PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Seventh Sitting

Thursday 3 November 2022

(Morning)

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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

(Morning)

[Julie Elliott *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 32

Disqualification of persons designated under sanctions legislation: GB

11.30 am

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 1, in clause 32, page 22, leave out lines 8 to 12 and insert—

"(1) This section applies in relation to a person who has, at any time on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force, become a person subject to relevant financial sanctions and who remains so subject."

This amendment and Amendment 3 would mean that a person who is subject to sanctions is disqualified under the GB directors disqualification legislation only if those sanctions relate to asset-freezing.

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

Amendment 93, in clause 32, page 22, line 12, after "force" insert

", or a person who is suspected of the facilitation of the evasion of sanctions by a person so designated."

This amendment seeks to expand the criteria for disqualifying individuals from being company directors to include people suspected of facilitating evasion of UK sanctions by sanctioned individuals, in addition to sanctioned individuals themselves.

Government amendments 2 and 3.

Amendment 83, in clause 32, page 22, line 20, at end insert—

"11B Designated persons: requirement to notify the registrar

(1) This section applies in relation to a person who becomes a designated person as defined by section 9(2) of the Sanctions and Anti-Money Laundering Act 2018 on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force.

(2) If the person changes any details relating to any company on the register in the three months prior to the person becoming a designated person, the registrar must inform the Office of Financial Sanctions Implementation and the National Crime Agency of the changes made."

This amendment requires Companies House to notify the OFSI and NCA if a designated person has changed any details relating to a company in the three months prior to their designation.

Clause stand part.

Clause 33 stand part.

Government amendments 4, 5 and 6.

Clause 34 stand part.

Clause 35 stand part.

Kevin Hollinrake: It is a pleasure to see you in the Chair, Ms Elliott.

Government amendment 1 is one of six amendments that the Government have tabled to clauses 32 and 34. Before I discuss the Government amendments and those tabled by the Opposition, it is worth explaining what clause 32 does in order to understand better the purpose of the Government amendments.

Currently, individuals subject to an asset freeze—designated persons under the regulations that contain prohibitions or requirements of the sort referred to in section 3(1)(a) of the Sanctions and Anti-Money Laundering Act 2018—can continue acting as a director. They can also be involved, directly or indirectly, in the promotion, formation and/or management of a company. It is not appropriate for asset-frozen individuals to be company directors. It would be perverse for a person who is forbidden from dealing with their own funds or economic resources none the less to be free to direct a company.

Clause 32 prohibits individuals subject to an asset freeze from acting as directors, and does so by amending the Company Directors Disqualification Act 1986 to prohibit individuals subject to an asset freeze on or after the day the provision comes into force from acting as directors of companies or directly or indirectly taking part in or being concerned in the promotion, formation or management of a company. Such individuals will only be permitted to take part in such activities with the leave of the court.

An individual in breach of that prohibition will be committing an offence, the maximum penalty for which will be two years' imprisonment or a fine, or both. It will be a defence for the person if they did not know and could not reasonably have known that they were subject to an asset freeze at the time that they acted as a director or were involved in a promotion, formation or management of a company. The provision will take effect in England and Wales, and Scotland; clause 34 makes the equivalent provision for Northern Ireland.

Government amendments 1 to 6 all work to the same purpose. Collectively, they will ensure that new director disqualification measures impact those who should be prevented for public policy reasons from acting as directors, namely individuals who are subject to an asset freeze. The amendments will also ensure that we do not disproportionately and unnecessarily extend measures to categories of people whose sanction status has no bearing on whether they are fit to act as company directors. The narrower definition introduced via the amendments includes only designated persons subject to asset-freeze measures of the sort described in section 3(1) (a) of SAMLA.

Stephen Kinnock (Aberavon) (Lab): Could I trouble the Minister to explain a little more about what categories of people who are sanctioned should therefore allowed to be designated as unqualified as directors under the legislation? He has said that amendments are an attempt to narrow the definition to assets-based, but is he therefore saying that someone who is sanctioned for human rights abuses should nevertheless be able to be qualified as a GB director?

Kevin Hollinrake: I will go on to describe the categories. As the hon. Gentleman knows, an assets freeze is a type of financial sanction. Only those sanctions are relevant

to someone's ability to manage, form or promote a company. Non-asset freeze financial sanctions, such as securities and money market instrument prohibitions, can apply to a broader category of person beyond designated persons, for example, all persons connected to a particular country. To subject entire populations of countries to the directorship ban is grossly disproportionate. It would also be operationally unenforceable, as only designated people appear in published sanctions lists.

Dame Margaret Hodge (Barking) (Lab): I do not understand that. I do not know whether the Minister can explain it in ordinary language. It sounds to me like people with other financial interests will not be subject to this measure. I am sorry if I am being clueless, but I just do not understand what is being excluded at this point, and therefore what is included in this very welcome amendment.

Kevin Hollinrake: As I said in my explanation, for sanctions such as securities and money sanctions, those market instruments can affect entire populations; they do not just affect an individual. Those kinds of broad actions affect whole populations.

Dame Margaret Hodge *rose—*

Kevin Hollinrake: The right hon. Lady can intervene again if she wants further clarification.

Dame Margaret Hodge: If someone has some ownership in the securities market—I am not a financial expert, so I do not know whether I am understanding this right—and one took action on the assets, that would have an impact beyond the individual. Is that what we are being told?

Kevin Hollinrake: No, that is not what the right hon. Lady is being told. If someone has ownership, they have an asset, and therefore if that asset is frozen they are a designated person. It is just that the instruments themselves can affect the broad category of people who may or may not own assets. What we are trying to do is target people who actually own the assets.

Dame Margaret Hodge: I am very grateful. This is really to understand it. If somebody is sanctioned, are they the sort of individual we would want to be a director of a company?

Kevin Hollinrake: It is not a person who is sanctioned. What we are trying to say is that everybody who is subject to an asset freeze is a designated person—exactly the kind of person the right hon. Lady would want to see sanctioned. Rather than getting into a to-and-fro debate, perhaps we can write to her and explain the situation in layman's terms.

Dame Margaret Hodge: Yes, please.

Kevin Hollinrake: Furthermore, the Foreign, Commonwealth and Development Office does not currently designate people in relation to non-asset freeze financial sanctions. Although that may change in the future, a directorship ban may not necessarily be the most appropriate measure to impose on those designated for non-asset freeze financial sanctions.

Stephen Kinnock: On the point about the FCDO not sanctioning anything apart from asset freezes, does it not impose travel bans? Is a travel ban not a non-asset freeze type of sanction?

Kevin Hollinrake: Yes, that is right. What we are focusing on in the Bill is people who are subject to asset freezes, not travel bans. Hon. Members can argue that other people should be banned from being the director of a company, but we do not think this is the appropriate place to make that restriction.

Stephen Kinnock: Are the Government saying that if somebody has been sanctioned and given a travel ban but not an asset freeze, they are still a fit and proper person to be a director of a British company?

Kevin Hollinrake: The point is that they may be or they may not be. Putting a broad ban in the Bill just because somebody is subject to a travel ban is not the appropriate way to do it, in terms of whether they are a fit and proper person to run a company.

Stephen Kinnock: Are the Government seriously arguing that somebody who has been sanctioned by the FCDO and given a travel ban but not an asset freeze is still a fit and proper person to be a GB director? If the Minister is saying that the Bill is not the proper place to deal with that issue, where in our legislative framework will it be made clear that somebody who has a travel ban under FCDO sanctions is not a fit and proper person to be director of a British company?

Kevin Hollinrake: What we are talking about here is financial sanctions. These matters relate to companies and financial sanctions, not to travel sanctions.

Let me explain these points further. Not automatically imposing these measures on potential future scenarios will give the Foreign, Commonwealth and Development Office the flexibility it needs to impose the most appropriate and meaningful conditions on people designated for financial sanctions beyond asset freezes. Without these amendments, director disqualification measures introduced by the Bill would automatically apply to anyone against whom the designation power under section 9 of SAMLA 2018 is utilised—for example, transport or immigration sanctions, or any future measures that His Majesty's Government choose to design. Although those are extremely serious matters, such sanctions ought not by necessity impact on the person's ability to act as a company director. Furthermore, should there be a future need to extend director disqualification measures to people subject to those broader sanctions, that can be done via future legislation as and when the need arises.

Dame Margaret Hodge: I am genuinely sorry to interrupt, and I am looking at the Minister for Security as well. It seems to me that if we consider the behaviour that somebody has done to be so bad that we want to sanction them in whatever way—through a travel ban, asset freeze or other mechanism—surely in those conditions we do not think they are a fit and proper person to start a business? I cannot see the logic of this; I cannot see where the pressure is coming from to have a distinction between the two, and why we should want it. Why are we putting this down? Why should somebody who has been guilty of a human rights abuse, who may not have

[Dame Margaret Hodge]

an asset that we can sanction, still need to be defined as somebody who is not a fit and proper person to set up a company here? We do not want them to do that, do we?

Kevin Hollinrake: I think the best way forward on that is for myself and the Minister for Security to have a conversation. We can set out some of the reasons why that is the case in more detail in writing, as I promised to do earlier. We can then have a further discussion from there.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): When the Minister writes to my right hon. Friend the Member for Barking—which I am sure will be copied to all members of the Committee—it would be helpful to understand who would have been in scope in the original drafting, what specifically changed and who would be out of scope in the revised drafting. It would be clearer for us to know whether it has narrowed correctly, whether it is a tightening—and we should be happy with it—or whether, inadvertently, in dealing with one matter it has excluded others who might be useful to draw into the scope of the provision.

Kevin Hollinrake: That is perfectly reasonable. I tried to set out those kinds of example earlier, so I am very happy to clarify that in a letter to both the hon. Lady and the right hon. Member for Barking. Our position is that somebody might be subject to a travel ban for a number of reasons, and that does not necessarily exclude them from being a fit and proper person to run a company. Now, Members may think of some reasons why that individual should not be a fit and proper person, but I will set out why that person may still be fit and proper, and then we can all either agree, disagree or find a way of dealing with it.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It seems that if somebody is subject to a travel ban, they will fail pretty much every "know your customer" rule for every financial institution in the country. Indeed, we have set out regulations precisely to ensure that there are those tripwires. How will a company director be able to fulfil their duties? If the Minister cannot answer now, perhaps he can set that out in the correspondence to follow.

Kevin Hollinrake: That is exactly what I have already agreed to do. We will move on from that point, but, briefly, there will be instances where that person is not necessarily described as unfit or not proper to run a company, but we will set that out.

Amendment 83, tabled by the right hon. Member for Barking, introduces enhanced data sharing provisions to enable Companies House to more proactively identify and exchange information regarding suspicious activity with partners, including with law enforcement agencies. That is in addition to existing information sharing gateways and arrangements.

The Government believe it is better and more flexible to allow relevant operational agencies to formulate their own preferred approach to information exchange, rather than to define it inflexibly in primary legislation—*[Interruption.]* The right hon Member for Barking looks at me quizzically. I think she has picked up on one particular situation where she wants Companies House to act in a certain way, but she must agree that we could pick up myriad different situations where we might want Companies House to do something if we sat down and made a list. I am sure she does not want to get into the micromanagement of what Companies House should do in every circumstance. There will be millions of different things we expect Companies House to do. We prefer to give Companies House the objective of promoting the integrity of the registers and then hold it to account through the objectives and the provisions of the Bill. Specifying every single condition that we expect Companies House to operate in a certain situation is the wrong thing to do.

11.45 am

Liam Byrne: The last Bill Committee I had the pleasure of serving on was for the Data Protection Act 2018, which implements the general data protection regulation and prescribes all manner of protections for data privacy. This is our worry. When the new duty set out by the Minister for Companies House clashes with GDPR legislation, how do we resolve those clashes of principles to allow Companies House to share the data they need to share with the people they need to share it with in order to pinpoint the bad guys?

Kevin Hollinrake: That is a fair point and it is covered in the Bill, which seeks to make it easier for Companies House to share information proactively with other organisations or, indeed, commercial organisations and vice versa. Here, we are talking about specifying the exact circumstances in which that should happen, which we think is the wrong approach.

I now turn to amendment 93, which seeks to expand the criteria for disqualifying individuals from being company directors to include people suspected of facilitating evasion of UK sanctions by sanctioned individuals, in addition to the sanctioned individuals themselves. Any person enabling or facilitating the evasion of certain sanctions would already be committing an offence, for example, under regulation 19 of the Russia (Sanctions) (EU Exit) Regulations 2019. The maximum penalty on indictment is seven years in prison or a fine. Those are already dissuasive measures to ensure compliance with sanctions.

It is not appropriate and proportionate to apply director disqualification and offences to an individual who is only suspected of facilitating the evasion of sanctions. It is not clear what would constitute such suspicion and at what point a person would be prohibited to act. That could mean exposing an individual to criminal liability in circumstances reliant on suspicion alone, which I am sure the right hon. Member for Barking would not want to see. The uncertainty of what would constitute the criminal offence and potential interference with presumption of innocence has implications for the rule of law. I therefore ask hon. Members not to press their amendment.

I will now speak to clause 33. New section 11A of the Company Directors Disqualification Act 1986, introduced by the Bill, prohibits individuals subject to relevant financial sanctions, such as asset freezes, from acting as directors of companies. The clause limits the scope that

prohibition by disapplying it for building societies, incorporated friendly societies, NHS foundation trusts, registered societies, charitable incorporated organisations, further education bodies and protected cell companies. The Secretary of State may, by regulations, repeal any of the subsections in the section, therefore applying the prohibition on individuals subject to an asset freeze from acting as directors in any of the organisation types in the clause. That allows the Secretary of State to apply those measures only to company directors in line with the policy focus of the measures in the Bill, without that unnecessarily applying to other entities currently not in scope. That will take effect in England and Wales and Scotland. Clause 35 makes equivalent provision for Northern Ireland.

Stephen Kinnock: Clause 32 raises important questions about who we should and should not allow to hold positions of power and responsibility in UK companies.

Currently, under the 1986 Act, the circumstances in which a disqualification order can be imposed are strictly limited. For the most part, they involve individuals with a criminal record for breaches of company legislation involving UK companies. Clause 32 expands the disqualification criteria to provide an explicit prohibition on any sanctioned individual serving as a company director. That is entirely proper, but the Opposition's question is: why are the Government not going any further? They have considered who should be banned from serving as a company director, but the decision to add only those specifically designated under UK sanctions legislation feels like a missed opportunity.

We tabled amendment 93 to better understand and probe the Government's thinking and to explore how additional changes could contribute to the Bill's aims. The amendment is largely self-explanatory: it would add to the criteria those who aid and abet sanctioned individuals, or so-called "enablers" who help sanctioned individuals to evade our laws. The Minister will be aware of the army of lawyers, accountants and other so-called service providers who are in many ways doing Putin's dirty work in London. In our view, it is crucial that they are caught in the net that the Bill seeks to cast.

Kevin Hollinrake: I totally agree with the hon. Gentleman that we need to clamp down on the enablers of dirty money, but does he understand the point behind the provisions? There are serious penalties for somebody convicted of breaking sanctions—up to seven years in jail—but his amendment seeks to penalise somebody who is not convicted but merely suspected of facilitating that kind of activity. Does he understand why that is a difficultly for the Government?

Stephen Kinnock: I do understand that; the Minister makes a valid point. As I was saying, this is what one might describe as a probing amendment to try to get from him a sense of the proactive action the Government are going to take to go after those enablers.

Dame Margaret Hodge: The Minister is quite right to say that the powers are there, but I hope he agrees that a way to facilitate this would be to introduce a new criminal offence of failure to prevent economic crime. In that case, the enablers to whom my hon. Friend refers could be caught and rightly punished for their role in colluding or facilitating economic crime.

Stephen Kinnock: I thank my right hon. Friend for that extremely useful and eloquent intervention. That is absolutely the case, because the enablers are, by definition, experts in knowing how to play and game the system. We know it is going on, but they are notoriously difficult to track down. If we put the onus on industries to act proactively to prevent this sort of activity, that changes the game and makes prevention much more of a duty. I agree with the Minister that we cannot punish people if they are only suspected, but we can have a proactive ex ante approach. I would be grateful to hear his thoughts on that. In many ways, the amendment was designed to illicit a response from the Minister on what my right. hon Friend has just so rightly described.

The Minister has already pointed out that specifically designated individuals represent just the tip of the iceberg in terms of the scale of economic crime in the United Kingdom. There are any number of others who seek to exploit weaknesses in our laws and our ability to enforce them—for example, by creating opaque corporate structures to hide kleptocrats' assets. Adding to the criteria those who help to facilitate the evasion of sanctions by designated individuals—not necessarily as our amendment suggests, but through a more root-and-branch, proactive ex ante approach—is one way the Government could really improve the Bill. I would appreciate the Minister's thoughts on that. Restrictions on company directorships, as envisaged by amendment 93, should go much further.

Clause 33 extends the provisions of clause 32 to sectors other than companies—for example, building societies—and clauses 34 and 35 extend the same provisions to Northern Ireland. We support those clauses and, of course, amendment 83, which was tabled by my right hon. Friend the Member for Barking.

At various points in recent years Ministers have outlined a number of specific proposals, which now appear to have fallen by the wayside. It seems reasonable to expect that all companies should have at least one director who is an actual human being. We do not have to be experts to intuit how easy it is to abuse the existing system, which allows a company to name another company as its director provided that at least one human being is on its board. In the Government's own words in a 2021 consultation paper:

> "Evidence suggests that the use of corporate directors can muddy the waters around ownership and provide a screen behind which to conduct illicit activity…More generally the opacity they create can weaken corporate governance by preventing individual accountability."

The Government even went so far as legislating in the Small Business, Enterprise and Employment Act 2015 to enable the Secretary of State to impose a ban on corporate directors. After more than seven years, however, regulations to implement that have yet to be published. In fact, clause 37—on which my hon. Friend the Member for Feltham and Heston will speak shortly—makes some changes to the relevant section of the 2015 Act. The apparent intent of the changes, which is to make it easier for corporate directors to be held to account for their action, is certainly welcome, but what is not clear to Opposition Members is why the Government have decided to amend the primary legislation—namely, the 2015 Act—when, as we understand it, the secondary legislation to implement the ban on corporate directorships under that Act has still to be introduced. Perhaps the Minister will shed some light on that.

[Stephen Kinnock]

Another glaring omission is the issue of nominee directorships. As long ago as 2013, the Government raised that as an issue that company law reform should deal with. Again, the Government's own words provide us with a useful summary of the problem:

"Where a company is being used to facilitate criminal activity, the individuals who really control the way that the company is run will likely want to avoid making this information public. They may use 'nominee directors' to do this. Nominee directors are individuals who go on the public record as the director of the company to be, effectively, a 'straw man' or 'front man' for the company. The beneficial owner 'stands behind' the nominee and controls the way that the company is run",

de facto. The failure to address that in legislation remains a cause for serious concern.

Kevin Hollinrake: I am not sure I understand the hon. Gentleman's point. Irrespective of who the directors are, if people of significant control are exerting such influence, they will have to be named and have their ID verified under the Bill.

Stephen Kinnock: My understanding is that the regulations under the 2015 Act have not yet been put in place. Our question is: why are the Government not implementing those regulations but instead seeking to introduce the provisions in the Bill? That is simply a point for clarification and explanation. We welcome the fact that ID verification is provided for, but we are trying to get to the bottom of who a nominee director is and who actually controls a company. It would be useful to understand what happened between 2015 and 2022 to prevent the implementation of the regulations.

Kevin Hollinrake: Two separate things are going on. The Bill enables regulations to ban corporate directorships unless the corporation itself has all its directors named and they are all actual persons and ID-verified. It will do exactly that. The other point that I think the hon. Gentleman is talking about is people who sit behind companies and influence them but might not be named in those companies. If people do that, they are persons of significant control; under the definitions in the Bill, someone does not have to own 25% of the shares of a company to be a person of significant control, but they have to be named and ID-verified.

12 noon

Dame Margaret Hodge *rose—*

Stephen Kinnock: I will stand up and then allow my right hon. Friend to intervene.

Dame Margaret Hodge: As I understand it, if the owner of a company is an opaque company in the British Virgin Islands or another one of our tax havens, the ability to get behind that and see the person of significant control is pretty nigh impossible, so there is still a mechanism there. People could intentionally set up a company in the UK that is totally owned by a company established in the BVI. That information is not currently on the public register, although we are anxiously waiting for it to be so in 2023. There is no way of getting the persons of significant control verified, because it is outside our control.

Stephen Kinnock: I will now stand up and allow the Minister to intervene on me.

Kevin Hollinrake: There are two separate things going on here: ownership and directors. We were talking about directors, and the right hon. Lady is now talking about ownership, which is a slightly different thing, but we will talk later about ownership and how that information has to be made public under this legislation.

Stephen Kinnock: I thank the Minister; I think he has just provided clarification that he is confident that there is now a ban on the use of nominee directors as a front to obscure true beneficial ownership. We are grateful for that absolute reassurance. There was perhaps a misunderstanding on our side of some of the technicalities in the Bill that I am seeking to probe, so I am grateful to the Minister for that clarification.

It is worth noting that the World Bank published a report just a few months ago that explained how, under current UK law, nominee directors of UK companies can neglect their duties by failing to submit accounts and certify companies as dormant, even though tens of millions of pounds are passing through those accounts. A crucial point is that the impunity of delinquent nominee directors is especially pronounced if such nominees are not UK residents. On the rare occasions that they are questioned, such directors tend to make the legally false argument that because they are only nominees they have no responsibility to know anything about the company, let alone control its actions.

The lack of progress on this issue—certainly until the Bill's introduction—has raised concerns with us. Again, perhaps the Minister will say a little more about the Government's thinking. What does he think has been the impact of not implementing the regulations from the 2015 Act? Can he reassure us with absolute confidence that the issue of delinquent nominee directors will be eradicated by the passing of the Bill?

Alison Thewliss (Glasgow Central) (SNP): The hon. Gentleman is making a really important point about nominee directors. Is he aware of a "File on 4" programme —I believe it was aired last year—about nominee directors being recruited via Facebook groups and paid to take on that role? Is he concerned that it may still be possible to do that? Does the Bill need to do more to clamp down on the recruitment of nominee directors who get some money for taking on that role?

Stephen Kinnock: The hon. Lady raises an extremely important point and illustrates the absurdity of the situation we have got into. There seems to be a "wild west" approach to running corporate affairs in the UK and it is simply not acceptable. I thank her for that intervention and reiterate my hope that the Minister can give us an absolute reassurance that the issue of nominee directorships will be dealt with firmly and clearly in the Bill, without any loopholes. I also hope he will share any other thoughts he may have on the matter.

Liam Byrne: It is a pleasure to serve under your chairmanship, Ms Elliott. I am sorry that I have not checked the sartorial guidance for the Committee, but I assume it is okay for me to speak without a jacket on. I defer to the Chair if she wants me to clothe myself more adequately.

The Chair: It is very warm in here.

Liam Byrne: The Minister probably did not intend to set hares running, but he certainly has with his suggestions this morning. I know he will be alive to the Foreign Affairs Committee report on illicit finance that was published under the chairmanship of the right hon. and gallant Member for Tonbridge and Malling (Tom Tugendhat), who is now the Minister for Security, but I wish to share some of its headlines to underline a point that was wholly missing from the Minister's presentation.

Let us start with the really bad news. First, the Select Committee concluded that

"assets laundered through the UK are financing President Putin's war in Ukraine."

Secondly, the report said:

"The Government's unwillingness to bring forward legislation to stem the flow of dirty money is likely to have contributed to the belief in Russia that the UK is a safe haven for corrupt wealth."

It is very welcome that the Government introduced sanctions and have brought forward this Bill, but I am afraid the Foreign Affairs Committee came to the conclusion that our sanctions regime was "underprepared and under-resourced." We on the Select Committee found that there was not the capacity in the FCDO to match the speed and power of the sanctions regime brought into force by our American colleagues and, indeed, the EU. That is why the House was treated to the spectacle of a piece of enabling legislation that allowed us simply to copy and paste the sanctions regime from other countries into UK law.

There is a serious worry that the FCDO is not equipped to drive through the requisite disqualification of directors at the speed at which it should if it takes decisions on sanctions. I hear what the Minister says about creating some—I guess he would say—safeguards against the automatic suspension of directors, but in the absence of such a regime there is a real concern about an enforcement gap, because the FCDO sanctions and compliance team simply does not have the capacity to work things through with Companies House to ensure that the consequentials are followed through and that directors are disqualified when it is appropriate.

Among the measures that we in the House have previously invented are some of the provisions that I took through in the UK Borders Act 2007. We basically wrote into law the automatic consideration of sanctions such as the suspension of directorships. Many Opposition Members would be an awful lot more confident that bad people would be disqualified from directorships if they were sanctioned if we had some kind of legislative provision that created a duty, and therefore a burden, on Ministers and their officials to automatically consider people for the suspension of their directorships if a sanction of any description was imposed upon them.

This Committee is a chance for us to air different points of view about how we ensure that, as the Minister wants, London is a world capital of clean trade. I put this case before him so that he can reflect on it and perhaps come back to the Committee with further thoughts.

Dame Margaret Hodge: It is a pleasure to serve under your chairship, Ms Elliott.

I rise to speak to amendment 83. I did not quite understand the Minister's attack on or dismissal of it on the basis that it was somehow an attempt to provide a detailed way for authorities to act. That is way beyond what we are attempting to do; all we want to do is make sure the authorities are aware. The Minister and I know, from working in this policy area for a long, long time, how poor all the enforcement agencies are at sharing information. When whistleblowers and others provide information about wrongdoing, too often that falls between the various enforcement agencies, gets lost and nothing ever gets done. We are not here to tell those agencies how to carry out their work, but to ensure that there is better communication.

The amendment addresses some of the issues my right hon. Friend the Member for Birmingham, Hodge Hill just raised. It tries to strengthen the sanctions regime against individuals and to stop those individuals moving their assets before they get sanctioned. Under the FCDO, the sanctions process inevitably takes a long time and people know they are about to be on the sanctions list, so they have time to rearrange their affairs so their assets cannot be frozen.

All the amendment would do—it is very simple—is put a duty on Companies House to tell the enforcement authority, whether that is the Foreign, Commonwealth and Development Office, the Office of Financial Sanctions Implementation, the National Crime Agency or whoever, about any changes that may have occurred in the accounts held by Companies House of individuals who have been sanctioned and whose assets have been frozen in the three months prior to those sanctions being put in place. That is crucial, but why?

In July 2022, OFSI and other UK Government agencies, together with the Joint Money Laundering Intelligence Taskforce, issued a red alert, which I hope the Minister has had a chance to look at. His colleague, the Minister for Security, the right hon. Member for Tonbridge and Malling (Tom Tugendhat), will certainly have done that. It sets out the evasion tactics that individuals use and that enablers, whom my hon. Friend the Member for Aberavon mentioned, take to support that evasion. The action that designated individuals take, supported by their advisers, includes the transfer of assets, such as shareholdings, to trusted proxies, such as relatives or friends. To quote the red alert, they will

"sell or transfer assets at a loss in order to realise their value before sanctions take effect"

and they will

"divest investments to ensure ownership stakes are below the 50% threshold"

needed for sanctions.

There are numerous other examples—the red alert includes a list of about 15 such examples—of ways that people avoid sanctions and avoid their assets being taken. The individuals may seem to have got rid of their assets, but they will retain control. They will have simply hidden their control and the form that that control takes, but in reality they will still have control. In some instances, assets have been transferred or directed to jurisdictions where sanctions are not in place, such as China, Brazil, India or the United Arab Emirates, or have been converted into cryptoassets, which we will come to later in our discussions about the Bill.

[Dame Margaret Hodge]

I came upon such tactics in the case of Usmanov, as we have discussed before, who dodged the sanctions, particularly in relation to his Mayfair mansion—I cannot remember how many millions that is worth. The shares in his London property firm were transferred to his Russian business empire on 21 February, less than a fortnight before he was sanctioned. The transfer involved property owned by Klaret Services UK Limited being sold to Russia's largest iron ore company, Metalloinvest, in which Usmanov has a 49% share. That is just below the 50% threshold, although it is in Russia. That transfer is legal—he was able to act legally and within our law—and he was able to do it because we were so slow to sanction.

The sanctions against Usmanov did not cover his companies, so when he transferred the Mayfair property to a company, a different mechanism would have had to be adopted to capture its owner. As he had a 49% share in that company, it would have been difficult to pursue that. Both the shareholding in the company and the transfer mattered. Under our amendment, Usmanov would not have got rid of the property. Companies House would have had to give the enforcement agencies information about the transactions that had been undertaken in the three months prior to the sanctions, and those agencies could have taken action on it.

12.15 pm

The seriousness with which the authorities take this issue was demonstrated in July, when the National Crime Agency arrested 10 or 12 individuals—my research is a bit unclear—suspected of enabling corrupt elites. My understanding is that they were accountants, company service providers, lawyers and, indeed, auctioneers—a lot of those who are sanctioned undertake another little wheeze to secure money legally: they loan high-value artwork for fees far in excess of its value. I say again to the Minister that a failure to prevent offence might have prevented such activity.

The difficulties in the current regime are demonstrated by the case of Petr Aven, who my right hon. Friend the Member for Birmingham, Hodge Hill has mentioned. Aven—a Russian billionaire worth £5.3 billion, including a £300 million art collection—was sanctioned by the NCA. However, the NCA did not know that OFSI had come to an agreement with Aven that he could use part of his assets to meet his so-called living standards. The manner in which he is accustomed to existing means that, to fund his daily life, he is getting something in the region of £600,000 a year cash from the assets that are supposed to be frozen. There is real fear within the NCA that he will get through most of the frozen assets over time, leaving us with little to take away from him.

The amendment would specifically target the sanctions-evasion tactics highlighted by OFSI, such as changing beneficial ownership or corporate structure prior to designation, or changes to ownership of the corporate holding. It would make information sharing between Companies House and enforcement agencies automatic—it would not tell them how to share that information, just that they should—and I hope the Minister supports that. It would place an obligation on the registrar of Companies House to share with the NCA or other bodies any changes relating to any companies on the register.

I hope that the Minister has listened to my argument, because the amendment is a genuine attempt to facilitate the work of the enforcement agencies by helping them to act more swiftly and to be more effective in pursuing sanctions.

Kevin Hollinrake: I always listen to the right hon. Lady very carefully, so she can be sure that I have been listening. I am keen to tie up—as the shadow Minister, the hon. Member for Feltham and Heston, put it—any loopholes that we identify in the legislation. That is one of the purposes of Committee stage.

Broadly, I think the Committee and the wider House would accept that our sanctions regime, and the supervision regime at Companies House, are not fit for purpose today—that is why we are legislating. Clearly, the actions taken by Russia in recent months have further highlighted the work we need to do and the reform we need to put in place. The comments are welcome, and I think we are all trying to get to the same end point; we just want to make sure people do not suffer unintended consequences in the process.

I think the right hon. Lady said that Companies House is very poor at sharing information. That is probably a little unfair. Currently, it is not there to share information, other than by putting things on a public register for people to seek out; that has been its role in the past. Today, it is a register—we might call it a dumb register—and that is what we are seeking to change. We are seeking to give the registrar responsibility for promoting the integrity of the registers so that people can rely on the information in them and, as it says in the registrar's objectives, to minimise unlawful activities and the facilitation of unlawful activities.

Dame Margaret Hodge: Obviously, Companies House has not had to do this to date; it has just been a library of dud data, really. What I was drawing to the Minister's attention—I am sure he agrees with this—is that all the enforcement agencies working in this territory are poor at sharing information. That is why the stuff we get from whistleblowers so often falls through the middle somewhere and does not get tackled. That is why we should put a duty on the agencies to share information; we would not tell them how to do it, but just say, "This is really important if we are to bear down on wrongdoing."

Kevin Hollinrake: I am still not sure I agree. Of course there are elements of our enforcement agencies that we are all frustrated by at times, but to my mind nobody goes to work to do a bad job. People are doing their best, often in very difficult circumstances. We all agree that we need to hold our enforcement agencies to account and properly resource them. What we are trying to do is provide them with more powers and ability, and then hold them to account for the use of those powers.

Liam Byrne: The Minister is being characteristically generous. As he reflects on the huge wisdom of the amendments tabled by my right hon. Friend the Member for Barking and perhaps returns to the Committee with some of his own, could he share with us how many of the 1,200 individuals and 120 businesses that have been sanctioned since Russia's invasion of Ukraine have had directorships suspended?

Kevin Hollinrake: I do not know the answer to that question. When the Bill has received Royal Assent, it will facilitate exactly that process. At the moment, Companies House does not have the powers we would like it to have to bring that about. That is exactly what we are debating.

On amendment 83, I think the right hon. Member for Barking implies that Companies House knows of the changes with a company on an ongoing, dynamic basis. That is not how things work. Companies House does not have access to information until a company files an annual return. Companies do not provide information to Companies House on a daily or even monthly basis. That is not how it works.

Dame Margaret Hodge: But under the legislation, companies will have to provide information on changes of directorships and so on within 28 days, we hope—we had this argument yesterday—so Companies House will have that. I am not expecting it to go through 4 million companies, but there must be a way that the information can be highlighted by the IT system and, if we know a director is somebody who has been sanctioned, that information can be shared. Under the legislation, if a company has changed a directorship, as Usmanov did, it will have to provide that information within 28 days or whatever, and surely that will be there to share.

Kevin Hollinrake: A change of directorship, yes, but I do not think that is the situation the right hon. Lady was describing. She was talking about a movement of assets, as I understand it. I do not know the detail of the case she is talking about—*[Interruption.]* May I finish? If she is trying to prevent a person from moving assets around on the basis that Companies House needs to know about that as it is happening, that situation cannot be delivered. Companies can move assets around without asking the permission of Companies House or notifying it, so her amendment does not serve any purpose in that regard.

The right hon. Lady is absolutely right that any information that Companies House is made aware of and deems to be pointing to some kind of risk should be shared with the relevant agencies. We all agree with that point, and the Bill allows Companies House to do that for the first time. That is what we are trying to facilitate, but directing it to act in a certain way on a certain piece of information will lead us down a million rabbit holes, and we do not have the time or the ability to implement that through the Bill. We have to give it the powers and then let it get on with it while holding it to account against those broader objectives.

Alison Thewliss: My reading of the amendment is that it relates to a person changing any details relating to any company in the register in the three months prior. One of the red flags that Graham Barrow raised when he gave evidence was companies that switch their name backwards and forwards multiple times within a short space of time. Surely that would be a useful red flag for Companies House to report on, and the amendment would empower it to do that.

Kevin Hollinrake: That situation would be covered under the Bill because company naming is part of it. That is a different thing from what the right hon. Member for Barking was describing. She was taking about the movement of assets, and Companies House would not have access to that information on a dynamic basis. It clearly would have information on a name or director change, and it can act as it deems appropriate, in terms of notifying authorities or making further enquiries about what the company is doing.

Seema Malhotra: I am grateful to the Minister for giving way. I feel that we have allowed this conversation to get a bit more complicated than it needs to be on one specific point in relation to amendment 83, and I think the Minister has made it slightly more complicated too.

I understand that the Minister may be wondering whether a huge scope of things have happened in the three months prior to a person becoming a designated person. Does he agree that proposed new section 11B(2) could be tighter so that where it says, "If the person changes", it specifies changes to owners, directors or other information relating to the company on the register in the three months prior to the person becoming a designated person? There should be a way, through the design of the computer systems, which is being undertaken as part of the transformation in Companies House, for the registrar to trigger an automatic alert when somebody becomes a designated person to inform the Office of Financial Sanctions Implementation and the National Crime Agency that something had happened on the record in the previous three months. That would therefore not require a huge amount of resource and labour, but there would be a useful report and trigger if the Bill required the registrar to do that.

Kevin Hollinrake: I do not disagree with that, but my point was not that it would be too much work for the registrar; I never said that at all. My point was that may well be that the Companies House registrar looks at the amendment—she may be listening to this debate—thinks, "It's a really good idea to do that," and builds that into her systems. As legislators, we could direct Companies House to do a million things, but surely we should give it the power to share this information in a way that provides the most appropriate risk alert processes. We should let it get on with it while holding it to account for the broader objectives. We should not micromanage Companies House.

Seema Malhotra: I thank the Minister for giving way. I do not think this is a case of micromanagement, and nor are we asking for hundreds of things. We are making a specific request, based on specific research. I think an automatic alert could be triggered, and perhaps the Minister—

Stephen Kinnock: Will my hon. Friend give way just on that point?

Kevin Hollinrake: The hon. Lady is intervening on me.

Stephen Kinnock: Sorry. Good point, well made.

Seema Malhotra: I will just finish my point. Should the registrar be watching this debate and decide that an automatic alert is a good idea, does the Minister agree that the power of information sharing would enable the registrar to consult the Office of Financial Sanctions Implementation and the National Crime Agency should a relevant change have occurred in the previous three months?

12.30 pm

Kevin Hollinrake: As I have already said, such information-sharing is exactly what the Bill facilitates. It may well be that Companies House decides that that is exactly the right trigger to share information with the OFSI. Our view is that we should not direct Companies House in that level of detail as to how the registrar should perform her wider duty. We will continue to disagree on that point if the hon. Lady presses her amendment.

Stephen Kinnock: I thank the Minister for allowing me to intervene where I should have done in the first place. On the quantum that we are considering, as my right hon. Friend the Member for Birmingham, Hodge Hill has just said, 1,200 individuals and 120 businesses have been sanctioned since Putin's illegal invasion of Ukraine. We are not talking about a huge number. Perhaps the terms of the amendment tabled by my right hon. Friend the Member for Barking could be more tightly drawn to make it clear that it is not about every movement of assets and everything a company has done, but simply designed to ensure that if there was a change of director or change of address, the registrar should share that information with the other relevant agencies. The quantum is quite small, so would the Minister consider that proposal?

Kevin Hollinrake: I think we need to move on, and I think the hon. Gentleman is missing the point as well. This is not about my deciding whether the proposal is right or wrong, or whether Companies House has or has not got the resources. For me, it should have the resources that it needs. However, it is for the organisation itself to determine the best way to alert other authorities to the risk. That is the principle at issue here, and it is one to which I will strongly adhere.

The argument about enablers has been well made, and we have referred to corporate criminal liability and the failure to prevent that. As the Committee is aware, I have been a key advocate in introducing such liability for fraud and other offences. Members may have noted the details of a case this morning, in which the current offence of failing to prevent bribery was a key element in the case against Glencore, which has pleaded guilty to that offence. The Serious Fraud Office launched a successful prosecution against Glencore and, although the number of times it has proceeded against a company is far too few, that prosecution shows that the current legislation can be effective. I am keen to discuss that further in our proceedings.

On travel bans and securities, Committee members might find it useful to sit down with officials to discuss those measures, so that they then understand why those things might not mean that a person is not a fit and proper individual to be a director of a company. I would be happy to extend that opportunity to members of the Committee.

The hon. Member for Glasgow Central spoke about nominee directors and associated abuses. Under the terms of the Bill, any director, nominee or otherwise, who acts outside the terms of the legislation and is subject to the control of another undisclosed person could be put in jail for two years. That is exactly what we are seeking to do and to clamp down on such inappropriate use of companies.

In terms of what the hon. Member for Birmingham, Hodge Hill said—is it right hon. or hon?

Liam Byrne: Right. hon, I am afraid.

Kevin Hollinrake: Quite right, too; the right hon. Gentleman was Chief Secretary to the Treasury—I will go no further. The Foreign and Commonwealth Office is not responsible for the Office of Financial Sanctions Implementation—that is a function of His Majesty's Treasury—which determines how the sanctions regime works once people are sanctioned. The OFSI ensures that the regime works effectively. It is fair to say that when that organisation was established fairly recently, it was not ready for the amount of work it had to do. It has been scaled up to make it a more effective organisation, which has been discussed in the context of resources generally.

Liam Byrne: Let me give the Minister a bit of feedback from my time as Chief Secretary to the Treasury. If a spending Minister comes before the Chief Secretary to say: "I'm really sorry, but we have a legal duty to do this", it is an awful lot easier for them to win the case for the resource that they need than when they do not have the weight of that legal duty on their shoulders. Therefore, automatic consideration of a sanctioned individual for suspension of a directorship is a good thing to enshrine in a legal duty. I am trying to be helpful to the Minister, because I want him to be able to win arguments with the Treasury for the resources that he needs to achieve the objectives we both share.

Kevin Hollinrake: Yes, but we have to make careful use of our resources, otherwise there would be no money left.

We agree that sanctioned individuals should not be allowed to be directors of companies. That is what we are talking about, so there is no disagreement. Our disagreement is about how we share information between different agencies, and whether we should tell them how to do it, or they should do it themselves. We are parliamentarians; we are not experts in financial crime or how the financial system works. Wherever we can, we should leave it to the experts to determine the best way to share the information between agencies and—the important thing we are doing here—give them the powers to do that.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 7.

Division No. 3]

AYES

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

NOES

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

Question accordingly agreed to.

Amendment 1 agreed to.

Amendment made: 2, in clause 32, page 22, line 18, leave out "designated person" and insert "person subject to relevant financial sanctions".—*(Kevin Hollinrake.)*

This amendment is consequential on Amendments 1 and 3.

Amendment proposed: 3, in clause 32, page 22, line 20, at end insert—

"'designated person' has the meaning given by section 9 of the Sanctions and Anti-Money Laundering Act 2018;

'person subject to relevant financial sanctions' means a person who is a designated person for the purposes of any provision of regulations under section 1 of the Sanctions and Anti-Money Laundering Act 2018 that imposes a prohibition or requirement for a purpose mentioned in section 3(1)(a) of that Act (asset-freezing)."—*(Kevin Hollinrake.)*

See Member's explanatory statement for Amendment 1.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 7.

Division No. 4]

AYES

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

NOES

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

Question accordingly agreed to.

Amendment 3 agreed to.

The Chair: We now come to amendment 83, which has just been debated. Does Dame Margaret Hodge wish to move the amendment formally?

Dame Margaret Hodge: I just wish to tell the Committee that I will write to Companies House and see what response I get from the chief executive or director. Subject to that, at this stage, I will not move the amendment.

Clause 32, as amended, ordered to stand part of the Bill.

Clause 33 ordered to stand part of the Bill.

Clause 34

Disqualification of persons designated under sanctions legislation: Northern Ireland

Amendments made: 4, in clause 34, page 23, leave out lines 13 to 17 and insert—

'(1) This Article applies in relation to a person who has, at any time on or after the day on which section 34(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force, become a person subject to relevant financial sanctions and who remains so subject.'

This amendment and Amendment 6 would mean that a person who is subject to sanctions is disqualified under the NI directors disqualification legislation only if those sanctions relate to asset-freezing.

Amendment 5, in clause 34, page 23, line 23, leave out 'designated person' and insert 'person subject to relevant financial sanctions'.

This amendment is consequential on Amendments 4 and 6.

Amendment 6, in clause 34, page 23, line 23, at end insert—

'(4) In this Article —

"designated person" has the meaning given by section 9 of the Sanctions and Anti-Money Laundering Act 2018;

"person subject to relevant financial sanctions" means a person who is a designated person for the purposes of any provision of regulations under section 1 of the Sanctions and Anti-Money Laundering Act 2018 that imposes a prohibition or requirement for a purpose mentioned in section 3(1)(a) of that Act (asset-freezing).'—*(Kevin Hollinrake.)*

See Member's explanatory statement for Amendment 4.

Clause 34, as amended, ordered to stand part of the Bill.

Clause 35 ordered to stand part of the Bill.

Clause 36

Disqualified directors

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

The Chair: With this it will be convenient to discuss 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.

Kevin Hollinrake: Before I turn to the new clause, I will set out the intentions and effect of the clauses in the group. As part of the reform of Companies House, it is necessary to update the provisions regarding company directors. Most crucial to that is the introduction of a prohibition on people acting as company directors when they have not had their identities verified and reported their directorships to Companies House. That is a critical part of improving the integrity of the companies register. Accordingly, it is appropriate to provide teeth to ensure compliance with those obligations. The Bill will also create grounds for director disqualification if the person fails to verify their identity.

[Kevin Hollinrake]

On new clause 35, all businesses, irrespective of their size or business sector, are responsible for paying their staff the correct minimum wage. The vast majority of responsible employers make sure they get it right. I assure the hon. Members for Aberavon and for Feltham and Heston that the Government take enforcing the minimum wage seriously, and we are clear that anyone who is entitled to be paid the minimum wage should receive it. We take robust enforcement action against employers who do not pay their staff correctly. Every area of regulation affecting businesses, whether it is employment practices or environmental impacts, has its own enforcement and penalty frameworks.

It is not entirely clear why we should single out breaches of the national minimum wage—important though it is—as being worthy of leading to disqualification. Nor does it immediately follow that someone who has breached their regulatory obligations in one of those areas should automatically be considered unfit to be a company director in the round. Having said that, I have some understanding when it comes to the new clause. There have been 16 people convicted under the National Minimum Wage Act 1998. I want to do some further research on that to see what has happened to those people and their director qualification or disqualification. That might inform debate more clearly.

I draw hon. Members' attention to the fact that the greater flexibility in the Bill over the use of Companies House fees will cover the company investigation teams at the Insolvency Service, allowing the Government the potential to expand their work and go after a greater proportion of rogue directors. I respectfully ask hon. Members not to press the new clause.

12.45 pm

I will take the provisions in the order in which they are written. Clause 36 terminates the director appointment of individuals who are subject to a disqualification order, are an undischarged bankrupt or subject to personal insolvency measures or asset freezing under UK or UN sanctions. The clause labels such individuals as disqualified under the directors disqualification legislation, and sets out that individuals who have become disqualified under the directors disqualification legislation cease to hold the office of a director.

Dame Margaret Hodge: This is a question of clarification: if a director is disqualified, can he or she still act as a shadow director?

Kevin Hollinrake: It depends on how the right hon. Lady defines a shadow director. If she is implying that they are a person of significant control influencing others, which I guess is what she means, I will point her to the definitions of a person of significant control. They are those who hold

"more than 25% of shares in the company…more than 25% of voting rights in the company…the right to appoint or remove the majority of the board of directors"

that might influence or control a company through other means. That means that the person is still covered under the legislation; if a person is exerting that control, they should be designated as a person of significant control and ID verified, as discussed previously. Any person who became disqualified before the clause comes into force and is disqualified at that time will also cease holding the office of director.

Clause 37 amends some yet to be commenced provisions of the Companies Act 2006 on when a corporate director can act and minimum age requirements for directors. The Small Business, Enterprise and Employment Act 2015 amended the 2006 Act to establish—as the hon. Member for Aberavon said—that company directors should, in future, be natural persons except where they have met specific requirements determined by regulations. We will bring forward those regulations following the enactment of the Bill to establish the exemptions to the general natural person director rule. After a transition period, companies must ensure that any corporate directors on their boards are compliant with the regulated exemption criteria. Where they fail to do so, those director appointments will be void once the transition period ends.

The clause makes it clear that should any non-compliant corporate director continue to act in the capacity of either a de facto or shadow director after the end of the transition period, they will be held liable for the consequences of their actions as they would be if they were a validly appointed director. The clause makes a similar clarification in respect of the principles that will apply in respect of an individual who does not meet minimum age requirements for a company director. In such instances, the appointment would also be void, but those who continue to purport to act as a director or operate in a shadow capacity will continue to be exposed to personal liability none the less.

Clause 38 repeals the power for the Secretary of State to require that companies with disqualified directors who have been given permission by the court to act as a director make a statement to the registrar confirming that permission. The power is no longer required, because the Bill introduces new requirements to provide statements about disqualification and permissions to act in sections 12, 12A, 167G and 790LA.

Clause 39 introduces a prohibition on an individual acting as a director unless their ID is verified or exempted from that requirement under the regulations. It establishes a duty on a company to ensure that unverified individuals do not act as directors unless they are exempted from the ID verification requirement. Failure to comply with the duty constitutes an offence committed by the company and every officer of the company who is in default.

Clause 40 will make it a criminal offence for a person to act as a director unless their appointment has been notified to the registrar. It will be a defence for a person to prove that they reasonably believed that the notice of their appointment had been given to the registrar. The actions taken by an unverified director, or a director whose appointment has not been reported to the registrar, will remain valid to ensure that third parties who have relied on the actions of an unverified director are not unfairly disadvantaged.

We want there to be consequences for not complying with ID verification obligations, and clauses 41 and 42 help us to achieve that. The clauses allow for the disqualification of individuals where they are persistently in default of the ID verification requirements for directors and people with significant control, or where they have been convicted by consequence of such contravention.

Clause 41 legislates in respect of Great Britain, with clause 42 legislating to create equivalent powers for Northern Ireland.

Finally, clause 43 makes amendments to section 246 of the Companies Act 2006 regarding addresses on public record. It is consequential to other amendments to no longer require companies to hold their own local registers of directors.

The Chair: Before I call Seema Malhotra, I remind the Front-Bench spokespeople that they need to indicate to the Chair that they want to speak.

Seema Malhotra: Thank you, Ms Elliott. It is a pleasure to serve under your chairship.

I will speak for the Opposition on clauses 36 to 43, and I will say a few words about our new clause 35. We welcome what the Minister said, and we do not propose to push the new clause to a vote today, but I want to put some of our comments on the record. It would be useful if the Minister could clarify when he might want to come back and continue the conversation, subject to being able to look at further data on those who have been convicted under the legislation.

As we have established, clause 36 inserts proposed new sections 159A and 169A into the Companies Act, so that those who are disqualified from being a director under UK law cannot be appointed as one. New section 169A also says that a person who has been appointed as a director ceases to be one if they are disqualified. The two new sections appear straightforward, but has the Minister considered whether the provisions could be extended to ban the appointment of directors who may have been disqualified outside the UK? The Government could pursue that by extending the definition of directors disqualification legislation in new section 159A(2) to cover the analogous disqualification regimes in such jurisdictions as the Secretary of State may designate in regulations. That would allow the UK Government to specify or choose countries that have disqualification regimes that we would be happy to rely on. It seems that it might be a useful consideration, and I would be grateful for the Minister's comments on that.

On clause 37, section 87 of the 2015 Act contains amendments that have not yet been brought into force. It requires all directors to be natural persons, and it contains provision for circumstances in which people under 16 can become directors. We support the clause, which would amend the provisions to ensure that persons remain responsible for their acts as directors—I think we have had a brief conversation on this—even though they are no longer legally considered to be directors. That is important, because the practical consequence of the clause is that if a person continues to act like a director, even if they have officially been removed from office, they can still be legally responsible for any breaches of the law that they commit as a director. That could be on wrongful trading or other matters. We welcome the clause. It is an important provision to ensure that shadow directors remain liable for contraventions of the Companies Act 2006. We recognise the need for clause 38 and support it.

Clause 39 introduces provisions that would provide that an individual cannot act as a director of a company unless their ID has been verified or they benefit from an exemption specified by the Secretary of State. In addition, it provides that breaching that would be a criminal offence for the director, the company and every other responsible officer, punishable by a fine. In practice, it would mean that once the clause comes into force, individuals should not take any actions on behalf of the company in their capacity as director until they verify their identity. We welcome and support the clause. We agree that that is a positive step in ensuring that directors are who they say they are. Hopefully, it will also mean that people will be less likely to commit or even attempt to commit economic crimes.

Questions remain on the implementation and enforcement of identity verification, some of which we have discussed previously. We recognise that there are ongoing concerns. Martin Swain of Companies House said that we are still in the "design phase" for ID verification. It is difficult to be clear on the implications of the legislation we are passing without having clarity over ID checks. When will they be operational? What can we expect to be in them? How quickly will we and the registrar expect them to be completed? Will the Minister confirm that they will be of the highest standards? Nick Van Benschoten of UK Finance said in his evidence to the Committee on verification standards that one of the key points is that they

"fall short of minimum industry standards."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 7, Q3.]

I am sure the Minister will want to ensure that ID verification will be of the highest standard.

I would like to press the Minister on the part of the clause that grants the Secretary of State the power to exempt certain directors from not acting until their identity has been verified. I am seeking clarity on why the measure is needed. Will it be for categories of people or individuals? Finally, will any use of the exemption be transparent and reported on? I think we have raised before the need to ensure there is sufficient clarity and accountability on the use of the powers.

Clause 40 makes it a criminal offence, punishable by a fine, for someone to act as a director unless their company has notified the registrar within 40 days. We welcome that, but I would like the Minister to clarify subsection (5), which allows a defence for a director who can prove they reasonably believed their company had been given notice of a director's appointment. In the interest of working with the Government on this, may I ask the Minister for assurances on what would constitute proof of reasonable belief in this instance? Would it be possible to provide an example of where an exemption from sanctions might be applied? The Minister may want to write to me.

We welcome clauses 41 and 42. I realise we may be coming to the end of the sitting, so I will speak to clause 43 in detail later.

Ordered, That the debate be now adjourned.—*(Scott Mann.)*

12.59 pm

Adjourned till this day at Two o'clock.