IMPLEMENTATION OF THE ECONOMIC CRIME AND CORPORATE TRANSPARENCY ACT 2023: SUPPLEMENTARY EVIDENCE

Transparency International UK's submission of supplementary written evidence to the Business & Trade Select Committee, 15 February 2024

1. SUMMARY OF KEY RECOMMENDATIONS

1.1. To **prevent opaque trusts from being used to avoid transparency rules**, the government should:

- Enable Companies House to publish the details of trusts controlling offshore companies holding land in the UK;
- Capture information about trusts which directly acquired land and property before October 2020; and
- Allow greater public access to information on trusts which directly hold UK property.

1.2. To **improve the quality and reliability of shareholder information** published in the UK company register, the government should:

- Enable Companies House to require more information from shareholders (company number, address, nationality, country of incorporation, month and year of birth); and
- Require individuals owning a 5% or more stake in a company to have their identities verified and published as open data.

1.3. To **stop UK-registered partnerships from being opaquely owned and controlled**, the government should:

- Close the transparency gap which allows for the opaque ownership of non-Scottish Limited Partnerships by bringing these entities under the UK's broader 'person with significant control' (PSC) regime; and
- Require corporate members and partners to be registered in the UK or comparable jurisdictions with strong beneficial ownership transparency rules.

1.4. To **prevent UK service providers being unwitting or complicit facilitators of money laundering**, including by setting up UK shell companies on behalf of clients, the government should:

- Consolidate the web of siloed professional body supervisors into a strengthened statutory body, accountable to HM Treasury, with the powers and resources to provide a credible deterrent to money laundering. HMRC's responsibilities as an anti-money laundering supervisor should also be subsumed by this new body.

1.5. To **improve the verification regime for high-risk sectors**, Companies House should:

- Request relevant information from regulators about authorised corporate service providers (ACSPs) that Companies House has authorised in order to identify rogue formation agents submitting false and misleading information on behalf of clients.

- Where Companies House successfully identifies misleading information being submitted, this should also be shared with regulators**.**

2. REGISTER OF OVERSEAS ENTITIES – TRUST DATA

2.1. The Economic Crime (Transparency and Enforcement) Act 2022 (ECTE Act) introduced the register of overseas entities (ROE), requiring offshore companies that own UK properties to disclose their beneficial owners.[1] This register helps police, journalists, civil society organisations and the public to identify and pursue property bought with suspect wealth. In theory, this register enables those investigating financial crime, including those outside of law enforcement, to peel back layers of secrecy that have been used to hide the proceeds of corruption and other crimes. However, the corrupt and other criminals can continue to withhold their ownership of UK assets from public view in this register by owning overseas companies through opaque trusts.

2.2. The ROE currently requires trusts that own overseas companies that own UK property to report the name of the trust and its creation date, names of all trustees, beneficiaries, settlors, grantors or interested persons to Companies House.[2] However, only the name of the trustee is published on the ROE, restricting public access to who really owns and controls trusts with property interests. We calculate this hides ownership of over 7,000 companies – a quarter of those currently registered - and more than 20,000 properties from public view.

2.3. This means that an offshore trust and company service provider intent on laundering money through high-value UK property assets can, for example, set up a trust in Cyprus to register as the owner of a shell company in the BVI that owns UK land, so that only the trustee of this trust, rather than the owner of the land, will be known to the public. While parties to trusts will need to be registered with Companies House and visible to UK law enforcement, civil society and journalists will not have this access under the current arrangements, limiting their investigations into dirty money which aids law enforcement in locating hidden sanctioned assets.

2.4. **RECOMMENDATION: The government should enable Companies House to publish the details of trusts controlling offshore companies holding land in the UK.**

3. TRUSTS DIRECTLY OWNING UK PROPERTY

3.1. The UK's Money Laundering Regulations 2017 introduced the trust registration service – administered by HMRC – which collects information about trusts that are either based here, have a UK tax liability or which have acquired property here after October 2020.[3] The public can request access to information about Type A (UK trusts) and Type B (trusts administered by UK regulated professionals) where they can demonstrate a legitimate interest that the information would be used in an investigation into money laundering. This process can take more than 8 weeks and

---

[1] https://www.gov.uk/government/publications/economic-crime-and-corporate-transparency-bill-2022-factsheets/fact-sheet-economic-crime-and-corporate-transparency-bill-overarching#:~:text=The%20ECTE%20Act%3A,better%20support%20law%20enforcement%20investigations

[2] https://www.transparency.org.uk/uk-register-overseas-entities-property-money-laundering-corruption

[3] https://www.legislation.gov.uk/uksi/2017/692/contents/made

may not be successful if HMRC doesn't hold the information or the requester is deemed not to have legitimate interest. Information about Type C (based and administered overseas) is not accessible to the public under any circumstances.

3.2. This system is far too limited in scope to enable the effective use of trust ownership information to detect and pursue illicit wealth invested in UK property through these arrangements. Transparency International UK has only been able to successfully use the current provisions once, after more than 10 attempts, with the information returned to us too limited in scope to be of use.

3.3. The scale of direct trust ownership of property in the UK is vast, but not fully understood. Since October 2020 44,000 trusts have notified the Trust Registration Service that the trustees have acquired a direct interest in UK land.[4] The figure for trusts acquiring land or property here before this date is likely far higher; however, due to the limited scope of the TRS we don't know the true figure.

3.4. **RECOMMENDATION: The government should capture information about trusts which directly acquired land and property before October 2020.**

3.5. **RECOMMENDATION: The government should allow greater public access to information on trusts that directly hold UK property.**

4. SHAREHOLDER DATA

4.1. Transparency over shareholder information is key to preventing abuse of companies. More shareholder information, and more accurate shareholder information, can help financial investigators identify whether a company has falsely claimed to have no PSC, or is using a nominee. This is especially important given that Companies House will only be verifying the identity of PSCs, rather than their status as PSCs.

4.2. However, currently, information about the shareholders of UK-registered companies is difficult to access. For most companies, this information is spread across multiple PDF documents spanning several years. This means there is not one single place you can go to see an up-to-date picture of a company's shareholders, nor is there a single place where all companies' shareholders are listed so one can see the connections between them.

4.3. Shareholder information is also extremely limited, with just a name given for either a person or a company. There is no additional information required that would clarify who that person or company is: unlike a company's directors, there is no information on address, month or year of birth, nationality or country of incorporation (for legal entities). This makes it impossible to know with any certainty exactly who shareholders are.

4.4. Shareholder information is also incomplete and does not state when someone is holding shares as a nominee on behalf of another person. Requiring shareholders to flag when they are acting as nominees (and on whose behalf they are acting) would increase transparency over company control and reduce the scope of attempted evasion of the PSC rules.

[4] https://questions-statements.parliament.uk/written-questions/detail/2023-09-11/HL10014

4.5. Further, shareholder information is also not verified. Neither Companies House nor the third-party agents setting up companies are required to verify that shareholders are who they say they are. This reduces the reliability of shareholder information published by Companies House, and in turn the accuracy of the corporate register as a whole.

4.6. **RECOMMENDATION: To improve the transparency of shareholder data, the Government should:**

- **Enable Companies House to require more information from shareholders (including company number, address, nationality, country of incorporation, month and year of birth).**

- **Require individuals owning a 5% or more stake in a company to have their identities verified and published as open data.**

5. LIMITED PARTNERSHIPS (LPs)

5.1. The Economic Crime and Corporate Transparency Act 2023 made no changes that would prohibit control of UK-registered partnerships via opaque offshore corporate entities. Many UK companies and partnerships identified in high-end money laundering and corruption schemes have benefited from structures that conceal ownership and control, so addressing this issue is key to government meeting its stated aim of “prevent[ing] organised criminals, fraudsters, kleptocrats and terrorists from using companies and other corporate entities to abuse the UK’s open economy”.[5]

5.2. While UK companies will have to declare their beneficial owners (whose identities will be verified), those intent on using UK partnerships for criminal activity will still be able to do the following:

- Set up a limited company claiming no beneficial owner, and listing its sole shareholder as a shell company registered in the BVI

- Set up a Limited Liability Partnership (LLP) claiming no beneficial owner, and listing the two members forming the partnership as two shell companies based in Belize

- Set up a Scottish Limited Partnership (SLP) claiming no beneficial owner, and listing the partners as two Marshall Islands based shell companies

- Set up an English (ELP), Welsh (WLP) or Northern Irish Limited Partnership (NILP), with no requirement to declare a beneficial owner

5.3. **RECOMMENDATION: To stop UK-registered partnerships from being opaquely owned and controlled, the government should:**

- **Close the transparency gap which allows for the opaque ownership of non-Scottish Limited Partnerships by bringing these entities under the UK’s broader PSC regime; and**

[5] https://researchbriefings.files.parliament.uk/documents/LLN-2023-0008/LLN-2023-0008.pdf

- **Require corporate members and partners to be registered in the UK or comparable jurisdictions with strong beneficial ownership transparency rules.**

6. VERIFICATION REGIME

6.1. Trust and company service providers (TCSPs) are third-party agents who form companies or other legal entities and provide services such as acting (or arranging for another person to act) as a partner, director or secretary of a company, or as a trustee for a trust. While TCSPs can provide a legitimate service for businesses, research by Transparency International UK[6] and others has shown that in many cases abuse of the UK's company-formation system is facilitated by those within this profession.

6.2. Investigations by civil society organizations[7] and journalists have demonstrated that time and again UK TCSPs have been responsible for building and maintaining secretive networks built from thousands of shell companies, used to launder billions of pounds in illicit funds over the years.[8]

6.3. Under the Economic Crime and Corporate Transparency Act 2023, Authorised Corporate Service Providers (ACSPs) – TCSPs who have registered with Companies House and a UK anti-money laundering supervisor – will be required to verify information that their clients are required to submit to Companies House.

6.4. However, with 25 different supervisors responsible for overseeing businesses' compliance with the UK's anti-money laundering regulations – and up to 14 different supervisors for TCSPs alone – there is currently an inconsistent approach to enforcement amongst supervisors. Adding additional verification requirements will not solve this problem.

6.5. One of the supervisors for TCSPs is HMRC. HMRC is one of three public sector supervisors and is responsible for approximately 37,000 businesses across nine different sectors.[9]

6.6. Parliament has already highlighted the governance risk of allocating HMRC AML supervision responsibilities. In the Treasury Select Committee's 2019 economic crime inquiry, for example, HMRC's primary role as a tax authority was raised as problematic due to the risk that supervisory activity became adjunct to its revenue-raising activities.[10] With HMRC's 2021 outcome delivery plan containing no mention of money laundering supervision, these concerns would appear to be well-founded.[11] The seemingly low prioritisation HMRC places on AML supervision contrasts starkly with HMRC's own assessment that TCSPs are among the sectors

[6] https://www.transparency.org.uk/publications/at-your-service
[7] https://www.transparency.org.uk/publications/hiding-in-plain-sight
[8] https://www.financeuncovered.org/stories/english-limited-partnerships-secrecy-formation-agencies-ios-las-lotus-comform-corruption
[9] https://www.gov.uk/government/publications/hmrc-economic-crime-supervision-annual-assessment-report-2021-to-2022/hmrc-economic-crime-supervision-annual-assessment-report-1-april-2021-to-31-march-2022
[10] https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/2010/2010.pdf
[11] https://www.gov.uk/government/publications/hm-revenue-and-customs-hmrc-outcome-delivery-plan/hm-revenue-and-customs-outcome-delivery-plan-2021-to-2022--2

with the "highest inherent risks for money laundering".[12]

6.7. While HMRC has a valuable role to play in supporting a whole-system intelligence picture of money laundering threats, it is overloaded with responsibilities and objectives to the detriment of its supervisory performance.

6.8. **RECOMMENDATION: To prevent UK service providers being unwitting or complicit facilitators of money laundering, including by setting up UK shell companies on behalf of clients, the government should:**

- **Consolidate the web of siloed professional body supervisors into a strengthened statutory body, accountable to HM Treasury, with the powers and resources to provide a credible deterrent to money laundering. HMRC's responsibilities as an anti-money laundering supervisor should also be subsumed by this new body.**

6.9. **RECOMMENDATION: To improve the verification regime for high-risk sectors, Companies House should:**

- **Request relevant information from regulators about ACSPs that Companies House has authorised in order to identify rogue formation agents submitting false and misleading information on behalf of clients.**

- **Where Companies House successfully identifies misleading information being submitted, this should also be shared with regulators.**

CONTACT

Rose Zussman, Senior Policy Manager
rose.zussman@transparency.org.uk

Ben Cowdock, Senior Investigations Lead
ben.cowdock@transparency.org.uk

[12] See HMRC self-assessment on p. 11:
https://assets.publishing.service.gov.uk/media/6196ca738fa8f50380e9027b/HMT_Supervision_Report_19-20.pdf