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GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Eighth Sitting

Thursday 3 November 2022

(Afternoon)

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not later than

Monday 7 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

Thursday 3 November 2022

(Afternoon)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 36

Disqualified directors

2 pm

Question (this day) again proposed, That the clause stand part of the Bill.

The Chair: I remind the Committee that with this we are discussing the following:

Clauses 37 to 43 stand part.

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.'"

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.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Mr Robertson. I will continue to speak to this group, finishing with a few remarks about clause 43 and our new clause 35.

We welcome clause 43 and recognise that it reflects new circumstances that arise from the Bill's abolition of local registers of directors, set out in clause 50. We have further questions on that, which we will deal with when we come to later clauses.

On new clause 35, let me put our argument on the record. I thank the Minister for his comments, which I hope suggest that we will move on in some form, perhaps with the data he comes back with. Will he update us on when he expects to come back to us, so that we can come to a conclusion, and perhaps on an alternative way to make progress on the matter, during the passage of the Bill?

The reason my hon. Friend the Member for Aberavon and I tabled new clause 35 is to include provision such that persons convicted under the National Minimum Wage Act 1998 cannot be appointed as company directors. There are real questions about whether we would want an employer who wilfully neglected or refused to pay the national minimum wage to a worker who qualified for it to be the director of a company after the Bill comes fully into force. The new clause would strengthen a lot of the measures in the Bill, because we are talking about people we hope to trust to undertake their responsibilities as a director.

The Bill introduces a substantial amount of regulation about who can and cannot serve as a company director as a result of criminal or potentially criminal practices, so this feels like the right place for consideration of such a measure. I will welcome the Minister's comments and I look forward to continuing to work with him as we make progress.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): It is a pleasure to speak with you in the Chair, Mr Robertson.

I am not quite clear when I will be able to get the information that we should have before we look at the matter in new clause 35. I think it is right to identify the scale and nature of the problem before we legislate, but I am certainly keen to do so, not least in my role as the person responsible for labour frameworks and markets.

I will respond to one or two of the comments of the hon. Member for Feltham and Heston. We already have power to ban directors disqualified overseas, under section 5A of the Company Directors Disqualification Act 1986. We can and have taken steps to disqualify directors who have been convicted of relevant foreign offences. On exemptions, I think we dealt with exemption from identity verification in a previous sitting. This will be set out in regulation, but that will probably include people who have already had their ID verified, for example.

The hon. Lady also asked about the defence of "reasonably believed" in clause 40. That would cover a situation where somebody had broken the rules but perhaps did not know that the rules had been broken. That would of course be subject to some kind of investigation, and the person could say, "It wasn't me who submitted the return. I am not guilty of an offence." It is a defence that somebody believed the information had been submitted correctly when actually it had not. I think that is a reasonable provision, which investigators would be able to take into account before taking forward a prosecution.

Question put and agreed to.

Clause 36 accordingly ordered to stand part of the Bill.

Clauses 37 to 42 ordered to stand part of the Bill.

Clause 43

Registrar's power to change a director's service address

Amendment made: 7, in clause 43, page 31, line 10, at end insert

"(but see subsection (4A)).

(4A) Subsection (4)—

(a) does not limit the service address that may be registered for the director under regulations under section 1097B (rectification of register), and

(b) ceases to apply in relation to the director if a new service address is registered for the director under those regulations.'"—*(Kevin Hollinrake.)*

Where a director's service address is moved to their residential address under section 246 of the Companies Act 2006, subsection (4) imposes restrictions on further changes. This amendment ensures those restrictions do not bite on further changes under new section 1097B (inserted by NC5).

Clause 43, as amended, ordered to stand part of the Bill.

Clause 44

REGISTER OF MEMBERS: NAME TO BE INCLUDED

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

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

Clauses 45 to 48 stand part.

That schedule 1 be the First schedule to the Bill.

Kevin Hollinrake: A core purpose of the companies register is to provide details of company ownership. Users of the register, such as those who use it to confirm basic information about a company or to carry out due diligence work, have reported some problems with the way company ownership data is recorded. These clauses introduce measures to increase the usefulness of the information held on the members of UK companies. Collectively, they will mean that users of the register have more certainty about who they are doing business with, building confidence in the integrity of the companies register and preventing bad actors from exploiting it.

Clause 44 amends sections 112, 113 and 115 of the Companies Act 2006, which concern the provision of information relating to the members of a company. The clause provides that in the case of an individual, the requirement to enter a name in the register of members and the index of members means entering the individual's forename and surname. In the future, entries will have to read "Joe Bloggs" and not "J. Bloggs". The clause is necessary because there is currently no definition of "name" for members in the 2006 Act or associated regulations.

Clause 44 also provides that in the case of an individual usually known by a title, the title may be entered in the register of members and the index of members instead of the individual's forename and surname. The 2006 Act currently allows directors to state their title instead of their forename and surname, or in addition to either or both of them, but it does not contain equivalent provision for members. The clause provides that if a person's name or title is entered in a company's register of members in a form that does not comply with the new requirements, that does not affect the person's becoming a member of the company. It may well be that that was not the fault of the member themselves.

The objective of the clause is to increase transparency rather than introduce a condition around name format into the concept of membership. If a company fails to comply with the requirements of section 113 and/or section 115 of the 2006 Act, an offence is committed by the company, and every officer in default, so non-compliance can be pursued.

Clause 45 inserts into the 2006 Act new section 113A, which will allow the Secretary of State to make regulations to change the information required to be entered in a company's register of members. Regulations could, for example, require all members to provide an address. Currently, the initial members, or subscribers, of a company are required to provide their name and address, but those who become members later are only required to provide their name.

As reforms are implemented to Companies House and the companies register, it is possible that further opportunities to improve information on shareholdings will be identified, on which the Government would want to act swiftly. For example, law enforcement may identify additional types of information that the registrar could require that would help in the prevention and detection of crime.

The power in clause 45 will align the position for members with that for directors and people with significant control, in respect of which there are already powers to amend the required information. Information provided in a company's register of members is provided to Companies House via the company's confirmation statement. This power will increase the usefulness of the information on the companies register.

Clause 46 amends section 125(1) of the Companies Act 2006, which gives the court the power to rectify the register. Without the clause, the court may order the rectification of the members register only in relation to names. The clause broadens the rectification power so that it is available in respect of any information on the members register. It means that a person aggrieved, any member of the company, or the company can apply to the court for rectification of the members register if the register does not contain necessary information, or if it contains unnecessary information. It is conceivable that information other than names may be included in a company's register of members in error.

Given that clause 45 gives the Secretary of State the power to make regulations that require additional information to be entered in a company's register of members, it is crucial that the rectification power is broadened. Information provided in a company's register of members is provided to Companies House via the company's confirmation statement. A wider power to rectify the members register will increase its integrity and, by extension, that of the company's register as a whole.

As well as introducing measures to increase the transparency of company ownership, the Bill will introduce measures to prevent the abuse of personal information held on the Companies House register. Proposed new section 120A of the Companies Act, inserted by clause 47, allows the Secretary of State to make regulations that empower the registrar to order a company to refrain from using or disclosing individual membership information, except in specified circumstances. Members of a company will then be able to apply to the registrar to request that the order be made to the company.

Clause 47 also amends sections 114 to 116 and 120 of the Companies Act, so that where a company is ordered not to use or disclose member information, other obligations that would otherwise require that information to be inspectable by the public are switched off. The clause also provides that if a company fails to comply with an order for the restriction of the use or disclosure of

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information, an offence is committed by the company and every officer of the company who is in default. Adding such an offence is proportionate given the serious risk that individuals who have applied for protection face.

Clause 48 amends the Companies Act to remove the option for private, non-traded companies to elect to keep information about their members solely on the central register maintained by the registrar. The effect will be to require private companies that previously chose to keep information only on the central register to maintain their own register of members. It will be the sole responsibility of the company to update and maintain its register of members. The register of members is separate from the register of companies, which is maintained by the registrar.

Clause 48 also inserts a new transitional provision in relation to the abolition of the option to elect to keep members registers at Companies House rather than locally, requiring companies to enter in their register of members all the information that would have been required had the election never been made. Such companies will then be required to provide any updates to the registrar about their members via the confirmation statement. The clause also makes various consequential amendments to other sections of the Companies Act, which are in schedule 1.

Clause 48 also clarifies that, while the provisions relating to the central register were in force, the information about the members of a company that elected to hold membership information on the central register is to be considered prima facie evidence about the members of the company. However, from the point that the central register is abolished by the Bill, the prima facie evidence about the members of a company can be found in the company's own register, held under section 113 of the Companies Act 2006.

2.15 pm

Seema Malhotra: I thank the Minister for his comprehensive walk through these clauses, which I am sure he wrote overnight. It was very helpful. I have a few questions, but I will start by speaking to clause 44, which amends the Companies Act 2006 so that for individuals entered in a register of members, commonly denoting shareholders, "name" refers to a forename and surname. I have made the point before that it is quite staggering that we have not had such specification of the information that should be required. We absolutely welcome this measure and the encouraging of greater transparency of company shareholders.

We support the clause, but it seems to be countered by moves that arguably encourage less transparency of shareholders. In particular, the withdrawal of the central register, with information held only by the company rather than centrally, will make it harder to have public access and knowledge of who shareholders are.

It is important for us to emphasise why transparency continues to be so important. Transparency International has noted that, until now, shareholder information has been extremely limited and difficult to access. That has been a core factor in the UK's unwanted reputation as a hub for dirty money and economic crime. The lack of any substantial rules and regulations around shareholder information reduces the reliability of the information published by Companies House and, in turn, of the totality of information about a company held by Companies House. We have tabled amendments to later clauses, but I wanted to make that broader point. While we talk separately about directors, officers and shareholders, in the end we are talking about entities working together as a whole, and wanting transparency about activity, and who is involved in it, as a whole.

Clause 45 concerns the power to amend required information. As the Minister outlined, the clause allows the Secretary of State to make regulations to specify changes to the information that must be entered in a company's register of members. This is an important clause, and I have a couple of questions for the Minister. First, is there any consideration of what information may be required? I think there was some suggestion about the addresses of company members. In the Minister's opinion, would the clause provide for a potential future decision by the Secretary of State to bring forward proposals to request identity verification and perhaps directors' IDs from shareholders with shares of less than 5%?

I wonder whether this should be among the requirements for transparency of shareholder information in the Bill, which specifies changes to information that must be entered. If there are measures that could be brought forward, should they not be in the Bill rather than in future regulations? Is it a case of simply saying, "We will go as far as we think is relevant now and leave the option open for additions later"? Where the Minister thinks there could be further measures later, it would be interesting to debate whether some of them could be brought forward.

The Minister clearly set out the arguments for clause 46, and we support the expansion of the court's powers.

Clause 47 relates to the register of members and the protection of information. As the Minister outlined, the clause would allow the Secretary of State to make regulations requiring a company to refrain from using or disclosing individual membership information except in specified circumstances. I was not fully clear who may make applications to the registrar not to use or disclose information. There may well be good reasons for such a request, but what individuals do the Government have in mind and in what circumstances could such a direction be made? Procedures in the future may result in less transparency, and for good reason, but it is important that we understand the reasons for that and that they are on public record as we consider the Bill.

It is possible that transparency is countered by the implementation of the Bill and the subsequent legislation for which it makes provision. That may reduce transparency by backdoor means, as it were, and reduce its scope to apply to those very individuals whom we may want to subject to such transparency. I am sure that the Minister understands why we want to probe that issue.

Clause 48 concerns the removal of the option to use the central register. Given all the measures relating to transparency and shareholder information, I am concerned about their total effect. The important principle running through the Bill is increased transparency in terms of publication and searchability, but the Bill also provides for private companies to exercise the option not to be on the central register. Perhaps I have not followed all

the detail relating to the disclosure of shareholder information, but after the Bill's implementation, I think there will be less publicly available shareholder information and not more. I look forward to the Minister's response to those concerns.

Kevin Hollinrake: I think I have noted all the points raised by the hon. Lady. She is absolutely right that, in future, the Secretary of State could, through regulations, elect for the collection of more information from shareholders or any other relevant parties. We must all acknowledge that we do not want to put undue burdens on people who are trying to go about their normal, legitimate, bona fide commercial business. We are trying to strike a balance to ensure that we get the information from those we need it from, who may be acting for nefarious purposes.

On the hon. Lady's point about the circumstances in which someone may want to remove details from the public register, that individual could be a celebrity, who would not want their address held publicly, or someone who fears domestic abuse. Those are the types of cases and circumstances that may arise. The information would still be held, just not in public. The law enforcement agencies would still have access to it, but the general public would not. When making such an application for removal, an individual would have to demonstrate evidence of risk, and could not simply say, "I want that information removing." The registrar can refer cases to law enforcement agencies if she is in any doubt about whether the application has been made for bona fide reasons. She can also revoke a removal, if she feels that she has been given false information. I think they are reasonable provisions, and that judgment will be exercised.

On updating the register, the hon. Lady has tabled amendment 104, which we will consider in the next group. Perhaps we will have a good debate about that then.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clauses 45 to 48 ordered to stand part of the Bill.

Schedule 1 agreed to.

Clause 49

MEMBERSHIP INFORMATION: ONE-OFF STATEMENT

Seema Malhotra: I beg to move amendment 104, in clause 49, page 34, line 32, after "time" insert "and annually thereafter".

This amendment would require a confirmation statement with company membership information as set out in clause 49 subsection 2 to be submitted annually.

The clause requires a company to provide a full list of shareholders when the first confirmation statement is filed after clause 44(3) comes into force. As I said, the clause is a welcome step in increasing the transparency of shareholder ownership and information, which we support strongly. Nevertheless, as has been said, the provisions in the Bill on shareholder information could and should go further. That is the context in which we tabled the amendment.

The amendment would provide that the confirmation statement about the company membership under this clause is submitted not only on a one-off basis but annually. The principle of shareholder information being submitted is one we support fully. If the Government believe that should be a one-off, I would be grateful if the Minister could explain why it need not be annual.

As I have mentioned, opaque shareholder ownership is a significant barrier to ensuring transparency and tackling economic crime. An example that has been cited already is Savaro Ltd. In August 2020, tonnes of ammonium nitrate exploded in Beirut port, killing more than 200 and wounding thousands more. The reported owner of the chemicals was a UK-registered private limited company called Savaro Ltd. The data provided by Savaro Ltd gives an insight into the poor quality of shareholder information held at Companies House and how that hinders investigation. Transparency International highlighted how, to identify the shareholders, it had to go back to 2015 for documents that named Status Grand as the sole owner.

Instead of identifying shareholders annually, companies only have to say that no shareholders have changed. The information is hidden in PDF documents, so it is unnecessarily time-consuming to establish who held shares in an entity at a particular point in time. Savaro is a clear example of how annual shareholder data, which the amendment would provide for, could assist considerably in investigating even criminal activity in UK companies.

Let me pre-empt the Minister's pushing back on the amendment. One common argument against companies providing shareholder names annually is that it would prove too onerous a task for UK companies, but in answer to a written parliamentary question that I tabled his predecessor outlined that the average number of shareholders in UK companies in 2021-22 was only 2.15. The average number of directors was 1.59, so the number of shareholders was not that much higher. To argue that it would be onerous for the majority of companies to provide shareholder information does not seem so credible when set against the low average number of shareholders by comparison with company directors, as set out in the Government's own data.

I urge the Government to consider this important amendment and hope the Minister will respond positively on how we might move forward with the sentiments and arguments behind it.

2.30 pm

Kevin Hollinrake: I am grateful to the hon. Lady for her amendment. Clause 49 requires companies to provide to the registrar a one-off snapshot of relevant membership information when the first confirmation statement is due following the clause's commencement. The amendment would require companies to provide that relevant membership information annually thereafter. The hon. Lady—or is she right honourable?

Seema Malhotra: Honourable—for the moment.

Kevin Hollinrake: It is only a matter of time. The hon. Lady cited the disturbing case, which I too read about, of Savaro Ltd in Beirut. It may be helpful for me to clarify how the clause as drafted works with existing company law. Companies are already required to provide a confirmation statement at least annually, which records changes in membership information in the previous period. One of the principles behind the confirmation

[Kevin Hollinrake]

statement is that companies should not be required to resubmit information that has already been filed on the register. Through the process, companies are required to either confirm the information submitted previously or provide Companies House with any updates to a variety of information, including the information contained in their register of members.

For example, if information submitted previously about a company's members needed to be updated, or there were new members to disclose information about, the existing confirmation statement process already requires the disclosure of that information. Clause 49 introduces a requirement for companies to file a one-off snapshot of relevant information. That will be the means for companies to provide full names for all their members, as required by clause 44. That will give Companies House the starting point to display the information in a more user-friendly way. That information will then be maintained through existing confirmation statement requirements—annual updates, in effect.

The hon. Lady makes a good point about the usability of the information and the different PDFs being held. Companies House is looking at that. The Government would welcome suggestions on how best to display the information—a simple table would be preferable, in my view—which is to be determined as part of the implementation. That will involve user testing in the usual way to ensure that the information is displayed in a user-friendly way, as the hon. Lady seeks. Although I appreciate the intent behind the amendment, it would serve only to duplicate existing requirements, and would introduce the requirement to deliver potentially the same information on a yearly basis in cases where there had been no change in membership. I would therefore be grateful if she could withdraw it.

Seema Malhotra: I thank the Minister for his comments and his recognition of the important sentiments behind the amendment, which I will withdraw. I think some of the measures he outlined regarding the format of the information on Companies House and searchability will go a long way to addressing the point. I hope that we will be able to continue a dialogue on that, perhaps under his guidance about how we can best engage, to ensure that what is published is searchable and meets the important sentiments of transparency, so that frankly we never have another Savaro Ltd. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

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

Kevin Hollinrake: Clause 49 is linked to clause 44, to which I spoke a few seconds ago and which introduces new requirements in respect of the names information to be provided to the company in relation to its members, for inclusion by the company in its register of members. Currently, information on shareholders can be contained across multiple filings. The clause requires certain companies to provide the registrar with a one-off list of all shareholders, including their names and how many shares they hold. The first confirmation statement will be due after the new names requirement in clause 44 comes fully into force.

Collecting that information via a one-off snapshot will improve the usefulness of the information on the register by enabling Companies House to display the information in a more user-friendly way. Companies will then confirm the information submitted previously, or provide any updates to Companies House—via the existing confirmation statement process—on the information contained in its register of members.

Seema Malhotra: I have no further points to add.

Question put and agreed to.

Clause 49 accordingly ordered to stand part of the Bill.

Clause 50

ABOLITION OF LOCAL REGISTERS ETC

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

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

Amendment 69, in schedule 2, page 148, line 40, at end insert—

"167GA Unique identification number for directors

(1) On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person.

(2) Any information supplied to the registrar under or by virtue of this Act about a person who has been allocated a unique identification number under subsection (1) must include that number."

Amendment 68, in schedule 2, page 150, line 36, at end insert—

"167KA Limit on number of directorships held

(1) Where notice has been given to the registrar that a person (P) has become a director, the registrar may determine that P may not hold that directorship.

(2) The registrar may make a determination under subsection (1) if the registrar considers that P holds an excessive number of directorships.

(3) The factors that the registrar may take into account in making a determination under subsection (1) are the experience, expertise and circumstances of P.

(4) If the registrar makes a determination under subsection (1), P may not hold office as a director of the company."

Amendment 70, in schedule 2, page 150, line 39, after "167G,", insert "167GA".

This amendment would provide for penalties to apply to anyone failing to provide their unique identification number (see Amendment 69) to the registrar.

That schedule 2 be the Second schedule to the Bill.

Kevin Hollinrake: In last year's consultation on the powers of the registrar, the Government asked stakeholders for their views about the requirements for companies to hold their own registers and to deliver the information contained in them to Companies House. Stakeholders were also asked whether the election regime, by which companies can choose to keep their registers only at Companies House, should be retained. They were clear that centralising certain registers with Companies House could reduce burdens on businesses. In response, the Government said that we would continue to consider updating the registers regime accordingly.

The Government have decided that, where possible, a single source of information about companies is preferable, and that that source should be Companies House. In future, the definitive registers of directors, secretaries and persons of significant control will, in all cases, be held by the registrar rather by companies themselves. Clause 50 introduces schedule 2, which contains the amendments to the Companies Act to implement that policy by setting out the requirements and processes that will apply upon the abolition of local registers and the existing election regime. The changes will apply to registers of directors, of secretaries and of persons of significant control.

Schedule 2 sets out the detailed requirements necessary to give effect to the new regime for companies' registers. The schedule is necessarily long and detailed because of the complexity of re-engineering the existing system to repeal obligations to maintain local registers and replace them with a regime that will result in the population of central registers. What have largely been a range of duties for companies to maintain records are broadly being transposed into an analogous set of obligations to report that information to the registrar. In many instances, companies are currently obliged not only to maintain registers but to notify the registrar of changes to them. The eradication of local registers will therefore serve to ease burdens on business.

However, it is worth drawing attention to a number of areas in which the new registers regime will involve new reporting obligations for companies. Proposed new section 167G will replace section 167 of the Companies Act 2006 and introduce additional requirements on companies. When notifying the registrar of a new director, companies will be required to make statements to verify the director's identity and that the individual is not disqualified or otherwise ineligible to be a director.

Proposed new section 790LB will permit that the notification of a new person with significant control, which is required under proposed new section 790LA, is accompanied by a statement confirming that the individual's identity is verified. If a statement is provided in relation to a registrable relevant legal entity—a legal entity that itself has significant control in a company—it must specify the name of one of its relevant officers and must confirm that their identity is verified. The notice must be accompanied by a statement from the relevant officer confirming that they are the relevant officer of the registrable relevant legal entity.

On amendment 68, which was tabled by the hon. Member for Glasgow Central, given that in our consultation on potential reforms for inclusion in the Bill the Government considered the possibility of including a cap on directorships, I am sympathetic to the underlying intention of the amendment. Approximately three out of four respondents to the consultation opposed a cap. The Government chose not to proceed with one, believing it preferable to verify identities and provide more accurate linkage of records, thereby providing a more accurate picture of involvement with companies. That reasoning stands today.

Analysis of the companies register, together with comparison against other data sets and the reporting of anomalies from obliged entities, will assist in identifying circumstances in which we believe the number of directorships poses a risk of criminal activity. That information will be shared with the relevant enforcement and supervisory bodies.

The amendment proposes a form of fitness test rather than a cap. I acknowledge that this removes some concerns about the bluntness of such a cap and addresses some of the concerns raised by respondents in our original consultation. However, in return the amendment undermines the agency of company owners to act independently and in their own interests when appointing people to run the business they own. It places the registrar in the position of being a higher authority for such appointments. Would they ever have at their disposal the evidence to make a negative determination? What would be the implications of a negative determination on the actions taken by a validly appointed director up to the point of such a determination?

The possibilities in this policy area were given careful consideration as part of the Government consultation. We have not identified a legislative proposal along the lines of 68 amendment that is workable or appropriate. It would undermine business confidence in the UK if companies could not be sure whether their director appointments would take effect. We believe that the new and existing powers to analyse and query information and on identity verification, along with the enhancement that will be brought to linking people across multiple roles and the wider data-sharing possibilities for the registrar, all serve to strengthen our capacity to identify possible grounds for concern. Such concerns can be reported to the relevant agencies, investigated and acted upon, including by pursuing the disqualification of directors, if appropriate. I hope I have clarified why we do not believe the amendment should be taken forward.

Amendments 69 and 70 will be redundant once the expanded power under section 1082 is exercised, as amended under clause 66. The effect will be that all individuals who are under a duty to verify their identity will be assigned a unique identifier when they successfully complete identity verification. This will include all directors, who will commit an offence if they act as a director without having their identity verified.

Seema Malhotra: Will the Minister clarify what he said? Will all directors be given a unique identifier?

Kevin Hollinrake: Yes, that is in clause 66. Further detail about the use and allocation of unique identifiers will be set out in regulations made via the affirmative procedure, so Parliament will have sufficient opportunity to scrutinise them. There is no need, therefore, for the inclusion of a penalty for directors who fail to provide the registrar with their unique identifier. It will be the registrar who issues a director with a unique identifier, not the company or the director. I hope my explanation has provided further clarity on why the amendments are not needed. I urge the hon. Member not to press the amendments to a vote.

2.45 pm

Seema Malhotra: May I ask your advice on procedure, Mr Robertson? Should I speak now on clause 50, the amendments and schedule 2, or should the SNP amendments be moved first?

The Chair: You should speak now.

Seema Malhotra: Thank you, Mr Robertson.

The importance of clause 50, which relates to schedule 2, is obvious and requires no further comment. The Minister's description of schedule 2 as long and detailed was on the button. Its length is understandable given the changes it is making by abolishing the requirement for companies to maintain their own registers of directors, registers of directors' residential addresses, registers of secretaries and registers of people with significant control. Instead, that information will be held centrally by the registrar, with the important provision that companies have a duty to update the registrar of any change to the information.

We welcome the proposed changes in clause 50, but I want to comment on amendments on 68, 69 and 70 tabled by my SNP colleagues, to which I am sure they will speak. Amendment 68 would limit the number of directorships that one individual may hold. Where notice has been given to the registrar that a person has become a director, the registrar may determine that they should not hold that position, if the registrar considers that they hold an excessive number of directorships. That may be achieved by setting a cap on the number of directorships held and it might be possible to override that limit if there were good reason, and a simple means introduced by which that application and argument could be made to the registrar. Such a proposal could be implemented sensibly to bring about the benefits that it offers, especially in the light of some of the abuses committed.

From our evidence sessions and debates in Committee, we have learned that individuals with multiple directorships are a massive red flag in terms of potential criminal activity. In evidence to us on 27 October, Bill Browder said:

"Why is it okay to have a person be a director of 400 companies? That does not make any sense to me. Why should there not be some limitation—maybe 10? Ten companies is a lot of companies—but 400 companies, or a thousand companies?"

—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q151.]

A limit on the number of directorships could easily be set in legislation and that would not stop people conducting their lawful business, but it would make it harder for criminals to use the system and our company structures to launder money and act as drivers of economic crime. It is worth reflecting on the fact that the evidence for that change came from a range of professional bodies. They also said that if they were directors of four, five, six or seven companies, how would they have the time to undertake their responsibilities with the required due care? The Minister referred to the consultation on this issue and said that three out of four of those consulted opposed a cap. Can he give us clarification on the year of that consultation? There are some questions about how we might interpret some of the responses, given the number of respondents and how many responded to all the questions.

In the light of that, I will make a few other remarks. The Association of Accounting Technicians, a registered charity based in London that acts as a professional body for accounting technicians worldwide, echoes Mr Browder's assessment. In September 2020, it published an article recommending a cap of 15 directorships for one person, but it recognised, I think as we all do, that it is a difficult balancing act. We do not want to stop legitimate, lawful and productive activity, but we want to have a way of putting a stop to mechanisms that are easy to abuse. The AAT noted that there was a cap of 15 in Ireland, a general cap of 20 in India, and a cap of five in France that applies to public companies only.

Bodies that responded to the Government's consultation made other interesting comments. There was a wide range of views on the cap, from two to 100 I think, with many suggesting between 15 and 25. This is an important conversation in the light of the scale and nature of economic crime, how it is changing, and the scale of abuse of our company structures. Some action has been undertaken in slightly different contexts, with less clarity about what has been happening with Russian money, Russian oligarchs and the connection to our international security. This year has really helped to challenge and expose much of that, albeit six years after legislation on economic crime was first promised. The point is that we have reached a place where our eyes are wide open now—or definitely wider, if not open completely.

Some of the wider comments and contributions to the Government's consultation may well be worth going back to, in the light of what other countries do seemingly without impeding their economy or their companies' activities. India is a good example of a nation whose trade is growing and that has a real focus on both domestic growth and international trade. I worry that we are closing down some of these debates, when this is a time to review them, perhaps with a slightly more open mind.

Kevin Hollinrake: What limit would the hon. Lady put on it?

Seema Malhotra: The Minister asks a fair question. He is not necessarily stating a cap. Given what has come out in the consultation, and what has been in the articles about whether there should be a cap and what would be right for British companies, it is certainly open to further conversation. It is interesting that in the Government's consultation many were suggesting between 15 and 25, which is in the ballpark of what has been happening in other countries. The make-up of our economy could be slightly different. We have to understand it in the round, and in the context of our economy, but it is a question of a scale of 400 to 1,000.

If the Minister is saying that there might be a level at which there starts to be a red flag, and implicitly that Companies House may implement the legislation, perhaps Companies House and the registrar will say, "Maybe we'll just do a procedural check if we have 25-plus directorships." I do not know. That is where data and analytics help, rather than a ballpark figure. It must be within a considered understanding of how our economy works, and how and where legitimate business is carried out, with a view from directors as well. We might find that it is an easier answer to reach, because it does not have to be one that only we, as Members of Parliament, comment on; it has to be informed.

We are not arguing for a hard cap. We are saying that, as the logic of the SNP amendment outlines, rather than managing on a case-by-case basis, having a way to manage risk structurally and procedurally is an important response to the evidence, the nature of use that we have seen and the situation we find ourselves in today. There is room to learn from the experience of other countries.

Amendment 69 would insert a provision into schedule 2, requiring that:

"On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person."

Amendment 70 follows from that, and would provide penalties for anyone failing to provide their unique identification number to the registrar. We support the spirit of the amendments, but I refer the Committee to our amendments 102 and 103, which we will be speaking to in later debates. Our amendments take a slightly different approach and place a duty on the registrar to give every director a unique identification number, which is published on the registrar's website. I think that approach is tighter.

I hope in his response that the Minister will be clear about what the registrar is required to do versus what they can do, and what will be and will not be published on the unique identifiers for directors.

Alison Thewliss (Glasgow Central) (SNP): I rise to speak to amendments 69, 68 and 70. These are connected amendments to schedule 2. I appreciate the point about clause 66, but we will get to that when we get to it, and we are here now.

The evidence from various witnesses last week, which I have heard over many years, is that the Companies House register is a mess. The amendments seek to tidy it up to some extent. A unique identifier that follows a person all the way through, from becoming a director of a company to perhaps resigning as a director of that company and going on to be a director of a different company at a later stage, would help to trace that person through the Companies House system.

I have mentioned in previous debates that there are three Alison Thewlisses on the Companies House register. They are all me, but they appear three times, and nobody would necessarily know that they are the same person. It would make sense to have a unique identifier attached to me as a person so that people can easily find and trace my history as a company director.

I looked up the Minister on the Companies House register. He is there five times. There are five Kevin Paul Hollinrakes out there in the world. It would be useful for companies doing due diligence or for people seeking to look at somebody's directorship history if there was only one Kevin Paul Hollinrake on the register and we could see a complete picture of all those registrations over the course of his life and career.

That is the main purpose of the amendments—to make registrations traceable and to make the system easier for users and for me, if I want to be a company director, to provide the correct information. I could say, "I am already a director—here's my number; just add it on to the previous things I have."

Amendment 70 seeks to prevent people getting around that system and trying to register themselves perhaps by using their middle name or a different name, as if they were a different person. The unique identifier, once allocated to a person, should always follow that person through the system. If I try to register with my middle name or a married name rather than my maiden name, the system should pick it up. That is often an issue for women in the system. They might look very much like two separate people, with a married name and a maiden name, but they are in fact the same person. That unique identifier within the system would help trace people through, simplifying it for everyone.

Kevin Hollinrake: The hon. Lady has obviously read clause 66, "Allocation of unique identifiers", which I think is what she is seeking to achieve. What about that clause does she not like?

3 pm

Alison Thewliss: Broadly, I support clause 66. The amendments are not to that clause, but to schedule 2, to tighten it up and to improve it in any way we can. I accept what the Minister says. Labour, too, has an amendment to tighten the provisions, and I dare say I will support that as well, when we get to that stage, because all such amendments are to press the Government to tighten things up and to improve the Bill.

On amendment 68 and the number of directorships held, in evidence we heard Bill Browder suggesting the scenario of a drunk Latvian having their passport taken and being registered as a director in hundreds and hundreds of companies. Bill Browder said rightly:

"Why is it okay to have a person be a director of 400 companies?"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q151.]

Clearly, that is ridiculous. There is no way that someone could fulfil their obligations as a director if they were the director of 400 companies at once. It would be impractical to suggest that anyone could.

Also, Thomas Mayne said:

"On the point about directors, there certainly should be"

a limit—

"it is crazy that you have these people with 1,000 companies."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October; c. 79, Q162.]

It really is.

I do not want to put a specific number in the Bill—that would be something for Companies House and regulations to decide—but we clearly all understand what an excessive number of companies is. Four hundred is excessive and 1,000 is ludicrous. Perhaps the cut-off could be at 20 or 30, although even at that I would struggle to say that someone could make a good job as a company director keeping an eye on all those companies. It is worthwhile looking at the issue, because it is a red flag in the system: if one person is registered to multiple companies, that is a red flag, and it should be something that triggers Companies House to look into them in more detail.

Seema Malhotra: The hon. Lady is making a powerful argument. The Minister asked her what she thought was not sufficient about clause 66. Does she agree that arguing for a unique identifier is about ensuring that it actually happens? The wording of proposed new paragraph (d) in clause 66(2)(c) is to

"confer power on the registrar…to give a person a new unique identifier".

It is a power, rather than a duty. That seems to be at the heart of the disagreement—is it a power or is it a duty?

Alison Thewliss: I agree. I do not want to go too far on clause 66, as we have not reached it, but this is about ensuring that something is in the Bill, that it is hard and fast that it happens, rather than having a suggestion,

[Alison Thewliss]

something that the registrar might like to consider, or some kind of "have regard to". It needs to be there and specified. That is what we are trying to achieve.

Proposed new subsection (3) in amendment 68, on what Companies House should take into account in making its determination under the clause, specifies the "experience, expertise and circumstances" of a director. If someone has long-term experience of running companies that actually existed and have filed accounts, there is something tangible there and then Companies House can say: "Oh yes, that person has 30 directorships, but they are active in all those directorships, and we know what they are." However, if someone has no active activity that Companies House can fill in, that becomes a red flag under amendment 68. It would give Companies House a degree of discretion. Wherever it might want to put the number is also a factor.

The Minister is trying to suggest that having such a check would be an inhibition to business. I do not believe that, and I am interested to hear what evidence the Minister has to suggest that such a limit on directorships would inhibit businesses in any way. As the Labour spokesperson, the hon. Member for Feltham and Heston, mentioned, other countries have such a rule. Those restrictions are in place elsewhere around the world, so the comparison would be interesting: do they feel that businesses, directorships and the involvement of people in companies are inhibited by having such a rule? We are proposing a change to the Bill to help Companies House do its job, to help it with the red flags and to give it an action to take once it has seen the red flags and identified them through something such as holding multiple directorships.

Kevin Hollinrake: Let me quickly respond. The shadow Minister wanted to know the date of the consultation that the three out of four figure came from. It happened between 2019 and February 2021, so it was pretty recent.

The issue of whether there should be a cap and where it should be set has been raised by both hon. Members. We think it is wrong to set a cap. The hon. Member for Glasgow Central asks the interesting question of, "Why do we need all these companies, and why do they need to be registered?" We believe that it is ours not to reason why. We believe in freedom and that people should be allowed to live their lives as they choose. We do not seek to put restrictions on people for no good reason.

Alison Thewliss: Will the Minister give way?

Kevin Hollinrake: I will go on. We think there may be a nefarious reason why a person is a director of many companies. The hon. Member for Glasgow Central mentioned red flags in her speech, and that is exactly how we see this operating. It may well be that Companies House determine that there is a cap of 20, and when somebody gets to 20 directorships, then they become a risk. It may then look further into what that person is doing and share that information with law enforcement agencies. We would rather leave it to the discretion of the registrar to determine where the red flags should be, rather than impose it through the Committee.

The hon. Member for Glasgow Central took the opportunity to google my directorships, and she found that incredibly easy to do. Just type in "Kevin Hollinrake directorships" and it lists all my directorships.

Alison Thewliss *indicated dissent.*

Kevin Hollinrake: It is my name and all my directorships are listed underneath.

Alison Thewliss: But they are separately listed.

The Chair: Order. One at a time.

Kevin Hollinrake: I am sure it is on Companies House right now. There are 20 records. The hon. Member for Glasgow Central would maybe say that I cannot be director of any more companies, as I am already director of 20, but I have valid reasons for being directors of all those. I can promise her that none of it was for criminal purposes. The hon. Lady may say there should be a limit, but we think that basically we should leave it to the discretion of Companies House and the registrar to do the right thing—set the red flags where most appropriate and then identify risk and act accordingly.

Alison Thewliss: The Minister talks about not wanting to look at someone's motivation for having, say, 400 company directorships. It is really is a case of, "There might be a reason, but we're not going to ask about it. Why should we?" I think Companies House should be inquisitive about somebody who has 400 directorships, but the Minister is not tasking it to be inquisitive through the legislation. Tasking Companies House to be specifically inquisitive on that point is important, because the Bill does not put a duty on it or give it the right to be inquisitive.

Looking at the Companies House register, it appears that the Minister is listed five separate times—with one appointment, with zero appointments, with one appointment, with another appointment and with 18 appointments. They all appear as separate entries, not as one single person. A unique identifier would seek to grab those entries and put them in one place. That would make more sense. It would make it more traceable. I gave the example of myself being in there three separate times with three separate directorships, which are from very different points in time. If the entries were all in one place, it would be a neater and tidier way of logging them.

The Chair: Does the Minister wish to speak again? No, okay.

Question put and agreed to.

Clause 50 accordingly ordered to stand part of the Bill.

Schedule 2

ABOLITION OF CERTAIN LOCAL REGISTERS

Amendment proposed: 69, in schedule 2, page 148, line 40, at end insert—

"167GA Unique identification number for directors

(1) On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person.

(2) Any information supplied to the registrar under or by virtue of this Act about a person who has been allocated a unique identification number under subsection (1) must include that number."—*(Alison Thewliss.)*

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 9.

Division No. 5]

AYES

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

NOES

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

Question accordingly negatived.

Amendments made: 44, in schedule 2, page 150, line 23, leave out "registered or".

This amendment would mean that the required information that must be provided about a corporate director includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Amendment 45, in schedule 2, page 150, line 23, at end insert—

"(ba) a service address (which may be stated as 'The company's registered office');".—*(Kevin Hollinrake.)*

This amendment requires a company to provide a service address for directors who are not individuals.

Amendment proposed: 68, in schedule 2, page 150, line 36, at end insert—

"167KA Limit on number of directorships held

(1) Where notice has been given to the registrar that a person (P) has become a director, the registrar may determine that P may not hold that directorship.

(2) The registrar may make a determination under subsection (1) if the registrar considers that P holds an excessive number of directorships.

(3) The factors that the registrar may take into account in making a determination under subsection (1) are the experience, expertise and circumstances of P.

(4) If the registrar makes a determination under subsection (1), P may not hold office as a director of the company."—*(Alison Thewliss.)*

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 9.

Division No. 6]

AYES

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

NOES

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

Question accordingly negatived.

Amendments made: 46, in schedule 2, page 153, line 35, leave out "registered or".

This amendment would mean that the required information that must be provided about a corporate secretary or joint secretary includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Amendment 47, in schedule 2, page 153, line 35, at end insert—

"(ba) a service address (which may be stated as 'The company's registered office');".

This amendment requires a company to provide a service address for secretaries or any joint secretaries who are not individuals.

Amendment 48, in schedule 2, page 156, line 2, at end insert—

"(2A) In subsection (2), after paragraph (b) insert—

'(ba) a service address,'.

(2B) In subsection (3)—

(a) in paragraph (b), omit 'registered or';

(b) after paragraph (b) insert—

'(ba) a service address,'."—*(Kevin Hollinrake.)*

This amendment requires a company to provide a service address for those with significant control over a company who are not individuals. It also means that the principal office must be provided in all cases, rather than there being an option to provide its registered or principal office.

Schedule 2, as amended, agreed to.

Clause 51

PROTECTION OF DATE OF BIRTH INFORMATION

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

Kevin Hollinrake: The clause would make amendments to the Companies Act 2006 to streamline filing obligations and remove unnecessary burdens, and to provide more protection of personal information than is currently the case. Clause 50 will remove the option for a company to elect to hold its register of directors or its register of people with significant control solely on the central register—the one held by the registrar.

Currently, when companies elect to hold their registers at Companies House, personal information, such as a date of birth, is publicly available on the register. That is because the election regime replicates what would happen if a member of the public asked to view the registers at the company's registered office. When the election regime is removed, clause 51 will ensure that date of birth information is protected from public inspection, in the same way as dates of birth from non-elected filings are protected. The clause also provides that information such as dates of birth provided prior to 10 October 2015 will not receive automatic protection in the same way. Other provisions in the Bill will enable individuals to apply to protect historic information when it still appears on the public register.

The clause will amend the Companies Act 2006 to streamline and protect personal information of individuals that could otherwise increase the risk of identity theft or other fraud. It clarifies the extent of that protection, which, with some exceptions, will be applied to documents received from 10 October 2015.

3.15 pm

Seema Malhotra: As the Minister mentioned, the clause amends the Companies Act in relation to individuals' dates of birth and when they can be restricted from disclosure. The measures are important for occasions when the disclosure of someone's date of birth would be inappropriate or unnecessary, so we support the clause.

Question put and agreed to.

Clause 51 accordingly ordered to stand part of the Bill.

Clause 52

FILING OBLIGATIONS OF MICRO-ENTITIES

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

The Chair: With this it will be convenient to consider clauses 53 to 56 stand part.

Kevin Hollinrake: This group of clauses will improve the quality and value of financial information on the companies register.

Clause 52 will require a micro-entity company to file both its balance sheet and profit and loss account with the registrar. It removes the current option available for a micro-entity to omit—or fillet out—its profit and loss account when filing its accounts with Companies House. Clause 53 will require small companies to file a profit and loss account, and a directors' report, when filing their accounts with the registrar. Clause 54 ensures that clauses 52 and 53 operate as intended by amending references to the existing small company and micro-entity filing obligations in the Companies Act 2006.

Clause 55 requires any companies seeking an audit exemption to provide an additional statement from their directors. That will help to deter fraudulent under-reporting by companies and, where a company director has provided a false statement, provide additional enforcement evidence that can make it easier to successfully prosecute directors. Finally, clause 56 removes the option for small companies, including micro-entities, to prepare and file a set of abridged accounts.

Collectively, the clauses will ensure that more financial information for micro-entities is publicly available on the register, helping to inform better business and lending decisions. They will ensure that the company's turnover—one of the three eligibility criteria that determine the size of the company and what it must file with the registrar—is publicly available. The clauses will also provide greater transparency of micro-entity accounts, which will help to deter fraudulent or criminal activity and make such activity more easily identifiable.

It is crucial that we strike the right balance between transparency and burdens on business. As micro-entities already file a copy of their annual accounts for other purposes—tax returns with His Majesty's Revenue and Customs, for example—the changes will not be overly burdensome for them.

Seema Malhotra: I thank the Minister for his comments. We welcome the measures in these clauses.

As the Minister said, clause 52 updates the filing requirements for micro-entities. A company is a micro-entity if it has any two of the following criteria: a turnover of £632,000 or less, a balance sheet of £316,000 or less, or 10 or fewer employees. The technical definition of a small company is any company that has any two of the following criteria: a turnover of £10.2 million or less, a turnover of £5.1 million or less, and 50 employees or less. Although we use the terms micro and small entities—in terms of the scale and size of other companies, that is significant—they can be larger than the terms indicate. That increased transparency from clause 52 is important.

We welcome clause 52 as a reflection of the fact that insufficient information is filed from those micro-entities to give a true and fair view of their financial position. The minimal disclosure requirements at present have also made them attractive to fraudsters who want to present a false picture.

There were 1.3 million micro-entity accounts filed in 2019-20. It is the most common choice for account filings. The Government's December 2020 consultation on improving the quality and value of financial information on the register noted:

> "Fraud investigation bodies have reported that micro-entity accounts are often used by companies that are investigated in money laundering cases."

It is therefore absolutely right to tighten things up and seek greater transparency in the accounts and financial positions of companies' activities. However, that raises the important question of whether any further work might be needed on micro-entities, although that question is for another debate.

On roll-out time, the Bill's impact assessment suggests on page 76 that familiarisation time will be needed to get micro-entities up to speed with the changes, but there should not be significant additional costs, as companies already collect and submit additional information to HMRC in tax filings. In the light of what we and the Minister have said, we want moves that stop the criminal behaviour, but do not impede ordinary, good, productive and lawful business, so the measures are welcome. We want to see them come into force as soon as is practicable. The Secretary of State may make a determination later about when to bring the requirements into force, but perhaps the Minister will indicate today when he expects the Government will want the new requirements on micro-entities to become operational.

We welcome clause 52 as a necessary means to ensure that small businesses that are not micro-entities file full accounts to the registrar—which, again, will increase transparency and the availability of information. Clause 54's consequential amendments seek to ensure that clauses 52 and 53 function as intended.

I want to make a few comments on clause 55. Perhaps the Minister can clarify the exemptions from audit requirements under this clause. When a company seeks an exemption from the requirement to have its accounts audited—for example, because it is a small company with £10 million or less in turnover—the clause would require directors to make a statement confirming that the company qualifies for an exemption.

I would appreciate it if, in the interest of the robustness of legislation, the Minister would expand on the clause and clarify what qualifies a company to have an exemption in that regard. The Government brought in an increase in audit exemption levels, effectively making more companies eligible for exemptions, and that goes back to the 2013 EU accounting directive, which sought to simplify requirements on companies submitting accounts and gave member states the flexibility to increase the small company accounting and audit exemption thresholds. Is there likely to be any review of those thresholds? Perhaps the Minister can enlighten me as to whether there is clear demand for that.

In the light of current circumstances—the clamping down on, and growth in, economic crime, as well as the transformations we will have seen in the last six, eight or

10 years—will the Minister tell us whether the high thresholds brought in by the Government have reduced audits and the transparency of information on the register? Have they affected the extent to which information filed by companies is trusted? Is the Minister interested in considering whether the levels for audit exemption are acceptable and right in the context of current economic crime, or does he think, in the light of the opportunities presented by the Bill, that there is reason to look at any of that again?

We welcome clause 56 as a necessary provision for improving the accuracy of information in relation to small companies.

Kevin Hollinrake: I will check the implementation date of the new rules around filing full accounts and let the hon. Member know in detail.

In terms of the audit exemption, the threshold is currently £10.2 million. We will always keep that under review, because we are trying to ease the burden on business while ensuring that nothing untoward is happening. Having been through the process myself, I know that auditing a business is very extensive, exhaustive and expensive. It is absolutely right that we seek to reduce burdens on business whenever we can, while also putting appropriate checks and balances in place.

Question put and agreed to.

Clause 52 accordingly ordered to stand part of the Bill.

Clauses 53 to 56 ordered to stand part of the Bill.

Clause 57

Confirmation statements

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

The Chair: With this it will be convenient to consider clauses 58 to 60 stand part.

Kevin Hollinrake: The clauses in this group will help the registrar to fulfil their new objectives, as set out in clause 1. Clause 57 obliges companies to notify the registrar of additional information that is required to be delivered under new requirements brought in via the Bill. Companies will have to do this before, or at the same time as, delivering their annual confirmation statement. The new information of which companies will have to notify the registrar will be to confirm the company's lawful purpose. If it is the company's first confirmation statement, as it is a newly incorporated company, the company will need to notify the registrar of any changes that have happened between its application for incorporation and the incorporation taking place.

The annual confirmation statement is a fundamental aspect of that data. It provides an opportunity for a company to focus its attention on the statutory requirements that it has to meet, and it also re-establishes the benchmark against which a company is assessed by others, including the registrar.

Clause 58 ensures that the registrar will have up-to-date information that will allow them to uphold the investigations and sanctions regime more effectively. The accuracy of the information provided in the confirmation statement is obviously of key importance, given that making false statements, or failing to deliver confirmation statements, may result in an offence being committed.

3.30 pm

Dame Margaret Hodge (Barking) (Lab): What happens if it is a false statement? Who will uncover that?

Kevin Hollinrake: Who will uncover—

Dame Margaret Hodge: If a false statement is put in. I mean, I was just—

The Chair: Order. Is this an intervention?

Dame Margaret Hodge: I ask the question for a reason. I did not intervene during the previous debate, but the Minister might know—I certainly do—that thousands and thousands of microbusinesses are supposed to put their annual accounts in to HMRC, but do not do so, and nobody ever goes after them. There therefore may be thousands and thousands of businesses that put in false statements. Given the anti-regulatory stance that the Minister has displayed today, I am just interested in knowing who will actually check the statements and what will happen then.

Kevin Hollinrake: I am very disappointed that the right hon. Lady regards me as anti-regulatory. I want a system that allows good, bona fide businesses to go about their daily business without unnecessary checks and balances. We cannot control everything that goes on in our society but, in the main, businesses are lawful, and undertake lawful and legitimate commercial activity.

If the right hon. Lady expects a world in which we check every single filing, nobody will be doing any commercial work in our society. The only people we will have will then be box-checkers, and where would the tax revenue come from to pay for all the things that both she and I want in our society?

We must have a proportionate balance between regulation, the cost of resourcing regulators and the needs of law enforcement agencies. That is why our belief, which I know is not entirely hers, is that we need to take an intelligence-based approach to regulation. That is the most effective way to do it.

Seema Malhotra: I think we all agree that we do not want to do things that impede lawful activity—that is not a matter for debate, really. The question is whether the systems will be strong enough. They do not have to be burdensome; there are ways in which systems can have automatic checks, and be underpinned by clear roles and responsibilities. The question of who would know whether there are errors in a confirmation statement, and how that would be checked, is quite an important one for ensuring that we are not—

The Chair: Order. This is an intervention. I call the Minister.

Kevin Hollinrake: I do not disagree. I agree with the hon. Lady about automation, but checking every single document and every single file would be ludicrously burdensome, because 99% of those filings would be legitimate documents. I speak as somebody who has been an authorised person under the FCA, so I know how many checks, and double-checks, someone in such a position has to make. The vast majority of people who the FCA regulates do a bona fide, legitimate job.

[Kevin Hollinrake]

We are trying to find the people who are not doing so, and what we are trying to do through the Bill is to allow the sharing of information and the cross-referencing of information to identify all the red flags—the hon. Lady talks about automation—and then trigger alerts that can be investigated. I think that we all agree about that, and that is the approach that we are taking.

As I was saying, these measures will all ensure that companies, once formed, will reassert to the registrar via their annual confirmation statement that the company's intended future activities are lawful.

Clause 59 will oblige a company to notify the registrar via its first annual confirmation statement of a change in its principal business activity if such a change takes place between the company's application to be incorporated and the incorporation taking place. That addresses the fact that there is currently no duty to notify the registrar during the incorporation process. This new obligation builds on the existing obligation in section 853C of the Companies Act 2006, whereby companies have to notify the registrar of a change in principal business activities via their annual confirmation statement.

Clause 60 amends section 853J(4) of the Companies Act so that the framing of criminal offences is consistent with similar provisions in this Bill. It also makes the same amendment to section 853L(1), which concerns the offence of failing to submit a confirmation statement on time. It will clarify that every officer of the company who is in default can commit the offence, as well as every director of the company. It also corrects an irregularity with the framing of the offence, which currently imposes strict liability on all the company's directors and secretaries, regardless of whether they are in default—in other words, regardless of whether they authorised, permitted, participated in, or failed to take all reasonable steps to prevent, the contravention. I hope right hon. and hon. Members agree that it is important that these measures reach the statute book.

Seema Malhotra: We welcome clause 57 which, as the Minister said, prescribes the company's duty to notify the registrar about certain events and provide certain information in advance of and at the same time as the delivery of the annual confirmation statement. That is obviously very important.

We have already debated some of the issues that clause 58 addresses. It is obviously an important clause, and the Minister has outlined that the approach is to hope for accuracy, based on risk assessments and red flags. We understand that, but it still does not feel as strong as we need it to be. It does not feel clear and strong on detecting issues, and it does not give the registrar a clear expectation of what the Minister intends. It felt a little like the Minister was just hoping that everything would work out. We should be clearer about what steps should be taken on detection, prevention and enforcement, and ensure that that is as strong as possible through the passage of the Bill. That is incredibly important, because we know that those are weak areas.

My right hon. Friend the Member for Birmingham, Hodge Hill made the very important point that we need to clarify what is expected of the registrar. They will be subject to many different demands, and in some ways it will make their life easier if they see in *Hansard* that there is a clear expectation from the Government, the Minister and the House about what is to be done. That would aid the call for greater resources, as it is frankly a way of making savings from enforcement later, and increasing the speed of detection will considerably lower the cost of economic crime. I hope that the Minister recognises that I am putting these comments and questions to him in the hope of detecting ways of tightening up the message about what we expect, in order to better implement the Bill and its stated goals.

We welcome clause 59, which I think we referred to earlier. Clause 60 will align terminology around existing offences relating to confirmation statements. The Minister outlined the detail of that. I raise a similar question as previously, because I seek clarity from him on what it will mean in practice for companies that breach the new provisions around confirmation statements. What is the result of failure to comply with the provisions, and who will be held to account? Clarifying that would be quite helpful. It would also be helpful to understand whether the Bill will allow for retrospective penalties, should information on the confirmation statements turn out to be misleading, and perhaps purposefully misleading.

Kevin Hollinrake: The hon. Lady raises some good points on retrospective penalties. I will find out that information and come back to her.

Question put and agreed to.

Clause 57 accordingly ordered to stand part of the Bill.

Clauses 58 to 60 ordered to stand part of the Bill.

Clause 61

Identity verification of persons with significant control

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

The Chair: With this it will be convenient to discuss new clause 27—*Reporting requirement (identity verification)*—

"(1) The Secretary of State must publish an annual report on the progress of establishing identity verification procedures in relation to proposed officers and persons with initial significant control.

(2) The first report must be published within three months of this Act being passed.

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

(4) The Secretary of State must lay a copy of each report before Parliament."

This new clause would add a requirement on the Secretary of State to report on the progress of establishing identity verification procedures for proposed company officers and persons with initial significant control.

Kevin Hollinrake: I am aware that hon. Members have tabled amendments in relation to ID verification in the groupings to follow, but I will first speak to the first clause in this chapter. Clause 61 introduces requirements for people who own or control companies to undergo ID verification to improve the reliability of information on the company register. The UK was the first G20 nation to introduce a public beneficial ownership register of companies: the people with significant control register, which has more than 5.8 million entries about people with significant control over entities on the company register. The clause will apply ID verification requirements to persons with significant control and relevant legal entities on the register. It is a vital clause.

If a company has not voluntarily delivered a statement confirming that the identity of a person with significant control is verified, the registrar will direct such a person with significant control to make an identity verification statement within 14 days. A company might be owned or controlled not only by individuals, but by legal entities—for example, other companies. To be a registrable relevant legal entity, a legal entity must meet certain conditions, and be subject to its own disclosure requirements. It is registrable in relation to a company if it is the first legal entity in the company's ownership chain.

Where there is a registrable relevant legal entity in relation to a company, and the company has not voluntarily made an identity verification statement for that RLE, the registrar will direct such a relevant legal entity. That direction will require the entity to make a statement within 28 days, naming its verified relevant officer. The statement by the RLE must include a statement made by the relevant officer confirming that they are a relevant officer for the entity. That will prevent individuals from being notified without their consent or any relation to the entity.

The clause creates a duty on persons with significant control to maintain their verified status as long as they are registered with the registrar. The RLEs will also be under a duty to maintain a verified relevant officer as long as they are registered with the registrar. That is to ensure that a verified individual is always traceable for each RLE. Failure to comply with the registrar's directions or to maintain a verified status is an offence under the clause.

3.45 pm

I thank the hon. Members for Feltham and Heston and for Aberavon for tabling new clause 27. Establishing the ID verification regime will require significant operational planning and systems development, both of which are under way at Companies House. It will further necessitate the making of secondary legislation, much of which is dependent on operational detail from Companies House. Secondary legislation about ID verification will be made using the affirmative procedure.

Work on the regulations will begin immediately after Royal Assent, and we will lay them before Parliament as soon as we are able to do so. That will give Members an opportunity to meaningfully debate the details of the ID verification process and the progress being made to put in place the necessary systems. As a result, introducing a requirement on the Secretary of State to report on the progress of establishing the ID verification regime is not necessary. I therefore thank the hon. Members for the new clause but ask them not to press it.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Mr Robertson. I think it is safe to say that we are coming to one of the most significant and consequential aspects of the Bill.

Clauses 61 to 67 take up a full 15 pages and provide a framework for the verification of the identities of individuals listed on the register of people with significant control, whom I will henceforth refer to as PSCs. Since its launch in 2016, the PSC register—more colloquially described as the register of beneficial owners of UK companies—has made important progress towards corporate transparency, but it remains very much a work in progress.

Much of this Bill is rightly concerned with closing loopholes in existing legislation and, as it stands, the PSC system has loopholes that are big enough to drive a coach and horses through. Even if we could rely on the good faith of all those who register, we would still be stuck with the fundamental problem of the 25% ownership threshold. The ease with which that can be used to circumvent the registration requirement—for instance, simply by splitting ownership shares between four people, who may all be family members—has been extensively discussed and is well documented.

During last week's evidence sessions, my right hon. Friend the Member for Barking rightly drew attention to the case for a threshold set much lower than 25%. In response, Professor Elspeth Berry argued that although the threshold should certainly be lowered, even

> "a zero percentage could be considered."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 103, Q194.]

That is the case, given how many different and probably more relevant ways there are of measuring corporate control in the modern business environment.

The Government will likely argue that 25% is a widely used international standard, but we should be clear about what that means. Nowhere is it suggested in any of the international frameworks to which the UK is a party that 25% ownership is anything more than an example of how a country might seek to define beneficial ownership. In fact, many jurisdictions set ownership thresholds much lower than that. Some jurisdictions—including Belize and Jersey, which are not exactly known as paragons of corporate transparency—use a 10% threshold. The Government's failure to take the opportunity provided by the Bill to revisit the definition of beneficial ownership is, to put it mildly, a disappointment.

I will now look more specifically at ID verification. Clause 61 is the first of a series of clauses in which the Government enable new powers to be introduced to ensure that information on PSCs can be verified. Subsequent clauses stipulate that full details of the verification regime will be set out in regulations at a later date.

The Opposition find the absence of substantial details on verification procedures in the Bill perplexing. It is now more than three years since the Government launched the first of what turned out to be no fewer than four separate consultations on proposed reforms to Companies House, which included proposed ID verification powers. It is not at all clear why, after all this apparent effort, Ministers are still unable to set out specific plans in legislation. Perhaps the reason is that they have been struggling to make a decision and stick to it.

In the first consultation document back in May 2019, the Government stated fairly unambiguously that they believed that Companies House should be given responsibilities for ID checks. That view was reiterated in subsequent consultation documents published in February 2021, which seemed to indicate that the Business Department is better at flogging a dead horse than at drafting legislation. More than a year passed before the Government finally published a White Paper. By that time, Ministers appeared to have gone lukewarm on handing responsibility for ID checks to Companies House, with a shift in emphasis towards outsourcing the checks to third parties that are collectively known as

[Stephen Kinnock]

trust or company service providers. Somewhat confusingly, they are now referred to in the Bill as "authorised corporate service providers", or ACSPs.

That is extremely problematic, for a whole range of reasons. First and foremost, TCSPs represent a highly fragmented sector, making supervision of their activities very difficult indeed. Some may be supervised by professional bodies—for example, if they provide accountancy or legal services—while others may be supervised by HMRC. In some cases, there is no supervision at all, leading RUSI's Helena Wood to compare the sector to the wild west. Ministers now propose to place an enormous amount of trust, faith and responsibility on the shoulders of TCSPs, about which they know very little.

Speaking to the Treasury Committee earlier this year, Graeme Biggar, the then director-general of the National Economic Crime Centre, said:

"We are developing a plan with HMRC and the Treasury to have both more supervision of, and more enforcement against, company formation agents. We are on it, but it is not the most developed of our plans. We have really got to do more work on that."

It would be excellent if the Minister could give us an update on the progress of the work that Mr Biggar referred to in that evidence.

As things stand, it is hard to imagine what the Government were thinking with the proposals in these clauses. This is not just a case of sharing responsibilities for supervision between the public and private sectors, as is already the case in the legal, accountancy and some other sectors; this is about outsourcing a set of tasks to the least regulated, least understood and potentially least reliable part of the entire financial services industry. The Government's own assessment in their national risk assessment was that TCSPs pose a high risk of being used for money laundering purposes. A previous risk assessment said:

"Ineffective AML supervision leads to inadequate compliance with the rules, and low and poor quality reporting of suspicious activity".

For at least the past seven or eight years, official reports and media coverage have documented the involvement of UK-based TCSPs in the efforts of oligarchs, many of whom are Russian, to conceal their wealth in opaque webs of corporate structures. It should be clear by now that the Opposition have serious concerns about the proposal to outsource ID checks to the sector. We have therefore tabled new clause 27, which would require annual reporting on the progress towards establishing verification procedures, in order to probe the Government's rationale for the policy. I hope that the Minister will take seriously the concerns I have just outlined, and that due consideration will be given to whether the policy is really in the interests of tackling economic crime and improving corporate transparency.

May I just ask you for clarification, Mr Robertson? Do you wish me to stop there or—

The Chair: You can discuss new clause 27 now if you wish.

Stephen Kinnock: I would be very happy to pause and provide the Minister with an opportunity to respond, if he wishes to do so, on clause 61.

The Chair: As you wish. I will bring Alison Thewliss in next, but we can come back to you, Mr Kinnock.

Stephen Kinnock: Thank you, Chair.

Alison Thewliss: I wholeheartedly support Labour's new clause. There is an awful lot more that needs to be done to tighten up the measure on verification. Nick Van Benschoten, in his evidence, said:

"On the verification measures, one of the key points is that they fall short of minimum industry standards. Verification of identity is necessary but not sufficient. A key thing we have noted is that the Bill does not provide for order-making powers to allow Companies House to verify the status of directors or beneficial owners, and for that sort of requirement on company information agents and so on. That seems an odd gap."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 7, Q3.]

I wholeheartedly agree with that. It is the key part of the Bill. If we are not going to verify people on the register, there is almost no point in having the legislation. It is the verification that is crucial.

Hand in hand with that are the fines for not complying with the verification. I draw the Minister's attention, again, to the people with significant control over Scottish limited partnerships. There has been one fine of £210 since the rules came into place. That is no kind of deterrent whatsoever. The rules need to be here, the verification needs to be right, and the sanctions for not complying must be enforced. I would say that even the sanctions are far too low.

Leaving trust and company service providers to verify identity leaves the door wide open to abuse. There is already abuse, and the Government's position in the Bill is to continue to allow that to happen. As the hon. Member for Aberavon said, trust and company service providers have been identified in numerous Government documents as being the gap that allows money laundering and international crime. That cannot be allowed to continue in the Bill. If the Government leave the door open for the trust and company service providers, they will continue to abuse the system and the register will continue to be full of absolute guff.

I raised the issue of verification in the House, albeit, I appreciate, with a different Minister, the hon. Member for Torbay (Kevin Foster). He suggested that a decision had not yet been made on how the verification system would work. My suggestion was that it go through the UK Government's existing verification scheme, which is used for passports, driving licences and tax returns, because that system is already up and running. The response suggested that that had not yet been decided.

However, it was drawn to my attention today that Companies House has already put out a tender for a verification system. A tender went out on 10 October and closed on 24 October for an "authentication digital delivery partner", looking for people to come and work on this system. I am curious to know why, when we have not yet got this legislation in place, the Government have tendered the contract and closed the application process for the company to build the system.

I would be grateful for some clarification from the Minister on exactly what the status is of that £3.7 million contract, which Companies House has already put out to tender. Why has it gone out before the Bill has concluded if Companies House does not know what it

is building yet, and when amendments are still being tabled? I appreciate that the Government want to move at speed, but putting the cart before the horse in this way seems quite wrong.

We would like the verification to be strengthened, but if the Government have already instructed a contractor on what it will build, why are we even here this afternoon?

Dame Margaret Hodge: I seek your guidance, Mr Robertson: we are talking about clause 60, are we not?

The Chair: We are talking about clause 61, but we can also discuss new clause 27.

Dame Margaret Hodge: Yes; the others come later.

After the excellent speech by my hon. Friend the Member for Aberavon, I will speak briefly. I have two things to say. We will come back to the issue of shareholders, data and the threshold, which is really important, and I will certainly come back to the issue of trust or company service providers, because Labour Members all think that it is key to get that right if we are to have any credibility about the integrity of the list.

I want to talk about new clause 27. The Minister has said a number of times that he does not want to impede business. I do not think any Opposition Member wants to impede business either. We want to have smart regulation, not too much regulation. The purpose of this debate is to ensure that the regulation is indeed smart. At the moment, there are too many flaws.

4 pm

The Minister has said consistently that we should let Companies House and all the enforcement agencies get on with it and that they should account to Parliament. New clause 27 is one of the ways in which those organisations can do that. It is not just about developing the criteria for the identification procedure; that should have been in the Bill and not in regulation. There has been plenty of time to develop it for inclusion in the Bill, but that has not happened and it will go through regulations under the affirmative procedure. I understand that.

However, this is a key part of the annual work of Companies House. If the Minister wants real accountability, he ought to accept in good faith the new clause put forward by my Front-Bench colleagues and agree to implement it. There is no good reason whatsoever that we should not have regular accountability to the House from Companies House on how it is exercising its obligations and powers.

The Chair: For clarification, we will not vote on new clause 27 until later in the proceedings, and probably not today. We are discussing it now. In view of the fact that new clause 27 has already been raised, would you like to speak to it now, Mr Kinnock?

Stephen Kinnock: I have made the points that I wish to make about new clause 27.

The Chair: Thank you. I call the Minister.

Kevin Hollinrake: As an overriding point, we all know how important the integrity of the ID verification system is. I completely agree with that and we need there to be confidence in it.

On the point raised by the hon. Member for Glasgow Central, it is not right that a tender has gone out already. A request for information has been put out to determine some of the characteristics of the suppliers to learn what services they provide, but a tender has not gone out. Once determined, the ID verification system will be brought to the House to be approved by affirmative resolution. There will be opportunities for debate at that time to make sure it is fit for purpose, both in the framework and how it will be operated.

On the comments the hon. Member for Aberavon made about persons of significant control, first, I think he makes the exact case that we would make. A 25% threshold is pretty much the global standard, but even if it were lowered, people could find ways around it—even if there were a 0% threshold, as was suggested by Professor Elspeth Berry. That is why the definition of a person of significant control is not solely about the percentage of the shareholding of a company. There are five definitions, including one I that believe will interest the hon. Gentleman, which is somebody who, other than by shareholding,

"has the right to exercise or actually exercises significant influence or control"

over a company. Therefore, there could be zero shareholding and they would still be a person of significant control. How is that enforced? If directors allow that to happen and do not declare that they have a person of significant control, they are liable for a fine and a custodial sentence of up to two years. We do deal with that in a reasonable way.

Some valid concerns have been expressed about company formation agents. I am happy to write to the National Crime Agency to ask what it has done about them. However, not all company service providers are company formation agents; there is a distinction. A company service provider may well be a large accountancy practice, such as Deloitte, PwC or KPMG. The hon. Member for Aberavon stated that such organisations know very little about their clients and offer a blanket service, but I do not think that is fair. My accountants can verify my ID and they know a great deal about me, I can promise the hon. Gentleman.

Of course we must make sure that the system is robust, and I acknowledge that there are some concerns about the supervision of those registered as supervised for money-laundering purposes. Of course we must be sure that the system is right. As hon. Members are aware, I think, the Treasury is looking at means of improving the regime to ensure that the supervision is much better, and it needs to be. The difficulty is—we will have more debate about the issue in forthcoming sittings—whether we want to get everything perfect in the system before we start ID verification, or whether we start ID verification. In my view, it is essential that we get that ID verification done as quickly as possible. Waiting until the AML supervision regime is absolutely perfect would be a mistake, in my view. The two things should happen concurrently.

I understand the reasoning behind new clause 27. I completely agree with the idea of giving confidence to Parliament that the matters are being taken forward. I am happy to commit to return to Parliament to communicate by whatever means is preferable—written ministerial statement or oral statement—what progress

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has been made to ensure that Parliament has the information that it needs to hold Companies House and other agencies to account.

Dame Margaret Hodge *rose—*

The Chair: The Minister is finished. If someone else wishes to speak, they can stand in the normal way and indicate.

Dame Margaret Hodge: I am grateful to the Minister for saying that he will return to Parliament, but new clause 27 is designed to ensure that there is an annual report to Parliament. That means that our successors—certainly mine—will be able to hold Companies House to account over time. He knows that accountability is absolutely vital to ensuring the integrity of the system.

Question put and agreed to.

Clause 61 accordingly ordered to stand part of the Bill.

Clause 62

PROCEDURE ETC FOR VERIFYING IDENTITY

Stephen Kinnock: I beg to move amendment 108, in clause 62, page 47, leave out lines 14 and 15.

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

Amendment 109, in clause 62, page 47, leave out lines 18 to 20.

Amendment 78, in clause 62, page 47, line 20, at end insert—

'(2A) No verification statement may be made by an authorised corporate service provider until the Treasury has laid before Parliament a report confirming that the Treasury's review of the UK's anti-money laundering and countering the financing of terrorism regulatory and supervisory regime has been completed.'

This amendment prevents an authorised corporate service provider from making a verification statement prior to the completion of the Treasury's review of the UK's anti-money laundering regime.

Amendment 107, in clause 62, page 47, line 20, at end insert—

'(2A) The regulations must make provision for the evidence required to verify an individual's identity for the purposes of subsection (2)(a) to include—

(a) an identity document with a photograph of the individual's face; and

(b) an identity document issued by a recognised official authority.

(2B) For the purposes of subsection (2A)(b) above, "a recognised official authority" includes—

(a) a department or agency of the UK government;

(b) a department or agency of any of the devolved nations;

(c) a department or agency of the government of another country;'.

Amendment 110, in clause 62, page 47, leave out lines 34 to 37.

Amendment 111, in clause 62, page 47, line 43, leave out from "registrar" to the end of line 44.

Amendment 112, in clause 62, page 48, leave out lines 4 to 26.

Clause stand part.

Stephen Kinnock: I have spoken at some length about the Opposition's concerns about the provisions in clauses 62 and 63 to authorise third-party trust or corporate service providers—or authorised corporate service providers, as they are described in the Bill—to carry out ID checks on the Government's behalf. Amendments 108, 109 and 110 to 112 would simply remove those provisions from the Bill in the hope of prompting a rethink by the Government.

I should like to explain the thinking behind the amendments tabled by me and my hon. Friend the Member for Feltham and Heston. The purpose of amendment 107 goes back to what I have said about the surprising lack of specific details on the proposed verification process. As I have said, it is not as though the Government have not had enough time to think through what procedures might be necessary; four consultations have already taken place on the topic. Amendment 107 would incorporate into the Bill requirements for some form of official identification, including photo ID, to be submitted to the registrar. That should not be controversial. In fact, the amendment would merely reflect international best practice guidelines, including those published by the Financial Action Task Force, the IMF and the World Bank, among others, and the commitments made in the Government's own White Paper.

Dame Margaret Hodge: It is a pleasure to rise to speak under your chairmanship, Mr Robertson, and I do so to speak to amendment 78. The amendment is part of a batch of amendments that we will get to later. I hope that hon. Members will bear with me if I speak longer on amendment 78, so that amendments 79, 82 and 83 will not require a long explanation.

This is one of the most important series of amendments that we have placed before the Committee. The purpose is to ensure that we close any loopholes, so that we do not find ourselves back in debate in a couple of years' time, bemoaning the fact that we failed to create watertight legislation and that we do not have the information and data that we need to hold businesses to account.

I stress that our aim is not to be bureaucratic. The last thing anybody wants is bureaucratic regulation. However, if we do not have effective, smart regulation, we will not achieve the objective, which is shared across the House, of bearing down on illicit finance and on the abuse of our corporate structure system by ne'er-do-wells. Today, we are paying the price of those who came before us, from both political parties, who thought that by simply deregulating the whole of the financial services sector, they would encourage growth in the economy. They did encourage growth, but they also made us a destination of choice for too much illicit finance. That has come into focus with the war in Ukraine and the role of Russians in bringing their financing here. That money is used to fund Putin and his allies in the attack on Ukraine.

The Government have decided to outsource responsibility for checking the unique identification of beneficial owners. I can see why they have done so. It is quicker to do it that way than to build up the necessary resources in Companies House. Like my hon. Friend the Member for Aberavon, I would have had more confidence if we had done it in house, but that was the Government's decision. The purpose of my amendment is not to challenge that decision. However, we need to trust the

corporate service providers. We need to trust both the professionals and the others involved, whether they are lawyers or accountants, to do the job properly and honestly. At present, confidence and trust are not there.

I thought that the Government were on the same page on this issue. From all the leaks, and from all the information and intelligence about how illicit wealth from all the kleptocracies has reached our shores, I thought that they understood the role played by the TCSPs. I thought they understood the role that the TCSPs play, and therefore shared our concern that we need to get that regulatory framework right before we unleash a new system that, if it is not right, could lead to us peopling the new Companies House register with dud information that we do not want.

4.15 pm

In that context, it is worth reminding Members of what that data is about, beginning with a 2017 Europol report. That report found that a very high proportion of suspicious transaction reports where people spotted possible money laundering in the EU involved UK companies—so, Europol found that our corporate structures made us one of the jurisdictions at the heart of money laundering. I think I am right in saying that the firm at the heart of the Paradise papers, Appleby, is a UK-headquartered legal firm. That firm was criticised for its flawed compliance with procedures in 12 confidential audits by authorities in the British Virgin Islands, Bermuda, the Cayman Islands, the Isle of Man—all tax havens. Even those jurisdictions—secrecy jurisdictions that had opened themselves to illicit finance—felt that the way in which that law firm administered its due diligence was utterly flawed.

In August 2014, one partner—this only came out in the Paradise papers—warned colleagues that they were in danger of getting

"carried away with fee-earning potential"

and went on to say that at the end of the day, if it all went wrong, the firm would

"be left holding the 'steaming turd'".

I apologise if that is unparliamentary, but I thought it was worth putting in. In 2013, the Bermuda Monetary Authority recommended changes to tighten up Appleby's approach to money laundering and terrorist finance, but the company ignored that. In 2014, there was a further report, and in 2015, the firm was fined for persistent failures and deficiencies. In November 2015—the end of 2015, which is the last date for which I have information—Appleby still had 167 files for which it had not carried out its proper duties, both anti-money laundering and anti-terrorism.

The FinCEN files, which were mentioned in the Committee's first session, showed that 3,267 UK shell companies—more than any other jurisdiction—had been established by company service providers and other professionals through that flawed process. To give just some examples of the people involved, one single corporate service provider had set up 385 of the companies named in the FinCEN files. Nine of the companies named had set up companies that were linked with £4.1 billion of so-called missing money. One address, which I mentioned the other day—175 Darkes Lane, Potters Bar—was home to more than a thousand companies. Nine agencies in the Baltics, not in the UK, had set up 2,447 UK-registered companies; the Bill will not stop that from happening. Those companies may not all have been set up for a bad purpose, but many will have been.

Then there is the recent research by Transparency International, which I think has been sent to all members of the Committee. Using data collected from open-source research, it identified 1,628 limited liability partnerships here in the UK that had been used in various corruption and money laundering schemes over a 12-year period. It reckons that $730 billion of suspicious funds were moved though those schemes, which is probably an understatement. These are British-based companies, established by service trusts and corporate service providers that are badly controlled.

I want to look at some of the people involved. Let us take the lawyers first. We know that 60% of firms visited by the Solicitors Regulation Authority in 2020-21 failed to comply with duties to have adequate AML controls in place. The nine professional bodies responsible for supervising the sector for money laundering are engaging in low levels of enforcement, and are three times more likely to engage in what they call "quiet chats"—informal actions, we would say—with those breaching the rules than in issuing fines and public censures. The FCA, by contrast, takes much more formal action.

Some of the professional bodies are failing to impose any meaningful fines. The Council for Licensed Conveyancers imposed zero fines, despite finding that 62% of the firms it supervises—nearly two out of three—were non-compliant in 2019-20. The Law Society of Northern Ireland imposed just one fine of £1,750 during the same period, despite finding 228 cases of non-compliance.

The highest ever AML fine for a law firm by the regulatory authorities was of £232,500, to Mishcon de Reya. There is such inconsistency between supervisory and regulatory bodies. The fine would have been £5.4 million—20 times more—if it had been calculated using rules similar to those used by the FCA.

I am sorry I am going on, but I want to demonstrate the enormity of the problem that we are failing to grasp. I accept that TCSPs are only one group of professionals that operate in the field, as the Minister says, but they are key. There was a national risk assessment of TCSPs in 2020 and they were assessed as being of the highest risk for money laundering. Think of the role they play—they are the most important body. About half of the corporate entities that are established in the UK are through TCSPs. They are the very professionals to which the Bill proposes we should outsource some of our ID checks.

The supervision of TCSPs is essentially non-existent. It is an HMRC function, and it hardly carries out that function. TCSPs rarely see fines of more than £1,000. Only five of the 283 financial penalties given out by HMRC in 2021-22 were awarded to TCSPs. Assessment after assessment has demonstrated HMRC's failings in this regard, and the Minister knows that that is the case.

The Financial Action Task Force, the global money laundering standards-setting body, assessed that HMRC was not performing well and should improve. A statutory review by the Treasury highlighted that despite improvements following the 2018 FATF review, HMRC continues to suffer from a lack of appropriate AML policies, controls and procedures. As recently as 2018,

the former chief executive of HMRC, Sir Jon Thompson, for whom I had a very high regard—he was really good, and one of our better permanent secretaries—questioned whether its anti-money laundering duties were a bolt-on rather than a core part of its business.

Wherever we look, there is a complete lack of proper regulation and supervision of the professional bodies that are charged with setting up new companies, particularly TCSPs. I stress the point that more than 50% of corporations set up in the UK are set up by TCSPs. It is absolutely vital that we get supervision and regulation right. I know that the Government accept that point, and I know that is why they have set up a review. We have a crazy system in the UK, with 25 different anti-money laundering regulators, many of which are the trade bodies of the professions involved. There are a lot of problems with that system.

A 2021 review of bodies in the legal and accounting sector whose job it was to regulate and supervise found that 81%—eight out of 10, which is high—were not supervising members properly, half were not ensuring that members were taking timely action, and a third did not have separation between supervision and advocacy. Because they are trade bodies, they are constantly lobbying people like us to get what they want out of the system. They are supposed to do that as well as carrying out their supervisory role. I think there is a conflict, but that may be a bridge too far for us at the moment.

There are also people involved in setting up companies who fall through the net and are not supervised by anybody. I am thinking particularly about financial advisers. If one gets kicked out of the accountancy bodies, one can carry on practising, establishing companies and calling oneself a financial adviser.

Much as I would love to get on with this, I think it is incredibly dangerous for us to press the button and start the reforms. I desperately want unique identification, which is hugely important—I welcome it—but it is incredibly dangerous to put that in place when we cannot trust the professionals whose job it is to set up companies. It is for that reason that I tabled amendment 78. If the Minister can come back with a better system—

James Daly (Bury North) (Con): I refer to my entry in the Register of Members' Financial Interests as a practising solicitor and a partner in a firm of solicitors. The right hon. Lady has essentially said that everybody involved in the legal sector and financial advisers are potentially dishonest. They absolutely are not. The vast amount of people involved in the sector are honest, decent people who have a lot of regulation and try their damnedest to abide by all of it. The picture that the right hon. Lady paints is not correct.

Dame Margaret Hodge: That is not what I said. The hon. Gentleman may have chosen to interpret it that way—

James Daly: You said we cannot trust people in the sector.

Dame Margaret Hodge: No, I did not. I said that none of the professions has sufficient supervisory or regulatory capabilities, policies or practices in place to pull out the bad apples. I have nowhere ever stated that that applies to everyone, but I hope the hon. Gentleman agrees that the extent of people setting up shell companies —we are talking largely about shell companies—as vehicles to move illicit finance, whether through drugs, kleptocrats or people trafficking, is shocking.

Let me tell the hon. Gentleman my most egregious story, which has been mentioned—the Savaro story. We had this terrible explosion in Lebanon, with hundreds of people killed and lots of property destroyed. We were told that it was fertiliser held in the warehouse that was going to Mozambique. A couple of months after the explosion, I was rung up by a Reuters journalist with whom I have worked down the years, who said, "Did you know it was a UK limited company—Savaro Ltd?" He went on to say that not only was it a UK limited company, but, interestingly enough, it had told HMRC it was dormant, so it had not filled in its tax returns. It was registered in the name of a company service provider, a woman who lived in Cyprus. There were two lies in the system: a lie about the company service provider, and lying to HMRC.

I gave the usual quote and was then overwhelmed by people from Lebanon contacting me, including the Bar Association, all of whom were trying to find out the origins of what had happened. It then emerged that three Ukrainian Syrians—this was before the Ukrainian war—were the real owners. There was no way the fertiliser was going to be used in Mozambique; it was going to Assad to drop as barrel bombs on the civilian population of Syria. That is the sort of shocking outcome that comes from lack of proper regulatory control.

4.30 pm

Of course, it is not everybody; there are thousands of legitimate companies founded every day. However, if we do not pull out the bad apples and have a smart regulatory system in place, we will bring all the professions and the UK financial sector into disrepute, and that will not be good for the UK economy over the longer term. I apologise that I will not talk to the other amendments for very long, because they all flow from amendment 78.

It is in that spirit that I say to the Minister that if he does not like the way we have proposed the measure, he should come back with another way. For heaven's sake do not go ahead with the current lack of supervision and regulation of those who will be responsible for filling out the register and founding companies.

Kevin Hollinrake: I will deal first with amendment 78, tabled by the right hon. Member for Barking. As she knows, it would place a restriction on the permitted ID verification processes set out elsewhere in the Bill. It would allow a person such as a company director or beneficial owner seeking to verify their identity through an authorised corporate service provider to do so only once His Majesty's Treasury had completed its review of the AML supervisory regime and laid the report before Parliament. I think that if the right hon. Lady thinks about it, she will probably want to go further than that, based on her remarks. I think she wants to go ahead only once the AML regime is properly supervised generally, not just to the point where we have the report from the Treasury. We are potentially talking about getting some way down the line before we are in a situation where she would be happy with the regime.

I take on board many of the comments the right hon. Lady made. Parts of the regime are not operating as they should—I quite agree. We absolutely need to fix that. As with other amendments proposed today, I am sympathetic to the intention; however, I think that there better ways to do it.

The practical effect of the amendment would be to place a temporary restriction on the functions that legitimate businesses may carry out. That restriction is unrelated to and may be unaffected by the publication of the review to which it is linked. It is anomalous and unfair that those businesses affected will still be subject to their current regulatory obligations to carry out ID checks. However, they will be prevented from making a statement reporting to Companies House that such checks have taken place, effectively delaying the whole regime. I also draw attention to the impact of the right hon. Lady's amendment on those people who use agents to manage their interests. I accept that some are shady characters, but, as my hon. Friend the Member for Bury North stated, the overwhelming majority are not.

Alison Thewliss: The Home Office report, "National risk assessment of money laundering and terrorist financing 2020," states:

"Company formation and related professional services are therefore a key enabler or gatekeeper of"

trade-based money laundering activity. Should that not raise more concerns for the Minister?

Kevin Hollinrake: The hon. Lady is mixing up two different things. I am not saying that some company formation agents are not shady—I have just said that. However, not all service providers are company formation agents. Many are bona fide solicitors or accountants that are household names. I think we need to keep this in perspective. The hon. Lady cites statistics on the capability of some of the sector in terms of proper supervision. According to OPBAS, 50% of professional body supervisors were "fully effective". I think that figure should be much higher, but in its opinion 50% are fully effective, so it is not as if there are not some actors in this area that are doing the job absolutely right.

Many company directors and people with significant control that are currently registered at Companies House, all of whom will need to verify their identity under the transitional provisions post enactment, would prefer to do so by using their professional adviser. They will suddenly find that their long-established legal adviser is deemed fit by the Government to verify their identity for money laundering purposes, but unfit to report that to Companies House. The amendment would therefore create considerable inconvenience to individuals, as well as to corporate service providers.

I can assure the right hon. Member for Barking and the Committee that I will urge my counterparts at the Treasury to bring forward their consultation as quickly as officials can ready it. I also point to the powers in the Bill that will enable the registrar to keep an audit trail of the activity of agents to support the work of supervisors both immediately and following any changes from the Treasury's review. I hope my explanation has provided reassurance.

Let me touch on one or two of the right hon. Lady's other comments. On the light-touch financial services regulation that I think she was suggesting was responsible for the global financial crisis, this is not deregulation. This is the opposite of deregulation; we are making regulations about the verification of ID. I would also point to the penalties for wrongdoing. In certain circumstances, if someone is found guilty of the aggravated offence of false filing under these rules—I think some of the examples she gave would constitute that—the sanction would be two years in jail. That is not for fraud, but for the false filing. There are real teeth to this legislation, which will reduce the likelihood of this stuff happening in future.

The right hon. Lady's amendment would effectively delay the whole regime we are talking about. She talks about Transparency International. As I said earlier, TI welcomes the reforms to the operation of Companies House that will effectively help to prevent money launderers from abusing the UK's system. We need to ensure that this happens as effectively as possible. I agree with many of the concerns that she raises, but it is wrong to delay implementation as she suggests.

I turn to amendments 107 to 112. I thank hon. Members for their contributions. The procedure for ID verification, including the evidence required, will be set out in secondary legislation under the powers in new section 1110B of the Companies Act 2006 inserted by clause 62 of the Bill. The regulations will set out the technical detail of ID verification procedures, which will reflect evolving industry standards and technological developments. The regulations can specify the process of ID verification and the evidence of identity that individuals will be required to provide when verifying their identity with the registrar. The amendments, particularly amendment 107, would limit the documents acceptable for the purposes of ID verification to photographic IDs issued by Government agencies and identity documents issued by a recognised official authority. That would exclude individuals who do not have a photo ID, such as a passport, from verifying their identity.

Stephen Kinnock: It is absolutely clear that our amendment 107 uses the words "to include". We are not limiting anything. The amendment sets out what the minimum should be. Surely the Minister agrees that an identity document with a photograph of the individual's face and an identity document issued by a recognised official authority should be the bare minimum we would want in the Bill.

Kevin Hollinrake: Under the cross-Government identity proving framework in "Good Practice Guide 45"—GPG 45—a combination of non-photographic documents, including Government, financial and social history documents, can be accepted to achieve a medium-level assurance of identity. That includes birth certificates, marriage certificates and recent utility bills. The framework, which also recognises ID documentation from authoritative sources, such as the financial sector or local authorities, is routinely used to build a picture of identity. Restricting that process by defining a recognised authority as a Department or agency could therefore inadvertently disenfranchise individuals from meeting ID verification requirements. I take the hon. Member's point that the amendment seeks to include certain forms of ID, but it might not serve the purpose that he thinks it would.

Seema Malhotra: I understand what the Minister says in relation to GPG 45. I wonder whether he has considered that, in circumstances where an identity document with

[Seema Malhotra]

a photograph of the individual's face may not be available, for whatever reason, in some way having a photograph of the person's face is the most important thing. Is that something he has considered as part of verification checks?

Kevin Hollinrake: All these matters need to be considered in the round when we come to the further details of ID verification. I was simply pointing out some of the shortcomings of the amendment.

In certain circumstances, non-photographic verification should also be available, to ensure that the Companies House service meets digital inclusion drivers and accessibility requirements, as set out in the Department for Digital, Culture, Media and Sport digital identity and attributes trust framework. The Companies House service must also adhere to the public sector equality duty.

The ability to verify using a range of documentation will maximise the number of service users able to verify digitally or at all. Not having that route would prospectively drive users toward assisted digital or non-digital routes, resulting in additional burden, an impact on ease of doing business, and increased cost and resource. It would also lead to far higher rejection rates, impacting company incorporations and appointments. As I said, the vast majority of companies are law-abiding, and it is disproportionate to put this burden on them.

I turn to the amendments that seek to remove parts of clause 62. Again, I have sympathy with my colleagues who are concerned about the effectiveness of the AML regime. Indeed, the measures in the Bill requiring corporate service providers to register with Companies House are intended to support the AML regime—a point raised earlier by the right hon. Member for Barking. There is a requirement for corporate service providers to register with Companies House as well as an AML supervisor. We will know who corporate service providers are registered with, and we will be able to provide their supervisors with information that will enable them to do their job more effectively. Where corporate service providers fail to act effectively, the registrar will be able to suspend or de-authorise them.

The practical effect of the amendments would be to limit verification pathways to the registrar only, preventing verification by the AML regulated sector from being acceptable for the purposes of ID verification under the Companies Act. That is unnecessary, and it would come at the expense of people and businesses conducting their activities entirely legitimately.

About half of company formations are currently submitted by third parties, very many of which take their responsibilities seriously and are highly diligent in conducting ID verification checks. They include high street accountants, regional legal firms servicing small businesses, and so on. I am concerned that preventing third parties from being able to register with Companies House and verify identities would have disproportionate consequences for those entities, possibly driving business away from them. That effect would be particularly acute where ID verification is taken as a package with company formation and other services. It is not clear how the amendments would affect the ability of corporate service providers to deliver documents on behalf of their clients if they are not required to be authorised, for example if they represent limited partnerships.

Many company directors and people with significant control currently registered at Companies House, all of whom will need to verify their ID under the transitional provisions post enactment, would prefer to do so by using their professional adviser. They would suddenly find that their long-established legal adviser was deemed fit by the Government to verify their ID for money laundering purposes under the money laundering regulations but unfit to do so under the Companies Act. The amendments would therefore create considerable disruption for individuals as well as corporate service providers. I hope that my explanation has provided reassurance and that hon. Members will consider withdrawing their amendments.

I have already described the new powers provided by clause 62. Beyond that, it is important to note that the regulations provided for by the clause can also specify the records that authorised corporate service providers will be required to keep in connection with the verification or reverification of identity. Those record-keeping obligations on authorised corporate service providers can be enforced through offences for non-compliance. Additionally, the Secretary of State can confer, by regulation, discretion on the registrar about when an individual's identity ceases to be verified. The individual will then be required to re-verify their identity. Finally, regulations under the new sections introduced by the clause will be subject to the affirmative resolution procedure.

4.45 pm

Stephen Kinnock: I have nothing further to add on this point.

The Chair: Do you wish to press the amendment?

Stephen Kinnock: No. I have made clear to the Minister that we are deeply unhappy, particularly with the failure to take on board the recommendations under amendment 107 and the very important points my right hon. Friend the Member for Barking made.

Dame Margaret Hodge: Similarly, I will take the matter up elsewhere during the course of the Bill.

Stephen Kinnock: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 62 ordered to stand part of the Bill.

Clause 63

Authorisation of corporate service providers

Dame Margaret Hodge: I beg to move amendment 81, in clause 63, page 49, line 38, at end insert—

"(3A) When an application is made under this section, the registrar may request evidence from HMRC that a fit and proper person test has been carried out on the applicant."

This amendment allows the registrar to request evidence from HMRC that a fit and proper person test has been carried out on a person applying to be an authorised corporate service provider.

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

Amendment 82, in clause 63, page 49, line 45, at end insert—

"(ba) the registrar is satisfied—

(i) that HMRC has carried out a fit and proper person test on the applicant, and

(ii) that the applicant has met the requirement of the fit and proper person test, and".

This amendment would mean that the registrar could only grant an application to become an authorised corporate service provider if satisfied that an applicant had passed HMRC's fit and proper person test.

Government amendment 8.

Amendment 79, in clause 63, page 52, leave out from line 42 to line 28 on page 53, and insert—

"1098G Duty to provide information

(1) The registrar must carry out a risk assessment in relation to any authorised corporate service provider to establish whether the verification of identity by the authorised corporate service provider is likely to give rise to a risk of economic crime.

(2) If the risk assessment identifies a real risk of economic crime, the registrar may—

(a) require an authorised corporate service provider to provide information to the registrar; or

(b) require a person who ceases to be an authorised corporate service provider by virtue of section 1098F—

(i) to notify the registrar;

(ii) to provide the registrar with such information relating to the circumstances by virtue of which the person so ceased as may be requested by the registrar.

(3) The registrar may require information to be provided on request, on the occurrence of an event or at regular intervals.

(4) The circumstances that may be specified under section 1098F(2) or 1098G(1) (ceasing to be an authorised corporate service provider and suspension) include failure to comply with a requirement under subsection (1)(a).

(5) A person who fails to comply with a requirement to provide information under this section commits an offence.

(6) An offence under this section is punishable on summary conviction by—

(a) in England and Wales a fine;

(b) in Scotland and Northern Ireland 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."

This amendment would give the registrar the power to require information from an authorised corporate service provider. This would replace the current provision in the Bill giving the Secretary of State a power to make regulations requiring the provision of such information.

Dame Margaret Hodge: I will speak very briefly. It would be nice if the Minister could agree to the amendments, which are simply there to tighten up the oversight of the bodies. Amendments 81 and 82 are connected, and would force HMRC to do what it is not currently doing and carry out proper checks on the TCSPs and monitor them properly. Amendment 79 gives the registrar the power to require information. At the moment, as I read the Bill, there is no power for the registrar to challenge any of the information provided to her by any corporate service provider.

Kevin Hollinrake: I thank the right hon. Lady for her contribution. Clause 63 introduces a requirement for third party agents who wish to provide corporate services to clients, such as incorporating companies and filing documents on their behalf, to be registered with Companies House as authorised corporate service providers. ACSPs will be required to be supervised for the purposes of the money laundering requirements at all times and to notify the registrar of any changes to supervision.

I understand and am sympathetic to the intention behind amendments 81 and 82. They are driven by concern that the UK's AML supervisory regime is not as robust as it could be. The Government recognise that, as do I. It is being addressed by my colleagues at the Treasury, who are responsible for the supervisory regime. I am afraid, however, that the amendments would duplicate some of the regulatory obligations of HMRC, the default supervisor for corporate service providers, by adding to the role of the registrar of companies. Their effect would be to make an agency of my Department responsible for overseeing activities of another Department. Not only is that duplicative, but it is wrong for one branch of Government to mark the homework of another branch. The most efficient means to address any issues with the quality of supervision is to tackle them at source, which is work that HM Treasury is undertaking on supervisory reform. I hope I have provided clarity on why the amendments are not needed.

On amendment 79, I understand the right hon. Lady's concerns, but I consider the amendment to be unnecessary. As I have set out, under the measures in the Bill corporate service providers will need to confirm they are supervised for the purposes of the money laundering regulations, register with the registrar and, in the case of an individual, have their identity verified before they are allowed to form companies or registerable partnerships or to file on their behalf. The ID verification checks undertaken by those providers will achieve the same level of assurance of the claimed identity as those undertaken through the direct verification route.

Dame Margaret Hodge: I am grateful to the Minister for giving way. Yes or no: will Companies House be able to challenge at any point information given to it by a TCSP—an authorised provider?

Kevin Hollinrake: As I understand it, yes, Companies House will have the rights and powers to do that, though we do not at this point know to what extent it will do so. The right hon. Lady spoke in a previous debate about spot checks. It would seem sensible to take that kind of risk-based approach. Certainly, an AML supervisor would have that ability as well.

Providers will be required to declare that they have completed all the necessary identification checks when they interact with the registrar. Under money laundering regulations, all agents are required to retain records, and the registrar can request further information and ID verification checks if necessary, which I think answers the question that the right hon. Lady just asked. The agent will be committing an offence if they fail to carry out the ID checks to the required standards, or at all.

Under the Bill, proposed new sections 1098F and 1098G of the Companies Act 2006, as introduced by clause 63, will enable the registrar to suspended and deauthorise an authorised corporate service provider. The Bill will allow the registrar to maintain an audit trail of agent activity and to share it with supervisors. That will serve as a prompt to supervisors to up their game. I hope that that explanation has further clarified why the amendments are not needed.

Dame Margaret Hodge: I will look in detail later to ensure that what I asked for is there, but I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 8, in clause 63, page 50, line 23, leave out "registered or".—*(Kevin Hollinrake.)*

This amendment would mean that a firm applying to become an authorised corporate service provider would always have to state its principal office, rather than having the option of stating its registered office.

Stephen Kinnock: I beg to move amendment 98, in clause 63, page 53, leave out from line 29 to line 5 on page 54.

This amendment removes the provision enabling the authorisation of foreign corporate service providers.

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

Amendment 99, in clause 63, page 53, line 37, leave out from "that" to "similar" and insert,

"has been assessed by the National Crime agency as having".

This amendment would ensure that the judgement as to whether foreign jurisdictions have similar regulatory regimes would be in the remit of the National Crime Agency, rather than in the view of the Secretary of State.

Amendment 100, in clause 63, page 53, line 40, at end insert—

"(2A) No person who is subject to a relevant regulatory regime under the law of a territory outside the United Kingdom may become an authorised corporate service provider if there is evidence that they have been disqualified from acting as a corporate service provider in any other jurisdiction".

This amendment ensures no corporate service provider based outside the United Kingdom can become an Authorised Corporate Service Provider if there is evidence that they have been disqualified from acting as a corporate service provider abroad.

Stephen Kinnock: Once again, I find myself somewhat baffled by what the Government are trying to get into the Bill. The provisions set out under clause 63 in proposed new section 1098I of the Companies Act 2006 would enable the Secretary of State to allow foreign corporate service providers to operate in the UK, outside the scope of the UK's money laundering regulations. There has been such extensive coverage in recent years of the risks that that would entail that I am really quite amazed that this needs to be reiterated yet again, but, in a nutshell, any UK laws attempting to regulate the activities of company formation agents, some of which have been responsible for the most flagrant examples of money laundering and sanctions evasion according to recent reports, could well be rendered essentially meaningless by these few clauses.

I say that because, if enacted as drafted, the clauses would appear to hand the Secretary of State a blanket power to disapply the money laundering regulations to foreign agents, on no one's authority but his or her own. We need not look too far for examples of how profoundly damaging that could be to our own laws, given how significant the divergences often are between anti-money laundering regimes in countries such as the UK, and those in overseas jurisdictions better known for their corporate secrecy than anything else. In fact, we need look no further than the UK's own overseas territories and Crown dependencies.

Any Member who is either unaware of or in denial about the scale of the problem would be well advised to read an enlightening, although also alarming, article published by *Forbes* on 9 March 2022. It had the somewhat provocative title of "Evading Sanctions: A How-To Guide For Russian Billionaires". The piece documented the use of opaque offshore corporate structures to launder literally billions-worth of assets held by Russian oligarchs in the last few months and years. What is most troubling about the account is that most of the jurisdictions that it specifically mentions as hotbeds of money laundering and sanctions evasion are UK-linked territories. It will surprise nobody that the list includes the Isle of Man, the British Virgin Islands and the Cayman Islands—in other words, the usual suspects.

I do not wish to dwell too long on the overseas territories, because I am sure there will be further discussions in the Committee when we come to debate later sections of the Bill. The point the Opposition are trying to make is simply that if we are going to allow businesses of any kind to operate in the UK, we should expect them to abide by our laws. If we start letting them off the hook, for reasons that Ministers have entirely failed to make clear, we are complicit in their actions. In short, the proposed new section 1098I would have us trust in the infinite wisdom of the Secretary of State to allow corporate service providers to operate outside the law, on the basis that those powers would be used only in cases where the relevant overseas jurisdiction has a regulatory framework with "similar objectives" to the UK's own rules.

I frankly do not trust the wisdom of the Secretary of State to use those powers for good. I do not believe that it is at all appropriate for such sweeping, ill-defined powers to be conferred on the present or any other Secretary of State. Although amendments 99 and 100 are probing amendments that give us the opportunity to seek answers from the Minister on these extraordinary provisions, amendment 98 is intended quite simply to remove the powers from the Bill.

Kevin Hollinrake: Once more, I am sympathetic to the aims of the amendments. They are driven by concerns that AML supervisory regimes outside the UK may not be robust. That is why the Government are specifying that authorised corporate service providers must be subject to the UK's AML regime. Nevertheless, it is possible that in the future the UK may become a party to an agreement—a trade agreement, for example—that would require it to accept applications from abroad where that regime is equivalent to that of the UK. I do not think the example the hon. Gentleman gave of Russia would qualify in that regard.

The power in the Bill would facilitate such an agreement and remove the need for primary legislation to implement it. I draw Members' attention to the wording already in the Bill, in proposed new section 1098I(2), introduced by clause 63. The UK would only become a party to an agreement if it could be assured that the regime was no less effective than its own. To be confident of that parity, the Secretary of State would need to establish that a regime was the equivalent of the UK's by considering evidence and advice from a range of sources, including the National Crime Agency. That would include the consideration for whether prospective authorised corporate service providers are disqualified under the relevant legislation.

As the legislation makes clear, the power would be subject to the affirmative resolution procedure and parliamentary scrutiny. While I understand any concerns expressed, I hope that Members will withdraw the amendment.

Stephen Kinnock: I thank the Minister for his response. As with the previous debate, I am not particularly happy with the position, and we will look for opportunities to return to the issue during the further passage of the Bill. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 63, as amended, ordered to stand part of the Bill.

Clause 64

GENERAL EXEMPTIONS FROM IDENTITY VERIFICATION: SUPPLEMENTARY

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

Kevin Hollinrake: We debated the clause at length in the previous groupings. I do not propose to repeat the arguments, and I hope the Committee agree with the Government's position.

Stephen Kinnock: We have no further comments to add on clause 64.

Question put and agreed to.

Clause 64 accordingly ordered to stand part of the Bill.

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

5 pm

Adjourned till Tuesday 8 November at twenty-five minutes past Nine o'clock.