. The Minister has previously said that he expects that a unique identifier will be given to all directors for all their directorships, but I do not fully understand whether the Minister is guaranteeing that.

Amendment 103 would make those unique IDs publicly available on the registrar's website, allowing for greater transparency for the general public. Thom Townsend of Open Ownership said that we need to

"think long and hard about how we are using an identity, once verified, persistently in a lifelong way. Australia, New Zealand and India issue unique identifiers to directors—and, in Australia's case, to beneficial owners—for life, which makes the investigation process much more straightforward."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 62, Q133.]

These amendments, I believe, do just what Mr Townsend recommends: provide unique identifiers, so that any investigation process can be much more straightforward.

I want to go into this issue a little further in light of the Minister's previous comments. Section 1082 of the Companies Act 2006 states:

"The Secretary of State may make provision for the use…of reference numbers ('unique identifiers')"

It is a power, rather than a duty, and the amendments to section 1082 of the Companies Act contained in clause 66 would not change that. The Minister has said that the SNP amendments that we previously debated

"will be redundant once the expanded power under section 1082 is exercised".—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 3 November 2022; c. 250.]

However, I cannot see where the Bill states that those amendments will effectively be redundant when it comes into force, so I would be grateful if he could come back on that point.

The explanatory notes say that the reason for unique identifiers not being publicly available is "to protect personal information" and to guard against

"the fraudulent use of unique identifiers."

None of us wants to see the fraudulent use of unique identifiers, and I do take that point, if the argument is about whether those specific unique identifiers are the only solution to this issue. Sometimes, it depends on how unique identifiers are used: if they are used as part of log-on information or something like that, you could argue that there is potential for fraudulent use, but they could also be identifiers that do not really pose any kind of security or other risk to personal information. What we need, if we cut all the way through this, is a reference that would allow someone to link already public information to a single individual.

If having a public unique identifier were a problem for any reason, depending on how the new Companies House systems are put together and what that unique identifier gives access to, there could be other, very easy ways to achieve the same result. I might suggest different options, such as a function allowing people to check what other offices someone held. That already exists on the Charity Commission website, for example, where we can look up trustees of a charity and see what other trusteeships they hold—the entries are linked, and that link is done for the reader. Companies House already seems to try to do that, but cannot do it properly because it does not have the data to link people who are directors of different companies. For example, that is why, as I think the hon. Member for Glasgow Central noted, she had one appointment that came up three times—or was it the other way around?

9.45 am

Alison Thewliss (Glasgow Central) (SNP): I exist three times.

Seema Malhotra: Right, her name is registered three times, rather than having one entry noting that she has three directorships. With identity verification and the issuance of unique identifiers, Companies House will know exactly how many directorships an individual has. Companies House may plan to update pages showing people's total directorships once it issues unique identifiers, but that certainly is not clear.

An alternative is to have some form of proxy ID, which is becoming increasingly common. That is a unique ID linked to the director's unique ID, which can keep the director's ID itself private, but has a unique public identifier that is searchable and uniquely linked to the underlying identifier. That happens increasingly for email addresses, for example, when someone may not want their email address to be public, so a pseudo or proxy address is created so that the one that someone might publicly enter and others might publicly see is not the underlying email address, but is uniquely linked to it. There are ways in which technology can be used simply and easily. That is not a high-cost option and it can be built in to have what we need for public purposes—a unique identifier for a director that links all their directorships, if published, and is searchable.

I hope that those constructive suggestions and the way we laid out our reply when the Minister asked in a previous debate what we were not fully happy with in clause 66 mean that things are perhaps clearer. I look forward to the Minister's response.

Alison Thewliss: I support the excellent amendments tabled by the hon. Member for Feltham and Heston. It is incredibly important that clarification is given through the register, for a number of reasons. A unique identifier that follows a person through their whole life as a company director is important. I mentioned before that I appear in the register three separate times. It would make sense for that to be consolidated in one entry so that people could see the course of that.

The identifier should go through all of the directorships that people have. We know—it has been raised previously in Committee—that some directors have many hundreds, or even thousands, of directorships to their name. It seems sensible to have clarity to ensure that they are the same person. A name such as mine is reasonably unusual—it is quite easy to find—but if a John Smith is on the register, it is much more difficult to establish that they are the right John Smith, the one who is the director of a company. Therefore the identifier becomes all the more important, particularly if that person changes their name. If Jane Smith becomes Jane Jones through marriage, it becomes more difficult to chase her through the register. It would therefore make sense, particularly for women, who are most likely to change their name, but also for other people who may change their names for a variety of reasons—perfectly honest ones, or, in some cases, to divert attention from their previous directorships, perhaps, or any previous misbehaviour—that that person's ID should follow them around. Anybody doing due diligence on that person as a director could then find them on the register quite easily.

That goes to the point made by my hon. Friend the Member for Paisley and Renfrewshire North about phoenixing. If a company director has been involved in many phoenix companies, it would make sense for people to know that, and to know that they might well carry out that behaviour in future. It would enhance the clarity of the register against such fraud and poor behaviour. The example that the hon. Member for Feltham and Heston gave, of the Charity Commission register, was a good and relevant one, because it is about somebody's appropriateness and that wider sense of understanding somebody's behaviour through the register.

It is very important to make the change from "power" to "duty". A person can have the power to do lots of things, but if they have no obligation to do them, that is quite a different scenario. Lots of the issues that the Companies House register has got itself into are down to those duties not having existed. It is important that those duties exist, and that we set them down in the Bill. I am not hugely confident that what we are talking about will happen if the duties and responsibilities are not set down in law. Future Ministers may decide not to bother with them. I am sure that the Minister would; future Ministers might not.

It is incredibly important that we do everything we can to make the Bill as tight as possible, and that we take all precautions against the abuse of the register. We must get rid of those abuses. We must make a better register, and better legislation, to ensure the integrity of the register in the future.

Kevin Hollinrake: I think that we are trying to achieve the same thing, just in different ways. We discussed this issue at length in previous sittings. Companies House is already actively working on unique identifiers. It is not credible to think that, having legislated for them, we will not implement them. A basic principle of the Bill is to be able properly to link individuals on the Companies House register, so that company directors have a better experience and so that it is easier for the public to identify the connection between directors, including persons of significant control, and companies.

Dame Margaret Hodge: I accept that great progress has been made in the Bill, but addresses and personal details are also important. We know the way in which addresses are exploited: people put 3,000 companies into one address. That is relevant information that Companies House needs to have.

Kevin Hollinrake: Addresses are not covered by the amendment, although we discussed the verification of addresses at length the other day. We think we have struck a fair balance in terms of a company address. The shadow Minister seems to be saying that she wants the unique identifier to be searchable; we think that the person's name should be public and searchable. I did not quite understand her point about people hiding their email addresses or names, and searching by unique identifier, rather than the other way around. We think that the searchable entity should be the person's name, and the Bill would then make it easier to see the connections between a director's name and the different companies with which that person is connected.

Seema Malhotra: The example was given of the number of John Smiths there might be. There might even be a number of Seema Malhotras, but I do not know that there are as many.

Kevin Hollinrake: There is only one.

Seema Malhotra: I think I found three. For the most part, the Minister's arguments are very strong, but he is on very weak ground here. Is he seriously saying that if someone genuinely wants to see Mr John Smith's directorships, they will have to spend three hours going through all the John Smiths? Would that be enough time to de-duplicate and link the right ones together? That is crazy. There is a much simpler solution. It would do the job, and bring us in line with other countries.

Kevin Hollinrake: I am not aware of the countries to which the hon. Lady refers. How would someone know the unique identifier so as to be able to search by that record? What someone will recognise is the name of the person, whether it is Usmanov or another name. That is likely to be the search term that people use, so we think that, for the public view, the most important link is the name. That would also have some implications in terms of potential fraud.

The unique identifier is there to do exactly what the hon. Lady and the hon. Member for Glasgow Central want it to do: it creates a connection behind the scenes, in Companies House, so that a simple search can reveal the connection between a person and all the different companies. That is how it works: we search by the names. We think that is the best way around. She wants to search by the unique identifier.

Seema Malhotra: May I kindly suggest that the Minister ask his officials more about how the unique IDs that are used in Australia, New Zealand and India are working, and whether there is something we might learn from them? If he has not been briefed on that already, it might be a useful step for him to take.

On the Minister's second point, he is absolutely right that we usually start with a name. We might start with "Mr Kevin Hollinrake, Thirsk and Malton", but we would then find his unique identifier and be able to use it to link him with the hundreds of other entries for Kevin Hollinrakes—perhaps some of them even live in Feltham and Heston—and see whether they are the same person.

If the Minister is unclear about what I referred to as a proxy identifier, I am happy to take that offline. It is a simple measure used for security reasons, and it is basically like having a "known as" name. Everyone might know the Minister by a nickname, but people will always be able to identify him, because the unique identifier is linked solely to the underlying email address or ID. It is not publicly the same, but it is uniquely linked, so that someone who uses one will access the data of the other.

Kevin Hollinrake: I am happy to look at the international examples that the hon. Lady mentions, and at the generic name issue. I think that is a fair point, and I have already asked officials to look at how that might work in the case of John Smith and the like. I have just done a quick search on one of my previous co-directors, Harry Hill, who has quite a generic name. If we put in "Harry Hill, Hunters, Companies House" it brings up the Harry Hill that is associated with me, not another Harry Hill. There are simple ways to make connections involving names such as John Smith. I will come back to the hon. Lady with an answer on that if I can.

We do not think that changing the power to a duty would have the desired effect of obliging people to have unique identifiers in the first place. That will be achieved by mandatory provisions including the regulations under the power contained in section 1082 of the Companies Act.

Seema Malhotra: I would appreciate it if the Minister came back to me on that point, because I am not clear that section 1082 of the Companies Act, as amended by the Bill, will achieve what he thinks it will. I want a clear answer about whether all directors will have a unique identifier under the new regime. That is question No. 1, and everything else follows from that.

Kevin Hollinrake: Yes, they will. That is exactly what the Bill provides. It is a mandatory provision, including the regulations under the power contained in section 1082 of the Companies Act. Those two things combined will ensure that Companies House provides a unique identifier for every company director and for every person of significant control. I think that is what the hon. Lady hopes to achieve.

Let me turn to amendment 103. Unique identifiers will be a tool to help Companies House to link an individual's verified identity across multiple roles and company associations. For example, if an individual is a director for company A and also a person with significant control for company B, Companies House will be able better to link those appointments using the unique identifier. The identifiers should not be made public, in our view. Their purpose is to allow the person who is assigned the identifier to communicate securely and privately with Companies House. Making the unique identifiers public would, in our view, compromise their use, because they could be appropriated and misused by anyone looking at the register, including potentially to commit identify fraud and other crimes. However, Companies House will be making changes to how members of the public view the register, enabled by unique identifiers, so it will be possible accurately to see connections between individuals and entities, including how many companies an individual is a director of, or how many companies a person has significant control over. On that basis, I hope hon. Members will withdraw their amendment.

10 am

Seema Malhotra: I thank the Minister for his remarks. The matter is so important that we will want to push the amendment to a vote. It may be that what the Minister has just said on Companies House's intentions resolves some of the issues in the end. What has been stated will happen, but we need to go further to be clear about when and how that will happen.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 7]

AYES

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

NOES

Anderson, Lee	Hughes, Eddie
Crosbie, Virginia	Hunt, Jane
Daly, James	Mann, Scott
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Amendment proposed: 103, in clause 66, page 55, line 37, at end insert 'which the registrar must make publicly available on the registrar's website'.—*(Seema Malhotra.)*

This amendment would make all unique director identifiers available on the registrar's website.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 8]

AYES

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

NOES

Anderson, Lee	Hughes, Eddie
Crosbie, Virginia	Hunt, Jane
Daly, James	Mann, Scott
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Clause 66 ordered to stand part of the Bill.

Clause 67

IDENTITY VERIFICATION: MATERIAL UNAVAILABLE FOR PUBLIC INSPECTION

Kevin Hollinrake: I beg to move amendment 10, in clause 67, page 56, line 3, after "subsection (1)" insert "—

(a) in the words before paragraph (a), after 'not' insert ', so far as it forms part of the register,';

(b) ".

This amendment spells out that section 1087 of the Companies Act 2006 is only concerned with information on the register of companies.

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

Kevin Hollinrake: Clause 67 amends section 1087 of the Companies Act 2006 to extend the list of registered material unavailable for public inspection to include

"any statement delivered to the registrar"

to confirm compliance with identity verification requirements, which means that statements delivered to the registrar concerning identity verification will stay private, protecting personal and sensitive information. Government amendment 10 clarifies that section 1087 is only about withholding from public inspection the portion of the registrar's records concerning companies. Other provisions elsewhere in legislation provide for the withholding from public inspection of the portion of the registrar's record pertaining to other entities, such as limited liability partnerships and limited partnerships.

Seema Malhotra: We have very few remarks to make. As the Minister has outlined, clause 67 amends the Companies Act to extend the list of material unavailable for public inspection to include

"any statement delivered to the registrar"

under the provisions listed. I make the general comment that we want to have greater clarity on this matter so that we do not inadvertently find ourselves, through the legislation, in a situation whereby director, shareholder or officer information becomes hidden for all the reasons outlined in the Bill. The clue is in the name—it is about corporate transparency. I am making a broad point about concerns of reducing transparency when we are here to increase it.

Amendment 10 agreed to.

Clause 67, as amended, ordered to stand part of the Bill.

Clause 68

REQUIREMENTS FOR ADMINISTRATIVE RESTORATION

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

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

New clause 45—*Striking off a company: identity verification*—

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1003 (striking off on application by company) insert—

'1003A Striking off on application by company: identity verification

Before striking off a company under section 1003, the registrar must first, in the case of each individual named as a director of the company—

(a) confirm that the individual's identity is verified (see section 1110A), or

(b) confirm that the individual falls within any exemption specified in regulations made under section 12(2A)(b).'"

This new clause would extend directors' Identity Verification requirements to dissolving a company in addition to registering a company.

New clause 46—*Application for administrative restoration to the register*—

"In section 1024 of the Companies Act 2006 (application for administrative restoration to the register), for subsection (3) substitute—

'(3) An application under this section may only be made by a former director, former member, former creditor or former liquidator of the company.'"

This new clause would make it possible for a creditor or liquidator to apply to restore a company administratively.

Kevin Hollinrake: Clause 68 amends section 1025 of the Companies Act 2006 to require that outstanding fines or financial penalties must have been paid for a company that has been previously struck off to be restored to the register. I thank the hon. Members for Feltham and Heston and for Aberavon for new clauses 45 and 46.

First, new clause 45 seeks to ensure that before striking off a company, the registrar must check whether the named directors have had their identities verified or do not need to do so because are they are exempt. Secondly, there are two routes by which a dissolved company can be restored to the register: one is an administrative process involving application to the registrar; the other involves applying to the court to order restoration. New clause 46 would expand the categories of persons who can use the administrative route by allowing former creditors and former liquidators to apply to the registrar for a dissolved company to be restored to the register. At present, only former directors or members of the company can apply to the registrar. Creditors of the company at the time of its striking off or dissolution and former liquidators currently have access to the court application route under section 1029 of the Companies Act 2006.

While I appreciate that in comparison to the administrative route, the court route is more cumbersome and potentially costly, it exists for a reason. Where a creditor seeks restoration in an effort to prove a debt outstanding from a company, the court is best placed to determine the validity of the case. Opening the administrative restoration route to creditors would place the registrar in the position of having to judge the legitimacy of a creditor's interest in a company. That is not and should not be the role of a registrar.

However, liquidators are a matter of public record and in many cases might be the official receiver. I appreciate that there may be instances where their interests in restoring a company might be in the wider interest of others, including potential creditors, and that there may be a case for giving them access to the less cumbersome

[Kevin Hollinrake]

administrative process. On the basis of our undertaking to consider the matter further, I shall be grateful if hon. Members do not press the new clause.

Although driven by good intentions, we believe that new clause 45 is unnecessary. As the Committee has heard, ID verification requirements will apply to all new and existing registered company directors, as well as to people with significant control and those delivering documents to the registrar. That means that directors and beneficial owners already on the register prior to the reforms coming into force will be covered by the ID verification requirements, although they will have a transition period within which to become compliant.

Directors of companies applying for strike-off under section 1003 of the Companies Act 2006 will therefore not evade verifying their identity before their company is struck off without exposing themselves to criminal liability. Crucially, anyone delivering an application to strike off a company to the registrar will also have to verify their identity. I hope that that explanation is appropriate, and provides such reassurance that hon. Members will consider not pressing the new clauses.

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

Clause 68 makes welcome changes to the Companies Act and should make it easier to enforce penalties imposed in response to criminal breaches under it. The circumstances under which an application can be made for a company struck off the register to be restored to it are set out in section 1025 of the Companies Act. Clause 68 amends section 1025 to make it clear that, as a prerequisite for any such application, any outstanding fines imposed on the applicant and relevant company directors in relation to a criminal offence under the Companies Act must be paid in full. That is a positive step toward increasing levels of compliance with companies legislation in the UK.

The Minister may wish to clarify one point in relation to company directors convicted of criminal offences. In previous sittings, the Committee discussed the grounds on which someone can be disqualified from serving as a company director under the Company Directors Disqualification Act 1986 and subsequent amendments. They include the disqualification of individuals guilty of persistent breaches of companies legislation. That appears to leave the door open for someone to serve as a director, even if they have committed a criminal breach of the legislation, provided they have not done so on multiple separate occasions.

Will the Minister tell us whether the Government considered extending the criteria so that anyone with even a single criminal conviction related to companies legislation would be prohibited from serving as a director again? Does he believe that it might send a stronger message were the Government to adopt a zero-tolerance approach to these kinds of crimes? I hope that he will come back on that point. It has some relation to new clauses 45 and 46, and I look forward to the remarks of my hon. Friend the Member for Feltham and Heston on them.

Clause 69 establishes—

The Chair: Order. We are not there yet. The hon. Member is getting a little ahead of himself.

Stephen Kinnock: I am getting a bit excited. Sorry, Ms Bardell. I will leave it at that.

Seema Malhotra: I am grateful for the opportunity to speak to new clauses 45 and 46, following the remarks of my hon. Friend the Member for Aberavon. He and the Minister highlighted how clause 68 amends the Companies Act and provides that outstanding penalties will need to be paid by applicants or directors for a full strike-off. If I am correct, section 1025, which the clause amends, is about applications for administrative restoration by a former director or member—a shareholder—whereas a creditor would use a separate process under section 1029 to restore a company to the register. That is not being amended by the Bill and does not require payment of outstanding fines.

10.15 am

The Minister has said that a less cumbersome process may be applied for creditors in some circumstances, but it is important and helpful to repeat our arguments in favour of new clause 46 before the Minister reaches a decision. The Minister has also said that he believes new clause 45 to be unnecessary. Under that provision, directors who applied to dissolve a company would be required to have their identities verified by the registrar under the proposed ID requirements. We believe that that closes another loophole and I am not sure that the Minister addressed the issue, but perhaps I misunderstood him. In our view, the provision would deter directors from striking off a company in order to avoid scrutiny of fraudulent activity. I am not clear how those individuals would be caught otherwise.

Kevin Hollinrake: As I said in my remarks, anyone delivering an application to strike off a company to the registrar would have to verify their identity. I do not see how that is not clear.

Seema Malhotra: I thank the Minister for that intervention. If he means that the aims of the new clause are already included in the proposed operation of the system, that is helpful clarification.

Currently, when companies are struck off the Companies House register, very little is done to check whether fraud has occurred and, in turn, that means that there are few repercussions for the directors of those companies. On average, 400,000 companies are struck off the register each year, so perhaps the Minister could go one step further and clarify whether such ID verification will apply to all directors of companies that are struck off. How will that happen if there are no unique identifiers? If wrongful actions are committed, will the proposed regime go one step further to ensure that red flags and investigations into possible misconduct or fraudulent activity will ensue? At the moment, unscrupulous directors are likely to misappropriate the strike-off process to avoid scrutiny and to rack up debts or to sell company assets ahead of the company dissolution, effectively absconding with the proceeds. Our new clause does not just call for a check on IDs but for red flags in the system to alert authorities to possible fraudulent activity that should be subject to further investigation. The Minister may want to respond to that suggestion later.

As I have outlined, creditors may seek to apply through the courts for a company to be restored, albeit under different legislation. New clause 46 would enable a creditor or a liquidator to apply to restore a company administratively. I believe it would be helpful to the Minister's considerations to outline our intentions. The introduction of director identity verification may go some way to deterring directors from registering multiple companies fraudulently, but in the case of companies already struck off the register, there is limited opportunity to hold directors accountable for their wrongful actions and for returns to their companies' creditors.

Members of the insolvency and restructuring trade body, R3, report that director disqualifications have little or no effect on fraudulent directors. It is absolutely shocking that the system has been allowed to continue in that way. There is little or no effect on fraudulent directors, and seriously rogue directors will often go on to commit repeat frauds despite being disqualified.

Those directors who have been disqualified may continue to operate behind the scenes as de facto directors, shadow directors or advisers to a company. We are trying to close some of those options, but there are all sorts of ways in which those who want to get around the system can do so if determined. Hence the need for the legislation to be more belt and braces.

A much more significant deterrent occurs when the company is put through an insolvency process and directors are held to account for the assets that have been misappropriated. If a company has been dissolved and automatically struck off the Companies House register—the company therefore no longer exists, in effect—that process can only take place if the company is first restored. However, if a company's former creditors or liquidators at the time of the company's striking off or dissolution wish to apply to restore the company, they must do so through the court.

The court process can clearly deter creditors as it is sometimes a complex procedure, in part due to the costs, which are typically £1,500 to £3,000, and in part due to the huge amount of time involved, which can be 12 to 18 months. Businesses are busy, creditors are busy, and the extra strain has to be weighed up against the cost of doing it. We have to have a solution. I am glad that the Minister has intimated that there ought to be a basis for what I think he described as a "less cumbersome" process. I agree. I hope that we will see some proposals, perhaps in Committee. It would be helpful to strike while the iron is hot.

Directors are all too easily able to create a significant barrier to the investigation of their conduct. Indeed, data from Companies House shows that only 2% of dissolved companies are put through a process to restore them to the register each year. I do not have the data on the number of creditors who might do so were it a less cumbersome process, but I think we can all agree that it would be far more than 2%. Certainly the research suggests that.

Under section 1024 of the Companies Act, former directors or members of a company can apply to restore a company administratively, avoiding a court process. However, that is not an option for a former liquidator or creditor of a company. New clause 46 would amend section 1024 so that a former creditor or liquidator could apply to restore a company administratively, without the need for a potentially lengthy and costly application to court. That would make it simpler for a company to be put through an insolvency process so that the company's directors can be held to account for the assets that have been misappropriated and incur liability for their actions. Returns to creditors could then be made.

I hope that the Minister will, in his reflections, consider the wording of new clause 46. It might help him on the way to finding a simple solution. There is a real issue here. In the interests of fairness to businesses and creditors that do the right thing but are treated unfairly, it should not be so hard to bring to account those who had clearly planned to be struck off, more quickly, cheaply and easily.

Kevin Hollinrake: On the hon. Lady's legitimacy argument, as I said, we can understand that there might be a case about liquidators. We have committed to look at that. It is much more difficult in the case of creditors' interests. She talked about the misappropriation of funds, but it is not the registrar's position—the registrar is not deemed capable—to determine whether that is the case. I do not see how a creditor's interests can be decided on by the registrar. However, I commit to us looking at the liquidator element.

On the issues the hon. Lady has mentioned with respect to Companies House and new clause 45, the requirements under the objective at the start of the Bill make it clear that the registrar's responsibility is to minimise unlawful activities. On whether a striking-off in certain circumstances is a red flag, there will be a number of ways in which that can be determined, either through automated processes or by human intervention. It is not realistic for the registrar to determine fraud, but it is definitely within her capability to determine whether there is a red flag around fraud. We expect the registrar to put those measures in place; in fact, there is a requirement for her to do that under objective 4—minimise unlawful activities.

We have had debates at length in previous sittings on whether we should dictate to the registrar how she should do that, with myriad conditions and circumstances involved and discussion as to what constitutes a red flag. On this side of the Committee, we believe that we should leave it to Companies House to determine how the registrar minimises unlawful activities and what constitutes a red flag. That, of course, will be shared with relevant enforcement agencies.

Seema Malhotra: I know the Minister is not intending to, and I would not want him to, misrepresent our position, but the difference between our views is generally whether there should be greater tools and provision in legislation to give the registrar teeth that might be helpful in her work. The Minister is right that it would not be for the registrar to determine fraud, but that there should be a red flag system whereby the registrar is uniquely in a position to be able to determine that.

Kevin Hollinrake: We are in total agreement—violent agreement—which is great.

The hon. Lady made a point about shadow directors. There are all kinds of ways in which a nefarious individual can influence the behaviour of a company, for which we cannot possibly legislate. There is no such thing as, and no legal status of, a shadow director. Therefore, how

[Kevin Hollinrake]

would we ban somebody from being one? We have to operate within the boundaries of the law. That is what we feel, and we have reached a fair balance here. I hope the hon. Lady will not press her new clauses to a vote later in the proceedings.

Question put and agreed to.

Clause 68 accordingly ordered to stand part of the Bill.

Clause 69

DELIVERY OF DOCUMENTS: IDENTITY VERIFICATION ETC

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

The Chair: With this, it will be convenient to consider clauses 70 and 71 stand part.

Kevin Hollinrake: The clause introduces identity verification requirements for individuals delivering documents to the registrar. It also requires that when an individual acts on behalf of another, they must confirm that they have the authority to do so. That will enable the registrar to reject documents unless they are accompanied by a true statement that the identity of the individual filing the document is verified and that the person filing the document is authorised to file.

An individual who delivers a document to the registrar on their own behalf must have their identity verified, and the document must be accompanied by a statement confirming their verified status. If an individual is exempt from identity verification requirements under the clause, they must provide a statement to that effect when delivering a document. Documents delivered on behalf of another person must be accompanied by a statement that the filer is authorised to do so. A document delivered by an employee of an authorised corporate service provider must additionally confirm that they are acting in the course of their employment.

Ensuring that individuals are identity verified before they can deliver documents to the registrar and that they are permitted to do so provides greater accountability because the documents will be traceable back to a verified identity.

Clause 70 creates a prohibition on delivery of documents to the registrar by disqualified persons. Clause 71 enables the registrar to reject documents that have been delivered by people who are not within the categories permitted to file documents under clauses 69 and 70.

Stephen Kinnock: Clause 69 establishes a requirement for anyone delivering documents to the registrar to have their identity verified, subject to certain exemptions, which may be set out in secondary legislation. However, it is not clear in what circumstances the Government might consider an exemption appropriate. The requirement for any exemption to be set out in secondary legislation subject to the affirmative procedure is welcome, because it enables the relevant changes to be scrutinised by Parliament. Nevertheless, it would be helpful if the Minister could provide an indication of what sort of exemptions might be expected.

Clauses 70 and 71 relate to the delivery of documents to the registrar. Clause 70 stipulates that disqualified individuals may not deliver documents on either their own or someone else's behalf. As set out in the clauses, individuals delivering documents to the registrar will be required to make a series of statements confirming that they are not subject to any disqualification under companies legislation.

10.30 am

Kevin Hollinrake: The hon. Gentleman asked me for examples of exemptions. We expect exemptions to be used rarely, but examples might include Government Departments, local authorities and international organisations where the identity and accountability of the organisation delivering the information carries little risk.

Stephen Kinnock: I thank the Minister for that clarification. Assessing the meaning of "carrying little risk" is a subjective thought process, but he is right that not everything can be micromanaged in this process. We will probably never get absolute clarity on these issues, but it will be important that Parliament scrutinises the way in which exemptions are implemented so that we get to know what "little risk" means through their implementation. It will also be important for Ministers to keep a close eye on the risk management processes that need to be implemented. As the Minister rightly said, legislation without good implementation is not worth the paper it is written on.

In previous debates, this Committee has discussed issues involving the verification of information provided to Companies House and the enforcement of criminal penalties for those who fail to comply with requirements to provide truthful information. These clauses raise similar questions. For instance, could the Minister explain what actions the registrar will be able to take to verify that, if somebody delivering documents states that they are not acting on behalf of a disqualified individual, that is a true and accurate statement?

The clauses also relate to issues discussed by the Committee on authorised corporate service providers. We all want this Bill to make it much more difficult for the people who own or control companies to hide their identities behind layers of secrecy, which often take the form of corporate service providers or other individuals acting on behalf of those in control. It would be helpful if the Minister could provide more detail about how the Government plan to protect the system against abuse, particularly by third parties acting on behalf of criminal clients. Could he tell us, for instance, whether the Government have considered introducing a more proactive licensing system for corporate service providers—as is used by some other jurisdictions, including Jersey—and what assessment the Government have made of whether the Bill provides adequate safeguards against the submission of false statements to the registrar?

Kevin Hollinrake: I think the hon. Gentleman asked me to address two points. First, he asked how we will ensure that the documents filed are accurate. That goes back to the risk-based approach that the registrar should take on potential red flags and other such matters. Obviously, that role fits into the registrar's wider objectives

of ensuring that the information is accurate and minimising unlawful activity. It is a red-flag approach in terms of systemised and human intervention.

The hon. Gentleman's second, wider point was on the penalties for false filing, which are up to two years in jail. I think most people will consider that to be a decent deterrent against abuse of the system.

Stephen Kinnock: I thank the Minister for that clarification. Does he have a view on the question of a more proactive licensing system for corporate service providers, along the lines of what is done in Jersey? Have the Government made any assessment of whether the Bill provides adequate safeguards against the submission of false statements to the registrar, particularly by corporate service providers?

Kevin Hollinrake: I fully recognise the concerns expressed across the Committee about our oversight of corporate service providers. As I say, we should not mix up the many bone fide companies and household name accountants and lawyers, but clearly there are concerns, for example about some company formation agents. We need to ensure that the system that supervises money laundering is much more effective—we know there are deficiencies. The Treasury is looking at that right now. It will report and say exactly what it will do to beef up the system and make sure it is more fit for purpose. I am taking a keen interest in that. I am just as keen as the hon. Gentleman and other Members that the system properly identifies people with shortcomings and identifies wrongdoing, and that we build a much better system of money laundering supervision.

The hon. Gentleman mentioned licensing. Let us see what the Treasury review says and then we can make judgment. In terms of oversight of the money laundering supervision system, I am as concerned as he is and as keen to make sure that that system is fit for purpose.

Stephen Kinnock: I thank the Minister for that clarification. Will he assure us that he will encourage his colleagues at the Treasury to consider the option of a licensing system within the terms of reference of the review?

Kevin Hollinrake: I am keen to make sure that the system works, whether by licensing or by some other means. There are lots of different options for what might be described as a system that is fit for purpose. Of course, in common with all Members of this House, we are keen to avoid unnecessary bureaucracy, but nevertheless we want a system that works and that we have faith in, so, in my view, all options should be on the table.

Alison Thewliss: I have a small query and seek clarification from the Minister. In clause 69(3), proposed new section 1067A(2) states:

"An individual may not deliver documents to the registrar on behalf of another person unless—

(a) the individual's identity is verified".

Will the identity of those entitled to deliver documents be added to the register, and will they have to be separately verified? I am not clear on the mechanism.

Kevin Hollinrake: Will the hon. Lady ask the question again? I did not quite get it.

Alison Thewliss: Yes, of course. I understand that if someone is delivering documents on behalf of themselves, there will be a check to see whether they are verified, but if someone is delivering documents on behalf of somebody else, the Bill seems to say that they also need to be verified. Is that subject to a separate verification list? That person would not be registering to be a company director in their own right; they would be delivering the documents to register somebody else, so is there now going to be a separate list for that?

Kevin Hollinrake: I think I have understood the hon. Lady's question. Clearly, all directors and company service providers need to have their identity verified too. If that is what the hon. Lady is referring to, that is absolutely contained in the provisions of the Bill.

Dame Margaret Hodge: I was very interested in what the Minister said about ensuring that the authorised company service providers should be checked and supervised properly. It is really important to ensure that all the details of the individuals on the register can be found with certainty. However, we are all struggling with how to do that in quickest, most cost-efficient and effective way. Does the Minister agree that a suitable mechanism should be presented on Report—unless he would like to suggest one now—that does not waste time, keeps within the timeframe, does not require massive additional resources and enables swift action to be taken? I love the Treasury, but we should do this without having to wait for a Treasury review or reorganisation. Does he accept that that might be a way forward? We all want the same thing, and if we do not get this right there could be a huge flaw in the system we are establishing.

Kevin Hollinrake: We are on the same page about ensuring that the system is fit for purpose. It is difficult for me to do a review when the Treasury itself is doing one and is probably better placed than I am to do it, given its wider understanding of the system.

Liam Byrne (Birmingham, Hodge Hill) (Lab): I don't think that's true!

Kevin Hollinrake: Perhaps it might not be as ambitious as me, but it certainly has access to detailed information and the resources to properly conduct the review. The Treasury should be allowed to do that job.

I think that we are all on the same page. I am absolutely committed to ensuring that the system is fit for purpose. It is not a case of just getting the Bill passed; we need to ensure its implementation, as I have said many times in the House and in Committee.

Liam Byrne: I am sorry to intervene, but the Minister provokes me. A point to take away is that we are now bedevilled by a real problem in this country: responsibility for policing this area is divided between the Minister, the Treasury, the Foreign, Commonwealth and Development Office and the Bank of England. At the moment, as the Foreign Affairs Committee has said repeatedly, there is not an effective gearbox for joining

[Liam Byrne]

those things together. If one of the Minister's legacies could be to fix that problem, he would be cheered from all sides.

Kevin Hollinrake: God forbid that the Government work in silos, whoever is in power, but they do tend to do so at times. I am on the same page as the right hon. Gentleman and other Committee members that we must have a joined-up approach right across Government. The systems of supervision of money laundering must be fit for purpose, tight, verified and checked, and the people who do not do it right must be held to account. We must ensure that we get that right, and I am fully committed to that.

Question put and agreed to.

Clause 69 accordingly ordered to stand part of the Bill.

Clauses 70 and 71 ordered to stand part of the Bill.

Clause 72

DELIVERY OF DOCUMENTS BY ELECTRONIC MEANS

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

The Chair: With this it will be convenient to consider clauses 73 to 75 stand part.

Kevin Hollinrake: I hope that the clauses are pretty uncontroversial, but let us see. Companies House systems are already enabled to receive digital account submissions. The clauses will help Companies House to become a fully digital organisation by 2025.

Clause 72 transfers the power to require delivery by electronic means from the Secretary of State to the registrar. Filing information digitally is easier, quicker and more secure for filers. The information can be more easily checked for accuracy and compliance, and is less likely to be rejected for basic errors or omissions. That increases transparency. Suspicious activity can be better identified, contributing to our efforts to detect and prevent economic crime.

Clause 73 will require companies to deliver to the registrar a copy of a court order confirming their share capital reduction, rather than the original document itself. Clause 74 does the same in respect of a declaration of solvency. Clause 75 gives the registrar an administrative power to specify, in registrar's rules, where documents must be delivered together.

Requiring companies to file component parts together will make it easier for Companies House to check that companies are meeting their filing obligations. It will also reduce unnecessary errors. Where filings are made that do not meet the requirements, they can be rejected, helping to improve the integrity of information on the register.

Stephen Kinnock: The main purpose of clause 72 is to make it easier for future changes to registrar's rules to be made by the registrar directly, rather than through the Secretary of State. The Government's intention is to facilitate the electronic delivery of documents. Using quicker, more efficient electronic systems for delivery should play an important role in wider plans for the transformation of Companies House and the service it provides.

With that in mind, could the Minister say a bit more about how the provisions fit into the ongoing Companies House transformation programme, particularly in relation to the planned new IT system? When might the fully electronic system for the submission and processing of documents submitted to the registrar be in place? We would be grateful for the Minister's comments, particularly about timing.

10.45 am

Clauses 73 to 75 make further changes involving the format of documents that may be delivered to the registrar—for instance, by enabling copies of a court order, rather than the original order, to be submitted, and by enabling the registrar to require multiple documents in relation to a single filing to be submitted together rather than individually. The Opposition support these proposals. We all want a more streamlined and efficient operation at Companies House as a result of these and related measures. It might be helpful if the Minister could explain, in the context of these provisions, what tools will be available to Companies House to ensure that documents submitted electronically, such as copies of court orders, are authentic, and how the new IT systems will help to reduce the risk of fraudulent filings.

Kevin Hollinrake: Companies House already has the capability to accept documents filed digitally—89% of companies already do that. Therefore, it is not an IT development requirement; it is just a requirement for companies to file documents digitally rather than using paper. It puts the onus on the companies rather than on Companies House itself.

In relation to authenticity, we are again back to the red-flag approach. Companies House has a requirement, an objective, to oversee the integrity of the register. There is definitely a risk-based approach to that. The aim is to try to put the red flags in place to ensure that we are identifying documents that are not authentic. Also, there are penalties for false filing of documents, which I think we went through previously.

Alison Thewliss: I have a brief point on a technical issue. It was flagged in evidence that some documents submitted electronically or posted on the Companies House website in electronic format were image files rather than searchable documents. I wonder what consideration the Minister has given to mandating the type of files that can be filed electronically, because it would make sense to accept them in a format that can then be searched online.

Kevin Hollinrake: The hon. Lady makes a good point. I do not know the detail behind that, but I am happy to go away and look at that for her.

Question put and agreed to.

Clause 72 accordingly ordered to stand part of the Bill.

Clauses 73 to 75 ordered to stand part of the Bill.

Clause 76

POWER TO REJECT DOCUMENTS FOR INCONSISTENCIES

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

The Chair: With this it will be convenient to consider clauses 77 to 79 stand part.

Kevin Hollinrake: Clauses 76 to 79 support the Bill's overarching ambition to broaden the powers of the registrar to maintain the integrity of the register. Clause 76 provides a new power to reject documents for discrepancies. Currently, the registrar must accept documents if they have been properly delivered—that is, they meet the requirements as to their contents, form, authentication and manner of delivery, and the other requirements listed in section 1072 of the Companies Act 2006.

Documents containing information that is at odds with information that the registrar holds may none the less meet "proper delivery" requirements in their own right. If so, they must be placed on the register despite the apparent inconsistency. This clause cures that problem by enabling the registrar to reject a document if it appears to be inconsistent with other information that is held by or available to the registrar. The power is available if, due to the inconsistency, the registrar has reasonable grounds to doubt whether the document complies with the requirements as to its contents.

Dame Margaret Hodge: This is a question to aid understanding. This provision sets out the duties of the registrar in relation to documents, but the documents will actually be checked by the company service providers, will they not? That will be outsourced to those providers. I might be wrong—the Minister is looking puzzled—but that is the case if I read the situation correctly. Therefore, is this provision suggesting that there will be a check at Companies House on the work that the company service providers do? Perhaps the Minister can say a little about how that will be implemented. I thought that all that was to be pushed out to the company service providers.

Kevin Hollinrake: Not at all—quite the opposite. Companies House has a requirement to oversee the integrity of the register, and the clause states exactly that. If the registrar feels there is an error that she is not happy with in the document, or it is inconsistent, she can reject the document whether it is filed by a company service provider or by a director of the company.

Dame Margaret Hodge: For complete clarity, there will be a risk-based system of checks on documents provided as a mechanism for ensuring the accuracy of the documents that are submitted.

Kevin Hollinrake: Absolutely. That is exactly how we expect it to operate.

Once the registrar refuses the document, it will be treated as not having been delivered. Under clause 77, the Companies Act 2006 allows the registrar, upon receipt of an instruction from someone else and only with the relevant company's or other body's consent, to correct a document at the pre-registration stage if it appears to be incomplete or internally inconsistent. That power was useful when more companies filed on paper, as informally correcting material was easier than rejecting a document and waiting for it to be refiled. However, in the digital world, filings can now be rejected, returned to the filer and then refiled within minutes. There is no longer a need to informally correct a document pre-registration. Clause 77 therefore removes that power, which also encourages accuracy in filing by removing the expectation that a document can be informally corrected.

Clause 78 reduces the period of time for which the registrar must keep originals of documents that have been delivered in hard copy from three years to two years. Once that period has passed, the original documents can be destroyed as long as the information they contain has been recorded. The retention period that was previously reviewed was reduced from 10 years to three years when the Companies Act 2006 replaced the 1989 Act. The number of requests for the retrieval of filings has decreased further and steadily since then due to declining paper filings, improved image capture processes and increased confidence in digital records. It is therefore right to reduce the retention period again. The information in the documents will still of course be available electronically to users as appropriate.

Clause 79 amends the period for which the registrars in each UK jurisdiction must maintain certain records available for public inspection. The records in view are those concerning dissolved companies, including certain information regarding PSCs of dissolved companies, overseas companies that have ceased to have any UK connection, and overseas credit and financial institutions that have ceased to be required to file accounts with the registrar. The clause provides that those records can be moved to the Public Record Office two years after the relevant date of dissolution or cessation.

Dame Margaret Hodge: May I ask a question on that? It is relevant to later amendments. I do not know whether the Minister or his officials can help, but can Companies House stop a request for dissolution?

Kevin Hollinrake: In what circumstances?

Dame Margaret Hodge: I think it can. I have tried to find its powers and cannot find them. The great example is the Savaro one. It was the UK-based company that owned the warehouse where the fire took place in Lebanon. It tried to dissolve the company, but I think the Minister intervened. I have looked up Savaro and it does still exist. It is quite important if we have a dirty company that wants to rush away. Do we have powers to dissolve it?

Kevin Hollinrake: I am happy to raise that with officials and come back to the right hon. Lady. *[Interruption.]* There is some flapping about right there, as I speak.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: Not before I have answered the question.

Liam Byrne: I was just going to give the Minister more time.

Kevin Hollinrake: Very kind.

Dame Margaret Hodge: The answer is yes, is it?

Kevin Hollinrake: Yes, the registrar can decline an application if it does not satisfy the requirements—*[Interruption.]*

The Chair: Order. If Members could refrain from shouting across the room, out of respect to our colleagues at *Hansard* and those watching proceedings, that would be greatly appreciated.

Kevin Hollinrake: The clause also provides that the registrar need not make these records available for public inspection 20 years after those dates.

Seema Malhotra: I will speak to clauses 76 to 79. I thank the Minister for his comments. He has outlined that clause 76 would amend the Companies Act 2006 to give the registrar the power to reject documents that are not consistent with information held by the registrar and that give the registrar reasonable grounds to doubt whether the document complies with Companies House requirements.

A document that is refused under this power is treated as not having been delivered. These clauses will apply to all documents filed with the Companies House registrar. Such documents could include the annual confirmation statement—formerly the annual return—the annual accounts, forms appointing or terminating directorships, applications to register a charge or the filing of changes to the articles of association. The broad list can be found on the Government website under the postal forms that a limited company can file with Companies House.

Clause 76 is a welcome measure that should help Companies House transition from passive administrator to active agent as regards the information submitted to it. Will the Minister expand on how the registrar will be alerted when inconsistent documents are submitted? Have there been discussions with the registrar about the process by which inconsistencies will be checked? The Government may be considering a risk-based approach such as automatic flagging, but it would be helpful to clarify how the system is likely to work and be implemented.

I was searching the legislation to see if there was any deadline for rejection by which Companies House will confirm the rejection of a document. I cannot see a timeline specified, but I would be grateful if the Minister could correct me if that is wrong. In the Bill as drafted, a rejected document is treated as never having been delivered. Could the Minister clarify that? It suggests to me—though it is not fully clear—that companies could be submitting information in good faith, maybe just before a deadline, but could be fined for missing a deadline if the document was subsequently rejected. It would be helpful to know whether Companies House will be working to a deadline to confirm or reject a document that has inconsistencies. If there will be, what might that mean for companies that submitted documentation in good faith, and what will happen with the resubmission of any documentation?

I have no particular comments on clause 77, but I have a question about clause 78 and the preservation of original documents. The Minister is right that our confidence in digital technology and digital records has improved significantly. Can the Minister clarify what needs to be kept in hard copy for two years? Does that refer to all the records that we have discussed? I am not clear about how that sits alongside options for electronic storage of original documents that had been certified by the registrar. There are some other mentions of certification in the Bill, so it would be useful to understand that. I do not have any other concerns or questions on that point.

11 am

The Minister talked about clause 79. Keeping dissolved records on persons of significant control for 20 years is helpful. On dissolution of records, will Companies House be keeping any record of the number of requests for information regarding previously dissolved companies? I think the Minister was saying that the information retained in the documentation will be kept, should there ever be a requirement to research it.

Kevin Hollinrake: How can we consistently tackle inconsistency in the documentation? We are back to the red flags issue. It is up to Companies House to determine the circumstances in which something would have a red flag, in that it was incorrect. It is not impossible for the Committee to do Companies House's job for it in terms of how it determines what might constitute a red flag, but I have every confidence that Companies House will determine that appropriately. Again, that is assisted by the requirement that when people file information that is clearly, patently and deliberately wrong, there are penalties for false filing.

As for deadlines, I do not think there is any deadline that the registrar has to adhere to for when determining something to be inconsistent or wrong. The document can be rejected and companies can expect that rejection to be speedy in the majority of cases. The registrar has discretion not to reject an inconsistent document if she feels it is not materially inconsistent. Those are points of detail that can probably be left to Companies House.

Seema Malhotra: I thank the Minister for his response. What he said about points of detail is true to some extent, but not fully true as regards what the provisions could mean for companies that have submitted information in good faith before a deadline. If documents are rejected after the deadline, it could result in the company being considered to have not submitted documents. There seems to be a slightly grey area. Would companies be fined for missing deadlines, or would they be given, in the case of a significant document, a short period of, say, seven days to resubmit it with corrections, without facing a penalty? It could be seen as a late submission. We just want a fair process in instances when genuine mistakes are made.

Kevin Hollinrake: So do I, and I would expect the registrar to use her judgment when determining whether something has been inappropriately filed. We would not expect a fine to be issued if it is not the company's fault that it has missed a deadline, as in the situation that the hon. Lady describes. There is a wider requirement for any registrar to act reasonably in that regard.

Question put and agreed to.

Clause 76 accordingly ordered to stand part of the Bill.

Clause 77 to 79 ordered to stand part of the Bill.

Clause 80

POWER TO REQUIRE ADDITIONAL INFORMATION

Kevin Hollinrake: I beg to move amendment 11, in clause 80, page 63, line 2, at end insert—

"(vi) section 28 or 29 of the Limited Partnerships Act 1907;".

This amendment spells out that statements made by a person in response to a requirement under section 1092A of the Companies Act 2006 can be used in criminal proceedings for the false statement offences under the Limited Partnerships Act 1907.

Amendment 11 reinforces the legal framework to maximise the prospects of truthful and accurate information being delivered to the registrar. The general rule is that fairness requires that a person who is compelled on pain of criminal sanctions to provide information to the authorities should not be prosecuted if the information they are forced to supply is incriminating. Proposed new section 1092C(1) of the Companies Act 2006, inserted by clause 80, ensures that that fairness requirement is met in relation to uses by the registrar under the new power in proposed new section 1092A to compel a person to provide her with information for the purposes of her being able to determine whether filing obligations have been met.

However, the privilege against self-incrimination is not absolute. As is the case elsewhere in the statute book, the Bill includes exceptions. A person compelled to provide information is not immune from prosecution for offences that prohibit the giving of false, misleading or deceptive statements. Proposed new section 1092C(2) provides for that exception. The amendment adds the two proposed new "false statements" sections that clause 129 of the Bill inserts into the Limited Partnerships Act 1907 to the list in proposed new section 1092C(2). That ensures that when the registrar compels a person to provide information under her new power to determine whether filing obligations concerning limited partnerships have been met, the person cannot claim privilege against self-incrimination if the information they are compelled to deliver reveals that they have submitted a false filing. I trust the Committee will agree that this is a well-considered amendment.

Seema Malhotra: We do not have extensive remarks. As the Minister has outlined, the clause introduces a new power for the registrar to require information to determine whether someone has met the requirements on document delivery. Failure to comply without a reasonable excuse would be a criminal offence.

The Chair: To clarify, we are debating Government amendment 11 to clause 80. Is that the amendment the hon. Lady is focusing on?

Seema Malhotra: Yes. Thank you, Chair. I was just speaking briefly to clause 80. The amendment spells out that statements made by a person in response to that requirement can be used in criminal proceedings on those false statements, and we support that.

Amendment 11 agreed to.

Kevin Hollinrake: I beg to move amendment 12, in clause 80, page 63, line 14, leave out subsection (5).

This amendment is consequential on NC17.

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

Government new clause 16—*Material unavailable for public inspection: verification information.*

Government new clause 17—*Material unavailable for public inspection.*

Government new clause 18—*Protection of information.*

Government amendments 49, 40 and 39.

Kevin Hollinrake: These amendments relate to the register of overseas entities introduced by virtue of part 1 of the Economic Crime (Transparency and Enforcement) Act 2022. The new clauses mirror equivalent sections in the Companies Act 2006 as amended by part 1 of the Bill, which we have already debated. They will ensure consistency between the two Acts.

The amendments will ensure that the public register contains only information that it is necessary to display, and that certain information including email addresses is not made publicly available, because of the risk that that could facilitate identity theft or other fraud. New clause 16 will ensure that personal information supplied in connection with the verification process for the register of overseas entities can be appropriately protected from public inspection. It is right to ensure that certain personal information, including email addresses, is not made publicly available because of the risk that that could facilitate identity theft or other fraud.

Dame Margaret Hodge: Again, I am really asking for information. It would be interesting to learn whether the Minister knows how many overseas entities have been registered since the enactment of the 2022 Act. It could still end up being unclear who the real beneficial owner was of an overseas entity. If someone went to an overseas entity to find out who owns One Hyde Park, and it said that the owner was a British Virgin Islands company, would the owner of that company be shown?

Kevin Hollinrake: That does not directly relate to this amendment, but I will get back to the right hon. Lady on that point in a separate conversation. Details such as the name and company of the person verifying the information submitted by an overseas entity to the register will continue to be publicly visible; it is not our intention to change that.

New clause 17 replaces sections 22 to 24 of the ECTE Act with proposed new sections 22 and 23. As with new clause 16, new clause 17 adds to the list of information that the registrar must not make available for public inspection, to help prevent the abuse of such information. That includes categories of information that were never intended to be made available for public inspection, but were missed during the expedited passage of the ECTE Act through Parliament, such as the email address of an overseas entity. New clause 17 also includes new categories of information that an overseas entity will be required to provide as a result of other amendments that are being introduced by the Bill, including the title number of land that an overseas entity owns, and documents provided to the registrar under her new power to require further information. New clause 17's insertion of new section 23 also means that the registrar can disclose protected information about trusts, date of birth and residential address only in two scenarios.

[Kevin Hollinrake]

Amendments 12, 39, 40 and 49 are consequential on new clause 17. Under the amendments, the registrar need not retain material that must not be made available for public inspection longer than appears reasonably necessary to her for the purposes for which the material was delivered to her.

I will say to the right hon. Member for Barking that there have been over 3,000 registrations on the register of overseas entities since it was established on 1 August 2022. It is right to ensure that the public register of material concerning overseas entities contains only information that is necessary to display, and that certain information, including email addresses, is not made publicly available for the reasons that I have stated. It is also right to amend the Companies Act 2006 in a way that mirrors amendments made in the Bill, so that there is consistency between the two Acts.

Seema Malhotra: In the time that we have had, it has been difficult to go through exactly what all the new clauses and amendments mean for what is and is not hidden information. We may come back to this issue, so I will not oppose the measures today. New clause 16 confers a power to make regulations about identity verification.

Kevin Hollinrake: Protected information includes protected date of birth information, which means information as to the day of the month—but not the month of the year—on which the registered beneficial owner or managing officer of an overseas entity was born. It also includes protected residential information, which means information as to the usual residential address of an individual who is a registered beneficial owner or managing officer, and protected trust information, which means the required information about a trust.

11.15 am

Seema Malhotra: I thank the Minister for his clarification. He did set out a little of that when he spoke to the new clauses. Given the speed with which we are going through the Bill, it is sometimes a little hard to keep track of what has been added, and whether there are any other consequences from that. I am not saying that there are consequences, but it feels as though a lot of Government amendments have come forward. I am not necessarily objecting to those before us today, but as a matter of principle, we need to go through provisions to check whether the devil is in the detail; after all, as I have said, the Bill has "Corporate Transparency" in its title.

Kevin Hollinrake: We will debate the overseas entities register in more detail in part 3, so there might be a good opportunity for further debate then.

Seema Malhotra: That would be welcome. New clause 18 grants the Secretary of State the power to make regulations as they see fit, in order to protect material on the register. Further scrutiny will be required on what could happen in future, and the circumstances in which that power might be needed.

The perception may have been that we had opposing positions on some aspects of the Secretary of State's powers, but we now find ourselves coming a little closer together. We are debating the Bill, which largely has cross-party support, in good faith, but there are many little ways in which things could get changed, without those changes being subject to full debate in the House. It is important that we debate that further during proceedings on the Bill. I repeat that I want to ensure that there is no devil in the detail. I appreciate the Minister committing to return to the issue in part 3, when we will have a chance to look at the matter in slightly more detail.

Dame Margaret Hodge: There was a report in *The Guardian* yesterday on an organisation called Wealth Chain Project. Its analysis showed that 138,000 residential and commercial properties in England and Wales are owned by offshore companies. We have managed to get 3,000 so far, so there is a heck of a lot—

Kevin Hollinrake: There is not a direct correlation between the two, because one overseas entity might own many UK properties.

Dame Margaret Hodge: Ah, that is a valid point, and I think the article deals with it. Some entities will own more than a few properties, but—sorry, I am just looking to see whether the article does make that point. The article demonstrates the enormous importance of Executive action. That is why the Opposition feel strongly that action should take place; there is no point in just putting legislation in place. There is a desire to monitor that action, and toughen up the provision to ensure that the action happens. I hope that the Minister bears that in mind. No matter how many entities own more than one property, 3,000 is still a long way from the 138,000, assuming that figure is accurate.

I am getting muddled by all these amendments. Will the Minister or his officials provide us with a list of what information will be on the register? What will we see? If we had that, we could take a view on whether that information is sufficient for all our purposes.

Liam Byrne: It is a pleasure to see you in the Chair, Ms Bardell. I fully appreciate the Government's need to table amendments—the grind of Committee exposes all kinds of opportunities to improve and strengthen legislation—but this is a good example of the kind of measure that it would have been helpful to see at the beginning of the process, not halfway through, not least because we are all worried about Companies House and its capacity to hunt and root out badness. All of us have in our time, and in our own way, relied on journalists' investigative capacity to flag bad activity. It is important to the Opposition and, I am sure, the Government, to hear from journalists and investigators on whether the measures that the Minister is introducing jeopardise or constrain their ability to conduct the investigations that they have carried out so admirably over the last few years.

I hope that the Minister will take up the suggestion of my right hon. Friend the Member for Barking and set out very clearly for us what information will be available. The whole Committee would be interested to hear, perhaps informally, from journalists on whether that information will constrain their ability to investigate; we can then decide whether to come back to this issue on Report.

Kevin Hollinrake: On the points raised by the right hon. Member for Barking, as I have said many times in Committee and in the House, implementation is everything. In my business, we used to say, "Ideas are 10 a penny. Execution is everything." We have to ensure that we follow through on the measure, and that it is properly executed.

We will debate the overseas register at length when we come to part 3, so I ask the right hon. Lady to hold off on any key questions about that. We will try to get the answers that she wants, and will probably have a conversation about the kind of information that she wants to see. The provisions relating to overseas entities are about trying to identify the people who have control over those entities and companies. That is what the legislation is about: understanding who the directors are—for the first time, we will be able to see that properly—and the persons of significant control. They are not just people who own more than 25% of a company, but people who exert control in other ways.

The right hon. Member for Birmingham, Hodge Hill, is right that journalists play a key part in investigation. Many of them spend much of their time analysing databases of all kinds to try to find information that would be useful for law enforcement agencies. We want to ensure that that information is readily available to them, because they play a huge investigative role. We are very keen to ensure that they get the information that they need.

Amendment 12 agreed to.

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

11.24 am

Adjourned till this day at Two o'clock.