PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Seventeenth Sitting

Thursday 24 November 2022

(Morning)

CONTENTS

New clauses considered.
Adjourned till this day at Two o'clock.

PBC (Bill 154) 2022 - 2023

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

not later than

Monday 28 November 2022

© Parliamentary Copyright House of Commons 2022
This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.

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

Thursday 24 November 2022

(Morning)

[Sir Christopher Chope *in the Chair*]

Economic Crime and Corporate Transparency Bill

New Clause 22

Registration of qualifying Scottish partnerships

11.30 am

'(1) The Secretary of State may by regulations—

(a) make provision requiring the delivery to the registrar of information in connection with a qualifying Scottish partnership;

(b) make provision for the purpose of ensuring that a partner of a qualifying Scottish partnership has at least one managing officer who is—

(i) an individual whose identity is verified (within the meaning of section 1110A of the Companies Act 2006), or

(ii) falls within any exemption from identity verification that may be provided for by the regulations;

(c) make provision in relation to qualifying Scottish partnerships that corresponds or is similar to any provision relating to companies or limited partnerships made by or under, or capable of being made under, any Act.

(2) The regulations may create summary offences, punishable with a fine, in connection with any provision made by virtue of subsection (1)(a) or (b).

(3) Do not read subsection (2) as impliedly limiting the provision that can be made by virtue of subsection (1)(c).

(4) The provision that may be made by virtue subsection (1)(c) includes provision for the purpose mentioned in subsection (1)(b).

(5) The provision which may be made by regulations under subsection (1) by virtue of section 159(1)(a) includes provision amending, repealing or revoking provision made by or under any Act, whenever passed or made.

(6) In this section—

"managing officer" has the meaning given by section 3(1) of the Limited Partnerships Act 1907;

"qualifying Scottish partnership" means a partnership, other than a limited partnership, that—

(a) is constituted under the law of Scotland, and

(b) is a qualifying partnership with the meaning given by regulation 3 of the Partnership (Accounts) Regulations 2008;

"the registrar" means registrar of companies for Scotland.'. —*(Kevin Hollinrake.)*

This new clause allows regulations to be made about the registration of certain Scottish partnerships and to apply law relating to companies or limited partnerships. It would allow The Scottish Partnerships (Register of People with Significant Control) Regulations 2017 to be amended or replaced in relation to those partnerships.

Brought up, read the First and Second time, and added to the Bill.

New Clause 23

Cryptoassets: terrorism

'(1) Part 1 of Schedule (Cryptoassets: terrorism) amends the Anti-terrorism, Crime and Security Act 2001 to make provision for a civil recovery regime in relation to cryptoassets which—

(a) are intended to be used for the purposes of terrorism,

(b) consist of resources of an organisation which is a proscribed organisation, or

(c) are, or represent, property obtained through terrorism.

(2) Part 2 of Schedule (Cryptoassets: terrorism) amends the Terrorism Act 2000 to make provision about financial institutions and cryptoassets.'.—*(Kevin Hollinrake.)*

This new clause introduces the new Schedule inserted by NS1. Part 1 of that Schedule contains provision about a civil recovery regime for terrorist cryptoassets. Part 2 of that Schedule contains provision about financial institutions and cryptoassets.

Brought up, read the First and Second time, and added to the Bill.

New Clause 30

Duty to notify registrar of dissolution

"After section 17 of the Limited Partnerships Act 1907 (power of board of trade to make rules) insert—

'Dissolution, revival and deregistration

17A Duty to notify registrar of dissolution

(1) If a limited partnership is dissolved at a time when the partnership has at least one general partner, the general partners at that time must notify the registrar that the limited partnership has been dissolved.

(2) If a limited partnership is dissolved at a time when the partnership does not have a general partner, the limited partners at that time must notify the registrar that the limited partnership has been dissolved.

(3) If the general partners fail to comply with subsection (1) an offence is committed by each general partner who is in default.

(4) If the limited partners fail to comply with subsection (2) an offence is committed by each limited partner who is in default.

(5) But where the general partner or limited partner is a legal entity, it does not commit an offence as a general partner or limited partner in default unless one of its managing officers is in default.

(6) Where any such offence is committed by a general partner or limited partner that is a legal entity, or any such offence is by virtue of this subsection committed by a managing officer that is a legal entity, any managing officer of the legal entity who is in default also commits the offence if—

(a) the managing officer is an individual, or

(b) the managing officer is a legal entity and one of its managing officers is in default.

(7) A person guilty of an offence under this section is liable on summary conviction—

(a) in England and Wales, to a fine;

(b) in Scotland or Northern Ireland, to a fine not exceeding level 5 on the standard scale and, for continued contravention, a daily default fine not exceeding one-tenth of level 5 on the standard scale.

(8) A general partner, limited partner or managing officer is "in default" for the purposes of this section if they authorise or permit, participate in, or fail to take all reasonable steps to prevent, the contravention.'."—*(Kevin Hollinrake.)*

This new clause means that when a limited partnership is dissolved which partners are required to notify the registrar does not depend on their solvency.

Brought up, read the First and Second time, and added to the Bill.

New Clause 31

WINDING UP LIMITED PARTNERSHIPS ON GROUNDS OF PUBLIC INTEREST

"After section 25 of the Limited Partnerships Act 1907 (inserted by section 127 of this Act) insert—

'Winding up limited partnerships: court orders

25A Winding up limited partnerships on grounds of public interest

(1) Where it appears to the Secretary of State that it is expedient in the public interest for a limited partnership to be wound up, the Secretary of State may present a petition to the court for it to be wound up.

(2) If a petition is presented under subsection (1), the court may wind up the limited partnership if the court is of the opinion that it is just and equitable for it to be wound up.

(3) The power in subsection (2) does not limit any other power the court has in the same circumstances.'."—*(Kevin Hollinrake.)*

This new clause would allow the court to order the winding up of a limited partnership on a petition by the Secretary of State in the public interest.

Brought up, read the First and Second time, and added to the Bill.

New Clause 32

WINDING UP DISSOLVED LIMITED PARTNERSHIPS

"After section 25A of the Limited Partnerships Act 1907 (inserted by section (Winding up limited partnerships on grounds of public interest) of this Act) insert—

'25B Winding up dissolved limited partnerships

(1) Where a limited partnership is dissolved and it appears to the court that there has been a failure to wind up the limited partnership under section 6(3A) or (3B) properly or at all, the court may make any order it considers appropriate, including an order—

(a) for the purposes of enforcing the duty in section 6(3A) or (3B),

(b) in connection with the performance of that duty, or

(c) to wind up the limited partnership.

(2) The court may make an order under subsection (1) on an application by the Secretary of State or any other person appearing to the court to have sufficient interest.

(3) The power in subsection (1) does not limit any other power the court has in the same circumstances.'."—*(Kevin Hollinrake.)*

This new clause would mean that if a limited partnership has not been wound up as required by section 6(3A) or 6(3B), the court can make various orders on an application by the Secretary of State or a person with sufficient interest, including an order to wind up the limited partnership.

Brought up, read the First and Second time, and added to the Bill.

New Clause 34

REQUIREMENTS TO CHANGE NAME: REMOVAL OF OLD NAME FROM PUBLIC INSPECTION

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

(2) In section 64 (company ceasing to be entitled to exemption in relation to use of "limited" etc), after subsection (6) insert—

"(6A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."

(3) In section 67 (power to direct change of name in case of similarity to existing name), after subsection (1) insert—

"(1A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates (so far as it relates to the company to which the direction is given)."

(4) In section 73 (order requiring name to be changed), after subsection (6) insert—

"(7) Where an order is made under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the order relates."

(5) In section 75 (provision of misleading information), after subsection (4) insert—

"(4A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."

(6) In section 76 (misleading indication of activities), after subsection (5) insert—

"(5A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."'.—*(Kevin Hollinrake.)*

The Companies Act 2006 contains various powers to direct a company to change its name. This clause allows the registrar to omit from the material that is available for public inspection references to the company's name once it has been given a direction.

Brought up, read the First and Second time, and added to the Bill.

New Clause 47

SCOTTISH SOLICITORS' DISCIPLINE TRIBUNAL: POWERS TO FINE IN CASES RELATING TO ECONOMIC CRIME

'(1) Section 53 of the Solicitors (Scotland) Act 1980 (powers of tribunal) is amended as follows.

(2) In subsection (1)—

(a) in paragraph (b)—

(i) after "dishonesty" insert "(other than a conviction for an economic crime offence)";

(ii) after "or has" insert "(other than in relation to a conviction for an economic crime offence)";

(b) after paragraph (b) insert—

"(ba) a solicitor has (whether before or after enrolment as a solicitor) been convicted by any court of an economic crime offence, or";

(c) in paragraph (c), after "offence" insert "(other than a conviction for an economic crime offence)";

(d) after paragraph (c) insert—

"(ca) an incorporated practice has been convicted by any court of an economic crime offence, which conviction the Tribunal is satisfied renders it unsuitable to continue to be recognised under section 34(1A), or."

(3) In subsection (2), after paragraph (c), insert—

"(ca) where the Tribunal is proceeding on the ground in subsection (1)(ba) or (1)(ca), or where subsection (2A) or (2B) applies, impose on the solicitor or, as the case may be, the incorporated practice, a fine of any amount."

(4) After subsection (2), insert—

"(2A) This subsection applies where the Tribunal is proceeding on the ground referred to in subsection (1)(a) and —

(a) the solicitor has, in relation to the subject matter of the Tribunal's inquiry, been convicted by any court of an economic crime offence, or

(b) the misconduct referred to in subsection (1)(a) consisted of an act or omission which had the effect of inhibiting the prevention or detection of an economic crime offence.

(2B) This subsection applies where the Tribunal is proceeding on the ground referred to in subsection (1)(d) and the incorporated practice has —

(a) in relation to the subject matter of the Tribunal's inquiry, been convicted by any court of an economic crime offence, or

(b) failed to comply with a provision or rule as referred to in subsection (1)(d) and—

(i) the failure consisted of an act or omission which had the effect of inhibiting the prevention or detection of an economic crime offence, or

(ii) the provision or rule applies only for purposes relating to the prevention or detection of an economic crime offence."

(5) In subsection (3ZA)—

(a) in paragraph (a), after "dishonesty" insert "(not being an economic crime offence)";

(b) in paragraph (b), at the end insert ", (1)(ba) or (1)(ca)";

(c) after paragraph (b), insert—

"(c) where subsection (2A) or (3A) applies."

(6) In subsection (3A)—

(a) in paragraph (a), for "(1)(a) or (b)" substitute "(1)(a), (b) or (ba)";

(b) in paragraph (b), for "(1)(c) or (d)" substitute "(1)(c), (ca) or (d)".

(7) After subsection (9), insert—

"(9A) In this section, an economic crime offence means an economic crime within the meaning given by section 153(1) of the Economic Crime and Corporate Transparency Act 2022."

(8) The amendments made by this section do not apply in relation to any act or omission occurring before the day on which this section comes into force.'.—*(Kevin Hollinrake.)*

This new clause amends the Solicitors (Scotland) Act 1980 to remove the existing statutory limit on financial penalties that can be imposed by the Scottish Solicitors' Discipline Tribunal for disciplinary matters relating to economic crime offences; this will allow the Tribunal to impose fines of any amount in such cases.

Brought up, read the First and Second time, and added to the Bill.

New Clause 24

Disclosure of information relating to bank accounts held by subscribers to a memorandum of association

'(1) Section 9 of the Companies Act 2006 (registration of documents) is amended as follows.

(2) After subsection (5), insert—

"(5A) The application must also contain the name of the jurisdiction of the issuing bank of each bank account—

(a) held by each subscriber to the memorandum of association,

(b) held or to be held by the company being incorporated, and

(c) held or to be held by any company linked to the company being incorporated.".—*(Alison Thewliss.)*

This new clause requires relevant parties to disclose where their bank accounts are held.

Brought up, and read the First time.

Alison Thewliss (Glasgow Central) (SNP): I beg to move, That the clause be read a Second time.

The new clause is designed to ensure disclosure of information relating to bank accounts held by subscribers to a memorandum of association. Like many of the amendments that the Opposition have proposed, it is aimed at tightening up loopholes, making things just that wee bit more transparent, and flagging up any issues to Companies House. The issue of bank accounts and people carrying on business at a particular address in the UK has been discussed previously. Adding a bank account to that, so that one can go, "This is a bank account. This bank account is held in the UK," and one can find that account quite easily as a result, seems to be a sensible way to close down yet another loophole in the Bill. It will continue the jurisdiction of the issuing bank of each account, which goes to some of the other points made about Companies House registration being used and abused as a means of setting up bank accounts in other jurisdictions. People were abusing the veneer of respectability afforded to them by a company registration in the UK to then set up bank accounts in other countries, which affects those other countries through the perpetration of fraud or dubious activities in those countries by those using that Companies House veneer of respectability.

The new clause would provide a bit more transparency by giving the company registrar more information, which would be useful in terms of those red flags and making it clear where companies are actually based and carrying on their business. If, for example, a company's bank account is held in Mauritius and it claims to carry out its business in the UK, Companies House could query that and ask, "If you are really carrying on your business in the UK, why is your bank account held in Mauritius?" That would be a red flag for the registrar and would be an extra small but significant hoop that a company would have to jump through to make the situation clearer and to give Companies House a bit more reassurance that the business that is registering is indeed legitimate. It adds a helpful grip within the system, and helps Companies House to identify any red flags. I urge the Minister to consider whether this is a measure that would help Companies House in its work.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Sir Christopher. New clause 24, tabled by SNP Members, would add to the transparency of the companies register and enhance the ability of law enforcement to identify suspect registrations. It would do so by requiring the subscribers or initial shareholders of a company to provide information on the location of any bank account held either by the individual shareholders or in the name of the company itself.

The new clause reflects an acknowledgement of the realities that have been exposed by many of the recent leaks and investigative reporting by the media of the widespread criminal use of bank accounts registered in jurisdictions known for exercising minimal oversight over financial activity and for lax controls on money laundering offences. Given that the entire point of the Bill is to clamp down on the ability of criminals to exploit gaps in laws and regulatory approaches to economic crime across different countries, the Opposition sincerely hope that the Government welcome proposals that are intended to provide law enforcement with as much information as possible to facilitate the detection of economic crime. Requiring Companies House to record information on the location of relevant individuals' bank accounts seems like an eminently reasonable measure that could make a valuable contribution to the fight against economic crime.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): It is a pleasure to serve with you in the Chair, Sir Christopher. I thank the hon. Member for Glasgow Central for the new clause, which raises an interesting point. I have concerns about the privacy issues involved in putting this information in the public domain, and I wonder whether she has considered that. We are potentially talking about personal bank accounts rather than company bank accounts.

A similar proposal to require the disclosure of bank account information relating to companies was included in the 2019 corporate transparency and register reform consultation, as the hon. Member mentioned. Respondents did not on balance support the proposal and the Government subsequently agreed that the proposal did not offer sufficient benefits to justify the additional burden being imposed on companies. There is also concern that there would be practical difficulties with implementation, such as the inability to confirm information provided, or to identify where it is missing, which would reduce the effectiveness of the proposal.

There are some other measures we can use. The European Union's fifth anti-money laundering directive required the UK to build a centralised automated mechanism, a bank account portal, designed to help law enforcement and AML supervisors to access information on the identity of holders and beneficial owners of bank accounts and safe deposit boxes. Following the UK's exit from the EU and the agreement of the trade and co-operation agreement in January 2021, the Government reviewed the case for building the portal. At that point, law enforcement did not believe there was a strong rationale for an alternative, centralised mechanism in order to support its work and the Government concluded that we should not build a bank account portal. UK money laundering regulations have been amended to remove redundant obligations.

I would be grateful if the hon. Member withdrew her amendment, but I would like to explore the issue further, certainly as it relates to company bank accounts, so we will perhaps return to it at a later stage.

Alison Thewliss: I thank the Minister for his consideration of this proposal. I would be interested to know what has changed since the previous consideration was arrived at that such provisions were not necessary. He suggests he will weigh that up and perhaps bring forward some amendments on Report, I beg to ask leave to withdraw the amendment.

Clause, by leave, withdrawn.

New Clause 26

Reporting requirement (objectives)

"(1) The Secretary of State must publish an annual report assessing whether the powers available to the Secretary of State and the registrar are sufficient to enable the registrar to achieve its objectives under section 1081A of the Companies Act 2006 (inserted by section 1 of this Act).

(2) Each report must make a recommendation as to whether further legislation should be brought forward in response to the report.

(3) Each report must provide a breakdown of the registrar's annual expenditure.

(4) Each report must provide annual data on the number of companies that have been struck-off by the registrar, the number and amount of fines the registrar has issued, and the number of criminal convictions made as a result of the registrar's powers as set out in this bill.

(5) Each report must provide annual data on the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors.

(6) Each report must provide annual data on the total number of company incorporations to the registrar, and the number of company incorporations by Authorised Company Service Providers to the registrar.

(7) The first report must be published within one year of this Act being passed.

(8) A further report must be published at least once a year.

(9) The Secretary of State must lay a copy of each report before Parliament."—*(Seema Malhotra.)*

This new clause would add a requirement on the Secretary of State to report on the powers available to the Secretary of State, the Department for Business, Energy and Industrial Strategy, and Companies House in relation to the registrar's powers to achieve their objectives set out in clause 1.

Brought up, and read the First time.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I beg to move, That the clause be read a Second time.

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

New clause 28—*Reporting requirement (strike-off powers)*—

"(1) Within one year of the day on which this Act is passed, and every three years thereafter, the Secretary of State must publish a report on the powers available to the Secretary of State and the registrar in relation to the registrar's powers under this Act to strike off a company.

(2) Each report in subsection (1) must include but is not limited to—

(a) whether the appropriate mechanisms are available to the Secretary of State to prosecute directors of companies struck off the Companies House register in relation to the Act, and to recoup money on behalf of creditors, and

(b) how much money has been returned to creditors as a result of the Act's provision for the registrar to strike a company's name off the register if the company does not change its address from the default address, including the proportion of this money returned to the Government.

(3) Each report must make a recommendation as to whether further legislation should be brought forward in response the report."

This new clause would add a requirement on the Secretary of State to report on the powers available to the Secretary of State, the Department for Business, Energy and Industrial Strategy, and Companies House in relation to the strike-off provisions in this Act.

New clause 63—*Annual report on activity under this Act*—

"(1) The registrar must publish an annual report on the implementation of, and activities under, the provisions of this Act which are relevant to the work of the registrar.

(2) The report mentioned in subsection (1) must include, but need not be limited to—

(a) information on the use of the registrar's powers under this Act, including in relation to—

(i) financial penalties imposed, and

(ii) the number of cases of unlawful activity or suspected unlawful activity identified by the registrar;

(b) details of the steps the Registrar has taken to promote the registrar's objectives under this Act; and

(c) the use of exemption powers for the Secretary of State introduced by this Act.

(3) The first report under subsection (1) must be published within six months of the date on which this Act receives Royal Assent."

Seema Malhotra: It is a pleasure to serve under your chairship today, Sir Christopher, and to speak to new clauses 26, 28 and 63, which stand in my name and that of my hon. Friend the Member for Aberavon. They draw

[Seema Malhotra]

together conversations we have had in Committee about the importance of transparency and feedback on the powers and measures in the Bill and would provide Parliament with a means of interrogating their effectiveness.

New clause 26 would introduce a reporting requirement in relation to the objectives in the Bill. The Secretary of State would be required to report on the effectiveness of the powers available to the registrar to achieve her objectives as set out in clause 1. To coin a phrase for which the Minister may want to take credit, what is the point of legislation without good implementation? I think we are all agreed on that point. It is therefore important to ask: how is Parliament going to know? How are we going to spot any issues? How will we know that either further measures need to be developed or new powers need to be brought in? The new clause would provide a way for us to have that transparency and feedback.

We have done our best to draft the new clause in such a way that the Minister will be able to simply accept it or come back to us with what he thinks needs amending. Importantly, it would require the Secretary of State to

"publish an annual report assessing whether the powers available to the Secretary of State and the registrar are sufficient to enable"

Companies House to achieve its objectives. Each report would make a recommendation as to whether further legislation should be introduced in response to the report and provide a breakdown of the registrar's annual expenditure, alongside data on the number of companies that have been struck off by the registrar, the number and amount of fines the registrar has issued and the number of criminal convictions resulting from the application of the registrar's powers as set out in the Bill. It would also provide data on the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors, which is extremely important.

We need to know what has emerged from the system in order to be able to interrogate how well referrals have been taken forward and how quickly and effectively that was done. Without that information, it will be much harder to interrogate what is happening on the other side and the effectiveness of law enforcement, which has been raised during our deliberations as a real weak point in our system that needs toughening up, strengthening and supporting with the resources required. New clause 26 is important to enable adequate parliamentary scrutiny and have the ongoing debate in Parliament about the effectiveness of the measures we are passing.

New clause 63 would introduce a similar reporting requirement in relation to the registrar's general activity in the Bill. We have laid out some of the measures, including financial penalties imposed, the number of cases of unlawful activity or suspected unlawful activity identified by the registrar, and

"the use of exemption powers for the Secretary of State introduced by this Act".

The report does not necessarily need to specify details of what has been exempted, but it is important that Parliament has an understanding of the use of those powers, the number of times they are used, and so on. We suggest that this second report is published within six months of the Bill receiving Royal Assent.

Turning to new clause 28, the registrar's new powers include the ability to change the address of a company's registered office where the registrar is satisfied that the company is not authorised to use the address. The Government say the registrar will have the power to change a company's address to Companies House's own address and then to strike the company off the register. Currently when fraudulent companies are struck off the register, there is little due diligence done, and I know the Minister has expressed concern about this matter. It does not result in significant repercussions for the directors of a company, and a huge number of companies—nearly 400,000 a year—are struck off because they have failed even to file accounts. Directors are not investigated for misconduct or held accountable, and we know these issues have been raised by R3 and others.

11.45 am

Martin Swain, the executive director of Companies House, said that Companies House is "aware" that

"Companies take advantage of the strike-off route to discharge themselves of debts and… for other purposes."

He acknowledged that the new power proposed by the Bill, which would allow the registrar to strike off a company for having an invalid address, may have

"an adverse impact on the system"

and give

"companies a route to use it for criminal activity or to fold without paying their debts."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 40-1, Q76.]

Chris Taggart told the Committee,

"Where a company has got assets… there is a downside to it being struck off"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 101, Q192.]

Graham Barrow referred in evidence to a fraudulent director being able to register new companies after others had been struck off. We therefore tabled new clause 28, which would require the Secretary of State to publish a report a year after the Act is passed and subsequently every three years on whether appropriate mechanisms exist to

"prosecute directors of companies struck off the Companies House register"

and

"recoup money on behalf of creditors".

It would require the Secretary of State to report on

"how much money has been returned to creditors as a result of the Act's provision for the registrar to strike a company's name off the register".

The principal purpose of the new clause is to ascertain whether any assets from companies struck off the register are being recouped on behalf of the creditors, so that the directors of those companies are properly penalised and held accountable for their actions, and creditors are not left wrongly out of pocket. I would be grateful for the Minister's response on these issues. Importantly, new clause 28 requires that the report makes recommendations as to whether further legislation is needed to reform the automatic strike-off process, so that an alternative process could instead be adopted and Parliament could act swiftly in relation to recommendations.

Alison Thewliss: I rise to support the new clauses in the name of the official Opposition, because Parliament will need to keep a close eye on how a lot of things in

this Bill are being implemented and whether they are effective at tackling economic crime. We had a lot of debate in previous sessions about powers versus duties in the Bill and said, "If they are powers, that is one thing but if they are duties, that is quite another." If these powers are being exercised, we need to be certain of that and keep a close eye on this Bill. These useful new clauses would allow Parliament to keep a close eye on these things, because they would require the Secretary of State to publish these annual reports to give more granular and specific detail on whether the measures brought forward in the Bill are being used and are effective.

Dame Margaret Hodge (Barking) (Lab): It is a pleasure to serve under your chairship, Sir Christopher. I rise to make the simple point that the new clause is not a technical amendment; it is about an issue of principle. It is about transparency and accountability. It is not a provision that improves things at the margin; it is about making the legislation fit for purpose. Without it, the legislation will not be fit for purpose.

Throughout my history of learning about dirty money and money laundering, it has been absolutely clear to me that we have a range of tools already in legislation. As we do not have any accountability to Parliament as to how and whether those tools are employed, we do not know how effective we are in the battle against dirty money. Let me give three examples. There is now a new bit of legislation on unexplained wealth orders; it is the first time that I have known Ministers to agree to an annual report to Parliament. They agreed to it when we did the emergency legislation. I have been arguing for that for years, so I was pleased to see it, but until that moment we did not know, and we have not seen the report yet.

A better example is golden visas. We are still waiting for the report on golden visas, how they were abused, misused and used during that period, and who was let into the country on one. Another example is the amount of money that has been frozen from people who have been sanctioned by this Government. We do not have a clue how much that is. The Government put out a figure the other day for how much Russian state money had been frozen—£18 billion—but we do not have a clue how much money we have managed to get off some of the characters we know are sitting on billions.

If there is going to be effective legislation, we need clear transparency and proper accountability. That is something that the Opposition feel incredibly strongly about. We will be pressing the new clause to a Division, because it is a sensible, pragmatic and practical provision that should be in the Bill.

Kevin Hollinrake: I thank the hon. Members for Feltham and Heston and for Aberavon for tabling their new clause. I also thank the right hon. Member for Barking and the hon. Member for Glasgow Central for their contributions. I agree with much of what they said. As they know, I fully agree that Parliament should be regularly updated on the implementation and impact of this legislation. What gets measured gets done, and it is vital that we know what is being done with this legislation.

I will speak to new clauses 26 and 28 first, because I think there may be a duplication of things that exist already. Much of the information suggested by new clause 26, such as Companies House expenditure and the numbers of companies incorporated and struck off, is already published in the Companies House annual report. Companies House already reports publicly on its activities and its regular statistical releases on gov.uk. On new clause 28, through dissolution a company is brought to a point at which it ceases to exist and ceases to appear on the register. A company can seek its own voluntary strike-off, or it can be struck of compulsorily by the registrar. In principle, that process takes place when there is reason to believe that the company is no longer in operation or carrying on business. In both cases, statutory processes ensue whereby the public generally are informed that the dissolution is in train by publications in the *Gazette.* There are opportunities for third parties to intervene and object to a company being dissolved.

Concerns have been expressed that unscrupulous companies choose to give the impression that they are defunct in order to precipitate their dissolution and evade creditors. That concern is ultimately misplaced, as any assets left in a company following its dissolution will not be held by the company any more, and will be passed to the Crown, bona vacantia—as ownerless property. It is also important to note the effects of the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, which amended the Company Directors Disqualification Act 1986 by introducing a mechanism for disqualifying directors of dissolved companies.

It is also worth noting that the 1986 Act includes provision not only for disqualifying directors but for ordering disqualified directors to pay compensation. That provision is in section 15A of the Act and, as amended by the 2021 Act, covers directors of both insolvent companies and dissolved companies. If a director is disqualified and the conduct for which they were disqualified caused loss to the creditors of an insolvent or dissolved company, the director can be ordered to pay compensation either for the benefit of specified creditors or by way of a contribution to the assets of the company.

The Bill introduces a new circumstance under which the registrar might seek to strike off a company that persistently fails to provide an appropriate registered office address. I assure Members that the registrar will initiate dissolution in those particular circumstances only after having assessed the risks of doing so. The normal notification procedures, by way of the *Gazette* and Companies House webpages, will apply.

As noted, Companies House already makes data on company dissolutions regularly available. I question what benefit the reporting proposed by the new clause would add, as it is not clear to me that the information it covers would necessarily be available to the Secretary of State. However, I acknowledge the concern about the manner in which compulsory strike-off operates. I have asked my officials to advise me on the extent to which the Bill's new information-sharing provisions might improve safeguards and transparency in this area. I am of course happy to engage further with Members on this topic in due course.

Most of the comments related to new clause 63. I absolutely agree that there needs to be a mechanism by which progress made on the implementation of the provisions in the Bill is reported to Parliament. There should

[Kevin Hollinrake]

be regular reporting on the registrar's use of the new powers. I also accept that it is important to give Parliament an early opportunity to scrutinise how quickly Companies House implements the reforms.

I believe, however, that the new clause requires further consideration. As drafted, it has the potential to place unintended obligations on the registrar. For example, it will require the registrar to report on the imposition of financial penalties before the commencement date of the regulations. It also requires the registrar to indefinitely report on the implementation of the legislation, even if it is completed in the near future.

With the agreement of the Committee, I would like to ask my officials to consider the new clause further. I hope Members are reassured that we will give it consideration. If the new clause is withdrawn, we will have further discussions about what we might put in its place.

Seema Malhotra: I thank the Minister for his comments about the new clauses. I appreciate his response on new clause 63 and very much look forward to hearing from his officials about the proposed reports, but will he tell us when we will hear from them? None of us wants the measure to be lost in the course of proceedings, and we do not want it to be left to the Lords, so I would be grateful if he can tell us when he expects us to hear a response. Assuming that it will be positive, I am happy not to press new clause 63 to a vote.

On new clause 26, the Minister did not respond with the detail that I was expecting. I understand that some data is already published. We can have an argument about whether it is there, but it is easy for there to be a summary. If Parliament is looking at one document, it will want that data. It will want to review the later data in the context of the more procedural data that Companies House already publishes. I cannot see that it is onerous to publish a summary of data that already exists.

Dame Margaret Hodge: In the Minister's response to my hon. Friend, he said that there was duplication of subsections (1) and (3). All the other things that were listed in subsections (4), (5), (6), (7), (8) and (9) are issues on which we want an annual report to Parliament because that shows us whether the legislation is working. If there is duplication, it is not the end of the world. There is a lot of duplication in our legislation—I am sure, Sir Christopher, that you are an expert on that—but that is not a sufficient argument to put the whole new clause out of the Committee's consideration.

12 noon

Seema Malhotra: My right hon. Friend is absolutely right; indeed, that is precisely where my concerns lay. The Minister simply talked about the relatively small part of the reporting requirement. If there were an argument as to whether to include it or not, my argument would continue to be that that is relevant to have in the context of the full reporting requirement that we are arguing for. There is not anywhere else in the legislation—unless the Minister can direct me to it—that will provide Parliament with such a report.

Kevin Hollinrake: Just to abbreviate the debate, much of the information in new clause 26 is already reported by Companies House in its annual report. I think it is being said that the key measures are the additional ones in new clause 63, which relate to what the Bill's provisions will give effect to. I am happy to return to the Committee before Report to say where we feel the new clause needs to be addressed. If we do not do it at that point, the hon. Lady is welcome to table an amendment on Report.

Seema Malhotra: I thank the Minister. To clarify, he referred to coming back on new clause 63; my question is in relation to new clause 26 and whether and how the later subsections are all going to be covered by the Companies House annual report. It would be helpful if he responded to that, because currently I am not clear that they are all covered.

In new clause 26, we are asking for an assessment of whether

"the powers available to the Secretary of State and the registrar are sufficient to enable the registrar to achieve its objectives"

and about

"making recommendations as to whether further legislation should be brought forward in response to the report."

Yes, there may be details elsewhere, but they could be summarised for the ease of use of the report. The new clause requires

"a breakdown of the registrar's annual expenditure"

and

"data on the number of companies struck off".

That information may well also be elsewhere. Will the Minister confirm whether

"the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors"

and so on is all going to published elsewhere?

Dame Margaret Hodge: May I also draw the Minister's attention to new clause 26(6), which is important? It asks for an annual report of the total number of companies incorporated to the registrar and

"the number of company incorporations by Authorised Company Service Providers".

The purpose of that particular bit of information relates to our concern about the integrity and honesty of company service providers. I do not believe that is covered in the Companies House report. I accept that there may be some duplication—we got that wrong—but there are issues of huge importance in terms of accountability and the integrity of the data that we would lose if new clause 26 were simply ignored.

Seema Malhotra: I thank my right hon. Friend for explicitly emphasising the importance of subsection (6). She is absolutely right. The Minister will be mindful of the importance of transparency in respect of the issues relating to incorporations by authorised company service providers. Will he confirm that all the subsections in new clause 26 will be explicitly covered elsewhere? If not, we will want to pursue the matter of how that information is going to be published by Companies House and the Secretary of State.

Kevin Hollinrake: Nobody is ignoring the comments that have been made. Nobody is keener than I am to make sure that there is proper scrutiny of what Companies House does with the powers. We should absolutely ensure that.

On the requirement for the Secretary of State to report on the use of the powers, any Secretary of State appointed by any Government, be they Labour or Conservative, will of course always review the powers needed and whether there is a need to legislate further. It is not right to dictate in legislation that the Secretary of State should do this, that or the other and I would not expect any Opposition to require that.

Companies House already reports on the number of companies incorporated and struck off—that is already in the annual report. It is an interesting point about corporate service providers; the right hon. Member for Barking has concerns in that regard, and I do too. I suggest that I should look at the matter further with officials and come back to the hon. Member for Feltham and Heston well in advance of Report—outside the tabling time—and if we are not going to do anything, she can table a similar new clause. If we are going to do something, that might address her concerns or she might need to go further. Those options are open to her and I hope she will give us time to try to address these matters to the House's satisfaction.

Seema Malhotra: I thank the Minister for his comments. He has said he will review the issues addressed in new clauses 26 and 63 with his officials. There may well be areas in which, on further reflection, he agrees with us that more could be done.

On the Minister's comment about the Secretary of State being able to introduce legislation at any time, the point that was missed was that we know the speed with which we have to respond to economic crime. If we think back to 2016, we can see that we did not act fast enough—we have not acted fast enough in the past six years—so there is strong merit in having a mechanism that speeds up any requirements for future legislation through a report that can be reviewed and followed up on.

If the Minister is committing to review the matter and come back to us, we accept that. We would like to be involved in the discussions, perhaps after he has had an initial discussion with his officials. If there is a way to move forward with consensus, perhaps prior to Report, that could be a positive way forward. I therefore beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 29

REPORT INTO THE MERITS OF A FUND FOR TACKLING ECONOMIC CRIME

"(1) The Secretary of State must produce a report into the merits of a fund for tackling economic crime.

(2) The report must consider the case for penalties paid to the registrar to be ringfenced and used solely for the purposes of tackling economic crime.

(3) The report must be laid before Parliament within six months of this Act being passed."—*(Dame Margaret Hodge.)*

This new clause requires a report into the merits of a fund for tackling economic crime to be laid before Parliament.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 9.

Division No. 11]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 35

PERSON CONVICTED UNDER NATIONAL MINIMUM WAGE ACT NOT TO BE APPOINTED AS DIRECTOR

"(1) The Company Directors Disqualification Act 1986 is amended as follows.

(2) After Clause 5A (Disqualification for certain convictions abroad) insert—

'5B Person convicted under National Minimum Wage Act not to be appointed as director

(1) A person may not be appointed a director of a company if the person is convicted of a criminal offence under section 31 of the National Minimum Wage Act 1998 on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force.

(2) It is an offence for such a person to act as director of a company or directly or indirectly to take part in or be concerned in the promotion, formation or management of a company, without the leave of the High Court.

(3) An appointment made in contravention of this section is void.'"—*(Stephen Kinnock.)*

This new clause would disqualify any individual convicted of an offence for a serious breach of the National Minimum Wage Act 1998, such as a deliberate refusal to pay National Minimum Wage, from serving as a company director.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 9.

Division No. 12]

AYES

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

NOES

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

Question accordingly negatived.

Seema Malhotra: On a point of order, Sir Christopher, is it procedurally correct for my right hon. Friends the Members for Birmingham, Hodge Hill and for Barking to speak before I make my comments?

The Chair: People can speak in whichever order they wish. If the right hon. Lady and the right hon. Gentleman rise before you do, I will call them first. Let's suck it and see.

New Clause 44

HMRC ANTI-MONEY LAUNDERING FUNCTION

"(1) The Commissioners of Revenue and Customs Act 2005 is amended as follows.

(2) After section 5 (Commissioners' initial functions), insert—

'5A Commissioners' Anti-Money Laundering Functions

(1) The Commissioners shall be responsible for anti-money laundering supervision.

(2) The Commissioners shall treat the function in subsection (1) as a priority equal to the functions in section 5.'"—*(Dame Margaret Hodge.)*

This new clause would require HMRC to prioritise its AML supervisory function.

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 72—*Office for Professional Body Anti-Money Laundering Supervision: powers and duties*—

"(1) The Secretary of State must by regulations set out a further power and duty for the Office for Professional Body Anti-Money Laundering Supervision.

(2) The power referred to in subsection (1) is the power to impose unlimited financial penalties on Professional Body Supervisors that fail to—

(a) adopt an effective risk-based approach to anti-money laundering supervision;

(b) impose proportionate and dissuasive sanctions for non-compliance with anti-money laundering requirements; and

(c) fail to separate their advocacy and regulatory functions.

(3) The duty referred to in subsection (1) is the duty to publish the details of any sanctions imposed on Professional Body Supervisors, and its reviews of Professional Body Supervisors with data disaggregated by body rather than by sector."

Dame Margaret Hodge: I will speak to new clause 72 first and come back to new clause 44. The Minister and the Government will know that time and again we have said we are concerned about the way in which professionals are checked, supervised and regulated in the financial services sector and that the current system is not fit for purpose. I think we all recognise that it is the professionals who play a key role in enabling the fraudsters and money launderers to successfully commit economic crimes. It is they who either facilitate, collude in or enable the wrongdoing.

12.15 pm

I accept, as everybody in the room does, that most professionals are straightforward, honest people who want to do a good job, but the focus of our work is to ensure we have in place a smart regulatory framework that captures the wrongdoers. This is not a small issue. The £290 billion lost in fraud and money laundering is a massive sum, comprising 14.5% of GDP. It needs to be taken really seriously. We have experienced during the course of consideration of this Bill a rejection of what I consider to be pretty sensible, pragmatic amendments. This is yet another. I hope the Minister does not think that just because it has been moved by the Opposition it is not worthy of proper consideration.

I would also like to speak from the point of view of the professionals. I spend a lot of my time talking to accountants and lawyers who are active in this area. Everybody wants the bad apples knocked out. It is in the interests of the professionals themselves to ensure there is proper trust and confidence in the integrity of those who work in the industry. The Office for Professional Body Anti-Money Laundering Supervision—OPBAS—is responsible for supervising the professional body supervisors. This is complete gobbledygook, but I hope Members understand what I mean. It is the top organisation, which has the responsibility for ensuring that all the supervisory bodies do the job properly and that they properly implement the anti-money laundering regulations.

The regulations require all the professionals working in this area to have systems and practices in place to identify suspected corrupt wealth, to know their customers properly and have good record keeping and so on. They are very obvious systems that anybody who wants to work honestly would have in place. OPBAS supervises 25 organisations. Of them, 22 are in the legal and accounting profession and one is His Majesty's Revenue and Customs, which relates to new clause 44.

HMRC supervises trusts and company service providers about which we have had a long debate. They include estate agents, letting agencies, high-value dealers, on-market dealers, accountancy professionals who do not belong to any professional body, and finally the Gambling Commission. The Financial Conduct Authority supervises the rest. HMRC in particular does not do a proper job. It does not see it as part of its function to do the supervision.

Kevin Hollinrake: Can I just say something from my own business experience? We had two very thorough inquiries from HMRC, which spent days in our office looking at our money laundering procedures. I am pleased to say that we passed the test, but HMRC really does take its job seriously.

Dame Margaret Hodge: I do not know whether I have the quote here from the previous HMRC permanent secretary—I will dig it up and send it to the Minister—but he actually said, in evidence to the Treasury Committee I think, that he did not quite understand why it was part of his job to do the supervision. I am not quoting him accurately, but the purport of what he said was that they see it as marginal and a sort of add-on—I think he used the word "add-on"—to their main function, which is to get the money in.

The position and reputation that professionals enjoy through membership of professional bodies is really important. Therefore, the professional bodies themselves should be taking steps to minimise and attack suspicious activity where it takes place, and they should be calling it out. It is in everybody's interest to get the bad apples.

Let me give some evidence of the current failings as we see them. The 2021 review of OPBAS—the body responsible for all the professional bodies—found that 81%,

or eight out of 10, were not supervising their members effectively. This review was done only on the legal and accountancy professions. Half the supervisors did not ensure that their members were taking timely action to improve their money laundering procedures where they were found wanting. A third of the supervisors did not have effective separation between the advocacy role and the supervision role, which I think is an important aspect. For a proper review, one would separate bodies undertaking supervision and bodies undertaking advocacy to ensure there is no conflict of interest.

Some 60% of the firms visited by the Solicitors Regulation Authority in 2021 were failing to comply fully with their duties to have adequate AML controls in place. OPBAS found that nine supervisory bodies of MLR are engaging in what it calls "low levels of enforcement". The way in which those bodies respond when they find something going on is to have a quiet chat rather than issue fines and publicly censure lawyers for breaching the MLR rules. The highest ever AML fine for a law firm by the SRA was £232,500, and it was for Mishcon. If that fine had been levied by the FCA under similar powers, it would have been £5.4 million.

The Council for Licensed Conveyancers, another group of professionals who are active in this area, imposed zero fines, despite finding that two out of three of the firms it is responsible for supervising were non-compliant with AML regulations in 2019-20. To use another example, the Law Society of Northern Ireland imposed just one fine—of £1,750—in the year 2019-2020, despite it finding 228 cases of non-compliance. That is a considerable body of evidence, if I may say so, that shows that the current system is broken and not fit for purpose.

The Chartered Institute of Taxation, a group I work with a lot, found that a third of the firms visited were non-compliant, but only four firms were disciplined for failure to provide renewal forms by the required deadline and fined for failure to submit appropriate criminality check certificates or to deal with the action points that had been raised with them in the review by CIOT of their AML procedures. In three of the four disciplinary cases by CIOT, a financial penalty was imposed, and only in the fourth was the member suspended.

I know that the Government are looking at the supervisory framework but, as is the way with Governments, that could take forever. We want to implement these reforms swiftly, so we must have some assurance and confidence, particularly because of the outsourcing of the checks on individual companies, that the professionals will seek out the miscreants in their profession. We cannot wait for the review, to put it bluntly. With these measures, we have taken the least of all the options the Government have put forward and proposed it for legislation. If the Government, on reflection, want to come back with a tougher regime, that is fine, but at least we would have the minimum in place as we enact the legislation and the reform of Companies House. Our new clause says, "Action now. Toughen up the powers and duties of OPBAS—introduce greater transparency into the system, and comeback if that is needed." We are suggesting new powers and duties for OPBAS. The power is

"to impose…financial penalties on Professional Body Supervisors that fail to…adopt an effective risk-based approach to anti-money laundering supervision…impose proportionate and dissuasive sanctions for non-compliance…and…separate their advocacy and regulatory functions."

This is minimal, sensible and desperately needed now if we are to go ahead, with the speed that we all want, with the implementation of the legislation.

Seema Malhotra: I do not propose to spend much time speaking in support of the new clauses. The arguments made by my right hon. Friend the Member for Barking have broadly said it all. She highlighted the high levels of non-compliance, the very low levels of fines and disciplinary measures, and the frustration of the sectors in terms of tools to really root out the rogue players who need action taken against them. The new clauses would be very effective and are much needed, for the reasons outlined—in trying to get action now, toughening up powers and providing greater transparency. For the reasons that I have outlined, I totally agree that the Bill is the right place for these measures. We should not have to wait and wait and wait for what is likely to come and will almost certainly draw the same conclusions.

New clause 44 would have the effect of amending the Commissioners for Revenue and Customs Act 2005 such that the commissioners would be responsible for anti-money laundering supervision, and it states:

"The Commissioners shall treat the function in subsection (1) as a priority".

New clause 72 would introduce provisions requiring the Secretary of State, by regulations, to set out a further power and duty for the Office for Professional Body Anti-Money Laundering Supervision. This is defined as

"the power to impose unlimited financial penalties on Professional Body Supervisors that fail"—

that fail—

"to…adopt an effective risk-based approach to anti-money laundering supervision…impose proportionate and dissuasive sanctions for non-compliance with anti-money laundering requirements …and …separate their advocacy and regulatory functions."

We want stronger action taken against economic crime, not least because we know the scale at which it comes through the cracks, with the damage that it does to our economy. It seems to me that tightening up the roles and the performance of professional body supervisors and HMRC in some way is an opportunity that we should not miss.

The proposed clause would also insert a duty

"to publish the details of any sanctions imposed on Professional Body Supervisors, and…reviews of Professional Body Supervisors with data disaggregated by body rather than by sector."

The sum of the two new clauses is to ensure the urgent improvement of the UK's anti-money laundering sector. Throughout our witness sessions and Committee debates, we have heard about the lack of effectiveness of our AML system. I think that is a view also supported by the Minister. The changes are a much-needed strengthening and safeguarding against potentially rogue corporate service providers, the third parties who act on behalf of companies and can carry out the identity verification of directors.

12.30 pm

New clause 44 has the urgent and needed effect of ensuring that the HMRC commissioner prioritises the operation of AML supervision. New clause 72 expands the powers of OPBAS and introduces provisions for much harder sanctions against professional body supervisors.

In the Treasury's June review of the UK's AML supervisory regime, the Government recognised that that regime needed much improvement. Consultation after consultation is not going to cut it. We have an opportunity now to do something specific, proportionate and important to improve the Bill's outcomes.

Alison Thewliss: I support the new clauses. The anti-money laundering supervisory duties are incredibly important, as they are part of firmly closing the door on economic crime. It is important that we use this opportunity to strengthen the powers in the Bill. Frankly, if we do not do it now, when will we get round to it again?

New clause 44 asks HMRC to prioritise its AML supervisory function. That seems sensible. I would note that some additional resources will be needed; the Treasury Committee's economic crime report points to the fact that some 30,000 businesses fall into this bracket.

I note the ongoing review of OPBAS. I do not want the Minister to get ahead of the review, but it might be useful to get a perspective on the direction of travel. At the most extreme end of that review—the Committee heard evidence on this point recently—the Government could propose that OPBAS loses its AML supervisory function. It would be interesting to hear the Minister's perspective on where he thinks the review will end up. It is quite awkward that the review does not tie in with the Bill's timetable: the review is ongoing, we are legislating here and we do not quite know where it will end up.

I wonder whether the Minister could clarify a point that the FCA's chief executive, Nikhil Rathi, could not clarify when he came to the Committee. The most recent report about the performance of OPBAS is dated September 2021. It feels to me that we are overdue a report on the effectiveness of OPBAS. Is the delay a result of the ongoing review or is there some other reason for it? The September 2021 report stated that:

> "The vast majority (just over 80%) of PBSs had not implemented an effective risk-based approach. Only a third of PBSs were effective in developing and recording in writing adequate risk profiles for their sector".

The report also raised various other points about the effectiveness of OPBAS. It has been operating for several years now, but we still do not feel that it is doing what it should to supervise and ensure that the anti-money laundering responsibilities of those it supervises are carried out. If the Minister does not have information on the status of that report today, I would be perfectly content for him to write to me.

Maybe OPBAS has upped its game incredibly since the last report came out—we just do not know. That also hinders our approach to the Bill, because we do not know whether these functions are being adequately carried out. While the FCA chief executive was able to say that there has been improvement, he was not able to say what that improvement looks like. Have 100% of PBSs now implemented an "effective risk-based approach" or is it 50%, or somewhere in between? We just do not know.

It is important that we use all the opportunities we have in the Bill to up the resources for the FCA, OPBAS and HMRC to carry out their functions. As I say, anti-money laundering supervision is the key to ensuring we close the door on money laundering. Those bodies are meant to stop it, and if we do not tighten the legislation and provide the resource there is very little point having the Bill.

The Minister for Security (Tom Tugendhat): I thank the right hon. Member for Birmingham, Hodge Hill and for Barking for their amendments, and I welcome the effort and energy they put into the oversight mechanisms that are so important in ensuring that the Bill is effective. That is the nice bit. They know what is coming next.

I do agree enormously on the importance of supervision, which has been emphasised, but I am afraid I cannot support new clause 44. Despite what the right hon. Member for Barking says, HMRC already has an anti-money laundering supervisory function and it does take its responsibilities extremely seriously. It supervises nine sectors and is the default supervisor for trust and company service providers where they are not already subject to supervision by the FCA or one of the 22 professional bodies.

Dame Margaret Hodge: I wish I had brought some of my previous notes with me. What evidence does the Minister have of that, apart from HMRC telling us that?

Kevin Hollinrake: It visited my business!

Dame Margaret Hodge: I am amazed that it did. Is there evidence of the number of visits or assessments carried out? I can remember a quote from the previous permanent secretary, who said, "It is not our core business."

Tom Tugendhat: The core business of HMRC is raising money and ensuring that that money is clean. That is absolutely essential. Until HMRC works out whether or not the money is clean, it is hard to raise money. I would be hard pressed to describe my hon. Friend the Under-Secretary as a dodgy individual, but if he is going through these AML checks I think it is a good indication that HMRC is taking such matters very seriously. As I say, the checks are already being done and the responsibilities are held by branches of the Government, including HMRC and other professional bodies.

The amendments are therefore a duplication. The reality is that HMRC carried out 3,500 formal compliance inspections with businesses last year and issued over £2.5 million of penalties in 2021-22. That demonstrates that the business checks are not symbolic. They are not minor. They are extremely serious. HMRC takes them very seriously. I think the Government is entirely in agreement with the right hon. Lady that these checks need to happen, but the scale and type of reform to improve effectiveness and solve these problems is not yet clear. The Treasury will no doubt have many views when its formal consultation on the possible options opens. The consultation will ensure that the risks and implications of each option are fully understood before the Government commit to any particular model. The right hon. Lady knows very well that we need to get this right, not just to be quick.

On new clause 72, I welcome the desire to strengthen the UK's anti-money laundering regime. I also share the support for the work OPBAS does. However, it is not yet the right time for the proposed changes, and I cannot support the suggested amendment. In June of this year, the Treasury published a review of the UK's anti-money

laundering regime, which considered the performance of the supervisory regime, including the work of OPBAS. It concluded that although there have been significant improvements in recent years, further reform is necessary to ensure effective supervision across the regulated sector. The review set out four options for reform, ranging from strengthening OPBAS to structural reform to establish a new statutory supervisor. Further policy work to develop these options is already under way, and the Treasury has committed to publishing a consultation before a decision on the direction for reform is made. It would be wrong to preclude the ongoing policy analysis and public consultation by making the changes proposed by the amendment.

Dame Margaret Hodge: I heard the Minister's words with gloom. Initially, the Government put out a consultation with four options, and to speed it up, we decided to go with the weakest of the options—the one to which there would be the least objections. What I think I just heard him say, which is so gloomy, is that the Government will now publish a further consultation. All this stuff in the Bill will come into being and we will have absolutely no assurance that proper checking, regulation and supervision will be carried out on company service providers.

Tom Tugendhat: As I say, this is really a matter for the Treasury, and it has committed to publishing a consultation before the decision is made. It would be wrong of me to preclude the ongoing policy analysis and public consultation by making—

Seema Malhotra: May I clarify whether the Minister has had any discussions with Treasury colleagues about the matter and raised his concerns? Have they acknowledged the need to act much faster?

Tom Tugendhat: I have had many conversations with Treasury colleagues in recent weeks and months on various aspects of the challenges that economic crime poses to the UK. Many of us are committed—in fact, the Treasury is very committed—to ensuring that economic crime is reduced in this country. The support that the Treasury has given in various different ways has resulted in many things, including a very successful operation conducted this morning by the Metropolitan police that resulted in the arrest of many people connected to economic crime. That may sound tangential on the grounds that it is about fraud, but the reality is that all of it is connected. We see a very strong overlap between money laundering, fraud and various other different forms of economic crime. The Treasury, unsurprisingly, is extremely committed to making sure that economic crime in this country reduces. The Home Office and the Department for Business, Energy and Industrial Strategy are absolutely committed to making sure that we considerably reduce the level of fraud in this country.

What is important now is to ensure that we make OPBAS as effective as possible, and that we look for some of the reforms that we have started to highlight, because that means that the changes required by the amendment will be unnecessary. I hope that we can focus on that aim.

I have just been given a statistic that records that in October 2022, HMRC named 68 estate agents that had breached anti-money laundering regulations, and fined them a collective total of £519,000. We can see that the supervision of estate agents is not just conducted by my hon. Friend the Under-Secretary but by many others around the country and is taken extremely seriously.

Dame Margaret Hodge: I hear what the Minister says, but I think we will just be setting up another duff register unless we get the regulation of those company service providers toughened up at the same time as we introduce the Bill. I want to press new clause 72 to a vote.

The Chair: You will not be able to do that now, and in the meantime, you must seek the leave of the Committee to withdraw new clause 44.

Dame Margaret Hodge: Thank you very much, Sir Christopher. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 50

Requirement for UK-resident director

'(1) The Companies Act is amended as follows.

(2) In section 156B of the Companies Act 2006, inserted by section 87 of the Small Business, Enterprise and Employment Act 2015, after subsection (4) insert—

"(4A) The regulations must also include provision to require all companies to have at least one director who is ordinarily resident in the UK."'—*(Stephen Kinnock.)*

This new clause would amend the Small Business, Enterprise and Employment Act 2015 to require all companies to have at least one person who ordinarily resides in the UK as a director.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

New clause 49 sought to ensure that the provisions of the Small Business, Enterprise and Employment Act 2015, which require company directors to be natural persons, would be brought into force. The Opposition welcomed the Minister's commitment to introducing the necessary regulations to enact that measure in the near future, and we are very pleased to have that on the record. At the same time, however, the Opposition remain convinced that there is much more that the Government could and should be doing to reduce the risks of money laundering and economic crime within the company registration requirements. The new clauses we are about to discuss provide a number of different means by which the law could be further strengthened against the risk of such abuses.

New clause 50 would make it a requirement that every company registering in the UK has at least one director who is ordinarily resident here. I have already spoken in Committee about the risks that often come with a system that allows companies to register in places to which they have a tenuous connection in terms of actually doing business there. Although there may be certain limited circumstances in which it might be legitimate for a company with no UK-based directors to register with Companies House, I am struggling to see what they might be. On the other hand, I can think of plenty of reasons why the fact that a company has no UK-based directors might be considered a red flag for money laundering risks, calling for additional scrutiny from the registrar.

12.45 pm

In due course, the Committee will consider a separate new clause, tabled by my right hon. Friend the Member for Barking, that would create new criminal offences involving a failure to prevent fraud, false accounting and money laundering. Without getting into too much detail on the specifics of the proposals, the relevant point for the purposes of new clause 50 is that similar offences already exist in UK law. The Bribery Act 2010 was the groundbreaking law in that respect. The precedent that it set for holding company directors liable for a failure to prevent certain criminal offences within their organisations was built on by the Criminal Finances Act 2017, which established a similar offence related to tax evasion.

Important as those developments in the law undoubtedly were, it is not hard to see the difficulties involved in enforcing those laws against individuals who spend little if any time in the UK. Successful prosecutions may depend on the co-operation of other Governments, whose laws on corporate criminal liability may not be as robust as our own. They may also be subject to lengthy and expensive extradition proceedings. New clause 50 would provide a simple safeguard in those cases. Ensuring that at least one company director ordinarily resides in the UK and is therefore subject to UK law could make it much easier for offences involving corporate criminal liability to be enforced. At the very least, it should serve as an effective deterrent, for instance by making third parties who act as company directors for a fee think very carefully about what kind of clients they are prepared to act on behalf of.

Kevin Hollinrake: I thank the hon. Member for his amendment. As he set out, new clause 50 would require all companies to have at least one person who ordinarily resides in the UK among their directors. The proposal has been considered and rejected before. I am aware that some other jurisdictions have similar provisions, but the UK has chosen not to enact that type of measure for two reasons. First, it goes against the long-standing principle that any legitimate global citizen can do business freely in the UK. If we mandate a UK resident director, we are effectively asking an overseas investor looking to set up a business here to have a UK business partner. That sounds to me very much like something that the Chinese state might do. We do not consider that it is right for our open economy.

Secondly, we are not persuaded that there are enforcement or accountability benefits that will lower levels of corporate abuse or economic crime. The reforms in the Bill, such as identity verification, intelligence sharing and greater information querying, will help to deliver much-increased transparency and accountability. That will help us to discover rogues faster, share their details more quickly, hold them to account and, where necessary, close down their businesses, or indeed ask questions of them before we even allow them to incorporate here.

It is my expectation, as the hon. Member for Aberavon has set out, that Companies House will work with the NCA and others to put in place the systems to raise red flags so that when we see applications to incorporate companies from individuals from certain jurisdictions, more questions will be asked. If the registrar is not persuaded by the responses, she may simply say no. The addition of a UK resident director will not provide additional value and I very much hope that the hon. Gentleman will withdraw his new clause.

Stephen Kinnock: I thank the Minister for his remarks. We are talking about how to make it as easy as possible for those red flags to be clear. If we were to do exception reporting, there may, of course, be a clear explanation in certain circumstances for why there is not a single UK-based company director and perfectly legitimate reasons for that. We think that it would be better to do the exception reporting on that basis, so that we are casting the net and identifying red flag areas because of the nature of the company directors and where the risk would appear to be.

I take it from the Minister's remarks that there is not a great deal of room for negotiation on that point. However, we are trying to put forward a sensible and pragmatic solution. Can the Minister say any more about how to look through the telescope in terms of exception reporting? We argue that exception reporting could be conducted on the basis of explaining why there is not a single UK-based company director while maintaining the blanket provision that there should always be such an individual in order to minimise risk.

Kevin Hollinrake: That is exactly how we expect the process to operate. If there are red flags of concern—an exception report, as the hon. Gentleman calls it—the registrar can ask further questions and may deny that company the right to establish itself in the UK. I think those checks and balances are in place, and of course, as hon. Members have said, it is very important that those opportunities are used by the registrar. I am very keen to ensure that we have the opportunity to scrutinise the use of those powers.

Stephen Kinnock: I thank the Minister for those points. I see that we will agree to disagree on this. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 51

Registration requirements: UK-based assets held by overseas entity

'(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In Schedule 2—

(a) in sub-paragraph (a) of paragraph 2, for "and" substitute "or";

(b) after sub-paragraph (a) of paragraph 2 insert—

(aa) is a beneficial owner of any UK-based assets held by overseas entity, and".'—*(Stephen Kinnock.)*

The intention of this new clause is to broaden the scope of registration requirements for overseas entities, as set out in the Economic Crime (Transparency and Enforcement) Act 2022, to include the beneficial owners of any UK-based assets owned by an overseas company, as well as the beneficial owners of the company itself.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

The purpose of the new clause is to close what appears to be a loophole in the current requirements on the registration of overseas entities that own property in the UK. The case for the new clause is simple. Under the current rules, as set out primarily in the Economic Crime (Transparency and Enforcement) Act 2022, a

foreign company that owns property or land in the UK is required to declare the beneficial ownership of the company itself. It is, however, unclear whether it would also be required to disclose the ultimate beneficial owner of any property owned by that company.

In recent years, we have seen ample evidence of how easy it can be—

Kevin Hollinrake: I am trying to understand the new clause. How could someone be the beneficial owner of a company and someone else own the assets? If the beneficial owners own the company, how can a different beneficial owner own the assets?

Stephen Kinnock: According to our interpretation, schedule 2 of the 2022 Act is unclear about whether a company would be required to disclose the ultimate beneficial owner of any property owned by that company. Our worry is that there is a loophole in the law that talks about the beneficial owner but does not give us the tools to obtain disclosure of who is the ultimate beneficial owner of the property.

In recent years, we have seen ample evidence of how easy it can be for money launderers and the enablers of economic crime to exploit any grey area, perceived or actual, in the laws that apply to them. Therefore it is essential that the law is absolutely crystal clear on that point. It is about tightening up the law as it stands.

We already know that the beneficial ownership of property and other assets is often shrouded in layer on layer of corporate secrecy. In its official guidance and examples of best practice on beneficial ownership, the Financial Action Task Force draws a distinction between the ownership of a company on the one hand and the ultimate beneficial ownership of any assets held by that company on the other. The guidance makes it clear that they are not necessarily the same thing. One of the most salient differences is that although a company can be the legal owner of a property, the ultimate beneficial owner of that property will always be a natural person, or, in layman's terms, a human being. It is not clear whether the current legal framework for the register of overseas entities is sufficiently clear on that point.

To make a significant difference in terms of transparency, the register must require all companies to disclose the ultimate beneficial owner of any UK property under their control. It must publish that information. I would be grateful to hear the Minister's thoughts on whether the legislation currently provides an adequate degree of clarity. If he agrees that the requirements could be made clearer, I hope that we can trust that the necessary changes will be incorporated in the Bill, or set out in regulation.

Kevin Hollinrake: Again, I thank the hon. Gentleman for tabling the new clause. I understand what he is seeking to do, and I support him in that endeavour. I believe that the intent behind the new clause is the concern that assets other than land can be used for illicit purposes, but I am not sure that the new clause, as drafted, serves to address that.

As the hon. Gentleman knows, overseas entities are required to register beneficial owners with Companies House. Those registered as the beneficial owners of the overseas entity are the same persons as the beneficial owners that the new clause seeks to make registerable. Any assets held by the overseas entity are ultimately owned by those already required to register with Companies House.

Say an overseas entity owns a case of whisky, so we know who is the beneficial owner of that case. Who then owns the bottles of whisky in the case? It is the same owner as the one who owns the case. There is no separate owner—they either own the case of whisky, or they do not. I honestly do not think that the new clause would achieve what the hon. Gentleman wants it to achieve. If we think about yachts and other property, if we know the beneficial owner of the company, we also know the owner of the assets inside it. I hope that the hon. Gentleman will withdraw the motion.

Stephen Kinnock: I thank the Minister for that clarification. What rang alarm bells with us were the comments of the Financial Action Task Force, which drew the distinction between the ownership of a company and the ultimate beneficial ownership of any assets held by that company. The Minister has made his position clear, and, again, we just agree to disagree. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

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

12.58 pm

Adjourned till this day at Two o'clock.