

## GREAT INVESTOR INSIGHTS

# UK Government Response to the Consultation on Corporate Transparency and PSC Register Reform

The UK Government has published proposals to increase the transparency of UK corporate entities, including companies and limited partnerships, and enhance the role of Companies House. It is intended that, unless specified otherwise, any entities that are subject to the transparency provisions of the Companies Act 2006 will be caught (including registered companies, LLPs and limited partnerships). The purpose of this update is to help you plan for the practical impacts and potential identification requirements arising from these updates.

We summarise the key proposals, which are relevant to your current or future investments that use UK companies and limited partnerships, below:

- The reforms are aimed at clamping down on fraud and money laundering, notably by introducing identity verification into the incorporation and filing processes run by Companies House. This will mean increased identity verification for company directors, People with Significant Control (**PSCs**), general partners in limited partnerships and individuals who file information on behalf of a company. These reforms are not intended to apply to shareholders.

## Practical considerations

We expect to see the process take a digital format; the Department for Business, Energy & Industrial Strategy (**BEIS**) envisages that most individuals will be able to digitally verify their identity in a matter of minutes. BEIS expects to employ a combination of document based verification (eg driving licences, passports etc.) and knowledge-based verification (eg questions to authenticate the identity of the individual). As BEIS explores solutions with Identity Providers in the public and private sectors, it will address concerns around accessibility, usability, cost to business and data security. Alternative methods will be available where digital verification is not possible.

This reform will also mean that where a person fails to verify, the most likely outcome will be that the intended action cannot proceed (a director's appointment will not proceed, for example). However, once a director is verified and appointed for the first time, they will have a verified account at Companies House – all subsequent appointments will be made using this account, even for different roles or different companies.

It would be prudent to prepare senior management within your organisation for such potential disclosures being required.

- The new identity verification requirements will apply to all live registered companies and their agents. There will be a transition period during which current PSCs and directors will be able to continue their role while opening a verified account with Companies House. Once this transition period has expired, there will be sanctions for unverified individuals.

#### Practical considerations

Unverified individuals will face compliance action and possible prosecution, which, for PSCs at least, are expected to be in line with existing PSC offences. A breach of an obligation under the PSC regime will generally result in criminal liability (including imprisonment or a fine). As BEIS develops its proposals, it will decide on the most appropriate sanctions. The Government will consider how these principles apply to companies owned and controlled by legal entities, as opposed to individuals.

BEIS has suggested that annual confirmation statements could be used as a practical means to prompt identity checks.

- Supervised third party agents will be permitted to file information on behalf of a company, without requiring the directors or PSCs to verify their identity under the Companies House process. An agent will be able to apply to Companies House to open a verified account for those individuals. If overseas agents are permitted to file as third party agents, Companies House will require them to provide, at a minimum, details of their supervisory body to help Companies House identify whether such agents fall within scope of UK regulations and standards or equivalent.

#### Practical considerations

The administrative burden of compliance can be mitigated through the use of such third party agents, but the compliance burden will remain. Third party agents will still be required to carry out checks as part of the customer due diligence process. While these identity verification checks will not be duplicated, Companies House will require evidence of the identity checks undertaken by the agent.

## Timing

The Government states that it will develop these proposals, including further consultation on the technical detail later this year. It intends to publish a comprehensive set of proposals that will set out in detail how it thinks the reforms should be implemented.

Subject to the views received, and subject to identifying the necessary funding at the forthcoming Spending Review, it will bring forward legislation to implement the reforms when Parliamentary time allows. At that time, it will consider communication and transitional arrangements for existing companies.

- Companies House will be able to strike limited partnerships off the register following a court order. The aim here is to allow proportionate action to be taken where limited partnerships are being used for illicit purposes. Further work will be undertaken to explore criteria which should be met before this decision can be taken. However, any strike off will be done taking into account potential implications for limited partners and only where there is a clear public interest.

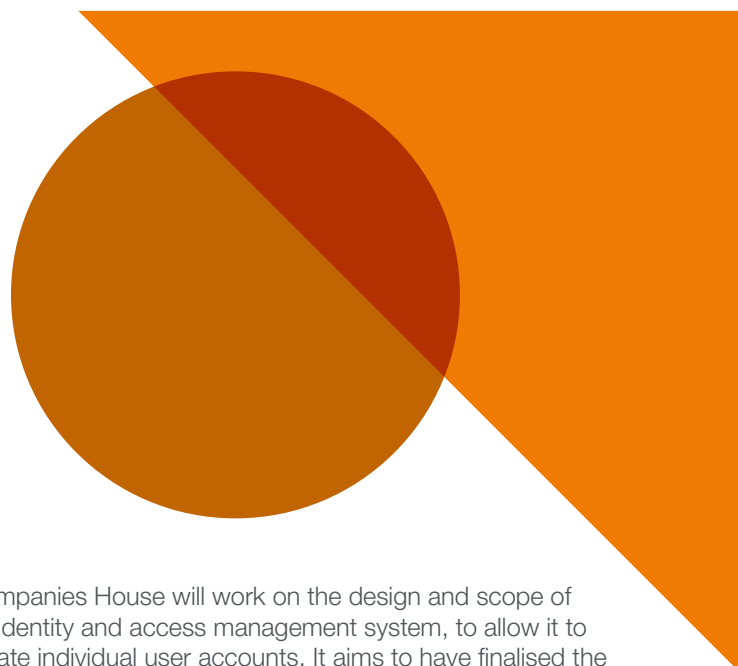
#### Practical considerations

This process may allow for better visibility when conducting due diligence regarding entities that have been struck off.

- Current restrictions will be removed, so that certain personal information can be suppressed from the register. A process is expected to be introduced allowing individuals to request to have signatures, the day of their date of birth and residential address(es) (where such an address has been used as a company's registered office address) removed from the register. It is also intended that directors will no longer be required to list their occupation.

#### Practical considerations

In a welcome change, where confidentiality is desired, senior individuals who have previously had this information shared at Companies House will be able to request to have it removed from the register.



Companies House will work on the design and scope of an identity and access management system, to allow it to create individual user accounts. It aims to have finalised the system design and to start user testing by the end of the 2020/2021 financial year.

While we expect it may be some time before the legislation effecting these changes passes, we remain at your disposal to discuss the potential impact the changes will have on investments involving affected entities.

If you have any questions about this or would like to discuss, please get in touch with your usual Allen & Overy contact.

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