

# The role of Companies House in the fight against economic crime

**Corporate Crime analysis:** The information on the Companies House register is searched more than five billion times per year. The value of the register to businesses is huge and it is clear that, given its prominence, the information available needs to be as accurate and transparent as possible. Unfortunately, however, there are problems with the current model that allow criminals to abuse the system. Without the current reforms, the register does little to fight economic crime as there is no formal verification process. The new reforms proposed by the Department for Business, Energy & Industrial Strategy amount to the biggest overhaul to the system since its introduction in 1844. Angharad Hughes, barrister at 3 Temple Chambers, discusses the effects of the reforms and their impact on business owners and those fighting economic crime.

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## Original news

Companies House to be reformed to better combat fraud and money laundering, [LNB News 18/09/2020 60](#)

*The government has announced that Companies House is to be reformed to clamp down on fraud and money laundering. Compulsory identity verification is to be introduced, with directors not being able to be appointed until their identity has been verified by Companies House. In addition, Companies House will be given greater powers to query, investigate and remove false information. This follows the government's response to the Corporate Transparency and Register Reform consultation, in which it declared that 'reforms will give Companies House more powers to query and reject information, to improve the quality of data on the register, as well as affording users greater protections over their personal data, to help protect them from fraud and other harms'.*

The Companies House model strives to make carrying out business in the UK as easy as possible and yet, critics have argued that this simple approach makes it easy for criminals to misuse the system. Currently, in order to register, you do not need to provide any documentation to prove that you are who you say you are. This lack of formal checks allows criminals to register as directors of UK companies and file false information on the register. Presently, Companies House does not have the powers to confirm that the personal information provided about directors, shareholders, 'People with Significant Control', and presenters is true. Nor does it have the power to check information in relation to false audit reports, addresses or the appointment of individuals who are not associated with the company.

**How would the proposed reforms increase this role?**

The government has said that it wants Companies House to play a stronger role as an enabler of business transactions and economic growth, while strengthening the UK's ability to combat economic crime. The [comments](#) by Steve Goodrich, research manager of Transparency International UK, help to summarise the impact these reforms will have: 'These welcome changes are a significant step forward in tackling Britain's role as a global hub for dirty money.' If implemented in the form of the current proposals, Companies House would become a key tool in stamping out economic crime.

In short, the main guise of the proposed reforms is:

- compulsory identity verification to be introduced for all directors, 'People with Significant Control' and those filing information on behalf of a company
- Companies House will require evidence of checks carried out by regulated professional service providers submitting information on behalf of clients
- Companies House will be given greater powers to query, investigate and remove false information. They will have the power to share information with law enforcement in certain circumstances

The reforms will undoubtedly assist in the fight against economic crime; the more transparent the register becomes, the more it will deter criminals. Law enforcement agencies, such as the National Crime Agency, will be able to trace activity for suspected fraud and money laundering more readily. Further, as Companies House will have extended powers, they can share suspicious activity with law enforcement when certain conditions are met.

### **What impact would these changes have in practice for those running businesses and for those fighting economic crime?**

Directors will not be able to be appointed on the register until their identity has been verified by Companies House. This includes current directors, though the proposals are clear that consideration will be given to communication and transitional arrangements for existing companies. There will be some impact on companies, therefore, as the Registrar will no longer be obliged to accept any application to register a company. Companies House will have the power to query information that is submitted and can remove information from the register in certain circumstances. The proposals set out that verification should not hinder incorporation and that most companies will still be set up within 24 hours, as is the case now. In order for this to be the case, a 24/7 digital verification process will need to be set up in order to minimise the impact on businesses. Provided the reforms are given the resources needed to make the process efficient, these proposals should crack down on fraud and money laundering, while at the same time having minimal impact on businesses.

The government, in line with [Directive \(EU\) 2018/843](#), the Fifth Money Laundering Directive (MLD5), will introduce an obligation on bodies that fall under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, SI 2017/692, to report discrepancies between the public register of companies and the information they hold on their customers. There will be cross-referencing of Companies House data against other data sets. The reforms will also allow limited partnerships to be struck off following a Court Order. All of these implementations should build trust in the information available on the register. It is hoped that these reforms will not only combat crime, but should streamline the process for companies in obtaining credit and serve to benefit them when researching potential suppliers and partners.

The Minister for Corporate Responsibility, Lord Callanan, [commented](#) on the reforms stating:

'The reforms we are making to the Companies House register will provide businesses with greater confidence in their transactions. Mandatory identity verification will mean criminals have no place to hide—allowing us to clamp down on

fraud and money laundering and ensure people cannot manipulate the UK market for their own financial gain, while ensuring the majority that the processes for setting up and running a company remain quick and easy.’

Unfortunately, the UK is a hub for economic crime. The Home Office estimates that the social and economic cost of fraud to individuals in England and Wales is £4.7bn per year and the social and economic cost of organised fraud against businesses and the public sector in the UK is £5.9bn. It is paramount, therefore, that those fighting economic crime are able to use reliable information in order to tackle the growing problem. The changes should enable earlier detection of suspicious activity and, in turn, hold those responsible to account. The reforms will enable investigators to link individuals across roles in different companies, making it much easier for an individual’s corporate history to be traced and in turn making it harder for criminal behaviours to be repeated. These changes will also allow law enforcement agencies to cut costs as there will be faster access to increasingly reliable information.

### **When are these changes likely to take effect?**

The ‘[Corporate transparency and register reform: government response](#)’ sets out that the aim is to have finalised the system design and to start user testing by the end of the 2020–21 financial year. Before the legislation will be drafted, however, a comprehensive set of proposals will set out how the reforms should be implemented, by legislation and/or otherwise. Further proposals, such as the way company accounts are filed, will be considered and then be subjected to further consultation. No further timetable has been set other than to state that the government will ‘legislate where necessary when Parliamentary time allows’. In the current climate of the pandemic and Brexit looming on the horizon, at this stage, it is impossible to determine where the reforms will be placed on the priority list.

*Interviewed by Barbora Kozusnikova.*

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