

Consultation Document

July 2002

Regulatory Impact Assessment
on
Disclosure of beneficial ownership
of unlisted companies



HM TREASURY

dti

Department of Trade and Industry

DISCLOSURE OF BENEFICIAL OWNERSHIP OF UNLISTED COMPANIES

REGULATORY IMPACT ASSESSMENT

A CONSULTATION BY HM TREASURY/DTI

The Government invites comments by 14 November 2002 on the issues set out in this Consultation Document. Comments should be sent to:

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A longer, more detailed version of the RIA is also available both in hard copy (from the Public Enquiries Unit, HM Treasury) and on the Treasury website.

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COMPANIES

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1. Introduction

1.1 The UK Government is at the forefront in the fight against international organised crime and in combating and closing down the sources of terrorist funding. It has already introduced a wide range of measures to counter international crime and terrorist financing, and continues to examine the scope for further action. One particular area which the Government considers may require further examination lies in the scope for greater disclosure of the true ownership of assets held by corporate vehicles.

1.2 The Government wishes to consult those with an interest in this area on whether any further developments may be appropriate. This consultation document paper accompanies the publication of a Regulatory Impact Assessment (RIA) on the disclosure of beneficial ownership of unlisted companies as recommended in the Report "*Recovering the Proceeds of Crime*" (published by the Cabinet Office Performance and Innovation Unit [PIU] in June 2000) .

1.3 '*Recovering the Proceeds of Crime*' examined how the UK anti-money laundering regime might be tightened as part of the fight against serious and organised crime. One of the Report's key conclusions was the need for measures to improve use of disclosures in helping law enforcement agencies combat criminal finances. In particular, shell companies were seen as often involved in complex money laundering operations with criminals benefiting both from the ease of incorporation in the UK and from the maintenance of secrecy of beneficial owners of UK companies. Such arrangements may be seen equally to apply to the concealment of terrorist finances.

1.4 However the Report also noted that *'ease of incorporation is seen as one of the strengths of the UK's competitive regulatory environment'*. In light of this Report, the Government commissioned an RIA to examine the balance between potential law enforcement benefits of more open disclosure against the potential burden placed on companies as well as the relative benefits of a lesser burden eg by making details of beneficial owners available to law enforcement officers

1.5 The RIA therefore set out to establish whether what the PIU regarded as the clear law enforcement benefits of publicly registering beneficial owners would justify the additional burden potentially placed on companies.

1.6 This Consultation Document discusses issues raised by the RIA and seeks comments and views on a number of issues; these are set out in summary form at Annex A. A shortened version of the RIA accompanies this Consultation Document. A longer, more detailed version is available in hard copy from the Public Enquiries Unit, HM Treasury, 1 Horse Guards Road, LONDON SW1A 2HQ. All documents are available on the Treasury website at www.hm-treasury.gov.uk.

1.7 The RIA was conducted by Compliance Chain Limited.

2. Methods for establishing ownership of companies: outstanding issues

2.1 The OECD in its work on the misuse of corporate vehicles has identified three different methods for identifying beneficial ownership and control:

- Up front disclosure to the authorities;

- An obligation by corporate service providers to maintain beneficial ownership and control information (ie to act as “gatekeepers”); and
- Primary reliance on an investigative system.

The OECD regards these as alternatives. The UK method up to now has been to place primary reliance on its investigative system. The RIA examines the extent to which the UK might usefully add a further method of up front disclosure.

2.2 The Government is aware that there are a number of issues that, while not appropriate for extended analysis in an RIA, would have to be resolved before the introduction of any legislation to require up front disclosure. These issues are set out briefly in the following paragraphs.

3. Types of company affected

3.1 The RIA addresses requirements that would be placed on unlisted public companies and on private companies. The justification for this is that certain companies are already subject to various requirements for disclosure of share ownership. In summary the existing requirements are as follows:

- (a) *Private companies* have to keep a register of the legal owners of shares. The register is open to inspection. They also have to give details of all shareholders annually to Companies House. This information is available for inspection.
- (b) In addition to the requirements at (a), all those with interests in the shares of *public companies* must disclose those interests when they amount to 3 per cent of the total, and upon any 1 per cent change

thereafter. Public companies also have powers to investigate their share ownership. Public companies must keep a register of interests that is open to inspection.

- (c) In addition to the requirements at (a) and (b), those public companies that are listed must report all notifiable interests to the UK Listing Authority (UKLA).

3.2 The RIA has assumed, therefore, that listed public companies already have to disclose all interests (including beneficial ownership) to a public authority (UKLA), and do not need any further requirement placed upon them. Consequently, the RIA focuses on new measures for:

- private companies, who would be subject to both a mechanism for the disclosure of ownership and a system for filing that information at Companies House, and
- public companies whose shares are not listed, who would be subject to a new requirement to file information with Companies House.

3.3 A further consideration is EC law on disclosure of interests in shares. This currently applies to listed companies, but may be extended to all companies whose shares are traded on a regulated market. This could include some private companies, and exclude some public companies, altering the range of companies subject to the RIA scheme.

3.4 Clearly any legislation would have to consider whether new requirements could be restricted to these categories, or whether they would have to apply at some stage to all companies.

Q.1 For the purposes of establishing true ownership, should a material distinction be drawn in the treatment of different types of company?

Q.2 Should listed and unlisted companies be required to send their ownership details to the same authority?

4. Beneficial ownership

4.1 Both the OECD work on misuse of corporate vehicles and the RIA rely on the concept of disclosure of the beneficial ownership of the shares of a company. The concept of beneficial ownership has proved difficult to define in company law. It is for this reason that the Companies Act 1985 starts with a basic requirement for *all* interests in the shares of public companies to be notified. The Act then narrows the range of notifiable interests by making specific exemptions. In this way, the Act focuses on those interests that concern real control over the shares.

4.2 However, Part VI of the Act is highly complex and deals with types of share ownership and owners that would not be relevant. It would be necessary, therefore, for any new requirement to create a new concept. The RIA often talks of disclosure of beneficial ownership, and its assumption is that one mechanism for disclosure would be an obligation on the beneficial owner. A further mechanism would be to require legal owners to identify the next person(s) with any interest in a chain of ownership. The obligation to disclose therefore falls upon both the legal and beneficial owner of the shares. References to disclosure of beneficial ownership in the RIA and in this note should be read accordingly.

Q.3 For maximum effectiveness should any system of disclosure place an obligation on the beneficial owner or the legal, registered owner or both?

Control of assets

5.1. There is a general awareness that those who control the assets of a company set up for criminal purposes may be careful to avoid any beneficial ownership of the company's shares. Company controllers may be shareholders, beneficial shareholders, directors, shadow directors, creditors or a third party controlling the company by blackmail, extortion or coercion. In short, a company can be controlled by persons who are not its directors or owners, and whose role is not revealed by the current ownership and control disclosure regime.

Q.4 Given the difficulties of defining beneficial ownership in company law, and the significance attached to the broader concept of 'control', views are invited on what alternative definition of ownership or control is required in order to identify companies controlled by persons using those companies in the furtherance of criminal activities.

6. The balance of benefits and costs

6.1 In recommending the preparation of an RIA, the PIU was aware that there is a balance to be struck between the benefits of a new disclosure regime and the costs imposed on the vast majority of companies that are not involved in any sort of crime. The Government is equally aware that such a balance must be struck between the prevention of crime and the risk that ineffective preventative measures may impose unnecessary costs on business. The recent independent

Company Law Review analysed the existing requirements for the disclosure and public filing of ownership details and recommended that these should be *reduced* since they imposed burdens on both public and private companies for limited benefit. The Government is not, as yet, committed to any of the options set out in the RIA, and it sees the RIA and the responses to it as an important means of assessing the balance of benefits and costs.

Q.5 Do you have any general comments on the assessment of costs and benefits of the options set out in the RIA?

7. Non-compliance

7.1 It is a given that any person who owns or controls a company for criminal purposes will not comply with any self-certification requirement to disclose details of ownership or control. It is important to note that the RIA assumes that those against whom the disclosure regime is targeted will not comply, while those against whom it is not targeted will do so. As the RIA points out, some 80 percent of UK companies have legal registered owners who are also the beneficial owners. It is reasonable to assume that those who control companies for criminal purposes will assert that they are companies of that type and will disclose the registered owners as the beneficial owners. The RIA assumes that, by itself, or in conjunction with other evidence (eg from investigations or intelligence), the information will help in the identification of rogue companies. The Government would consider carefully whether any proposed legislation was consistent with domestic and EU data protection legislation and with the Human Rights Act.

Q.6. Do you agree that non-disclosure or false or misleading disclosure will, by itself or in combination with other evidence, assist in identifying the true owners or controllers of companies established for criminal purposes?

8. The Regulatory Impact Assessment: Summary

8.1 The RIA examines the costs and benefits of five cumulative options ranging from imposing a duty on owners of private companies to identify themselves to the company involved through to disclosure of ownership and directorships on a searchable database of legal and beneficial ownership. A distinction is drawn between an 'open' (ie publicly disclosable) and a 'closed' (ie non-disclosable) register of beneficial owners.

8.2 Amongst the benefits identified are higher recovery rates as well as further enhancements to law enforcement such as greater deterrence and prevention and meeting international treaty obligations. Private sector benefits include reduced credit costs and higher business confidence. In addition to a light touch regime for benign non-disclosure, a serious arrestable offence would need to be created covering intent, recklessness or gross negligence in assisting with laundering money. Estimated savings ranged from £5.1 million to £30.3 million, depending on orders of economy in investigation effort.

8.3 The RIA estimates that, in terms of costs, the proposals would affect just under 1.5 million companies and an estimated 125,000 beneficial owners not presently recorded as legal owners. Potential costs would depend on the nature and number of filing transactions; closed register costs are estimated to be only slightly (if at all) lower than open register costs.

8.4 The RIA concludes that the option (Option 3) requiring the introduction of a duty to report changes in ownership to a central reporting point as they occur and placing such details on a public register offers the best functionality and long term benefits at least cost , together with the best protection in case of wide-scale non compliance. Action on disclosure of beneficial ownership would signal further UK determination to tackle money laundering and disrupt the sources of terrorist funding.

8.5 The RIA refers to the position under English law. The position under the laws pertaining to Scotland and to Northern Ireland will in most respects be the same or similar, but any differences are not covered here.

9. Regulatory Impact Assessment: Scope and purpose

9.1 As noted above, the RIA covers only those UK companies which are unlisted. The RIA examines the manner in which corporate vehicles are used to hide ownership of assets, addressing how companies may be used by criminals and the advantages and value offered to them by criminals.

9.2 The RIA assesses five options relating to precisely what information on beneficial ownership might be disclosed by and to whom and the optimum timing of disclosure. It further examines how the information disclosed can be collected, collated, analysed and used by law enforcement authorities and other third parties both to reduce the scale of criminal activity and money laundering as well as to improve the record on confiscation of assets.

10. Disclosure of ownership and control

10.1 The RIA notes that details on companies, their ownership and control are held by companies themselves, Companies House and private sector data providers. Such information can be deployed by a wide range of law enforcement authorities under their respective powers. However data obtained under the current disclosure regime does not easily support inquiries into beneficial ownership. There is currently no system that allows the depth of regulatory data found in the public sector to be searched effectively and efficiently or easily matched against data held in the private sector.

10.2 The UK system of direct access to company formation means that there are no mandatory 'gatekeepers' to screen new companies. Thus it is possible for criminals to form companies themselves or make use of a small number of company advisers who knowingly, recklessly, negligently or unwittingly assist or collude in the establishment of companies for criminal purposes. However, as noted above, the PIU report observed that *'ease of incorporation is seen as one of the strengths of the UK's competitive regulatory environment'*. A bureaucratic process for screening new companies would be likely to inhibit enterprise while creating only a minor obstacle for those involved in crime. For this reason, the RIA focuses not on the use of gatekeepers, but on increased disclosure of ownership details by companies and owners themselves.

10.3 Seeking to establish ownership by reference to a register of members currently has significant limitations. In terms of defining ownership, the minimum disclosure information falls short of identifying all others who may have an interest

in a company; and where nominees are registered as legal owners, an immediate hurdle is created to the identification of beneficial owners.

10.4 Trusts pose a particular identification problem since professional advisers will seek to protect the legitimate confidentiality rights of their clients by utilising UK and offshore discretionary trusts to hold shares in UK companies. The discretionary beneficiaries of such trusts have no constitutional or other control over the shares, nor direct or indirect interests in the share capital and are not directors. This significantly constrains the ability of investigators to establish beneficial ownership and control.

10.5 The RIA asserts that at present, the requirement (under S 352 of the Companies Act 1985) to maintain a register of members is 'believed to be more honoured in the breach than the observance'. Private registries also suffer drawbacks, notably in terms of accuracy.

10.6 In short, under current arrangements, registers of members appear to offer inadequate means of establishing true ownership. Such registers may be non-existent, inaccurate or legally unavailable without an order for up to 30 days. Moreover and more significantly, requesting such information may act as a tip-off to criminals and thus prejudice further inquiries. The RIA suggests that current investigative powers are inadequate, ineffective and inefficient.

Q.7 Comments are invited on practitioners' experience in investigations into beneficial ownership; in what ways might current investigative arrangements be improved?

11. Assessment of benefits

11.1 Information on beneficial owners may assist law enforcement operations in a range of respects but principally by:

- providing intelligence (trying to identify criminal activity)
- assisting investigation (of suspected criminal activity)
- facilitating evidence gathering (to lay charges which will be upheld, convict perpetrators and recover the proceeds of crime)

11.2 Potential beneficiaries from a regime designed to disclose beneficial ownership and control would include:

- criminal law enforcers engaged in asset recovery or other investigations
- those undertaking Know Your Customer and due diligence as part of money laundering identification and verification procedures and compliance with other similar regulation.
- civil law experts engaged in asset recovery and within industry as a whole
- credit reference agencies and their clients as well as those engaged in prevention and deterrence

Some of these benefits are incidental to the policy objective of tackling crime. However, they are an important part of the balance of costs and benefits, and are included in the RIA's analysis.

12. Asset recovery benefits

12.1 Successful recovery of the proceeds of crime depends on being able to identify and locate assets and link them to criminal activity or civil wrong. The RIA

indicates that enforcement officials were unanimous in their view that the data and inquiry systems proposed would assist the recovery process by establishing more quickly, easily and comprehensively links between individuals and companies as well as the real or alleged identity of other persons associated with those individuals or companies.

12.2 The RIA suggests that there would be four primary benefits of an enhanced disclosure regime:

- access to a single system showing all the corporate connections of a given individual - legal and beneficial – would produce economies at the operational level in terms of shorter investigation times and enhanced investigation capacity; whilst given inevitable non-compliance, the corporate connections of those involved in criminal activity would not be immediately identifiable through such a system potentially significant improvements in efficiency and effectiveness might accrue
- the prospect of more timely and relevant information
- more accurate identification of legal and beneficial owners
- additional officially collected data may be linked automatically to other systems, especially those in the private sector.

12.3 Wider law enforcement benefits were also expected to be derived from implementation of the proposals by providing additional and more up to date intelligence.

12.4 The RIA notes the view that the measures would send a clear signal internationally of the UK's intention to prevent the abuse of corporate vehicles for

illicit purposes, showing the UK's commitment to the deterrence and prevention of money laundering and countering terrorist financing.

Q.8 The Government notes the view expressed in the RIA that a system that more clearly identified the real or alleged owners of companies would assist law enforcement agencies and others. The Government would welcome views on the extent that such a system would in practice assist in identifying the true owners and controllers of companies set up for criminal purposes. The Government also welcomes comments on the overall assessment of benefits and the balance of interests for law enforcement authorities, industry practitioners and policy makers in establishing an enhanced disclosure regime.

13 . A public register

13.1 The RIA notes the arguments for and against the use of a public /open register. The major benefit identified in asset recovery is that a public register allows credit reference agencies to link beneficial ownership data to other information held on individuals and companies. On the other hand making data publicly available may make companies less forthcoming with public declarations.

13.2 There may in any case be wider public order implications. As the RIA notes, issues of protection of privacy may arise. The Government fully upholds a general presumption to protect the privacy of the individual and especially partners, children and others. This becomes much more the case if they are at risk of being targeted in any way. In recognition of this, the Government has recently legislated to allow, in certain circumstances, directors of companies to request that their

home addresses not be made public where that information might put them at risk. Similar risks might arise from public information on ownership of such companies.

13.3 . On balance, however the RIA concludes that advantages to society from a public register outweigh the disadvantages. The RIA suggests that in terms of benefits to industry, the proposals would correct information asymmetries by providing more information on companies and those connected to them and generate further economies by providing it in a user friendly fashion; as a particular result, credit decisions by banks and companies would more accurately reflect underlying risk.

Q.9 The Government notes that an open register would help in the aim of reducing crime but is not strictly necessary in terms of a more limited user-friendly disclosure system for law enforcement agencies. An open register would, however, attract incidental but potentially significant benefits. Views are invited on the balance of merits of maintaining an open register.

14. The Five Options

14.1 To meet the PIU Report conclusions with regard to disclosure of beneficial ownership, filing and publication, HM Treasury and DTI identified 5 Options to be assessed by the RIA. The proposals set out in each Option are cumulative; the RIA's findings are as follows:

Option 1a

14.2 *A person should be obliged to disclose to a private company if they hold a beneficial interest in an unspecified percentage of that company's shares which is*

more than 3%. Such persons should also disclose to the company when their beneficial interest drops below the 3% threshold. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities

- would apply primarily to beneficial owners of private companies
- would require a one line statement describing the beneficial owners' shareholding, together with name and address in hard copy or electronic form
- would require the company to store all such disclosures where they could be found within a reasonable time limit

or

- the company could be sent a formal notice consisting of name, address, number and class of shares beneficially owned and details of any agreement and arrangements of the type covered currently for public companies by S204
- details would then be entered by the company in a subsection of the register of members under S352 Companies Act 1985

14.3 In both cases, the beneficial owners or their agents would need details of the company's share structure to ascertain if they are above or below the threshold.

Benefits

14.4 The RIA indicates that perceived principal benefits of Option 1a are:

- savings in law enforcement authority time made possible by access to information by inquiry rather than having to conduct an investigation

- the value of information obtained on actual and alleged beneficial ownership from records or interviews
- there may be benefits to company stakeholders under the public register option

Costs

14.5 The RIA estimates that direct and compliance costs are:

- £1million upfront and £32,000 pa for both the closed and open register options

Q10: Views are invited on Option 1a.

Option 1b

14.6 *In addition to the above, persons holding beneficial interests in private companies above the 3% threshold should disclose to the company at the outset the percentage of the company's shares in which they have a beneficial interest and disclose on an annual basis to what extent their beneficial interests have changed. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities.*

- would allow the extent of beneficial ownership to be established by a private company once the beneficial interest is acquired and monitored annually thereafter
- would allow for simple disclosure with an additional yearly disclosure, perhaps with no necessity for disclosure in the event of no change.

Benefits

14.7 The RIA indicates that, over time, Option 1b:

- would allow investigators to establish and monitor patterns of real and alleged corporate interests by inquiry as opposed to quite complex historical investigation.
- in addition to simple efficiency gains, this Option improves not only the chance of conviction but also the potential seriousness of the charge and the scope of recovery

Costs

14.8 The RIA estimates that the marginal direct and compliance costs are £380,000 p.a., applying to both open and closed registers.

Q.11 Views are invited on Option 1b

Option 1c

14.9 *In addition to the above, persons holding a beneficial interest above the 3% threshold should disclose to the private company within a specified period (such as two days) each time that their holding rises by one percentage point. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities*

- would allow the extent of beneficial ownership to be monitored by a private company on a continual basis
- requires disclosure of rises of only 1%, whereas notification of both rises and falls would be necessary to monitor the extent of beneficial ownership accurately between yearly reporting dates (established under Option 1b)

Benefits

14.10 The RIA indicates that Option 1c would:

- be of special value in rapidly moving investigations where success depends upon speed and precise calculation of beneficial ownership
- provide increased opportunities to question beneficial owners and company officials about timing and content of recent declarations and records

Costs

14.11 The RIA estimates that the marginal cost is £50,000 p.a. for both open and closed register Options. Direct and compliance costs are the same as those for Options 1a and 1b.

Q.12 Views are invited on Option 1c.

Option 2

14.12 *In addition to the above, information on beneficial interests exceeding the 3% threshold held in private and unlisted public companies should be disclosed by those companies to Companies House via annual returns. This notification made by the Company to Companies House should give the name of each beneficial shareholder and the percentage of their shareholding. This information should be made available on enquiry to law enforcement and regulatory authorities.*

- would extend to private and unlisted companies the same duty to report beneficial interests to a regulatory reporting point
- only requires the name of a shareholder to be submitted to Companies House
- where legal owners are also the beneficial owners, a simple question would enable the facts required under this option to be established.

Benefits

14.13 The RIA indicates that the benefits of Option 2 would:

- increase the number of people that can be held to account and the range of their behaviour that can be investigated
- improve the opportunities to spot inconsistencies
- improve the likelihood that those questioned will cooperate with inquiries
- provide an alternative source of historical information of a known format and age on company structure

14.14 Further benefits include:

- a central reference point would allow more sensitive investigations to be undertaken with less risk of interest being flagged to companies and thus, potentially, to individuals
- a central reference point would also save time by allowing easier physical access to data through Companies House
- more complex investigations could be attempted with more chance of laying charges and successful convictions and confiscation.

14.15 Use of the public register under this Option would allow more sophisticated historical linkages and thus more complex cases to be identified and investigated. Stakeholders may also obtain similar benefits with regard to creditworthiness.

Costs

14.16 The RIA estimates the marginal costs of Option 2 (public register) as c£460,000 up front and c£283,000 pa for companies and data providers and c£1.2 million p.a. for government; private register costs would be lower.

Q.13 Views are invited on Option 2

Option 3

14.17 *In addition to the above, all changes in legal share ownership and in beneficial interests exceeding the 3% threshold should be disclosed to Companies House as and when they occur rather than via annual returns. Disclosure should be made when ownership changes by at least one percentage point. A time leeway should be introduced to avoid unnecessary reporting whilst changes in legal ownership are being cleared and settled. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities.*

- would apply only to private and unlisted public companies
- would enable changes in legal and beneficial ownership to be monitored as they occur
- time leeway would need to be at least 14 days
- the RIA estimates that Companies House would need to process on average upwards of 2500 share transfers a day, equivalent to a 10% addition to Companies House daily document processing total.

Benefits

14.18 The RIA indicates the benefits of Option 3 would:

- provide more timely information at the central reporting point
- a fuller range of legal and beneficial interest is covered
- the serious arrestable offence net is extended to company reporting of legal ownership declarations where money laundering is suspected
- be especially useful in fast moving operations; anonymity provided for under Option 2 is combined with data obtained up to a year earlier than otherwise possible
- offer wider enforcement value in terms of easier identification and elimination of suspects as well as improved investigation planning and management.

14.19 . Placing the details on a public register would:

- give stakeholders, including legal and beneficial holders, creditors and clients almost full transparency on corporate structure and the additional benefit of being able to check on time sensitive matters, such as transfers in legal ownership
- give businesses more flexibility in planning routine reassessment of counter parties and allow more accurate checks on information provided in client identification procedures
- make more data available to company data holders
- allow leading credit reference agencies to offer continually updated information and search facilities at the name level, based on open register details and combined with the full director data and some shareholder data
- directly benefit all law enforcers with access to such systems as well as private sector due diligence and recovery work.
- Allows recovery and investigation strategies to be based on comprehensive and user-friendly database screening

Costs

14.20 The RIA estimates the marginal cost of Option 3 as c £5.6million pa (open register) and £5.3million p.a (closed register). This Option involves processing legal and beneficial ownership details as they occur; companies would have to submit more forms during the year but have less data to write up on the Annual Return.

Q.14. Views are invited on Option 3

Option 4

14.21 *In addition to the above, Companies House should establish a modern database which allows the name of a person to be inputted and then reveals which shareholdings and beneficial interests that person holds. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities*

- would apply to all unlisted companies
- entails Companies House establishing a database capable of supporting two-way inquiry (companies associated with names and vice versa) on the legal and beneficial ownership of all shares
- this option assumes that shareholder names are entered in a consistent way that uniquely identifies the person concerned, or which lists all similar names.

Benefits

14.22 The RIA indicates that the benefits of Option 4 would:

- introduce the ability to search an officially held database at name level for legal and beneficial holdings
- create a legal requirement for a system which would allow law enforcement authorities to drive investigations according to the name of the individuals involved (and not the companies, which may not be known)
- by requiring Companies house to create a searchable database, this Option provides some of the advantages of name-based search and listing that private sector systems may supply using data available from the open register under Option 3
- use of the open register under this option provides greatest value for private sector parties without access to commercial data sources

Costs

14.23 The RIA indicates that the marginal cost of Option 4 is estimated at c£1million up front and £500,000 pa for the closed system and £1.25 million up front and £625,000 pa for the open system.

Q.15 Views are invited on Option 4.

Option5

14.24 *In addition to the above, this modern database should allow the name of a person to be inputted and then reveal which directorships and shadow directorships that person holds. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities*

- foresees a one-stop shop for all unlisted companies where all aspects of ownership and control can be established
- would entail extracting data from the existing directors database and the new shareholder database and merging it in an online or hard copy report format

Benefits

14.25 The RIA indicates that the benefits of Option 5 would:

- attract all the benefits of Option 4 but with the increased efficiency of providing all company structure data on one system

- the open register approach would allow data providers to offer a one-stop shop, taking advantage of the wider coverage of Companies House data obtained in Option 4 and linking it to directors details.

Costs

14.26 The RIA indicates that the cost of Option 5 relate solely to the extension of the beneficial and shareholder database to cover directors and shadow directors. The costs involved are the technical costs of system unification. The RIA estimates that the marginal cost of Option 5 is a further c£1million up front and £500,000 p.a. for the closed system and £1.25 million up front and £625,000 pa for the open system.

Q.16 Views are invited on Option 5

15. Conclusions

15.1 The RIA suggests that, in order fully to deter and ensure adequate enforcement, it would be necessary to make failure to disclose or report with intent to assist money laundering a serious arrestable offence attracting a maximum prison sentence of five years.

Q.17 The Government recognises the purpose behind the proposal for a serious arrestable offence; in particular, it would afford investigators greater powers to obtain search warrants. However, any legislation would have to frame such an offence very precisely. In particular:

- the legislation would have to make clear who could commit the offence (eg the company, its officers or the legal or true owners of the shares);
- the legislation would have to make clear the circumstances in which the offence would arise (eg it would have to establish how a link was to be made between non-disclosure and intent to launder, actions that might take place at different times and be committed by different persons)

Views are invited on the appropriateness of the proposal for a serious arrestable offence, and the viability of framing such an offence.

Q18: In addition to the specific issues raised above, comments are invited on more general matters relating to the disclosure of beneficial ownership

DISCLOSURE OF BENEFICIAL OWNERSHIP OF UNLISTED COMPANIES

ISSUES RAISED IN CONSULTATION DOCUMENT: A CHECKLIST

Q.1 For the purposes of establishing true ownership, should a material distinction be drawn in the treatment of different types of company?

Q.2 Should listed and unlisted companies be required to send their ownership details to the same authority?

Q.3 For maximum effectiveness should any system of disclosure place an obligation on the beneficial owner or the legal, registered owner or both?

Q.4 Given the difficulties of defining beneficial ownership in company law, and the significance attached to the broader concept of 'control', views are invited on what alternative definition of ownership or control is required in order to identify companies controlled by persons using those companies in the furtherance of criminal activities?

Q.5 Do you have any general comments on the assessment of costs and benefits of the options set out in the RIA?

Q.6. Do you agree that non-disclosure or false or misleading disclosure will, by itself or in combination with other evidence, assist in identifying the true owners or controllers of companies established for criminal purposes?

Q.7 Comments are invited on practitioners' experience in investigations into beneficial ownership; in what ways might current investigative arrangements be improved?

Q.8 The Government notes the view expressed in the RIA that a system that more clearly identified the real or alleged owners of companies would assist law enforcement agencies and others. The Government would welcome views on the extent that such a system would in practice assist in identifying the true owners and controllers of companies set up for criminal purposes. The Government also welcomes comments on the overall assessment of benefits and the balance of interests for law enforcement authorities, industry practitioners and policy makers in establishing an enhanced disclosure regime.

Q.9 The Government notes that an open register would help in the aim of reducing crime but is not strictly necessary in terms of a more limited user-friendly disclosure system for law enforcement agencies. An open register would, however, attract incidental but potentially significant benefits. Views are invited on the balance of merits of maintaining an open register.

Q.10: Views are invited on Option 1a

Q.11: Views are invited on Option 1b

Q.12 Views are invited on Option 1c

Q.13 Views are invited on Option 2

Q.14. Views are invited on Option 3

Q.15 Views are invited on Option 4

Q.16 Views are invited on Option 5

Q.17 The Government recognises the purpose behind the proposal for a serious arrestable offence; in particular, it would afford investigators greater powers to obtain search warrants. However, any legislation would have to frame such an offence very precisely. In particular:

- the legislation would have to make clear who could commit the offence (eg the company, its officers or the legal or true owners of the shares);

the legislation would have to make clear the circumstances in which the offence would arise (eg it would have to establish how a link was to be made between non-disclosure and intent to launder, actions that might take place at different times and be committed by different persons)

Views are invited on the appropriateness of the proposal for a serious arrestable offence, and the viability of framing such an offence.

Q18: In addition to the specific issues raised above, comments are invited on more general matters relating to the disclosure of beneficial ownership of unlisted companies.

July 2002



HM TREASURY/DTI

**DISCLOSURE OF
BENEFICIAL OWNERSHIP OF UNLISTED COMPANIES
REGULATORY IMPACT ASSESSMENT
SUMMARY OF KEY ISSUES**

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1. BACKGROUND AND SUMMARY

1.1 In its report of June 2000 entitled "Recovering the Proceeds of Crime" (the "Report") the Cabinet Office Performance and Innovation Unit (the "PIU") highlighted the need to improve use of disclosures to attack criminal finances. The Report noted that almost all complex laundering operations in the UK involve shell companies, with criminals benefiting not only from the ease of incorporating companies in the UK but also the possibility of installing nominee directors and of keeping secret the actual "beneficial owners" involved.

1.2 The PIU report also highlighted that "ease of incorporation is seen as one of the strengths of the UK's competitive regulatory environment" and that there were bona fide reasons why owners of private and unlisted companies might not want their details made public. To gauge the impact of enhanced use of disclosure, the report called for a Regulatory Impact Assessment ("RIA" and "Assessment") of the burden and benefit of registering beneficial owners, either publicly or for the benefit of law enforcers. That Assessment is set out here.

1.3 The RIA aims to examine the costs and benefits of five cumulative options ranging from imposing a duty on owners of private companies to identify themselves to the company involved through to disclosure of ownership and directorships on a searchable database of legal and beneficial ownership. A distinction is drawn between an 'open' (i.e. publicly disclosable) and a 'closed' (i.e. non-disclosable) register of beneficial owners.

1.4 The RIA identifies benefits ranging from higher recovery rates as well as further enhancements to law enforcement, such as greater deterrence and prevention and meeting international obligations. Private sector benefits could include reduced credit costs and higher business confidence. In addition to a light touch regime for benign non-disclosure, a serious arrestable offence (with a minimum sentence of 5 years) would need to be created covering intent, recklessness or gross negligence in assisting with laundering money. Estimated savings range from £5.1 million to £30.3 million, depending on orders of economy in, inter alia, investigation effort.

1.5 The RIA estimates that in cost terms the proposals would affect just under 1.5 million companies covering some 125,000 beneficial owners. Potential costs would depend on the nature and number of filing transactions; closed register costs are estimated to be only slightly (if at all) lower than open register costs.

1.6 The RIA concludes that the Option (Option 3) requiring the introduction of a duty to report changes in ownership to a central reporting point as they occur and placing details on a public register offers the best functionality and long term benefits at least cost, together with the best protection in case of wide-scale non-compliance

1.7 The RIA published here is a shorter version of the full Assessment. Hard copies of the full RIA can be obtained from the Public Enquiries Unit, HM Treasury, 1 Horse Guards Road London SW1A 2HQ. Both the full and shortened versions of the RIA are available on both the HM Treasury website (at www.hm-treasury.gov.uk) and the DTI website (at www.dti.gov.uk).

2. ISSUES, OBJECTIVES AND RISK ASSESSMENT

Issues arising from policy analysis

2.1 Definition of beneficial ownership

2.1.1 The term "beneficial ownership" is often used to describe the ability of a person or group of people to control the activities and assets of a company. Such control may be exercised by means of a shorter or longer chain of natural or legal persons, including actual registered, or legal, shareholders.

2.2.2 Despite its common use, there is no fixed legal definition of "beneficial ownership". Accordingly comments are invited as to how such a definition might be framed in law, bearing in mind the need for a workable layman's definition of the same concept for use in e.g. Companies House forms.

2.2.3 In terms of the disclosure requirement, it is envisaged that legal owners would not be under a duty to disclose the identity of the ultimate beneficial owners of their shares, which they might not know. Instead, they would be asked to disclose the identity of the person "next in line" i.e. exercising immediate control over them. Such disclosures could then be compared with other disclosures, including any by the "next in line", allowing discrepancies to be followed up. The "next-in line" would either need to show that the initial declaration was false, or disclose in turn on whose behalf they were exercising influence. By means of this iterative process, investigators would have better powers to home in on the core behind complex corporate veils.

2.2 UK Listing Authority

2.2.1 Under Part VI CA 1985 listed public companies will already be reporting a range of interests to the UK Listing Authority. The information is made available and consolidated by a number of private sector databases. Public unlisted and private companies are not subject to arrangements, yet are thought to be at greater risk of abuse as vehicles for money laundering.

2.2.2 Listed public companies are thus excluded from the requirements of Option 2. This option extends the duty to report interests to private companies, and requires public unlisted companies to report to Companies House. Based on comments by law enforcement officials, it has been assumed that the option would require, as part of identification, a principal residential or registered business address, as appropriate.

2.2.3 The RIA has established that criminals can easily register companies to themselves, to fictitious shareholders and to unwitting or indeed innocent parties controlled by such criminals. It has highlighted the use made of reckless, negligent or unwitting advisers to do so, as well as the:

- Insufficiency, for modern policing purposes, of the type of ownership data currently collected, its validation, cross-referencing and retrieval.
- Long delays, time wasted and investigations blocked by lack of ready data on, and efficient and effective powers to inquire about, beneficial ownership.

2.3 Issues arising from parallel initiatives and events

2.3.1 The Proceeds of Crime Bill and new Money Laundering Rules have tightened other aspects of the criminal regime against serious crime and money laundering. The 2nd EC Money Laundering Directive will extend anti-money laundering

obligations to a wider range of professions and the revision of the Financial Action Task Force's Forty Recommendations is expected to result in stricter requirements.

2.3.2 Importantly, the recent OECD Report on the Misuse of Corporate Vehicles for Illicit Purposes (the "OECD Report") has called for timely and accurate beneficial ownership data to be available via any one of three methods - up front disclosure, disclosure by intermediaries or use of an investigative system. Similarly international measures after the 11 September attacks have heightened the need for timely identification, tracking and seizure of terrorists funds (e.g. FATF Special VIII Recommendations).

2.4 Objectives of the proposals

2.4.1 The RIA indicates that adoption of the approaches outlined would help to reduce serious and organised crime by making it more:

- Difficult for criminals to control smaller companies for money laundering
- Risky for a wider range of agents to assist them
- Easy for law enforcement to investigate money laundering and other crimes
- Simple to get better evidence and more court rulings, convictions and recoveries.

2.4.2 By increasing barriers to, and risks of, money laundering and the facilitation of/aiding and abetting money laundering, the measures would be intended to deter some crime, force other crime offshore, make it harder to launder safely onshore and increase the level of detection and recovery. Such improvements would help deter further crimes.

2.4.3 This RIA refers to the position under English law. The position under the laws pertaining to Scotland and to Northern Ireland will in most respects be the same or fairly similar, but any differences are not covered here.

2.5 Risk assessment

2.5.1 The easier it is to launder money, the more incentive there is for crime. In extreme cases, money laundering is associated with terrorism, kidnapping, and acts of extreme violence by organised gangs. The victims are often innocent third parties in positions of trust compelled to facilitate money laundering.

2.5.2 Money laundering also has an effect on the businesses used to carry out money laundering. It does so by:

- Creating the illusion that more bona fide business exists than in reality
- Creating artificial demand and prices for products and services
- Damaging the reputation of institutions unwittingly or negligently involved

2.5.3 Ultimately, money laundering can ruin the reputation of business sectors. Studies have shown that countries with a high reputation for integrity are generally more successful in attracting business than those with low reputations. Given the crucial role of trust in enabling business and government to take place, any risk to the reputation of the UK and its dependencies as business centres and as competent regulators is a matter of prime concern.

2.5.4 Money laundering is a derivative crime, i.e. it must be preceded by another crime or support another intended criminal act. It is important to emphasise the risks of crime encouraged by successful money laundering. These include, in addition to the above, drug trafficking, commercial fraud, tax evasion, organised benefit fraud,

tobacco smuggling, people trafficking and prostitution. At this level, crime is an issue of national importance and the government's ability to retain public confidence a key factor in upholding the rule of law .

3. OPTIONS

Options for disclosure and data access

3.1 Disclosure

3.1.1 In drawing up the terms of reference HM Treasury and DTI identified five cumulative options for disclosure to law enforcement officials only i.e. on a "closed" register basis:

3.1.2 ***Option 1a*** "A person should be obliged to disclose to a private company if they hold a beneficial interest in an unspecified percentage of that company's shares which is more than 3%. Such persons should also disclose to the company when their beneficial interest drops below the 3% threshold. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities."

3.1.3 This option would bring the beneficial owners of private companies under the law . They would provide a brief disclosure of their ownership, name and address as and when a threshold was crossed. The company would be obliged to keep these disclosures to hand. A more complex approach might track the current Form 212 procedures.

3.1.4 In both cases provision would need to be made for lawyers, accountants, company formation agents and other professionals acting on behalf of legal and beneficial owners ("agents" or "intermediaries") to submit the same information and both beneficial owners or their agents would need details of the company's share structure to ascertain if they were above or below the threshold.

3.1.5 ***Option 1b*** "In addition to the above, persons holding beneficial interests above the 3% threshold should disclose to the company at the outset the percentage of the company's shares in which they have a beneficial interest, and disclose on an annual basis to what extent their beneficial interests have changed. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities."

3.1.6 This option would allow the extent of beneficial ownership to be established and monitored annually thereafter. Disclosure could track Option 1a, but with an additional yearly disclosure. Where there was no change it might not even be necessary to make a disclosure, non-returns counting as a filing of no change.

3.1.7 ***Option 1c*** "In addition to the above, persons holding a beneficial interest above the 3% threshold should disclose to the private company, within a specified period (such as two days), each time that their holding changes by one percentage point. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities."

3.1.8 This option would allow beneficial ownership to be monitored by a private company on a continual basis. Notification of both rises and falls in beneficial

ownership between yearly reporting dates established under Option 1b is assumed. Otherwise, the same observations as with Options 1a and 1b apply to this option.

3.1.9 ***Option 2*** *"In addition to the above, information on beneficial interests exceeding the 3% threshold held in private and unlisted companies should be disclosed by those companies to Companies House via annual returns. This notification made by the company to Companies House should give the name of each beneficial shareholder and the percentage of their shareholding. This information should be made available on enquiry to law enforcement and regulatory authorities."*

3.1.10 This option would allow a yearly snapshot of a company's beneficial ownership to be centrally recorded based on data gathered under previous options.

3.1.11 Where legal owners are also beneficial owners, notification might be based on Forms 363 and 363s and in most cases involve no more than a box tick. Alternatively, notification could be by means of a simple hard copy or electronically filed list with the data required. Processing at Companies House would consist mainly of checking the additional box ticks, with sometimes the need to enter extra additional details.

3.1.12 ***Option 3*** *"In addition to the above, all changes in legal share ownership and in beneficial interests exceeding the 3% threshold should be disclosed to Companies House as and when they occur rather than via annual returns. Disclosure should be made when ownership changes by at least one percentage point. A time leeway should be introduced to avoid unnecessary reporting whilst changes in legal ownership are being cleared and settled. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities"*.

3.1.13 This option would provide for changes in the legal as well as beneficial ownership of private and unlisted public companies to be monitored as they occur. Upon notification (cf Option 1c), the company would need to forward the relevant notification document to Companies House or transpose the information onto an electronic or hard copy form. Companies House would then log the details.

3.1.14 ***Option 4*** *"In addition to the above, Companies House should establish a modern database which allows the name of a person to be inputted and then reveals which shareholdings and beneficial interests that person holds. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities."*

3.1.15 Option 4 would entail Companies House establishing a database capable of supporting two-way inquiry (companies associated with names and vice versa) on legal and beneficial ownership of all companies. Such a database could be built up using data Companies House currently holds, allotment data submitted on Form 88 and transfer data submitted under Option 3 (from Form 363a).

3.1.16 As data would already be in electronic format from work under previous options, it would only be necessary for Companies House to validate the format (e.g. data submitted in electronic form), develop the inquiry programs and provide relevant links. Shareholder details would need to be entered in a consistent way that uniquely identifies the person concerned, or which results in listing of all similarly-named persons.

3.1.17 **Option 5** *"In addition to the above, this modern database should allow the name of a person to be inputted and then reveal which directorships and shadow directorships that person holds. This information should be held by the company and made available on enquiry to law enforcement and regulatory authorities."*

3.1.18 Companies House already maintains a database of company directors, including shadow directors. This option would entail merging data from the existing directors database with the new shareholder database on-line or in hard copy format. Again, directors' names would need to be entered in a consistent way that uniquely identifies the person concerned. Directors' details include nationality and date of birth which might also be search parameters.

3.2 Open data access variant

3.2.1 The two public register variants for making the above information available for public inspections are:

- A register open to all held by the company (options 1a, 1b and 1c), and
- A further register held by Companies House (options 2,3,4 & 5)

3.2.2 Options 1a-c, would be met by requiring the existing register of members to be suitably updated. Options 2-5 can be met by making the details stored under these options available as with annual accounts and Annual Returns.

3.3 Closed data access variant

In the case of the closed register variant, the same arrangements as for 3.2.2 would apply, save that access to such data would be limited to law enforcement and regulatory authorities of the type outlined in below

3.4 Serious arrestable offence

3.4.1 In order to maintain the integrity of the disclosure regime, it is envisaged that a two-tier penalty system would apply. A first tier of civil penalties would apply to failure to disclose, false or misleading disclosure of a benign nature, and track the current enforcement regime for submission of annual accounts.

3.4.2 However, where the same non-compliance was with intent to pursue a money laundering objective, or recklessness or gross negligence in this respect, it would be put on a par with other serious money laundering offences such as tipping off. A key objective in introducing the more serious offence would be to obtain powers of summary arrest and to facilitate the seizing of evidence, both of which would have significant positive effects on deterrence (especially of agents) and investigation.

3.4.3 Comments are invited as to how such an offence might be structured and defined, especially so that it is not inextricably linked to the predicate offence.

4. ISSUES OF EQUITY AND FAIRNESS

4.1.1 By intent, the proposals would affect unlisted companies, most of which are small and medium sized firms. The Study highlighted certain issues of fairness and possible conflicts with other regulation, notably the Human Rights Act 1998 and the Data Protection Act 1998, Public Interest Disclosure Act 2000, Regulation of Investigatory Powers Act 2000, Freedom of Information Act 2000 and sections 723B-

F Companies Act 1985 as inserted by section 45 Criminal Justice and Police Act 2001.

4.1.2 The creation of a criminal offence in an area where the majority of those affected are law abiding may create a trap for the unwary. It is envisaged that the triple provision for education, warnings and lesser penalties foreseen in these proposals should provide a wide safety margin for the unwitting as opposed to the criminal transgressor.

4.1.3 There are genuine commercial and public order arguments for owners' details not being made public. These are discussed in the Study and the impact is summarised in **Section 6 Costs** below .

5. BENEFITS

General benefits and beneficiaries

5.1 Benefits, self-reporting systems and non-compliance

5.1.1 The system envisaged under these proposals is a classic self-reporting system with minimal routine validation, that is to say centrally reported data will not be routinely checked other than for completeness and gross error (e.g. non-existent postcode or impossible age). Rather, the intent of the system is to gather statements which remain available for use as evidence. The information generated is also intended for use in conjunction with other evidence in establishing suspicious patterns of behaviour.

5.1.2 Detecting suspicious behaviour can be done in one of two main ways, namely:

- By comparing statements with other evidence or information which comes to light by traditional means such as intelligence, investigation or whistle-blowing
- As part of highly structured data analysis exercises whereby large amount of data are checked against other records to highlight inconsistencies and inaccuracies, which can then be further investigated. This type of enforcement is already practised (e.g. by DWP in the fight against benefit fraud) with good results, and is characteristic of new approaches to law enforcement possible in the information age.

5.1.3 As envisaged the system also has two in-built safeguards against non-compliance. This is important in that criminals are unlikely to disclose or disclose honestly. Firstly, non-reporting is either easy to spot on investigation or automatically centrally detectable in Options 2 and above. Secondly, false reporting is precisely what the investigative techniques outlined above are designed to detect, with data modern analysis techniques allowing increasingly frequent, sensitive and selective controls.

5.2 Potential beneficiaries

5.2.1 The proposals may have a wide range of potential beneficiaries including, in particular:

- Law enforcers undertaking recovery, confiscation and other investigations
- Civil law experts engaged in recovery
- Credit reference agencies and their clients

- Those undertaking identification verification and due diligence procedures in compliance with e.g. money laundering regulation and for prudential reasons.

5.3 Law enforcement and regulatory authorities

5.3.1 There are as many as 7,000 officers in the police, DWP, Customs & Excise National Investigation Service, DTI and Inland Revenue. They work in units:

- Engaged in mid-sized operations (i.e. most routine confiscation cases)
- With current powers limited to a specific purpose, e.g. establishing a tax liability (including police FIU's, HM Customs & Excise)
- Needing more varied powers (e.g. within Metropolitan Police, Special Compliance Office/Inland Revenue, BASIS/DWP, various HM Customs & Excise units).

5.3.2 The proposals would also benefit criminal intelligence, crime prevention and investigation work across all UK enforcement agencies, the number of potential beneficiaries thus being a multiple of the specialist staff identified above. Additional and more timely intelligence on suspicious actors and activities and providing additional powers would be of special benefit to intelligence-led enforcement activity, such as anti-terrorist and organised crime units.

5.4 Private Sector

5.4.1 As described above [3.2] the open register variants would benefit accountants, lawyers and specialist investigation firms in civil recovery. There are also around 130 debt collection agencies with over 22,000 full and part-time staff. They would also benefit credit reference agencies and their clients, firms supplying goods or services on credit and firms and individuals conducting due diligence on counterparties. The range of potential beneficiaries therefore extends to much of UK industry.

5.5 Law Enforcement Benefits

5.5.1 By allowing progressively easier access to a wider range of key details on beneficial ownership submitted by a wider range of people the proposals make it easier to focus attention on suspicious behaviour. This could assist recovery and seizure by allowing:

- Anonymous inquiry and less risk of tipping off
- More and more complex, quicker and successful investigations
- More data (full name, principal address, postcode and date of birth) with which to identify legal and beneficial owners more accurately and force criminals into more easily checked statements.
- Exclusion of innocent parties
- More initial grounds for suspicion (including whistle-blowing)
- More timely and detailed evidence, especially where urgent applications to stop assets and individuals leaving the country must be made

5.5.2 Under the open register options, the possibility of matching officially collected data with private sector would allow:

- More chance of establishing connections, especially in conspiracy cases
- More chance of spotting inconsistencies
- Civil enforcers to conduct more efficient and effective civil proceedings, with the added advantage of the lesser burden of proof required in the civil courts

5.5.3 The risk of summary arrest and a longer prison term under the serious arrestable offence would deter those (especially professional intermediaries) who

help establish and maintain suspect businesses and make them co-operate by supplying more accurate information to enforcement officials. It would be easier to obtain convictions and recoveries for this offence than for complex money laundering charges.

5.6 Private sector benefits

5.6.1 Under the closed register options, industry stands to benefit indirectly from the increased levels of public safety resulting from the proposals. Under the open register options, improved ownership information would improve credit decisions by banks and companies. Reductions in bad debts, fraud and fraud insurance premia, bad debts, loan losses and borrowing charges could raise confidence and lower running and compliance costs. All of these would enhance the environment in which small companies operate.

5.6.2 Cost reductions would also accrue from companies not having to answer repeated requests for standard information and the central record providing an easy point of reference for inquirers. Identity and credit checks for legal and supervisory checks could also be cheaper to perform.

5.6.3 Better insight into ownership would help shareholders make more informed share transaction and voting decisions, and managers to make better decisions in their shareholders' interests. Either party could obtain information without having to inconvenience or alert the other party unnecessarily.

5.7 Longer term and international benefits

5.7.1 The proposals would make it easier to target effectively the activities of smaller criminals and to target and identify more organised criminals. At the top end the proposals would also provide a second layer of powers for combating the very serious offences both in money laundering and other forms of crime. With the higher costs and risks reducing the offshore alternatives available, the proposals would make it harder to accumulate funds for crime and from crime. Action on this front would meet two key crime reduction messages in the PIU Report.

5.7.2 The measures would also send clear signals of the UK's commitment to preventing the abuse of corporate vehicles in the UK and its dependencies. They may also have a foreign policy premium, enabling the UK to lead international initiatives to share data in this area and stop jurisdictional arbitrage by criminals. The proposals would also help identify jurisdictions where suspicious actors hide, allowing pressure to be exerted, for example by means of the FATF blacklist.

5.8. Assessment of benefits of individual options

Option 1

5.8.1 All closed register variants of Option 1 would offer improvements in intelligence, investigation evidence and deterrence by allowing access to beneficial ownership details through simple inquiry rather than potentially complex investigation. Additionally they offer more opportunities for whistle blowing by company staff.

5.8.2 The scale of benefits is expected to increase with the detail and timing of the reporting obligation. Thus Option 1c offers wider, quicker and more accurate enforcement than Option 1b which in turn offers marginal improvements over Option 1a.

5.8.3 The open register variants of Option 1 appear to offer limited cover for investigations. However they also offer the private sector access to the same data as

law enforcement, thereby increasing both the chances of civil recovery, and of inconsistencies being spotted and reported to the police. They allow more data to be available to the private sector for due diligence inquiries.

Option 2

5.8.4 The closed register variant of Option 2 would offer the prospect of improved benefits obtained under Option 1B by introducing the duty to report (as well as record) beneficial ownership at company level and the extension of such duty to unlisted public companies. The introduction of a central inquiry mechanism would avoid the risk of tipping-off and allow routine, if laborious, trawling and cross referencing of centrally held beneficial ownership records.

5.8.5 This variant should also save a wider range of law enforcement (i.e. those engaged in other forms of monitoring and investigation) units the time and effort of using more complex powers. It would also allow covert ownership checks to become routine, as currently happens with e.g. Land Registry searches in HM Customs & Excise inquiries.

5.8.6 The open register variant of Option 2 would provide widespread benefits to industry including improved access to, and better data on, companies and individuals on a predictable basis as outlined above. Improved systemic confidence would put downward pressure on credit costs and upward pressure on profit margins. The improved information environment would also increase further the chance of irregularities being identified and reported to police. Open central reporting would also offer the established benefit of accessing official figures.

Option 3

5.8.7 The marginal benefits of the closed register variant appear to include up-to-date information and data on changes to all ownership with wide practical and morale value for law enforcers as it would allow them to operate much closer behind suspects, and to obtain detailed evidence. Knowledge of the existence and accessibility of data would further improve investigation planning and management, allowing an earlier response to current cases which might otherwise fall through the net.

5.8.8 The open register variant would give almost full transparency on corporate ownership structure and the benefit of being able to check on up to date ownership declarations at any stage of the year. Business could benefit from more flexibility in planning routine reassessment of counterparties, e.g. annual credit reviews, and more accurate checks of information provided e.g. during client identification.

5.8.9 Greater data availability to company data holders would allow a better range of bulk services to public and private sector users, including law enforcers. In particular it would allow credit reference agencies to offer continually updated search facilities by name, integrating open register details with data on their systems. Such systems would be more complete and up to date than Option 2. A comparable official integrated system is not provided under these proposals until Option 5.

5.8.10 This would be the first option that allowed recovery and investigation strategies to be based on comprehensive and user-friendly database screening. It would also potentially support the proactive flagging of suspicious activity according to key search criteria, e.g. name, type of transaction etc. The wider availability of data would again further increase the chances of suspicious reporting.

Option 4

5.8.11 The closed register variant is the first such variant to allow investigation by name of the individuals (not companies) involved, which may not be known. It offers some of the advantages of Option 3 open register variant, but without as wide a range of background data, and comprehensive but cumbersome trawling of owner and director details at Companies House on a case-by-case basis.

5.8.12 The open register variant appears to offer the cumulative benefits of Option 3 Open Register, the value being greatest for private sector parties without access to commercial data sources. It also enables cross-checking with private sector systems, with competition between the two increasing consumer choice.

5.8.13 The open register variant would greatly increase the benefit to companies and individuals of not having to ask for and provide, data to third parties (and keep it updated), by making it easier to undertake central inquiries.

Option 5

Closed and open register

5.8.14 Both variants could attract all the benefits as Option 4 but with the increased efficiency of avoiding the need to install or access multiple systems. There could also be benefit in a public sector system which is not reliant on commercial pressures, and over which there is some degree of control.

5.8.15 The open register variant would allow data providers to offer better access to, and manipulation of, all data obtainable from Companies House.

5.9 Value of benefits

5.9.1 Tables 4a & 4b sets out a schedule of potential benefits that could be derived from adoption of any these Options. The full RIA estimated the value of a subset of law enforcement benefits in terms of cost reductions, increased recoveries, and prevention as well as certain cost reductions in the private sector. The estimated values were obtained by modelling the orders of economy (Table 3) offered by the proposals over the current situation. This was based in turn on estimates of increased effectiveness and efficiency possible under the proposals.

5.9.2 The first order of economy offered is around 5 – 10% and the lower figure is used in this RIA. The Options attracting this order are 1a-c, 2 (in both cases open and closed) and 3 (closed). Applied to certain law enforcement and private sector costs, recoveries and prevention it produces estimated benefits of £5.1 million.

5.9.3 The second order of economy involved is around 15 – 25% and the lower figure is used. Options attracting this order are 4 and 5 (closed). Applying this percentage produces estimated benefits of £15.2 million (see Table 3).

5.9.4 The third order of economy is 30 – 50% and the lower figure used. Options attracting this order are 3, 4 and 5 (open). Applying this percentage produces estimated benefits of £30.3 million

5.9.5 Factors of benefit and orders of economy are set out in Table 3. The predicted ranges of benefits are both consistent and modest compared with rates of improvement recently achieved by law enforcement.

5.10 Sensitivities

5.10.1 The value of benefits would be increased if they were to include:

- Cost savings to other investigators than the PIU figure of 1,700 qualified investigators. The ratio of qualified to unqualified investigators in law enforcement units can be as high as 1:10. As unqualified investigators might well benefit from the proposals, the potential savings are much higher.
- Increases in fines and penalties. The benefit to HM Customs & Excise alone based on 1999-2000 figures would be up to £43.8 million
- Small increases in prevention: A 1% decrease in VAT and Excise revenue evasion would be worth over £20m based on figures for 2000. In the same year to March 2000, benefit fraud and error amounted to £1.32 billion.
- The full value of the proposals to industry. The yearly value of bad debts referred to debt collection agencies is c£3.5 billion, whilst non-mortgage credit in 1999 was £500 billion. A very small impact on the quality and cost of corporate credit would have significant value.

5.10.2 Higher benefits would also accrue from a requirement to use a passport identity, driving licence, tax or National Insurance number. Conversely, without disclosure of date of birth and postcode details, the value of benefits would be reduced by about one order of economy. The quality of data recording at Companies House also effects the efficiency of these proposals.

Offshore criminality

5.10.2 The proposals would make it easier to establish or exclude a UK connection, saving time which can be re-employed in more productive investigations. Moreover, investigations offshore whilst difficult, are not impossible, and in certain offshore jurisdictions, may be easier than in the UK (e.g. Jersey, Bermuda). In any event, the objective of ensuring UK companies are not abused as vehicles for crime will have been met.

Bearer warrants

5.10.3 Where a company issues bearer share warrants it may not be possible for the company to identify their holder if the holder failed to identify themselves to the company. However, wide scale use of bearer share warrants is rare and may itself be grounds for suspicion.

Other forms of business association

5.10.4 The proposals do not cover all forms of registered business status. By not extending to the other forms of businesses described in the base case, the way is left open to use these vehicles instead of private companies. Close attention needs to be given to further harmonising disclosure across the various forms of business.

Tax

5.10.5 In addition to disclosure, a major factor in companies locating in a particular country is the tax regime. Criminals might be attracted to the UK despite the higher risks by developments in international comparative corporate tax rates and tax treaties.

Penalty regime

5.10.6 To be effective, all options will require the serious arrestable offence outlined in this RIA.

5.10.7 The system would be significantly impacted by lack of penalties for benign non-filing. Wide-scale benign non-filing or late filing might impact the proposals (i.e. benefits would fall by at least one order of economy) by overloading the late-filing system. However, for the benefits of the proposals to be completely lost, non-

compliance would have to extend to a wide scale failure to submit any data at all. This is unlikely given the compliance rates for annual returns and annual accounts.

6. COMPLIANCE COSTS

6.1 Business sectors affected

6.1.1 The large majority of companies in the UK are small and would be covered partly or wholly by these proposals. An estimated 5.25 million legal shareholders and 125,000 beneficial owners would be affected by the proposals. The figure of 125,000 has been arrived on the basis of Companies House figures and discussions with company formation agents and corporate data services companies such as Dun & Bradstreet and Experian. Potentially affected by virtue of their role are the registrars, company formation agents, corporate company secretaries, software firms, lawyers and accountants who advise and assist these shareholders and beneficial owners.

6.2 Compliance costs for a typical business

6.2.1 The great majority of companies - about 80% - are "Owner-Manager" style small business whose ownership and control structure varies little, if indeed at all. Their authorised share capital is £100 or less. The impact for these companies and their shareholders will consist mainly of making, recording and, where necessary, reporting initial declarations of beneficial ownership and amending the relevant details as and when necessary.

6.2.2 The remaining 20% of companies are likely to have a more fluid shareholding structure. The marginal impact on these companies and their shareholders will be the effort required in confirming beneficial ownership on changes of legal ownership.

6.2.3 It is thought that around 1% of all companies may have beneficial owners of their shares who are different from the legal owners. The impact on these companies and their owners will be the effort required to report and record changes to beneficial ownership.

6.2.4 The stable "owner-manager" structure of many businesses and the facility for all companies to report and confirm beneficial ownership using simple variations of existing procedures and forms means that the costs of these proposals for most businesses will be minimal, and not much greater for those directly affected.

6.3 Companies House costs

6.3.1 The principal impact on Companies House is an increase in the number of forms and amendments to the associated processing. The main new possible transactions identified and, where possible, their estimated annual volumes are:

- Declarations of beneficial ownership on allotment – 2,500 p.a.
- Transfers of beneficial ownership – 12,500 p.a.
- Changes in beneficial ownership details – 4,000 p.a.
- Entries/amendments to company registers of beneficial ownership 519,000 p.a.
- Company reporting of beneficial ownership details via annual returns (NC)
- Company reporting of transfers of beneficial and legal ownership (NC)
- Company reporting of changes in legal and beneficial ownership details - 157,500 p.a.

6.3.2 The cost impact of each option shown below on Companies House has been estimated using the number of forms processed by Companies House and its historic

cost base. In the financial year ended March 2001 Companies House processed around 6 million forms in connection with registration activity. Its expenditure was c. £38 million, giving an average cost per form of £6.33. Increases and decreases in the level of inquiries to Companies House as a result of the proposals have been assumed to cancel each other out. Companies House, as an Agency of DTI, runs as a Trading Fund and would need to consider how any costs associated from these proposals might be recovered from users and customers.

6.4 Cost of individual options

Options 1a, 1b & 1c

6.4.1 The direct one time cost to central government has been assumed in talks with HMT and DTI to be around £1 million. As the requirements of Option 1a are mostly prudential or contained with existing business practice the estimated marginal cost to business is £32K. These costs apply to open and closed registers.

6.4.2 The direct and compliance costs of Option 1b are of the same type as for Option 1a. The duty to declare beneficial ownership annually will result in an estimated marginal cost of c£220,000 for beneficial owners and c£160,000 for companies. The costs for open and closed register variants are identical.

6.4.3 If all estimated transfers of beneficial ownership broke a 1% shareholding interval, the cost of Option 1c for beneficial owners and companies would be £25,000 each. The costs for open and closed register variants are identical.

Option 2

6.4.4 The estimated marginal direct costs of Option 2 in respect of Companies House are just over £1.2 million per year for the open register variant and slightly lower (£1 million) for the closed register variant on account of the reduced development costs. These costs relate principally to changes to practices and procedures as a result of the need to collect additional details on beneficial owners. The marginal cost to companies for reporting of beneficial ownership is estimated at an initial £160K and £16K p.a. thereafter for both variants.

6.4.5 Under the open register variant, were private sector company data providers to offer annual beneficial ownership details, the principal costs involved would be the purchase of data from Companies House and adaptation of their inquiry and reporting systems. Arguably, there might be no marginal costs involved. However, the marginal cost estimates for one system providing such details are £300K up front and £250K p.a.

Option 3

6.4.6 The marginal cost to companies of having to notify and continually update both legal and beneficial ownership details is estimated to be £1.2 million p.a., but partially offset by lower effort required completing the Annual Return. The marginal cost of forms processing at Companies House is estimated at £4.3 million p.a. and likewise partially offset by reduced processing of the Annual Return.

6.4.7 The additional open register costs for private sector database operators would be the increased frequency of updates estimated at an additional £100,000 p.a.

6.4.8 The marginal cost of Option 3 Open Register is therefore estimated at c. £5.6 million p.a. The private register costs would be slightly lower (£5.3 million p.a.) for the same reason as Option 2.

Option 4

6.4.9 The impacts of this option relate to the provision of database maintenance and search facilities and the additional cost of Companies House making the information available to the general public under the open register option.

6.4.10 On the basis of private sector estimates and allowing for its higher cost and the other duties, Companies House IT costs are estimated conservatively at £1 million up front and £500,000 p.a. for the closed register variant. The open register costs would be higher (private sector estimates of 10-25%) on account of the increased reporting requirements.

6.4.11 Were private sector database operators to provide additional beneficial ownership details to industry under the open register option, the costs would probably fall within routine upgrading budgets.

6.4.12 The marginal cost of Option 4 is therefore estimated at c£1 million up front and £500,000 p.a. for the closed system and £1.25 million up front and £625,000 p.a. for the open system.

Option 5

6.4.13 The impacts of this option relate to the technical costs of unifying the directors and shareholder data bases at Companies House. On the same basis as Option 4, the marginal closed register costs are estimated conservatively at a further £1 million up front and around £500,000 p.a. and the open register costs at £1.25 million up front and £625,000 p.a.

6.4.14 The availability of a single Companies House stream of data on shareholdings and directors would probably lessen the costs of processing for credit reference agencies and their clients.

6.5 Additional costs

6.5.1 The proposals will have a negligible effect on the quantity quality and variety of goods sold. At the margins they may discourage bona fide companies from the UK registration and reduce demand for company service providers in this area. Some company secretarial software packages may have to be updated.

6.5.2 Given the low compliance cost to at least 80% of businesses and probably more, it is highly unlikely a company will not be able to absorb the marginal cost of the regime though some inadequate companies may not be able to comply with the regime and be wound up.

6.5.3 Legal and accounting firms would have to learn and study the implications of the proposals.

6.5.4 There are other ways of estimating the number of shareholders which produce both smaller and larger numbers. The numbers used here represent the figures felt to be most reasonable by company formation agents and are based on one particular set of Companies House figures.

6.5.5 There are a number of valid commercial reasons why individuals might not want beneficial ownership information disclosed publicly. However, it can also be argued that a transparent environment would foster more business than it would prevent, owing to the greater market confidence generated.

6.5.6 Public order reasons for limiting disclosure include protection of witnesses and the politically vulnerable. The smaller number of people in this category require the absolute security that might be afforded by a stand-alone system costing a fraction of this amount. The minimum annual running costs to government of a basic system (excluding any other capital costs) might be reasonably assumed to be in the order of £100,000 -£200,000 p.a.

6.6 Sensitivity of cost estimates

6.6.1 Companies House's intention to move towards direct electronic data entry would likewise reduce costs to Companies House and companies concerned by obviating the need for data entry at Companies House and possibly enabling companies to produce registers automatically.

7. ALTERNATIVES

7.1 Alternative 1: Annual disclosure of any beneficial ownership

7.1.1 The Terms of Reference require the assessment of the specific alternative whereby a central database is established at Companies House to record full details of legal ownership and the fact, but not the extent of any beneficial ownership. These details would be updated annually.

7.1.2 For beneficial owners, this alternative is similar to Option 1b, save that they would not have to monitor and report levels and changes in beneficial holdings reducing the estimated costs from £380,000 to £300,000 p.a.

7.1.3 Companies would submit the information in similar fashion to Option 2, but as less data is required the costs reduce to £150,000 up-front and £20,000 p.a. The cost involved to government is unchanged at c£1.4 million.

7.1.4 The cost of the database is similar to the costs under Option 4, or £1 million up front and £500,000 p.a. for the closed variant and slightly higher (£1.25 million and £625,000 p.a.) for the open variant.

7.1.5 The alternative would therefore have up-front costs of around £2.4 million up front and £820,000 p.a. for the closed system and £2.65 million up front and £945,000 p.a. for the open system.

7.1.6 This alternative lies closest to Option 2 and attracts at best first order benefits, and only then if the data were placed on public record.

7.2 Alternative 2: Semi open record

7.2.1 Public policy may preclude the public register route, for fear of placing individuals at risk. Allowing trusted credit reference agencies access to closed data with appropriate safeguards would provide a means of preserving many of the benefits of the public register options without the risk of information obtained under the proposals being abused. The effects on costs would be small and the superiority of benefits over costs would remain in all cases unaffected.

7.3 Alternative 3: Different thresholds

7.3.1 Some enforcers argued that the thresholds were in fact too low and that thresholds in stages of 10% would be equally effective for less effort. Others suggested that reporting should be in absolute numbers of shares, as this would enable direct reconciliation of legal and beneficial ownership levels for the same or less effort.

7.4 Alternative 4: Extension of existing Companies Act powers

7.4.1 There already exist a number of statutory powers to obtain information on share ownership. In particular, the Secretary of State has powers under the Companies Act to appoint inspectors (section 442) or, where the appointment of inspectors is unnecessary, authorise an investigation into the ownership of shares (section 444). Other authorities have general powers that can be used to obtain this information. The UK, like most sophisticated economies, presently uses this targeted approach to ascertain share ownership only when this information is required. A further alternative would, therefore, be to do nothing and continue to rely on these powers.

8. RESULTS OF CONSULTATION

8.1 In the course of drawing up this Assessment, preliminary consultation has taken place with law enforcement agencies, industry bodies and Companies House.

9. CONCLUSIONS AND RECOMMENDATIONS

9.1 For each option the intentionally limited scale of benefits exceed the costs, in the higher options by a wide margin. The option that best meets law enforcement requirements at least cost and with the greatest potential long term benefit is the Option 3 open register variant. This costs £1.5 million up front and £7.6 million p.a. whilst producing £30.3 million p.a. in benefits.

9.2 Functionally, the best closed register variant is Option 5 which would cost more both up front (£3.2 million) and p.a. (£7.8 million) and bring benefits of £20 million p.a. Before choosing a closed register variant, the semi-open alternative should be looked at in detail on account of the substantial added benefits it would most likely bring.

9.3 If *money is no object* then the best open register variant is Option 5, which would create a full database under government control as well as enabling links to private sector systems.

9.4 If a *"soft landing"* is wanted, Option 2 Open offers a route to introduce the regime gradually. Disclosure could be introduced on an annual basis to start off with, possibly using a 10% initial threshold, and then tightened at a later date (e.g. to coincide with new systems at Companies House). However it is only worth going this route if it were intended to upgrade in the not too distant future.

9.5 Without the data and databases created by the higher options, the proposed systems will not be able to contribute to this process or fulfil the requirements of the guidelines in the OECD Report on Misuse of Corporate Vehicles.

9.6 It is recommended that Option 3 (open register) be implemented to create a system which uses the resources of the private sector and to leverage data that can only be collected by the public sector.

10. ENFORCEMENT

10.1 There would be no routine controls of the duty of legal and beneficial owners to notify companies or the truth of disclosures. The intention is that the requirements are policed by a wide range of enforcement officials in the routine course of duties. There would be active enforcement of the duty of companies to inform Companies House.

10.2 Enforcement of money laundering regulations *per se* would not be the responsibility of Companies House or the DTI, but of the agencies which investigate financial crime.

10.3 As the system is designed with non-compliance in mind, failure to report and mis-reporting by individuals and companies does not *per se* put law enforcement at a disadvantage. Rather, where it comes to light, it provides leads that can be followed up and extra charges that can be considered.

10.4 Dividing beneficial ownership and share trades into parcels below the declaration thresholds ('smurfing') as a method of circumvention cannot be excluded, but it would stand out, indeed the proposals provide the very tool to tackle this problem.

10.5 One enforcement problem that might possibly cause concern would be widespread benign mis-reporting. This is unlikely given the "checkbox" nature of most reporting and the overwhelming compliant behaviour of the target population, as demonstrated by the compliance record on annual returns and annual accounts submissions.

TABLE 1: SUMMARY OF OPTIONS FOR DECLARATION OF BENEFICIAL OWNERSHIP						
OPTION	KEY POINTS OF DUTY				ENQUIRY MECHANISM	COMMENT
	ON WHOM?	DISCLOSE/DO WHAT?	TO WHOM?	WHEN?		
1a	Beneficial owner of > 3%	a) Unspecified holding above threshold b) Holding now below threshold	Company	Not specified; Assume upon settlement	Made available to law enforcers and regulators	Private companies
1b	Beneficial owner of > 3%	a) Percentage at outset b) Change over year	Company	Annually	Same	Private companies; In addition to 1a
1c	Beneficial owner of > 3%	Each time holding rises by 1%	Company	2 days (?)	Same	Private companies; in addition to 1b
2	Company	Name of beneficial shareholder >3% and percentage held	Companies House (via annual return)	Annually	Same	Private and unlisted public companies. In addition to 1c
3	Company (?)	Changes of >= 1% in: a) legal share ownership b) beneficial ownership	a) To Companies House	Upon settlement	Same	Private and unlisted public companies in addition to 2
4	Companies House	Maintain database of shareholdings and beneficial interest	n/a	n/a	Same; search and listing by name	In addition to 3. All companies.
5	Companies House	Maintain database of directorships and shadow directorships	n/a	n/a	Same; search and listing by name	In addition to 4. All companies.
Closed	Company	Publish relevant data	Public	As above	Public register	(Options 1a, 1b 1c)
Open	Companies House	Publish relevant data	Public	As above	Public register	(Options 2 - 5)

OPTION	TABLE 2: SUMMARY OF LAW ENFORCEMENT BENEFITS			
	AREA/NATURE OF BENEFITS			
	Intelligence	Investigation	Evidence Gathering	Deterrence
1a	Basic screening Open Register allows tipping off	Detailed screening. Easier linking to past crime	Easier proof of links to past crime	Limited displacement
1b	Change data may be useful Open Register allows tipping off	Change data may suggest active links	Change data might help prove active links	Limited displacement
1c	May increase number/value of suspicions reported Open Register allows tipping off	May allow wider/ quicker/ deeper investigations	May allow quicker and more substantial proof.	Some deterrence due to higher risk of detection
2	As all above. Easier access wider data No tip off risk Limited mix and match*	As all above Easier access to wider range of data No tip off risk	As all above Easier access to wider range of data No tip off risk	All the above. Easier access to wider range of data No tip off risk
	Open register allows limited mix and match with private sector databases. Some improvement in all areas from easier informal access to larger amounts of data on beneficial ownership and company officers			
3	As all above Easier lead intelligence.	As all above. Easier monitoring of suspects	As all above Easier to get key details.	Beginning of crime displacement due to real time data
	Open register allows limited mix and match with private sector databases. Large improvement in all areas from easier informal access to larger amounts of timely data on legal and beneficial ownership and company officers. Smart systems possible.			
4	Reverse search and smart systems for shareholdings become possible under a closed system. Open system may benefit from single data feed and back up.			
5	Reverse search and smart systems for shareholdings and company officers become possible under a closed system. Open system may benefit from single data feed and back up in case of critical event.			

TABLE 3 FACTORS OF ORDERS OF ECONOMY AND OPTIONS CONCERNED				
<u>BENEFIT OBTAINED</u>	<u>BASE CASE</u>	<u>1ST ORDER</u>	<u>2ND ORDER</u>	<u>3RD ORDER</u>
BENEFICIAL OWNERSHIP DETAILS	NO	YES	YES	YES
LEGAL OWNERSHIP DETAILS	YES	YES	YES	YES
USER FRIENDLY INQUIRY	NO	LIMITED (2 Open) NO (Rest)	YES	YES
ACCESS TO WIDER DATA	NO	LIMITED (2 Open) NO (Rest)	NO	YES
TIMELY DATA	NO	YES (3 Closed) NO (Rest)	YES	YES
OPTIONS CONCERNED	N/A	1a – c Open and Closed 2 Open and Closed 3 Closed	4 Closed 5 Closed	3 Open 4 Open 5 Open

TABLE 4a: SUMMARY OF COSTS AND BENEFITS – OPEN RECORD						
OPTION	MARGINAL COST (£)		RUNNING TOTAL (£)		ORDER OF ECONOMY ATTRACTED	VALUE OF BENEFITS (£)
	UP FRONT	PER ANNUM	UP FRONT	PER ANNUM		
1a	1M	0.03M	1M	0.03M	1	5.1M
1b	-	0.4M	1M	0.4M	1	5.1M
1c	-	0.05M	1M	0.5M	1	5.1M
2	0.5M	1.5M	1.5M	2M	1	5.1M
3	-	5.6M	1.5M	7.6M	3	30.3M
4	1.3M	0.6M	2.8M	8.2M	3	30.3M
5	1.3M	0.6M	4.1M	8.8M	3	30.3M

TABLE 4b: SUMMARY OF COSTS AND BENEFITS – CLOSED RECORD						
OPTION	MARGINAL COST (£)		RUNNING TOTAL (£)		ORDER OF ECONOMY ATTRACTED	VALUE OF BENEFITS (£)
	UP FRONT	PER ANNUM	UP FRONT	PER ANNUM		
1a	1M	0.03M	1M	0.03M	1	5.1M
1b	-	0.4M	1M	0.4M	1	5.1M
1c	-	0.05M	1M	0.5M	1	5.1M
2	0.2M	1.0M	1.2M	1.5M	1	5.1M
3	-	5.3M	1.2M	6.8M	1	5.1M
4	1M	0.5M	2.2M	7.3M	2	15.2M
5	1M	0.5M	3.2M	7.8M	2	15.2M

TABLE 5a: SUMMARY OF REDUCED BENEFITS AT CONSTANT COSTS – OPEN RECORD

OPTION	MARGINAL COST (£)		RUNNING TOTAL (£)		BENEFITS AFTER NO. OF REDUCTIONS IN ORDER OF ECONOMY DUE TO NON-COMPLIANCE (£)			
	UP FRONT	PER ANNUM	UP FRONT	PER ANNUM	NONE	ONE	TWO	THREE
1a	1M	0.03M	1M	0.03M	5.1M	0M	0M	0M
1b	-	0.4M	1M	0.4M	5.1M	0M	0M	0M
1c	-	0.05M	1M	0.5M	5.1M	0M	0M	0M
2	0.5M	1.5M	1.5M	2M	5.1M	0M	0M	0M
3	-	5.6M	1.5M	7.6M	30.3M	15.2M	5.1M	0M
4	1.3M	0.6M	2.8M	8.2M	30.3M	15.2M	5.1M	0M
5	1.3M	0.6M	4.1M	8.8M	30.3M	15.2M	5.1M	0M

TABLE 5b: SUMMARY OF COSTS AND BENEFITS – CLOSED RECORD

OPTION	MARGINAL COST (£)		RUNNING TOTAL (£)		BENEFITS AFTER NO. OF REDUCTIONS IN ORDER OF ECONOMY DUE TO NON-COMPLIANCE (£)			
	UP FRONT	PER ANNUM	UP FRONT	PER ANNUM	NONE	ONE	TWO	THREE
1a	1M	0.03M	1M	0.03M	5.1M	0M	0M	0M
1b	-	0.4M	1M	0.4M	5.1M	0M	0M	0M
1c	-	0.05M	1M	0.5M	5.1M	0M	0M	0M
2	0.2M	1.0M	1.2M	1.5M	5.1M	0M	0M	0M
3	-	5.3M	1.2M	6.8M	5.1M	0M	0M	0M
4	1M	0.5M	2.2M	7.3M	15.2M	5.1M	0M	0M
5	1M	0.5M	3.2M	7.8M	15.2M	5.1M	0M	0M