HOUSE OF COMMONS

Business and Trade Sub-Committee on Economic Security, Arms and Export Controls

Oral evidence: Economic Crime, HC 798

Wednesday 19 March 2025

Ordered by the House of Commons to be published on 19 March 2025.

Watch the meeting

Members present: Liam Byrne (Chair); John Cooper; Sarah Edwards; Alison Griffiths; Sonia Kumar; Charlie Maynard.

Foreign Affairs Committee member present: Phil Brickell.

Treasury Committee member present: John Glen.

Questions 1 - 20

Witnesses

I: Ben Cowdock, Senior Investigations Lead, Transparency International; Louise Hodges, Chair of the CLLS Corporate Crime and Corruption committee, Partner at Kingsley Napley LLP; Dan Neidle, Founder, Tax Policy Associates; and Ray Blake, Director, The Dark Money Files.

Examination of witnesses

Witnesses: Ben Cowdock, Louise Hodges, Dan Neidle and Ray Blake.

Q1 **Chair:** Welcome to the first meeting of the Business and Trade Committee's Sub-Committee on Economic Crime, Arms and Export Controls. Today we are looking at the UK's enforcement regime against economic crime. I am really grateful to our witnesses, who have worked in this field for a long time, for joining us this afternoon. Thank you very much for sparing us the time and sharing your expertise today.

Dan Neidle, perhaps I could start with you. We are about 18 months on from the last economic crime Act. We have invested lots of money in beefing up Companies House. Does the UK now have a world-class enforcement regime for tackling economic crime?

Dan Neidle: We have a different problem from everyone else. I think quite often people look at the reports on Companies House produced by Ray, me and others and say, "Companies House is a disaster. We are the worst in the world," and that is almost certainly not true. I bet the French and German registers are full of problems. Companies House is unusually transparent, and its technology is unusually good and unusually open, so we can see these problems. So I do not want to be too mean about Companies House.

My pet theory is that Companies House is a victim of its own success. Back when I trained as a lawyer, in the late 1990s, Companies House operated on microfiche, and you turned up in person to Companies House. It was the same way it had been for over 100 years, so the likelihood of anyone turning up and fraudulently incorporating a company was pretty small; certainly, the likelihood of anyone from China doing that was zero.

Companies House then went through an amazing digital transformation, created one of the best platforms in the world and made it incredibly easy to incorporate a company. I rather suspect that no one thought, "How are bad people going to react to this? How is this going to be abused?" What happened was that, by accident, we created something that enabled very large-scale fraud by people across the world. That is where we find ourselves.

Q2 **Chair:** We have created a system that is world-class at enabling people to set up corporate fraud.

Dan Neidle: Yes, I think we have. Although I am sure there are fraudulent companies in France and Germany, it is easier to do it in the UK. A UK company also has a certain prestige, which is why you see fake UK companies used in China, in Nigeria and across the world to defraud not British people but Nigerians and Chinese.

So we have an unusual problem. It is a problem that is hard to solve, just because of the sheer numbers. There are 5 million UK-incorporated companies. Something like 700,000 are incorporated every year—so, loads—and a similar number disappear every year. If it costs £50 to incorporate a company, what have you got to lose from incorporating a fake company?

Q3 **Chair:** We had a big debate in the last Parliament about strengthening the regime for tackling economic crime. We had hundreds of hours of debate, and tens of millions of pounds of new money goes into Companies House. Here we find ourselves, a year and a half on, and your work has exposed hundreds of bogus companies that have been, for example, set up as banks with, allegedly, trillions of pounds-worth of assets. It does not sound as if the enforcement regime has got stronger.

Dan Neidle: It may just be that there is so much bad stuff at Companies House that, no matter how many people are working on this, it is a hopeless endeavour—there are just too many, and it is just too easy to set up new fraudulent companies. So I do not want to be too harsh on Companies House. For me, there needs to be a step change, not in the regulations and the rules, but in the enforcement. If you have rules and they are not enforced, they may as well not exist.

Q4 **Chair:** Would you say that the enforcement is not yet in the right place?

Dan Neidle: We published some figures today around prosecutions of people for breaching the PSC rules—the rules requiring disclosure of beneficial ownerships. When the PSC rules came in, in 2016, there were, I think, 43 prosecutions under those rules. In 2022, there were none. In the first quarter of 2023, there were four. If you do not enforce these rules, people are going to ignore them.

Q5 **Chair:** Okay. Mr Blake, what is your view? Is the enforcement regime, a year and a half on from the Act, in the right place?

Ray Blake: The direction of travel is the right one, certainly. It is rather hackneyed to compare this to a tanker that takes a while to turn around, but the reality is that that is where we are. I am sure the Companies House representatives will speak about their road map to implementing all their powers under the ECCTA, but even that foresees quite a long time until everything that they have been promised is online, requiring secondary legislation and lots of technological retooling.

Q6 **Chair:** Should we be building this enforcement regime faster than we are building it today?

Ray Blake: I think it would certainly be helpful, yes.

Q7 **Chair:** Louise Hodges, what is your view?

Louise Hodges: I think I would probably echo what has been said. I think it is about Companies House trying to transform from what was a benign register to having the capability and ability to be an active gatekeeper. That is a huge transformation, and it is not something that happens overnight. I am sure that Companies House are improving every day in how they are doing that. I suppose it is about the mechanism to draw out those red flags and identify a key wrongdoer, as opposed to just somebody who has completed the forms incorrectly. It is that triaging that is the significant bit.

Q8 **Chair:** Is the enforcement regime as strong as we would like it to be today?

Louise Hodges: With Companies House, I think it is a matter of capability, rather than whether we need more regulation.

Q9 **Chair:** Is the enforcement regime as strong as it needs to be today?

Louise Hodges: I suspect that it is not, no.

Q10 **Chair:** Ben, what is your view?

Ben Cowdock: I think the foundations have now been laid for a strong enforcement regime, with ECCTA. We have seen that being put in place slowly over the last year: we now have the ACSP regime kicking in, and we will have verification kicking in soon. However, these things will take a while to fully take effect. I think we have seen tens of thousands of interjections by Companies House into instances where information might be incorrect or they have stopped companies from being incorporated altogether. However, when you look at the tens of thousands of individual pieces of information, the true amount of incorrect information, false filings and that kind of thing is probably far higher than that. So the ball is rolling; it is just up to us to ensure that it gets quicker and quicker.

Q11 **John Glen:** Mr Neidle, you explained how we had a world-class company registration system, but that, essentially, the opening up through the internet has created an unmanageable system—that is the essence of what has happened.

As you look to the future, notwithstanding the regulations we put in with the new legislation, and the resource—we will come on to the resourcing of it—are we in danger of just catching up to what is acceptable in terms of the terms of reference over the last five years and the problems we have seen? Or are we missing something in terms of where the next challenges come from? We are talking about something that is not yet fully implemented from the last piece of legislation. Is what we have wise enough in terms of anticipating the next threats that could come?

Dan Neidle: An example of that would be the ID requirements that are coming in very soon, so it should no longer be possible for me to set up a company, with Liam Byrne as one of the directors.

Chair: You haven't done that, have you?

Dan Neidle: As you probably know, just about the only prosecution that was ever made for incorporating a company falsely was someone who stuck in a couple of Cabinet Ministers as directors without their knowledge. So no, I have not done that, Mr Byrne.

So how will bad guys respond to that requirement? One way is obviously fake IDs, but there are lots of established methodologies in the ML world to get good IDs, so that may be less of a concern.

The other trend we are likely to see increasing is the use of what I call muppets. A muppet is some normal person, living in a normal house, who sees an amazing offer on Facebook to get £100 or £500 for doing nothing. What they are being asked to do is to be the director of a UK company on behalf of unknown bad people. That is already happening to a very large degree, but when it becomes impossible to use fake IDs, muppets will become a lot more attractive.

What do you do about muppets? IDs obviously do not solve it, because they really are real people. You can have a succession of dire warnings when someone signs up as a director on Companies House, saying, "If you are doing this at the behest of someone else, you are committing an offence." Ultimately, however, I think you have to have prosecutions. This tends to turn me into a "lock 'em up and throw away the key" kind of person, but until we have very visible prosecutions, bad actors will continue, and people who are somewhat innocent, but also somewhere between being foolish, naive and being bad actors themselves, will be drawn in, become muppets and act in other ways to help the wrongdoers.

Q12 **John Glen:** All of you seem to think that there are the foundations for a better system, but that you need more proactive interrogation of the data and what to do with it if you are going to send signals that are going to change behaviours in the light of that ID issue and muppets?

Dan Neidle: Yes, and you need very visible prosecutions to encourage that.

John Glen: Which we do not have at the moment.

Dan Neidle: Which we do not have. One particular problem is with foreign directors. Obviously, you cannot prosecute or even fine, or probably even write to, a foreign director, so what do you do? When you talk to people in the Caymans or Jersey, they are amazed at how Companies House operates. In most countries like that—I should probably say tax havens—I could not incorporate a company myself; I would have to go through a licensed incorporation agent. Here, we have taken the policy decision, probably correctly, that we do not want to put barriers in the way of small businesses, so anyone can incorporate a company—fair enough. But if you have a company that has no UK directors, and only has foreign directors, we do not really care about introducing more barriers by way of making it more difficult for people who are not genuine to set up a company. So I would prohibit a company from having only foreign directors, unless it has a UK agent acting for it. That gives us a way to hold those companies to account. Right now—you should ask the Companies House representatives later—I think we have nothing.

Q13 **Sarah Edwards:** Mr Cowdock, your organisation, Transparency International, warned that limited partnerships and limited liability partnerships can act as a loophole to facilitate money laundering and sanctions evasion. Can you describe how that can happen and how those partnerships can be used?

Ben Cowdock: LLPs and limited partnerships can often appear to be offshore companies with a UK wrapper. You can have a UK LLP, and then above that will be sitting, potentially, a company in Dominica and a company in Belize as the general and limited partners. What you have is essentially what we were talking about earlier: the UK entity being barely touched, and then being controlled from anywhere around the world.

That has made these partnerships really attractive to money launderers, crooks and sanctioned individuals. We did some analysis a few years back and found that one in 10 LLPs was structured in a way identical to the way the ones being used in industrial-scale money laundering schemes were structured. When we looked at SLPs a few years earlier, 71% were being structured in a similar way.

So the scale of the use is really significant in money laundering and corruption. Our colleagues at Transparency International Russia, who are now operating in exile, put out a report in November last year. They found that these partnerships are still being used by companies in occupied Ukraine to export critical minerals around the world. They are even being used by the FSB to procure military goods. These are really important tools in the arsenals of money launderers and corrupt individuals.

Q14 **Chair:** Can I just pause you for a second? So you think that there are LLPs that are currently registered at Companies House that are being used as vehicles for sanctions evasion today?

Ben Cowdock: There will undoubtedly be LLPs being used in this kind of activity. If you look at trade data, they are being used either to send goods directly to Russia or potentially to third countries to circumvent sanctions. So these are still being used and abused.

I was looking on the internet this morning for how to set up an LLP. When you look at Russian language company information websites, you have people offering to set you up an SLP, a Welsh limited partnership or an LLP, in the Russian language, catering to a Russian market. I found three websites offering this just today.

Chair: Today?

Ben Cowdock: Today—just a simple Google in Russian. These are very much readily available, and available at the moment.

As for how we tackle this, there is already a huge population on Companies House that need to be looked at by the police. The formation agents need to be looked at by HMRC. And Companies House needs to be paying closer attention to what exactly is on the register.

Going forward, we need to stop the supply of these dangerous companies to crooks and sanctioned individuals, by clamping down on the rogue formation agents who are setting them up. It is more often than not formation agents who are doing this, because it is quite a complex process and requires you to be in multiple jurisdictions at once.

Q15 **Sarah Edwards:** You have identified some of the ways that you would try to mitigate that risk now, and Mr Neidle also set out examples. Perhaps I could come to other members of the panel now, starting with you, Ms Hodges. Is there anything you think could be done to mitigate these risks?

Louise Hodges: Today is the first time I have heard about these risks, and I have not read the report, but it sounds fascinating and concerning. Presumably, with no real toehold in the jurisdiction, these things are beyond the reach of law enforcement in terms of being able to deal with them. I suppose it is a case of trying to prevent, rather than of being able to use enforcement in those circumstances.

Q16 **Sarah Edwards:** Ray, would you like to follow up on that?

Ray Blake: Prevention is absolutely necessary, because a company only needs to be in existence for an hour or so to be able to use that incorporation to do all sorts of other things—to set up other legal structures and banking facilities. Its subsequent strike-off will not erase all of those tools that have been acquired. It is a bit like when fraudsters assume another identity by using the birth certificate of someone who died as a child many years ago. Fraudsters only need that certificate for a moment or two to create a whole legend that then becomes self-sustaining.

Q17 **Chair:** Mr Neidle, any observations?

Dan Neidle: Just to add to what Ray said, Companies House clearing things up after the event is of limited assistance. By the time they get around to it, the fraud, the money laundering or whatever that company was doing is probably done.

We need to put spokes in the way of these companies establishing. One way to do that is Companies House being smarter about having red flags raised when there are suspicious elements. For example, if someone incorporates a company with a £100 million in share capital, that is an unusual thing; that should, I would think, justify manual review. There are many companies with billions, and even trillions, of assets—obviously fictitious—that just sailed through incorporation.

So red flags would be one way to do it. More aggressive prosecution is another. As I said earlier, we could also have a requirement that a company or LLP with no UK members or directors must have a UK representative, which would make it harder to implement some of these frauds.

Q18 **John Glen:** Could I ask about the resourcing of the regime to fight economic crime? You can get the right legislation in place, and we have just discussed the journey to its full implementation, but this is quite a complicated area, with lots of different agencies and actors involved in supervising and executing. Is there an effective and properly resourced regime to fight economic crime in place in this country at this point? Louise, would you like to start?

Louise Hodges: I am here partly, I think, because the City of London Law Society committee I chair wrote a paper in 2023 on the Serious Fraud Office. To put that in context, they were about to have a new director, but when we were drafting that paper, we were hearing about the proliferation of fraud. The figures are that 40% of crime is fraud-related and that between 1% and 2% of the resources given to fighting crime are devoted to fraud, and there seemed to be little response to that at the time.

Since then, we have had the economic crime plan and the fraud strategy, which give a vision of how these matters could be dealt with. However, going back to the Serious Fraud Office, as an agency that is trying to deal with the most complex, serious, international offences, it needs to be well-resourced. At the moment, I think they are not—*[Interruption.]*

Chair: There is a vote in the House, so the Committee will suspend in a moment. Mr Glen, do you want to just finish?

Q19 **John Glen:** Can I follow up on that? What more resources do you think that the SFO needs? I was Chief Secretary for a while, and everyone always wants more resources. What sort of quantum are you talking about for that entity? Perhaps we can come in afterwards and talk about other entities that need more, and how much.

Louise Hodges: I mean resources in the broadest sense. Obviously, there are financial resources and being able to pay your staff at a competitive rate—there are those types of resources. Personally, I think we have enough legislation; there is a lot of legislation that is probably not being used to its full extent.

Q20 **John Glen:** Because the agencies do not have enough money to execute it?

Louise Hodges: That is probably a fundamental reason. Then there has been talk about bringing in other methodologies. Nick Ephgrave, the director of the SFO, has talked about incentivising whistleblowers. There have been discussions about how much of the sanction amount, when there are deferred prosecution agreements, can be recycled into actual law enforcement, as opposed to just going into Treasury—Treasury will not like that, I'm sure.

Chair: I am going to suspend now, as there is a vote in the House. The Committee will resume once votes are complete. There may be a couple of votes, but we will be back as soon as we can. The Committee stands suspended.

Sitting suspended for Divisions in the House.

On resuming—