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|--|---|--|--|--|
| Title: Register of Overseas Entities IA No: BEIS009(F)-22-BF RPC Reference No: See footnote Lead department or agency: Department for Business, Energy and Industrial Strategy Other departments or agencies: Land Registry and Companies House | Impact Assessment (IA) | | | |
| | Date: 25 February 2022 | | | |
| | Stage: Final | | | |
| | Source of intervention: Domestic | | | |
| | Type of measure: Primary legislation | | | |
| | Contact for enquiries: transparencyandtrust@beis.gov.uk | | | |
| RPC Opinion: Green ¹ | | | | |

Summary: Intervention and Options

| Cost of Preferred (or more likely) Option (in 2019 prices) | | | |
|--|-----------------------------------|--------------------------------------|--------------------------------------|
| Total Net Present Social Value | Business Net Present Value | Net cost to business per year | Business Impact Target Status |
| -£22.9m | -£21.4m | £2.5m | Non qualifying 'de-minimis' |

What is the problem under consideration? Why is government action or intervention necessary?
 Beneficial owners of overseas companies owning UK property are currently often hidden, which differs to the situation for UK companies. This, for example, makes UK property vulnerable to being misused as a means of hiding or laundering the proceeds of crime. The case for government intervention rests on two arguments:

- Upholding the well-established role of the state to address criminal behaviour
- Reducing information asymmetries between buyers, sellers and intermediaries in the property market

What are the policy objectives of the action or intervention and the intended effects?
 The overarching objective is to create a publicly available register of ultimate ownership to enhance the transparency around the owners and controllers of relevant entities which own or buy UK property. In doing so the objective is to:

- Deter and disrupt crime, by making it more difficult to use corporate vehicles in the pursuit of crime.
- Deter criminals from money laundering in the UK
- Preserve the integrity of the financial system
- Increase the efficiency of law enforcement investigations, particularly in relation to identifying and tracing the proceeds of crime
- Require the same transparency of the relevant overseas entities as of UK companies

What policy options have been considered, including any alternatives to regulation? Please justify preferred option
 Option 0: Do nothing
 Option 1 (preferred): Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities. Option 1 is seen as the only option comprehensive enough to achieve the policy objectives
 Option 2: Same as option 1 but limited to overseas companies limited by shares only
 Option 3: Same as option 1 but applied to future property transactions only
 Option 4 (non-regulatory approach): Government campaign to promote the importance of transparency around beneficial ownership of overseas legal entities

| | | | | |
|--|-------------|-----------|-----------------|-----------|
| Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Yes. | | | | |
| Is this measure likely to impact on international trade and investment? | | No | | |
| Are any of these organisations in scope? | Micro Yes | Small Yes | Medium Yes | Large Yes |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | Traded: N/A | | Non-traded: N/A | |

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:  Date: 25/02/2022

¹ The RPC rated this Impact Assessment 'fit for purpose' in January 2020 following Pre-Legislative Scrutiny policy changes (RPC-BEIS-4242(2)). Since this review, the costs estimate for this policy have changed slightly as more up to date evidence has been incorporated. This has not affected the Business Impact Target classification (non-qualifying as de-minimis) of the proposal.

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

| Price Base Year: 2019 | PV Base Year: 2020 | Time Period Years: 10 | Net Benefit (Present Value (PV)) (£m) | | |
|--------------------------|-----------------------|--------------------------|---------------------------------------|-------|------------------------|
| | | | Low: | High: | Best Estimate: -£22.9m |

| COSTS (£m) | Total (Constant Years | Transition Price) | Average (excl. Transition Price) | Annual (Constant Price) | Total (Present Value) | Cost |
|----------------------|-----------------------------|----------------------|--|-------------------------------|--------------------------|------|
| Low | | | | | | |
| High | | | | | | |
| Best Estimate | 4.8 | | 2.1 | | 22.9 | |

Description and scale of key monetised costs by 'main affected groups'

Increased regulatory burden on business due to:

- Familiarisation with the policy
- Identifying and collecting beneficial ownership information
- Providing beneficial ownership information to Companies House
- Updating beneficial ownership information annually

Other key non-monetised costs by 'main affected groups'

- Costs to Companies House
- Costs on individual beneficial owners who apply for the protection regime, estimated to be negligible and offset by benefits to the individual
- Impacts on overseas investment into the UK property market, discussed in detail and estimated to be negligible

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) Price) | Total Benefit (Present Value) |
|----------------------|---|--|----------------------------------|
| Low | | | |
| High | | | |
| Best Estimate | | | |

Description and scale of key monetised benefits by 'main affected groups'

Other key non-monetised benefits by 'main affected groups'

- Reducing crime (specifically money laundering) by making it more difficult for the illicit proceeds of crime to be hidden away in obscure ownership chains of UK property
- Improving the functioning of the UK property market by ensuring that its reputation remains intact and is not undermined by cases of criminal activity, and by reducing information asymmetries between buyers, sellers and intermediaries

Although these have not been monetised, we would expect these benefits to outweigh the costs to business.

Key assumptions/sensitivities/risks

Discount rate (3.5%)

Potential policy risks: That the protection regime provides insufficient protection or is misused, there is a reduction in overseas investment and impacts on innocent third parties due to non-compliant entities. We discuss these risks in detail in the main body of the Impact Assessment.

Uncertainties in the economic assessment: The existence of non-monetised costs and benefits, implementation is several years in the future and we thus have to rely on forecasts for some parameters and, for example, make assumptions about yet undecided fee levels.

BUSINESS ASSESSMENT (Option 1)

| | | | |
|--|----------------|-------------|---|
| Direct impact on business (Equivalent Annual) £m: | | | Score for Business Impact Target (qualifying provisions only) £m: n/a |
| Costs 2.5 | Benefits: 0 | Net: 2.5 | N/A |

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I. Background

Background information

Overview

1. In June 2016 the UK became one of the first countries to introduce a central, publicly accessible, register of beneficial ownership called the persons of significant control (PSC) register.² This was a fulfilment of a commitment made at a 2013 G8 summit.
2. Since the establishment of the PSC register, all companies incorporated in the UK must give information about their PSCs to Companies House. Most of the information on the register is publicly available, with some necessary exceptions to protect information about individuals at risk. This regime was further strengthened by the transposition of the EU's Fourth Anti-Money Laundering Directive into UK law in June 2017, which expanded the scope of the register and the frequency with which it is updated.³
3. At the International Anti-Corruption summit held in London in May 2016, the UK committed to building on the PSC register approach by additionally collecting and making accessible the beneficial ownership information of overseas entities owning or buying property in the UK.
4. The then Department for Business, Innovation and Skills consulted before the May 2016 Anti-Corruption summit on the principle of whether there was a case to legislate to create a beneficial ownership register of overseas entities that owned UK property.⁴ The responses to this consultation confirmed the need to create a register and allowed the proposals to be developed further.
5. The call for evidence published in April 2017 set out these more developed proposals and sought views on the design of the policy and its possible effects. The Government issued its response to the call for evidence in March 2018 which outlined how the policy proposals had developed in light of the responses to the call for evidence.⁵
6. The Government published the Draft Registration of Overseas Entities Bill in July 2018. A regulatory Impact Assessment which assessed the impacts in line

² A person with significant control (PSC) is someone who owns or controls your company. See: <https://www.gov.uk/guidance/people-with-significant-control-pscs>

³ See: <https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive>

⁴ See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512333/bis-16-161-beneficial-ownership-transparency.pdf

⁵ See: <https://www.gov.uk/government/consultations/property-ownership-and-public-contracting-by-overseas-companies-and-legal-entities-beneficial-ownership-register>

with Better Regulation and Green Book practices was published alongside the Draft Bill.⁶ That Impact Assessment was rated as green, i.e. fit for purpose, by the Regulatory Policy Committee.

Focus of this Impact Assessment

7. This Impact Assessment represents an update of the Impact Assessment published at the time, including:
 - Clarifying and simplifying the presentation of some of the earlier analysis carried out.
 - Taking into account the feedback that was received on the Draft Bill and from the Regulatory Policy Committee.
 - Incorporating changes made in response to recommendations made by the Joint Committee on the Draft Registration of Overseas Entities Bill.
8. We assess costs over a ten-year appraisal period and present our estimates in terms of present value costs for this period for business (NPV) and equivalent annualised net direct costs to business (EANDCB). As per current regulatory guidance, all costs are given in 2019 prices and this Impact Assessment uses 2020 as the base year for the present value calculation.⁷

Problem under consideration

9. This policy intends to address the potential for criminals to use offshore corporate vehicles to invest in UK property as a means of hiding or laundering the proceeds of crime.

UK property, offshore companies and criminal proceeds

10. There is some concern around the potential for illegal activity to take place through overseas companies investing in UK property. The concerns focus on the potential for criminals to use offshore corporate vehicles to obscure their identity when hiding illicit funds or laundering criminal proceeds through investments in UK property:
 - Transparency International analysis of Land Registry and the Metropolitan Police Proceeds of Corruption Unit data shows that, between 2004 and 2014, over £180m worth of property in the UK has been brought under criminal investigation as the suspected proceeds of corruption, and three in four of these properties involved the use of

⁶ See: <https://www.gov.uk/government/consultations/draft-registration-of-overseas-entities-bill>

⁷ See: <https://www.gov.uk/government/collections/impact-assessments-guidance-for-government-departments>

offshore corporate vehicles.⁸

- In January 2016, the National Crime Agency reported the conviction of a money launderer who had used offshore companies to launder £12m through council properties in London. The secrecy that offshore companies provided made it difficult for investigators to identify who owned the properties and therefore hindered the investigation.
- The Pandora Papers leak of offshore financial documents in October 2021 showed owners of more than 1,500 UK properties bought using offshore firms were revealed with an estimated value in excess of £4 billion, including individuals accused of corruption.⁹

11. Beyond this direct problem of criminal activities, there is a related issue of corporate opacity generating asymmetries in the information held by buyers and sellers within the property market, which could discourage productive transactions from taking place, especially when costs associated with carrying out due diligence are high. Greater transparency can help reduce costs associated with due diligence and thus help alleviate such potential issues.

⁸ See: <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/#.WuBo5uj482w>

⁹ See: <https://www.bbc.co.uk/news/uk-58792393>

II. Rationale for intervention

12. The rationales for the policy described in this document, are:

- Addressing criminal behaviour
- Reducing information asymmetries

13. We explore each of these in turn.

Addressing criminal behaviour

14. Establishing and enforcing a common set of rules is a key and well-established role of the State. Where there are deficiencies in the legal framework which enable individuals or entities to commit crimes, then there is a clear rationale for government intervention where the net benefits outweigh the cost of inaction.

15. As previously described, the anonymity of corporate structures can facilitate criminal activities. This anonymity has been reduced by the UK's domestic PSC register, but overseas companies still offer a route for the proceeds of criminal activities (generated either in the UK or abroad) to be hidden and legitimised within the UK economy, notably via the property market.

16. While law enforcement agencies do have powers to investigate and recover the proceeds of crime, corporate structures can make it difficult to identify the individuals responsible for criminal activity – resulting in less efficient and effective investigations. Investigations and recovery are often even more complex where the relevant parties are based abroad.

17. The policy changes described in this document seek to make it harder to use the UK property market to hide or launder illicit gains. They also seek to provide more information for enforcement agencies to use when such activities are taking place. The change will also make it easier for intermediaries and professionals (mainly banks, estate agents and solicitors) to carry out anti-money laundering checks required by law.

18. The wider case for trying to prevent property being bought and sold using money gained through illegitimate means rests on the wish to reduce the costs associated with crime. Crime imposes significant costs including the damage to the victim's welfare, inefficient resource allocation and a forced redistribution of income, lost economic activity/output, and costs to the criminal justice system, including the police. The Home Office have published estimates of the social and economic costs of organised crime.¹⁰ Social and economic costs were

¹⁰ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782656/understanding-organised-crime-mar16-horr103-2nd.pdf

estimated to be £37 billion in 2015/16. These are likely to be an under-estimate as they do not cover all forms of organised crime and do not capture all costs.

19. By reducing the avenues available for criminals to make use of their financial gains, the incentives to commit crime in the first place and consequently the harms generated by criminal activity are reduced.

Reducing information asymmetries

20. In economic transactions one party to the transaction usually must acquire information about the other party to understand sufficiently the quality and risks associated with the goods, service or investment opportunity on offer. Where there is an asymmetry in the information held by the two transacting parties (i.e. one party possesses information another does not) then there is the risk that productive transactions do not go ahead, or go ahead at a higher cost, due to greater risks of making sub-optimal investments, not being paid correctly or inadvertently financing crime.
21. In the context of property, buyers seeking to reduce any information asymmetry will make use of banks, solicitors, estate agents and other sources of due diligence to assure themselves of the quality of the property they are buying as well as the fact that the other party is the legal owner and so has the right to sell the property. Sellers will rely on similar due diligence carried out by intermediaries on the ability of the buyer to meet their contractual obligations and to ensure that the funds used by the buyer are untainted.
22. In cases where one or more of the parties are UK companies, buyers, sellers and intermediaries (and, as a matter of fact, anyone) can make use of the UK's PSC register to check who ultimately owns or controls the company with which they are transacting. In doing so, they will be able to make a more informed judgement about whether the transaction is associated with an individual linked to corruption or criminality. This information will indicate the possibility or probability with which a property, or proceeds from the sale of a property, may subsequently become part of a criminal investigation.
23. However, similar levels of transparency are not always available when the seller is a foreign company. This increases the level of due diligence necessary for a buyer to satisfy themselves that the transaction they are engaging in is legitimate. In the extreme case this type of information asymmetry could result in a situation where participants cannot distinguish between legitimate and illegitimate transactions. Under these circumstances the transacting party lacking information may rationally only offer 'average' terms to shield themselves from some of the perceived higher risk. This could result in mutually beneficial business not going ahead. Legitimate transactions might be priced unnecessarily high or not go ahead at all.

Policy objectives

24. The objectives of the policies evaluated in this Impact Assessment are to enhance the transparency around the ultimate owners and controllers of relevant entities which own or buy UK property. A logic model outlining the intended impacts of this policy is included in the benefits section below (page 46).

25. In doing so, we wish to create a register of beneficial owners that:

- Contains useful information
- Is publicly and easily accessible
- Protects the information of those at risk
- Avoids creating disproportionate burdens or putting off legitimate investors

26. The intended effects are to:

- Deter and disrupt crime, by making it more difficult to use corporate vehicles in the pursuit of crime
- Deter criminals from money laundering in the UK
- Preserve the integrity of the financial system
- Increase the efficiency of law enforcement investigations, particularly in relation to identifying and tracing the proceeds of crime
- Require the same transparency of the relevant overseas entities as already required of UK companies

III. Description of options considered

Option 0: Do nothing

27. Under the 'do nothing' option the status quo would prevail, and there is no reason to believe that the issues discussed earlier will resolve themselves.
28. The non-criminal contracting parties already face the incentive to ensure they are not financing crime as there are substantial financial, legal and reputational risks associated with doing so. As such, the continued use of UK property by criminals points to other incentives being greater (e.g. the financial incentive of selling a property) and/or that individuals do not have the tools necessary to robustly check the background of the other party. Only by providing those tools to allow participants to act, and therefore also reducing the plausibility of ignorance on their behalf, can the objectives of the policy be achieved.

Option 1 (preferred): Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities

29. The preferred option is to create a register showing the owners and controllers of overseas companies that own property in the UK. In this section we outline how this register will work and the new requirements placed on all the relevant actors.

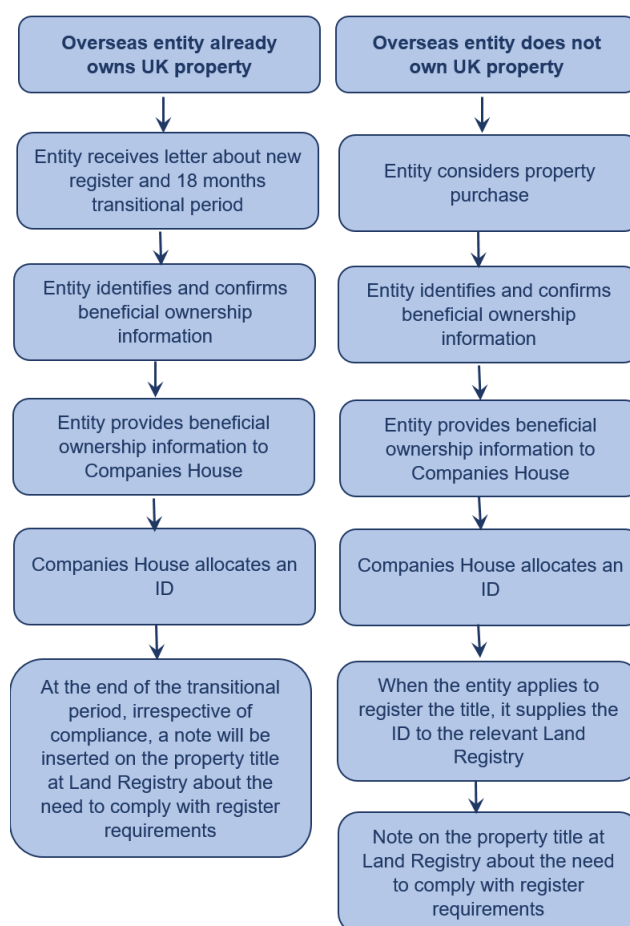
Property ownership

30. It is intended that overseas entities will not be able to transfer legitimately the legal title of a UK property they own, register a long lease or a charge against that property unless they have provided their beneficial ownership information to the new register.
31. Overseas entities can purchase UK property but will not be able to register title to the property without having registered their beneficial ownership information with Companies House which, subject to verification, will then provide the entity with a unique identification number ('an overseas entity ID'). This registration number will be required to register the legal title to the property at the appropriate Land Registry. Without a registration number the entity will not be able to become the registered owner of the property.
32. Once the property has transferred to the new overseas owner, potential restrictions will apply over the property (on transferring the title of the property or registering a long lease or a charge). If the overseas entity makes one of these dispositions without a valid 'overseas entity ID', that disposition itself will not be capable of registration. The restriction won't affect the validity of the disposition itself.

33. Overseas entities already owning UK property will be given eighteen months to provide their beneficial ownership information to the register (or dispose of the property) after which, if they have not done so, the restrictions on sale, lease and charges will come into force and the overseas entity will have committed an offence. The transitional regime aims to capture overseas entities that already own land/property and will apply in England, Wales and Scotland, but not in Northern Ireland, because the Northern Irish Land Registry has up to now not collected information on whether the registered owner is an overseas entity. The process of how this would work is outlined in Figure 1.
34. The transitional regime is nevertheless estimated to still cover most properties already owned by overseas entities. As evidenced in the previous Impact Assessment and the accompanying research carried out by IFF on behalf of BEIS in 2018, overseas investment in property is highly concentrated in specific areas, mainly London and the South-East.¹¹ For example, matching Land Registry data with Ordnance Survey data, the research showed that six out of ten properties in England and Wales owned by overseas companies are in London or the South-East. The concentration of properties in specific regions and property sectors (high-end residential property) was also confirmed by most stakeholders who were interviewed as part of the research.

¹¹ See: <https://www.gov.uk/government/publications/a-register-of-beneficial-owners-of-overseas-companies-and-other-legal-entities-potential-impacts>

Figure 1: How the register will work¹²



Scope of the register

35. To be effective, the register must cover all those entities capable of engaging in the activities we are concerned with. The requirements will apply to legal entities, which means entities that have ‘legal personality’, enabling them to hold assets in the name of the entity. It excludes legal arrangements such as trusts, As was set out in our response of March 2018 to the call for evidence on the register, and consistent with the commitment made at the 2016 Anti-Corruption Summit, we do not consider that trusts should be included on the register itself. Trusts do not have legal personality and so are not capable of entering into contracts. They are also commonly used for reasons including protecting assets for children and vulnerable adults, meaning that legitimate grounds exist for ensuring that information on the beneficial owners of trusts is not made publicly available. However, it is expected that the register will contain information that sets out the relationship between the beneficial owners and the overseas entities, including whether it is via a trust. This will help ensure there is no gap

¹² To note there will be no note on the property for the Scottish Land Registry because there is no equivalent legal concept for placing a note on the register.

between the register of overseas entities' beneficial ownership and the Trusts Register referred to in the next paragraph.

36. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 already require all express trusts (including those administered from outside the UK) which generate a UK tax consequence – such as when property held within the trust is purchased or sold - to register details of their beneficial ownership with HMRC.¹³ Information on this register is accessible to UK law enforcement. All such trusts, and all UK express trusts, are also required to maintain written, accurate and up-to-date records of their beneficial ownership and make these available to UK law enforcement upon request. The Fifth EU Anti-Money Laundering Directive (5AMLD) expanded the scope of the existing registration requirement to include all express trusts, and non-EU trusts which acquire real estate within the EU, with persons with a legitimate interest in information on the register having a right of access to it.¹⁴ The UK has transposed this Directive, which will further strengthen the ability of UK law enforcement to access information on the beneficial ownership of trusts with a connection to the UK.
37. To avoid double reporting and unnecessary burden, it is intended that entities incorporated in countries with beneficial ownership disclosure regimes equivalent to that in the UK will be subject to a lighter-touch process. The precise detail of that procedure is still being developed and will be set out at the secondary legislation stage. At this stage we envisage that such entities would still need to apply for an ID with Companies House, but they might not be required to provide further beneficial ownership information. The European Fourth Money Anti-Laundering Directive (4AMLD) and 5AMLD, required all EU Member States to make their registers of company beneficial ownership (required under the Fourth Anti-Money Laundering Directive (4AMLD)) publicly accessible by January 2020, where this was not already the case. We know further countries are promoting the use of public beneficial ownership registers too who would also be subject to a light-touch regime.
38. In addition to covering the right entities, the register must also capture all the relevant transactions. To this end, beyond transactions involving the exchange of freehold it is intended that entities that hold properties through certain types of lease arrangements will also be captured. In particular, any overseas entity that is a leaseholder of property where the lease is required to be registered will also need to have their beneficial ownership information recorded on the register. The precise length of registrable leases differs by region, with the

¹³ See: <https://www.legislation.gov.uk/ukxi/2017/692/contents/made>

¹⁴ See: <https://www.gov.uk/government/consultations/transposition-of-the-fifth-money-laundering-directive>

requirement applying to leases above 7 years in England and Wales, 21 years in Northern Ireland and 20 years in Scotland.

Definition of a beneficial owner

39. To achieve the aims of the policy it is important that the register identifies who benefits from the legal entity owning or purchasing the property.
40. The domestic PSC register for UK companies provides a definition for people with significant control (PSC). This definition was based on international best practice developed by the Financial Action Task Force and subsequently adopted in the EU anti-money laundering legislation. The definition for beneficial owners of overseas entities applied for this policy and considered in this Impact Assessment follows the PSC definitions closely.
41. The definition states that a person (X) is a beneficial owner of an overseas entity or other legal entity (Y) if one or more of the following conditions are met:
 - X directly or indirectly holds more than 25% of the shares in Y.
 - X directly or indirectly holds more than 25% of the voting rights in Y.
 - X directly or indirectly holds the power to appoint or remove a majority of the board of directors of Y.
 - X has the right to exercise or actually exercises significant influence or control over Y.
 - Or: a) the trustees of a trust, or the members of a partnership, unincorporated association or other entity, that is not a legal person under the law by which it is governed meet any of the conditions above (in their capacity as such) in relation to Y, and
(b) X has the right to exercise, or actually exercises, significant influence or control over the activities of that trust or entity.
42. Furthermore, the existing UK PSC legislation sets out some adaptations to the above definition to allow for different types of entities, such as where entities don't have share capital, or voting rights or boards of directors. It is proposed that these adaptations will also apply to the new register.

Information to be recorded

43. The information to be recorded in the new register will mostly mimic that which is required by the UK's existing PSC register for UK companies. For example,

where the beneficial owner is an individual¹⁵, the policy proposal is that the following information for overseas entities' beneficial owners is requested:

- Name, date of birth and nationality
 - Usual residential address
 - A service address
 - The nature of his or her control over the company, i.e. which of the conditions mentioned in paragraph 41 are satisfied.
 - The date on which the individual became a registrable beneficial owner in relation to the overseas entity.
44. In some cases, another legal entity rather than a person might satisfy one or more of the conditions for significant control (conditions in paragraph 41 above). Where this is the case, and the identified legal entity keeps its own publicly accessible beneficial ownership information (for instance if it is a UK company that is required to comply with the domestic PSC regime) then it is enough for the controlling entities details to be provided without the need to continue further up the ownership chain. This is again in keeping with the requirements for the UK's existing domestic PSC register.
45. Overseas entities will be required to take 'reasonable steps' to find out if they have a beneficial owner and, if so, to identify them and the above information. Such 'reasonable steps' could include looking at any registers of members or shareholders, articles of association, any covenants or agreements or any other relevant or equivalent constitutional documents relating to the entity. The policy also provides powers for an entity to request information from other persons who may be able to identify beneficial owners. Further information on reasonable steps will be provided.
46. Some overseas entities may be unable to provide information about their beneficial owners for the following reasons:
- They are unable to get full confirmed information from their beneficial owners despite taking reasonable steps to contact them.
 - They are unable to establish if they have beneficial owners.
 - They have carried out investigations and concluded that they do not have any beneficial owners as no person meets a condition for control.

¹⁵ The information to be recorded will be slightly different if the beneficial owner is a government, public authority or other legal entity. In these cases, the beneficial owner will in addition be asked to clarify its legal form and, in the state of other legal entities, state to what extent it is already part of a public register.

47. Those that fall into one of the three categories will be allowed to make similar statements in the beneficial ownership information provided and still comply with the requirements. This mimics the current arrangements of the existing domestic PSC register. To prevent such caveats from being abused, the already existing offence for anyone knowingly or recklessly providing false or misleading information to the domestic PSC register will be applied to beneficial ownership information provided by overseas entities.
48. Entities providing statements as outlined above will be asked instead to provide information about their managing officers. The information required will mainly be in line with the information required about directors of UK companies.
49. In addition to information about their beneficial owner, overseas entities will also be required to provide some information about themselves, including:
 - The entity's name and legal form
 - The name and contact details of the person completing the application form
 - The address of the entity's registered office or if none is available, another contact address
 - A contact email address
 - The entity's country of incorporation and any other national registration number allocated to that entity

How the information will be recorded and accessed

50. The register will be administered by Companies House. The register will be made available for anyone to view without charge on the Companies House website.

Keeping the register up to date

51. Following the introduction of the EU's Fourth Anti Money Laundering Directive, UK companies must amend their PSC information held within Companies House within 28 days of a change. This requirement has been deemed to create too much uncertainty for third parties seeking to transact with the entity while adding unnecessary burdens for overseas entities to comply with. Instead, the Bill states that all changes in beneficial ownership within the year need to be included in the annual update provided by overseas entities. This means that when a beneficial owner changes or a beneficial owner's information changes, the Registrar does not need to be updated at that point in time. Instead, the changes need to be notified to Companies House when they update their information annually. If there have been multiple changes, all of these will need to be included in the annual statement. Therefore, the transparency

requirements are the same as the domestic PSC regime, but updates are reported annually rather than event driven.

52. As such, the new overseas register will require overseas entities to update their beneficial ownership information at least once every year and include all changes in beneficial ownership information occurring in that year. Entities might want to update their information before the annual update is due and will be welcome to do so. Updating early will reset the date when the next annual update is due. In addition, there will be a mechanism for entities to apply to be removed from the register (for instance, because they have sold all their UK property) so that the on-going obligations no longer apply.

Protecting the information of those at risk

53. The new overseas register will in general be publicly accessible. However, there are some situations where making information about an individual public could put them at risk of harm or would create a wider public safety risk.
54. In acknowledgement of this, and in line with the current arrangements for the UK PSC register, it is proposed that beneficial owners identified for the new overseas register will have the ability to apply to a protection regime. This regime will have the power to suppress information on the register, such as name and address, if it can be shown that the application falls into one of the four scenarios outlined below.
- The individual is at risk of violence or intimidation due to the activities of the entity, or the way the property is being used.
 - Certain characteristics or attributes of that individual when associated with that entity or property could put them or someone who lives with them at risk of violence or intimidation.
 - Publicly linking the property or entity to the individual will lead to an elevated public safety risk.
 - Protection for minors or people with diminished capacity. Someone with diminished capacity might be unable to make an informed decision about the purchase of the property, and therefore the inclusion of their name in the new register.
55. It is expected that an appropriate enforcement agency will assess applications to the protection regime to ensure that information is only suppressed where the risk is credible and verifiable.

Option 2: Same as Option 1 but limited to overseas companies limited by shares only

56. It was considered whether to apply the measures described in option one to companies limited by shares only. However further work and consultation has shown that this approach would have significant drawbacks for the policy.
57. It is not always clear from Land Registry records what type of entity holds a title, making it difficult to ensure compliance. Moreover, restricting the register purely to companies limited by shares may encourage the use of other less transparent entities as a means of carrying out illicit activities. The policy can only be effective if it includes all legal entities that can hold properties unless there are substantive reasons for the exemption of a particular vehicle. There are no reasons why the inclusion of legal entities other than companies limited by shares would be disproportionate.

Option 3: Same as Option 1 but applied to future property transactions only

58. It was also considered that the measures described in option one might apply to future UK-wide property transactions only.¹⁶ However, this was ruled out as it would not be sufficient to achieve the policy objectives.
59. Only applying the measures to future property transactions would enable past illicit activity in the property market to be subject to less scrutiny. In addition, if previously acquired property is never subject to an action which requires interaction with a Land Registry, the legal entity which owns the property will never have to list its beneficial owners. The beneficial owners of the legal entity could therefore change without having to be revealed. This could also lead to property acquired prior to the implementation of the new register increasing in value, as beneficial owners who value anonymity could be willing to pay more for such properties. Finally, only applying the measures to future property transactions would create a two-tiered organisation of registered property and non-registered property.

Option 4 (non-regulatory approach): Government campaign to promote the importance of transparency around beneficial ownership of overseas legal entities

60. The non-regulatory option that was considered took the form of a government-led campaign focusing on conveyancing solicitors, professional advisers and service providers for overseas legal entities, to promote the importance of transparency around beneficial ownership of overseas legal entities.
61. We concluded this would not deliver significant benefits in terms of tackling money-laundering and illicit activity through the UK property market. As

¹⁶ Paragraph 33 explains that the proposal would 'only' apply to future transaction in Northern Ireland even under option one due to the fact that the Northern Irish Land Registry does not hold the required data for historic transactions.

previously described, the incentives that actors in the property market currently face to make sure they do not facilitate transactions involving criminal gains are not very strong. Therefore, any campaign will be relying on the altruistic instincts of these actors which is unlikely to achieve the same level of impact as a change to the incentives faced by these service firms and by criminals themselves.

IV. Monetised and non-monetised costs and benefits of each option

Option 0: Do nothing

62. The ‘do nothing’ option provides the counterfactual scenario for the assessment of the other options. We have explained in the previous section why ‘do nothing’ is not considered a feasible option. While doing nothing would mean no increase in the regulatory burden and administrative costs, it would fundamentally fail to address the concerns raised throughout this Impact Assessment.

Option 1 (preferred): Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities

Costs

63. The key categories of potential costs created by the policy changes outlined under option one are:
- Increased compliance costs faced by overseas legal entities which own or wish to buy UK property.
 - The compliance costs that fall on individual beneficial owners of the overseas companies who will have to provide information about themselves for a public register.
 - Any potential adverse impacts on the attractiveness of the UK as a place to do business and or to the UK property market as a result of any behavioural change from overseas investors.
 - Enforcement and setup costs to Companies House and the Land Registers of England & Wales, Scotland and Northern Ireland.

64. We tackle each of these costs one by one.

Compliance costs faced by overseas companies (monetised)

65. Following Green Book standards, we focus on where economic activity is taking place rather than on where a company is legally incorporated, to identify the cost of these changes to the UK economy. To do this, we need to distinguish between those overseas companies that are ‘just’ owning or purchasing a UK asset (property in this case) and those that are using that asset to conduct business in the UK.

66. Overseas incorporated entities can set up establishments in the UK.¹⁷ These establishments represent some degree of physical presence in the UK by the overseas entity, such as a place of business or branch. Overseas companies must register themselves with Companies House within one month of opening a UK establishment. However, they are not subject to the UK's domestic PSC register and so their beneficial ownership is not currently recorded. Following the introduction of the proposed changes, if an overseas company with a UK establishment owns property, they will need to provide their beneficial ownership information to the new register.
67. The cost of collecting and providing this information strictly speaking falls on the 'parent' overseas entity. However, facing these costs is inextricably linked to the fact that the parent is physically conducting business in the UK via its establishment. As such, these costs represent a change in the cost of doing business in the UK for a subset of companies. Therefore, for overseas companies with UK establishments which also own or buy UK property, we treat the administrative costs of complying with the register as direct costs to business, despite these costs strictly falling on firms not incorporated in the UK.
68. The other set of overseas entities are those that own, or will buy at some point, UK property but are not conducting ongoing business in the UK via an establishment. This group can be thought of as overseas investors, and it falls into much the same category as investors in UK equities or debt instruments. For this group we do not consider the administrative costs of complying with the register to represent a direct cost to business. This is because the overseas entities that face them are not engaged in ongoing economic activity within the UK. For the avoidance of doubt, these 'investment entities' will still be subject to the full transparency requirements introduced, it is just that any administrative burden imposed on these entities is outside the scope of this Impact Assessment. Similarly, there could in theory be indirect, second-order effects on UK businesses such as estate agents or legal advisers where there is a change in behaviour or demand from overseas entities. However, as explained above, we do not expect any such effects to be significant.
69. There are no official statistics on sales of property to overseas investors, including classifications of overseas buyers who are likely to fall into several categories. For example, where overseas buyers are defined by nationality, they could be non-UK nationals who reside in the UK and thus buy property as their residence.
70. The limited existing evidence suggests though that the group of overseas investors is likely significant in size when compared to the group of overseas entities with UK establishments. For example, stakeholders that were surveyed

¹⁷ Overseas Companies Regulations 2009

or interviewed as part of the accompanying research carried out by IFF in 2018 reported that purchases by overseas entities/investors are frequently carried out purely for investment purposes and that the investment often happens via corporate vehicles based in Guernsey, Jersey, Luxembourg or the British Virgin Islands. This is highlighted by Figure 2 below, which is the result of linking Land Registry data on approximately 99,300 property titles held by overseas entities with Ordnance Survey information at the time.

Figure 2: The share of the overall commercial and residential property market (England and Wales) by companies based in the British Virgin Islands (BVI), Jersey, Guernsey and Isle of Man

| Location | % of all commercial property | % of all residential property |
|------------------------|------------------------------|-------------------------------|
| British Virgin Islands | 18% | 26% |
| Guernsey | 11% | 12% |
| Jersey | 25% | 20% |
| Isle of Man | 12% | 11% |
| TOTAL | 66% | 69% |

Source: A register of beneficial owners of overseas companies and other legal entities: potential impacts, 2018

71. When appraising the costs generated by option one and faced by overseas entities, we do, however, restrict our attention to those overseas entities with UK establishments for the reasons set out previously.

Administrative costs to overseas entities with UK establishments owning or buying UK property

72. As mentioned above, those incorporated in a country where they already provide similar information are likely to be subject to a light touch regime. The annual statistics produced by Companies House show that there were about 12,475 overseas companies incorporated outside of the United Kingdom registered the UK as of the 31 March 2021.¹⁸ Of these, approximately 3,926 have a parent entity that is incorporated in a European Union Member State. As explained above, these entities already provide similar information elsewhere, and we thus currently envisage that they will be subject to a light-touch procedure because of this. While these entities will likely face some burden in the form of limited familiarisation and costs associated with registering with Companies House to receive a unique ID, we do currently envisage such cost to

¹⁸ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>, Table B1

be small per entity, because these entities are already familiar with the concepts of beneficial ownership requirements and thus require less familiarisation. While we expect the impact on these EU entities to be minimal, the detail of the light-touch procedure has not yet been developed. At this stage, this Impact Assessment does not attempt to monetise this impact but focuses instead on the 8,549 non-EU entities, who will be subject to the full set of requirements of the new register.

73. We know further countries are promoting the use of public beneficial ownership registers too who would also be subject to a light-touch regime. A final assessment of impacts at the secondary stage of legislation will revisit the estimated impacts and include an assessment of impacts on other overseas entities that are already subject to equivalent transparency requirements elsewhere if they turn out to be non-negligible or different than anticipated at this stage.
74. To derive a precise estimate for the number of non-EU entities that have a UK establishment and own property in the UK, we previously attempted to crudely match the Companies House register of overseas entities with the Land Registry of properties owned by overseas entities) using the name of the entity. The aim was to identify how many of the overseas entities registered with Companies House are actual property owners in the UK. However, this approach led to only a small number of matches. The low number was though likely more a reflection of record keeping differences between the two datasets than an indication that few overseas entities with UK branches own UK property.
75. Given the difficulty in matching these two groups, we do not proceed using the very small number of matches as our best estimate. Instead, we make the very conservative assumption that all UK establishments of non-EU overseas companies will need to provide beneficial ownership information (i.e. all of them currently own or will own UK property in the future). Again, this assumption will likely overstate the true number of companies affected, but, given the lack of an alternative basis on which to make a more accurate assumption, we err on the side of caution.
76. Overall, we therefore identify 8,549 overseas entities as being potentially affected by the policy and engaged in on-going economic activity in the UK. We now apply our estimates of the cost of complying with the requirements of the register to these firms alone.

Cost of compliance

77. We can break down the cost of compliance into the distinct components faced by entities which already own UK property and those that will buy UK property

going forward. As we make the conservative assumption that the entire stock of 8,549 overseas entities in scope already own UK property, the overall costs will largely be driven by that component.

Figure 3: Types of compliance costs

| Compliance Cost | Already own UK property | Buying property | Type of cost | Description |
|---|--------------------------------|--|---------------------|--|
| Familiarisation | ✓ | ✓ | One-off | Entities need to spend time making themselves aware of the new requirements placed on them. |
| Identifying, confirming and verifying beneficial ownership details | ✓ | ✓ | One-off | Entities will need to identify their beneficial owner(s) and collect and confirm their information. If they do not have a beneficial owner they will need to confirm the reasons why and so which category they fall in and then collect the details of their managing officer. The identity of an entity's beneficial owners will need to be verified by an appropriate regulated professional. |
| Providing details to Companies House | ✓ | ✓ | One-off | Entities/branches will then have to submit the beneficial ownership information they have collected to Companies House to receive a unique ID. In registering with Companies House, they will face an upfront fee. |
| Annual update of beneficial ownership details | ✓ | ✓ (in the years after the purchase) | On-going | Once an entity owns a UK property and has provided their beneficial ownership details they will be required to update or confirm the information held on |

| | | | | |
|--|--|--|--|--|
| | | | | <p>the register annually. The annual update will provide a summary of changes over the year rather than just a snapshot of the information. Where this comprehensive update contains changes to beneficial owners, the identity of the beneficial owners will need to be verified by an appropriate regulated professional. In so doing they will incur a fee equivalent to the one they faced when initially applying to Companies House.</p> |
|--|--|--|--|--|

78. We consider any potential costs associated with adding the Companies House ID to the Land Registry title to be negligible at most for the affected entities. There is no legal obligation in the Bill for an overseas entity that already owns UK property to inform the Land Registry of their ID and to apply to have it added to their title. Overseas entities can do so in a voluntary application. Those entities buying new property already face a step and fee when placing their name and details on the title after the purchase under the 'do nothing' option. Adding the ID to the Land Registry title will thus have a negligible impact.
79. The exact mechanics of how a branch and its overseas parent manage their efforts to comply with the policy will vary. It could be that the branch itself does the work using UK employees. Alternatively, the overseas parent may take on this responsibility or may outsource it to a third party. For those overseas entities buying a property, some of the compliance actions are likely to be carried out by the professional service firms conducting the sale, notably solicitors. It would not be possible to accurately reflect and attempt to model all possible methods of pursuing compliance. We thus mostly revert to standard methodology and represent the cost of compliance in terms of UK employee time with additional costs for procuring external advice. This will reflect reality for some of the firms affected, and we assume that it sufficiently approximates reality for other firms.
80. Modelling costs in this way allows us to make use of existing estimates of the costs of complying with the PSC register.

81. However entities identify the relevant beneficial ownership questions (whether they use internal resource or external advice), the Bill was amended in response to verification concerns raised by the pre-legislative scrutiny Joint Committee. Overseas entities will have to provide Companies House with evidence of a relationship with a 'regulated professional' who is subject to UK Anti-Money Laundering regulations. The detail of this verification will be set out in secondary legislation, but the rationale for this approach is that a) such professionals are required to undertake customer due diligence including identifying the beneficial owners of their client and b) the vast majority of conveyancing transactions are undertaken using a professional such as a conveyancer or solicitor. Where an overseas entity uses an in-house team consisting of qualified and regulated professionals to determine beneficial ownership information required for the register, this amendment will have even less impact in terms of regulatory burden.

Existing estimates of beneficial ownership register compliance costs

82. For the earlier Impact Assessment, the primary source of information we used to inform our cost assumptions came from the Trust & Transparency (T&T) Impact Assessment.¹⁹ This Impact Assessment covered the introduction of the UK's own PSC regime. The Regulatory Policy Committee rated it fit for purpose in 2014. The result of the original survey and follow-up work was a robust set of costs estimates.

83. As the actions required of UK incorporated entities will be similar to the actions required to comply with the domestic PSC register we would expect the costs to business to be similar. In particular, the costs identified by the T&T Impact Assessment of familiarisation, identifying and collecting PSC information, reporting that information to Companies House and confirming or updating that information annually are all analogous to the actions now faced by overseas companies owning or buying property.

84. Since the earlier Impact Assessment was completed, a Post Implementation Review was undertaken on the introduction of the PSC regime.²⁰ A quantitative telephone survey was conducted with 500 businesses by IFF research to measure the effects of complying with the PSC regulations against the earliest costs identified and outlined. As these cost estimates are more up to date and reflect the costs to business of introducing the PSC regime, we will use these more recent estimates within this cost assessment.

¹⁹ See: <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-impact-assessments>

²⁰ See: <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

85. The main limitations of using these estimates in this new context are as follows:

- The estimates are based on a survey of UK incorporated entities. The group we are now concerned within our sample are overseas entities with branches in the UK. If these two groups are significantly different, then the strength of the approximation offered by these estimates may be weakened.
- Overseas entities owning UK property will be required to provide an annual comprehensive update that sets out changes to beneficial ownership information over the year. This differs somewhat from the event-triggered nature applied for the domestic PSC register.
- They do not offer information about the level of the fees Companies House and the relevant Land Registries might charge overseas entities for registering their information. We will therefore have to supplement these cost estimates with the expected level of fees. However, fees fall outside of the Better Regulation Framework, so does not influence the EANDCB.

86. We explore this in further detail below.

UK and overseas companies may be different

87. One way in which UK incorporated entities and overseas entities with branches may be meaningfully different is in their size and the complexity of their ownership structures. On average we might expect that overseas entities will be larger and more complex than the average UK incorporated entity (although we do not have sources of evidence to check this presumption). If this is the case, then one of the key costs, that of identifying and collecting beneficial ownership information, may be on average harder for an overseas entity compared to the UK ones on which the T&T IA estimates are based.

88. The survey carried out by IFF provides a disaggregation of its results by size and complexity of the firms interviewed:

- On business size:
 - i. Micro or small: business with less than 50 employees
 - ii. Medium or large: business with 50 or more employees
- Complexity of ownership structure:
 - i. Simple: business that are the only corporate entity in their ownership chain
 - ii. Reasonably complex: businesses that have one other corporate entity in their ownership chain

- iii. Complex: businesses that have two or more other corporate entities in their ownership chain or have any element of their ownership chain based overseas

89. We therefore use the estimated mean costs for complex companies for initial PSC submissions and uprate these from 2017 prices to 2019 prices.²¹

90. Figure 4 below summarises the costs identified with complying with the PSC requirements.

Figure 4: Mean overall costs for complex companies for complying with PSC requirements (2017 prices)

| | | |
|----------------------|--|-------------|
| Initial costs | Cost of familiarisation with PSC regulations | £150 |
| | Costs of identifying PSCs | £75 |
| | Costs of collecting and collating information about the PSCs | £49 |
| | Cost of submitting information about the PSCs | £53 |
| Ongoing costs | Costs of checking information about PSCs | £52 |
| | Costs of identifying new PSCs | £61 |
| | Costs of collecting and collating information about the new PSCs | £18 |
| | Costs of submitting information about the new PSCs | £34 |

Source: People of Significant Control (PSC) Register: review of implementation, 2019

91. As explained above, the Bill has been amended such that ownership information provided by overseas entities will need to be verified, likely by an appropriate qualified professional. The detail of the scope of verification required, which is relevant to the likely regulatory burden on affected entities, will be set out in secondary legislation. At this stage, we thus provide a less comprehensive assessment of the likely potential burden. We will provide an updated assessment at the secondary stage, especially if the impacts deviate substantially from those estimated in this Impact Assessment.
92. The requirement that beneficial ownership information needs to be verified by an appropriate regulated professional will impose a different regulatory burden on different entities. Different scenarios would include:
- A large overseas entity that already uses an in-house team consisting of appropriate regulated professionals to identify and collect beneficial ownership information will be largely unaffected by this requirement. While the need for verification requirement might still result in more staff time being

²¹ 2017 wage costs were included within the cost estimates in the original survey, which is what we use as the price year for our cost estimates.

needed, the extent of this need would depend on the degree to which the entity already carries out similar checks. In practice, we would expect that the amendment does only impose a limited additional regulatory burden on this kind of entity.

- An entity that uses administrative staff for the initial collection of information will now need to take additional steps to get that information verified by a regulated professional. It might use internal staff, if it employs relevant staff, or will have to commission that task externally (once again, it is likely that an overseas entity involved in buying and selling UK property will already be in contact with relevant professionals). The amendment thus imposes some additional burden on the entity either in the form of increased use of internal resource (wage costs) or external resource. For those using appropriate internal staff, the need for verification by a regulated professional could come at a cost of around £60 per entity if we assume that it would take around two hours of qualified staff time.²²
- An entity that relies heavily on external advice and effectively outsources the work to identify and collect the necessary beneficial ownership information will need to, in effect, widen the scope of this work somewhat. The additional requirements brought in on verification will thus likely mean that the cost of external advice/work provided to it will increase somewhat. For those entities that will rely on commissioning the verification externally, we currently estimate that the verification work could result in around two additional billable hours and thus come at an extra cost of around £400.²³

93. We thus estimate that the amendment will result in additional regulatory burden that varies between zero and around £400 depending on the individual circumstances of the overseas entity. Without further detail on the precise scope of the required verification we thus apply a mid-point average estimate of £200 per entity. As explained, many entities will already have engaged a relevant UK professional for example in the process of buying and selling UK property. These professionals would have to verify identity information as part of their professional due diligence, independent of the new requirements set out.

²² See:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/dataset/s/occupation4digitsoc2010ashtable14>. Calculated by using most recent 2021 ASHE hourly median wage data for “legal professionals” at £26.60 uprating it to 2019 prices, and applying 20% for non-wage labour costs.

²³ Hourly rates of relevant professional will vary largely depending on location and seniority of staff. The 2021 “Solicitors’ guideline hourly rates” (available at: <https://www.gov.uk/guidance/solicitors-guideline-hourly-rates>) published by HM Courts & Tribunals Service can help give an indication of likely hourly rates. The guidance provides a range of between £126 and £512 in 2021 prices. The higher end is driven by rates in prime London for legal executives with significant experience. We do not think that the work will be carried out by such senior professionals and thus think that applying an hourly rate of £200 is appropriate.

Comprehensive updates of changes in beneficial ownership information

94. Entities in scope are required to provide an update annually and include a comprehensive update of events over the last year. These updates were included in the PSC Post Implementation Review and will be reflected in our costs, using the mean costs for complex companies.
95. For the domestic PSC regime, there were around 900,000 updates of PSC information in 2021.²⁴ In 2021 there were around 4.5 million eligible entities in scope of the PSC requirements. This shows a change of beneficial ownership information of approximately 0.20 per entity per year. We use this information to say that, on average, 20% of entities will have changes to beneficial owners within the year that would need to be verified at a cost of an estimated £200. The average entity thus faces additional verification costs of £40 (0.2 x £200) each year.
96. Figure 5 below summarises the estimated average compliance cost per entity.

Figure 5: Estimated average compliance costs per entity (in 2019 prices)

| Cost | Complex company best estimate (2017) | 2019 prices |
|---|---|--------------------|
| <i>One-off costs</i> | | |
| Familiarisation | £150 | £156 |
| Identifying and collecting beneficial ownership information | £124 | £129 |
| Providing beneficial ownership information to a central registry | £53 | £55 |
| Verification costs | N/A | £200 |
| <i>Ongoing costs</i> | | |
| Checking, identifying and collecting new beneficial ownership information | £132 | £136 |
| Submitting beneficial ownership information | £34 | £35 |
| Verification costs | N/A | £40 |

Companies House and Land Registry fees

97. As explained, there are in general two fees, one paid to Companies House and one paid to the relevant Land Registry. The first is the fee paid to Companies House when providing beneficial ownership information in order to receive an ID number. This fee is also faced once a year when confirming or updating beneficial ownership details. The level of this fee is yet to be confirmed. However, for our estimate of the direct cost to business we are only interested in those overseas companies already registered with Companies House, as

²⁴ Unpublished Companies House data 2021

these are the ones with UK establishments. As such we use the current fee structure for overseas companies as a guide.

98. Overseas companies currently face a fee of £20 for the registration of a UK establishment (£100 for same day registration), an annual document processing fee also of £20, and the cost of processing a change of corporate name is £10 (£50 for same day service).²⁵ Using these existing fees, we make the assumption that the cost of providing beneficial ownership information to Companies House and the cost of the annual confirmation/update of those details will be £20 in each case. At a secondary legislation stage, we are likely to have more accurate updates of this value. This value should therefore be treated largely as an indication rather than a robust estimate at this stage. As a charge for a service, the fee would not be included within the EANDCB, but will be included in the NPSV.²⁶
99. The fee payable to the Land Registry arises to place the ID number provided by Companies House onto the title held by the overseas company. When buying new property overseas companies already incur a Land Registry fee to add their name to the title. We do not currently expect this fee to be increased significantly to add the ID number as well.
100. As explained, those already holding UK property will not be under a legal obligation to contact the Land Registry and get their ID number placed on the title deeds of their property. As this would only be done on a voluntary basis, we thus estimate any compliance cost caused by potential Land Registry fees to be negligible when compared to the counterfactual.

Summary of compliance costs

101. We have now identified the initially affected group and the costs they face. However, it is also important to consider how the number of overseas companies with UK establishments might change over the course of the appraisal period. The current and historical Companies House “Companies Register Activities” releases provide us with the number of new registrations of overseas companies and the total number on the register in each year between 2010/11 to 2020/21. It also breaks this down by country of origin, and we can thus produce the table below.²⁷

²⁵ <https://www.gov.uk/government/organisations/companies-house/about/about-our-services#companies-house-fees>

²⁶ Taxes, duties, levies or charges fall under the statutory exclusion of the SBEE Act (section 22). See: <https://www.gov.uk/government/publications/better-regulation-framework>

²⁷ Using table B1. Totals for “non-EU overseas companies” are derived by adding up numbers for “Channel Islands”, “Isle of Man”, “Rest of EC”, “Commonwealth” and “Rest of the World”. The table provides a snapshot, counting overseas companies on the register. The difference between “new

Figure 6: Non-EU companies with UK establishments (Companies House data)

| | Non-EU Overseas Companies with UK Establishments | | |
|----------------|---|------------------------|--|
| | New Registrations | Number on the register | <i>Net change in non-EU companies with a physical presence in the UK</i> |
| 2020/21 | 490 | 8,549 | +95 |
| 2019/20 | 550 | 8,454 | +313 |
| 2018/19 | 445 | 8,141 | +153 |
| 2017/18 | 522 | 7,988 | +81 |
| 2016/17 | 473 | 7,907 | +162 |
| 2015/16 | 459 | 7,745 | +154 |
| 2014/15 | 358 | 7,591 | +126 |
| 2013/14 | 330 | 7,465 | -143 |
| 2012/13 | 364 | 7,608 | -123 |
| 2011/12 | 387 | 7,731 | -80 |
| 2010/11 | 380 | 7,811 | - |
| Average | 433 | 7,908 | +74 |

Source: Companies House statistics 2010-2021

102. Using these multi-year averages, we assume that in every year of the policy appraisal period there are 433 new non-EU registered overseas companies that will buy UK property and will face the year one compliance costs and each subsequent year the cost of maintaining the register. We also assume that the total number of overseas companies on the register (the stock) will increase by 74 per annum. The historic data clearly shows some variation and mid-term trends (the register reducing in size between 2011 and 2014 and increasing since). We do though have no evidence that would strongly indicate a particular trend over the next 10 years, which is why use the historic average increase in register size as our best estimate. We would though expect that actual annual changes will fluctuate like they have done in the past.

103. Using these averages, we assume that in our starting year of 2025 the initial stock on non-EU registered overseas companies will be $8,549 + (4 \times 74) = 8844$. These companies will face the one-off costs in the first year. These one-off costs are then also applied to the 433 new registrations each year from the 2nd year of the appraisal period onwards. Finally, the stock of firms will be adjusted for the assumed net gain of 74 companies each year, and the annual confirmation/update cost will be applied to this number in each year from year two onwards.

registrations” and the “net change” should not be interpreted as a robust estimate for the number of closed companies over the year as it is possible for a company that closed during the year to be counted in the number of new registrations. It is also possible that a number of companies have not yet notified Companies House of the closure of all of their UK branches. See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

Compliance costs faced by individual beneficial owners (not monetised)

104. The beneficial owners of the companies that are covered by the new register may face a cost of having to provide their details to the entity for which they are a beneficial owner. In most cases this will be trivial, or potentially non-existent, in terms of additional burden, though there could be some instances where a person is sent a notice by an overseas entity, on the basis that the overseas entity has reasonable grounds to consider they are a beneficial owner, and where that person would then incur a cost when seeking legal advice on how best to reply to that notice.
105. The key impact that beneficial owners will face is the removal of their anonymity. However, the existence of a protection regime should help those individuals genuinely at risk remain anonymous to the public, if not to the relevant public authorities. Applying to the protection regime will be costly but is an option and not a requirement of the new regime and so will only be incurred where it is assessed that the benefit of doing so outweighs the upfront cost.
106. The potential impact to individuals from the loss of their anonymity are not monetised in this Impact Assessment.

Impact on foreign investment into the UK and the UK property market (not monetised)

107. In this section we consider the likely impacts of option one on property investment and inward investment more widely from overseas entities. We also discuss the possible effects on housing supply, demand and prices. As with large parts of our assessment, the existing empirical data and research is often limited precisely because of the relative opacity of foreign ownership of UK properties.²⁸ While we refer to available data and research where available, our assessment in this section does thus largely rely on the application of economic principles and logic.
108. Overall, we conclude that overseas companies with a UK establishment are unlikely to change behaviour significantly in response to the proposed policy. The regulatory change is too small to alter the incentives these companies face significantly. We think the same applies to large foreign institutional real estate investors. The change is also unlikely to decrease overseas demand where this is ultimately driven by private individuals who might reside in the UK and are buying property as their place of residence. If the policy is likely to deter any overseas investment, this is likely to mainly be the case for individual foreign investors who value their privacy significantly.

²⁸ In order to help address the evidence gap, BEIS commissioned the accompanying piece of research carried out by IFF and referred to in this Impact Assessment.

109. However, we do not think that this group is large enough to cause any significant changes in overseas property investment overall. The level and composition of overseas property differs a lot regionally and by property-sector though. It is thus possible that a reduction in overseas demand could be observed in specific hotspots such as high-end residential property in central London.
110. Whether any such isolated potential impacts on overseas investment will then have knock-on effects, for example on housing supply, structure of ownership or house prices is not entirely clear. Once again, any effects are likely minor given the limited impact we expect in investment in the first place.
111. The following paragraphs discuss the potential impacts on overseas investment and the UK property market in more detail.

Will overseas companies be deterred from investing in UK property?

112. To answer this, we need to have some idea as to why overseas entities decide to purchase UK property. To this end we make a distinction between those overseas entities that are purchasing property to conduct business in the UK via a branch, those entities that value UK property as a place to live and finally those that invest in UK property primarily in the expectation of a financial return. This leads us to identifying the following four distinct groups:
- Overseas companies with UK establishments/branches
 - Foreign real estate investors
 - Foreign private real estate investors
 - Foreign individuals buying primarily residential property
113. The evidence and data on foreign ownership and investment into UK property is currently very limited.²⁹ Using the limited contextual evidence and the accompanying research carried out by IFF on behalf of BEIS we assess the implied motivations of each group to suggest which of these groups are most likely to be sensitive to the removal of their anonymity. Also, although we have outlined that these entities are foreign, it's important to note that UK property can be beneficially owned by UK residents through companies based in these other countries.

Overseas companies with UK establishments/branches

114. For this group, the demand for property is derived from the wish to be able to conduct business in the UK and have access to what the UK market can provide in terms of skills, expertise and access to potential customers. It is

²⁹ For a useful summary of the existing research on overseas investment in the UK residential property sector, see the following House of Commons Briefing Paper:
<http://researchbriefings.files.parliament.uk/documents/CBP-7723/CBP-7723.pdf>

therefore driven by many of the same factors that influence flows of Foreign Direct Investment (FDI) more generally.

115. We know from the academic literature that there are numerous characteristics that make an economy an attractive place for foreign investment. These include but are not limited to wage rates, availability of skilled labour, the size of the market and potential for growth, a predictable system of law and property rights, a competitive tax regime, efficient infrastructure, political and economic stability. These were also most named by stakeholders as the reasons for the attractiveness of the UK property market for foreign investment in the accompanying research carried out by IFF on behalf of BEIS. All of these are not affected by option one. However, it is also true that the regulatory environment and the cost of doing business are important factors that can influence decisions over where to invest. To some minor extent the proposals under option one do add to that cost for some.
116. Overall, we conclude that overseas entities with UK branches are unlikely to be discouraged from remaining in the UK, likewise for those considering setting up a UK branch for the first time. The compliance costs are too small to plausibly make an investment opportunity that involves the purchase of property unattractive. The loss of anonymity should be of little concern to legitimate businesses and access to the protection regime should offer a solution where there are genuine concerns.

Foreign real estate investors

117. Many large investment firms have real estate businesses that either buy existing real estate or finance new developments, while some firms specialise in such activities exclusively. A well-known UK example would be British Land.
118. Comprehensive data on the activities of these types of firms in the UK are not readily available. However, we know from Bank of England data that they play a significant role in the UK's commercial real estate (CRE) sector. The Bank of England highlighted in their July 2016 Financial Stability Report that "foreign investors accounted for around 45% of the value of total transactions since 2009" in reference to CRE.
119. A well-publicised example of the type of transaction by such entities that would now be captured was the sale of 122 Leadenhall Street, also known as the "Cheesegrater", to CC Land Holdings Limited from the previous owners British Land and Oxford Properties³⁰. CC Land Holdings is a Chinese property development and investment company headquartered in Hong Kong, with its registered office in Bermuda. The freehold title for the Leadenhall building

³⁰ See: http://www.morningstar.co.uk/uk/news/AN_1488367668837084800/top-news-british-land-agrees-usd115-billion-cheesegrater-sale.aspx

showed the registered owner as being Leadenhall Property Co, which is a company registered in Jersey. The sale to CC Land Holdings therefore likely happened through the sale of shares in Leadenhall Property Co.

120. CC Land Holdings is listed on the Hong Kong Stock Exchange and publishes information about its major shareholders. As such, under the new arrangements the register will show that Leadenhall Property Co as having CC Land Holdings Limited as its beneficial owner. There would not be a requirement to outline the beneficial owners of CC Land Holdings itself as they are already publicly disclosed, though there would be a requirement to tell Companies House where the details can be found.
121. So, in this example no new information is made public and the compliance costs would be extremely low relative to the reported sale value of over £1 billion. There is no credible reason to expect that the new register would have discouraged the investment by CC Land.
122. Another example of investment in real estate by a large foreign institutional investor would be the redevelopment of Battersea Power Station by Malaysian companies Sime Darby and SP Setia. These are also both publicly traded companies and so their ownership details are also already available. Furthermore, they were at the time registered as the beneficial owners of Battersea Power Station Development Company Limited, a UK incorporated entity. The title of Battersea Power Station was registered to a Jersey incorporated entity called Battersea Project Land Company Limited. The new requirements would have seen Sime Darby and SP Setia registered as the beneficial owners of Battersea Project Land Company Limited just as they were already registered as the beneficial owners of Battersea Power Station Development Company Limited.
123. Once again, the new requirements would not have resulted in new information being made public or any substantive compliance costs relative to the value of the investment.
124. There is no systematic way of establishing the extent to which these examples are representative. However, the high likelihood of large investment firms being listed companies combined with the possible use of UK incorporated entities already subject to a PSC register suggests that in many cases the introduction of the new register will have little impact for these types of investors.
125. Furthermore, given the often very large sums of money involved, the overriding motivation of investment companies is seeking a profit. Anonymity of beneficial owners is most likely not a significant part of the attraction of investing in UK property for this group.

126. Overall, we therefore conclude that the new register is unlikely to impact on the levels of investment into the UK coming from foreign institutional real estate investors and developers and so do not expect this policy to cause any significant change in the level of overseas investment into the UK property market via this channel.

Foreign private real estate investors

127. Here we focus on foreign high net worth individuals who invest in real estate on a commercial basis. These individuals are very similar in their outlook to those institutional investors just discussed, the primary difference being that the capital they invest comes from their own personal wealth rather than that of an institution.

128. These individuals may use “family offices” as the organisational means to invest their wealth. Family offices act as private investment and wealth management firms servicing a single ultra-wealthy client. We know from consultation that these very wealthy individuals are more likely to be sensitive to a loss of anonymity than their institutional equivalents.

129. Identifying the number of such family offices globally and in the UK is difficult because they are often not required to register with supervising authorities. For example, those that manage the wealth of a single family are usually not required to register with the FCA in the UK. A 2014 study carried out by Credit Suisse, EY and the University of St. Gallen noted the growth of the sector and said that there were “believed to be at least 3,000 single family offices in the world”.³¹ Other sources place the likely number at around 10,000 to 11,000 globally, with around 1,000-1,800 being in the UK.³² While there is significant uncertainty around the true number of family offices, what appears clear is that the number of family offices has grown substantially over the last ten years and that the wealth managed by them is very substantial.

130. While we have presented the existing evidence around the likely degree of foreign investment into the UK property market and its strong concentration in London and the South East, we have shown that there are significant gaps in the data. Furthermore, there is also no reliable data to break this down further into the different channel of overseas investment. Both institutional and private investors are likely to use single purpose overseas entities to make major real estate investments. It is thus not as a matter of course possible to distinguish the ultimate origins of the capital used for an investment via an offshore entity.

³¹ See: <https://www.credit-suisse.com/media/assets/apac/docs/cs-white-paper-the-family-office-dynamic-part-1-eng.pdf>

³² See: <https://www.theguardian.com/business/2016/mar/12/family-office-private-wealth-funds>

131. Given the large number of unknowns we do not try to estimate the potential for this group to reduce, stop or reverse their UK investments because of the new register. However, we do believe this group to be more likely to react in a negative manner than many of the other types of foreign UK property owners we have identified, because foreign high net worth individuals using family offices are probably placing a relatively high value on maintaining their anonymity.

Foreign individuals buying primarily residential property

132. The final group we focus on are individuals that use corporate entities to purchase largely UK residential properties on a much smaller scale than those discussed in (iii). Some sources, such as the accompanying research carried out by IFF, suggest that investors in high-end residential property are often very affluent individual overseas investors, and that this group could thus make up a significant proportion in these markets (often in London and the South-East).

133. The two main attractions of using a single purpose overseas company to purchase property are confidentiality and access to tax advantages. By purchasing a property via an overseas company, personal details will not be recorded by HM Land Registry. In addition, ownership of the property can be transferred by way of selling shares in the company, further increasing the levels of confidentiality as the property will not be shown as having changed owners on the Land Registry.

134. While tax considerations might well be part of the rationale for why investors may use an overseas company, we are not proposing any change in this area. We thus focus on the loss of confidentiality that would arise from the implementation of the new register.

135. The types of individuals that fall into this group have been categorised by the Institute for Public Policy Research (IPPR) in their 2012 “Affordable Capital?” report.³³ They highlight three main groups:

- European or North American buying for residency or investment purposes.
- Wealthy buyers from non-OECD countries seeking a form of economic security, buying in the London market from existing stock. The investment is based both on anticipated capital gains and preserving attained levels of wealth from expropriation by corrupt regimes.

³³ See: http://www.ippr.org/files/images/media/files/publication/2012/05/affordable-capital-housing-london_May2012_9064.pdf?noredirect=1

- Yield based investors from East Asian countries buying lower value new-build properties with the aim of renting them out.

136. It is our contention that those investors using London property as a form of economic security from the potential for expropriation are the group most sensitive to any reduction in confidentiality. As such, we judge that most of the potential for a reduction in demand from individuals using overseas entities comes from this group. The other groups will be far more motivated by the potential for financial returns and/or the quality of life offered by owning a home in the UK.

137. For those that fall into this group, some may be eligible for the protection regime on the basis that making their address public may place them at risk of harm from the regimes they have left.

138. In November 2021, the Centre for Public Data published data and research on properties in England and Wales owned by individuals based overseas based on Land Registry data.³⁴ The research shows the proportion of overseas individuals owning property has increased – in 2010 this was 0.4% of all titles in England and Wales and by 2021 it was 0.95%. Additionally, the data shows that in recent years this has outstripped the titles owned by companies overseas, which has stayed at around 90,000 for the past 10 years. This therefore shows that, despite having to record personal information publicly, there is still a continued demand for UK property from individuals based overseas.

The potential impact on the UK property market from a reduction in overseas demand/investment

139. Analysing the four main potential channels of overseas investment into the UK property market, we have argued that the proposed policy is unlikely to change decisions/investment behaviour for most of these groups in a significant manner. We do not expect this policy to cause a significant change in overseas investment into the UK property market overall. It could though have some isolated effects in specific regions and types of markets where the evidence suggests current levels of foreign investment are highest, namely high-end residential property in London and the South-East, and investment by wealthy foreign individuals into commercial real estate.

140. Identifying the proportion of overseas entities with registered UK property titles which fall into either of these two groups is not possible given the data limitations. However, as mentioned already, while overseas entities may have a small footprint overall, they have a more significant presence in particular geographic areas. Figure 7, the result of a data linking exercise carried out by

³⁴ See: <https://www.centreforpublicdata.org/property-data-overseas-individuals>

IFF, shows that 44% of the titles registered to overseas entities in England and Wales are located in Greater London, with a further 16% found in the South East. The potentially significant role of overseas investment in the London property market has been subject to some research which shows that even within London the investment is very concentrated in some prime-property areas in central London.³⁵

Figure 7: Location of property (England and Wales) owned by overseas entities

| Location | % of all property |
|---------------------------------|--------------------------|
| Greater London | 44% |
| South East | 16% |
| North West | 11% |
| Yorkshire and Humberside | 6% |
| South West | 6% |
| West Midlands | 5% |
| East Midlands | 4% |
| North | 3% |
| Wales | 3% |
| East Anglia | 2% |

Source: A register of beneficial owners of overseas companies and other legal entities: potential impacts, 2018

141. While we note this geographical concentration, it is still the case that overseas companies represent a minority of property owners even in these high property price areas of London. Transparency International, citing the same Land Registry data used above, highlight that 9.3% of all titles in Westminster are registered to overseas entities, with 7.3% Kensington and Chelsea and 4.5% in the City of London. Taking into account estimates provided by Knight Frank and Savills, which show the significant size and scale of foreign purchases in London hot-spots, the Bank of England, in its November 2014 Financial Stability

³⁵ See: LSE: Overseas investors and London's housing market, available at: <http://lse.londonhousing.org/2017/06/overseas-investors-and-londons-housing-market/>

GLA Economics: House prices in London – an economic analysis of London's housing market. Research report commissioned by the Mayor of London available at: <https://www.london.gov.uk/sites/default/files/house-prices-in-london.pdf>

Report, estimated that foreign inflows accounted for only 3% of total property transactions in London, driven by low levels outside of 'prime London'.

142. While this is a relatively small fraction, it still leaves open the potential for an extreme reaction to result in some impact on the prices and transaction levels of a limited number of property types in a limited number of areas. However, again, given the arguments made in the preceding sections we do not believe a widespread extreme sensitivity to the new requirements is likely.
143. If there are some consequences in terms of a noticeable reduction of overseas investment into some specific market sectors (commercial property and high-end residential property) in specific regions (London and the South-East), it is also often not fully clear what these impacts would be.
144. One potential benefit of overseas investment mentioned by stakeholders in the accompanying research carried out by IFF is that overseas sales can accelerate development of new-builds, thus contributing positively to the housing supply. A study carried out by the London School of Economics (LSE) also identified this benefit and noted that international investment can help “bring stalled sites into use and speed up development”.³⁶
145. The LSE research also mentions that a substantial majority of units bought by overseas investors are then let out to Londoners. Sa (2016) finds that this can lead to changes in the market structure, with high levels of overseas investment potentially resulting in lower levels of home ownership.³⁷ Sa (2016), in line with the LSE research, also does not find an increase in the number of vacant homes associated with higher levels of foreign investment – a concern often brought up. While a small reduction in overall foreign investment could thus have some impact on the available housing stock, this effect would likely be very limited.
146. Sa (2016) identifies an impact on housing prices and evidence for a potential “trickle down” effect. In essence, the research finds that high levels of foreign investment can increase housing prices for expensive property, but that this increase can also trickle down somewhat into less expensive property. This positive impact on prices is though only found in areas in which housing supply is particularly constrained.
147. While we have summarised the findings of individual pieces of research into the subject in the previous paragraphs, the overall evidence base on the level of foreign investment into the UK property market and its wider impacts is limited. In general, the negative economic consequences of a fall in house prices are

³⁶ See: <http://selondonhousing.org/2017/06/overseas-investors-and-londons-housing-market/>

³⁷ See: <http://www.centreformacroeconomics.ac.uk/Discussion-Papers/2016/CFMDP2016-39-Paper.pdf>

associated with a negative wealth effect impacting consumer demand. Falling prices also can put people off purchasing property until prices stabilise, and this can have a knock-on impact on the construction industry as property developers delay or cancel projects. When house price falls are widespread this can have a significant impact on the economy. However, in this case the potential for house price falls are isolated to a relatively small number of disproportionately 'prime' London properties.

148. If the owners of these types of properties experience a negative wealth shock the impact on UK consumer demand is likely to be extremely minimal. This is obviously true due to the small number of people involved but this assertion is further strengthened by two further possibilities:

- UK property may only make up a relatively small percentage of the overall wealth of the types of individuals we are interested in. As such, a fall in property values may only result in a small negative wealth shock.
- Investors of this type may not spend much or any time in the UK and so any reduction in their willingness to consume will likely have a limited impact on UK consumer demand.

149. Overall, while we have no robust basis on which to forecast the impact of this policy on transaction volumes or values, we argue that the limited nature of the markets affected mean that it is reasonable to expect the total costs to be small. As such, the lack of monetisation is unlikely to render our final estimate substantially unreliable or unrepresentative of the "true" costs.

Costs to public bodies

Costs to Companies House

150. This Impact Assessment currently estimates the specific cost to administer this register to translate as a £20 fee per entity. All entities on the register will face such costs, but, as we explain, only costs on those that use their UK property to carry out real economic activity in the UK are assessed in our analysis. We expect a large proportion of the register to consist of 'investment entities' from which Companies House will also recover costs, but which we have not assessed here.

151. Companies House is undertaking an ambitious transformation programme, which will include delivering this policy. This transformation will support digital components, processes and skills that will underpin the ongoing delivery of the elements of the reform. Given the close linkages between Companies House transformation and planned measures to reform Companies House, and linkages between different elements of this reform, it is impossible to allocate

transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible. We do estimate that only a small proportion of these overall costs are attributable to the implementation of this register.

Costs to the Land Registries

152. The Land Registries will also incur some upfront costs to put into place required processes and to place a notice on titles of existing properties owned by overseas entities. The precise level of these upfront costs is not yet fully clear, but it will constitute a transfer payment between public bodies and will not be passed on to businesses (the overseas entities).

Benefits (not monetised)

153. The expected benefits of the reforms outlined in option one (the preferred option) would emerge out of the previously discussed intended effects, namely:

- Reducing illicit activities
- Improving the functioning of the property market by increasing transparency

154. Although these have not been monetised, we expect these benefits would overall outweigh the costs to business.

Reducing illicit activities

155. The policy aims to reduce the ability of criminals to use UK property as a store for illicit gains or as a means by which to launder illicit gains. Transparency of the beneficial owners of overseas companies helps achieve this by making it harder for criminals to remain anonymous and therefore easier for law enforcement to identify criminal behaviour and target their resources more effectively.

156. The changes make it logistically harder for criminals to evade law enforcement and will also act as a deterrent by increasing the chances of being caught. It follows that increasing transparency could therefore lead to a reduction in the total amount of criminal activity committed.

157. Where a crime is deterred, uncovered, prevented or redressed there are a number of direct benefits that can be thought of as the avoidance of costs. Criminal activity has several significant negative impacts including the damage to the victim's welfare; inefficient resource allocations and a forced redistribution of income; lost economic activity/output; and costs to the criminal justice system, including the police.

158. Even when the crime originates from outside the UK, we can still expect some benefit from its uncovering or deterrence. This is because the UK benefits from

being perceived by legitimate investors as a safe place to do business. Being associated with criminal finance undermines this perception and may put off legitimate investment.

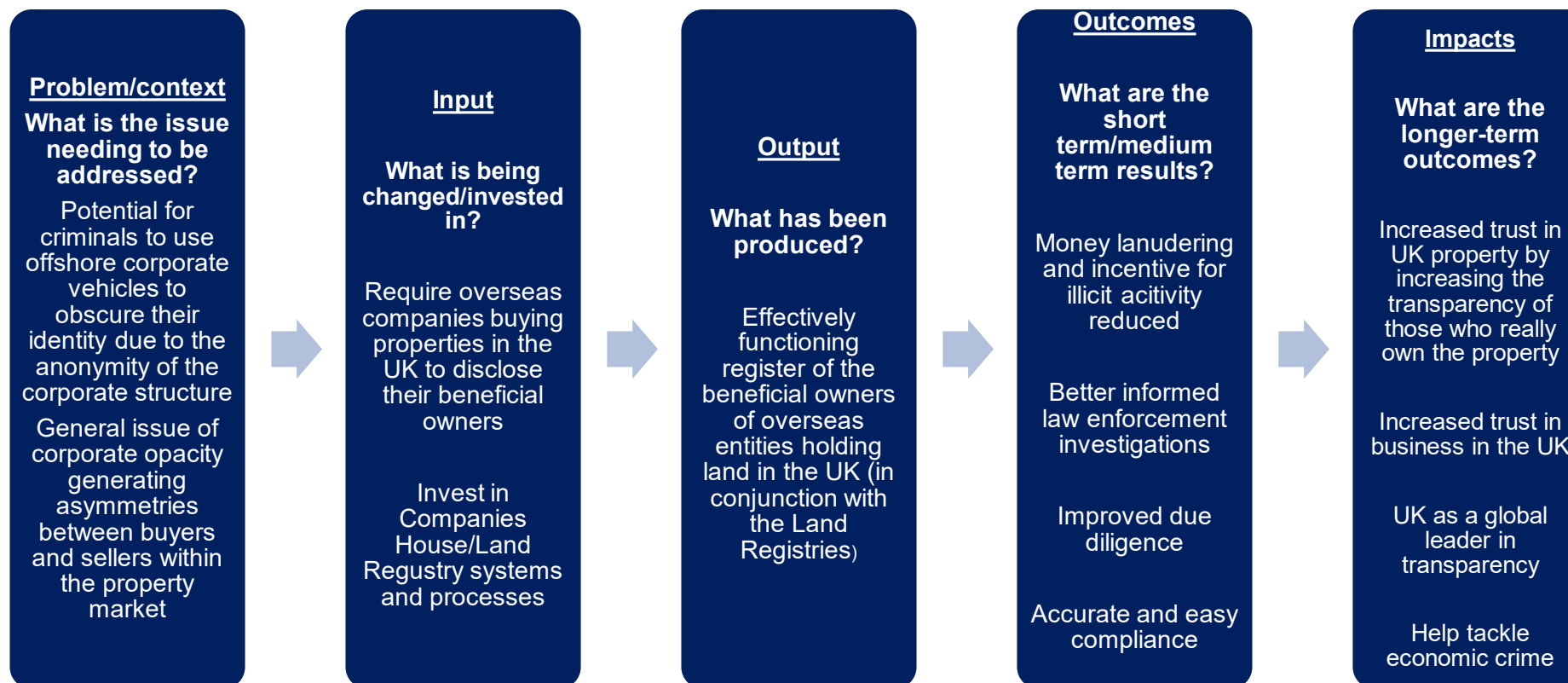
159. We have provided some contextual evidence that highlighted the scale of money laundering activities around the globe and that suggests that the use of UK property to hide or launder illicit funds is not an insignificant problem. For example, according to Transparency International analysis of data from the Land Registry and the Metropolitan Police Proceeds of Corruption Unit, between 2004 and 2014 over £180m worth of property in the UK was investigated as suspected proceeds of corruption, and three in four of the properties involved the use of off-shore corporate vehicles.³⁸ In January 2016, the National Crime Agency reported the conviction of a money launderer who had used off-shore companies to launder £12m through council properties in London.
160. However, given the current opacity of company ownership it is not possible to estimate in a meaningful way the extent to which UK property currently facilitates both crime in the UK and internationally. While we have set out why the proposed change will help increase transparency and reduce the level of illicit activities, we also do not consider it feasible to provide a robust ex-ante estimate for any reduction in illicit activity caused by the proposed change.

Improving the functioning of the property market by increasing transparency

161. The potential for beneficial ownership anonymity to generate asymmetries of information was discussed when considering the rationale for this policy change. The argument is largely theoretical as we do not have concrete evidence that buyers are concerned about knowing the ultimate owners of the property they wish to buy.
162. However, we do expect that buyers will take some comfort in knowing whom to approach and seek redress from if a transaction does not go to plan. Dealing with an effectively unnamed party is likely, on a psychological level, to make buyers more cautious and, on an economically rational level, does increase the risk that the property was originally bought using illicit monies which then become part of a criminal investigation. Reducing this psychological sense of unease and reducing the latent risk that you might be financing criminal activity should help improve the functioning of the property market to some extent.
163. The logic model below outlines the problem needing to be addressed and the intended impacts of this policy change:

³⁸ See: <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/#.WuBo5uj482w>

Logic Model: Register of Overseas Entities



Costs and benefits of alternative options

164. This is a Final Stage Impact Assessment and the alternatives to option one have already been ruled out on the grounds that they will not achieve the objective of the policy at earlier stages of policy development. We therefore do not provide a detailed breakdown of the costs and benefits of these alternatives.

V. Monetised impacts on business

165. We have monetised the familiarisation and ongoing administrative costs to those overseas entities with establishments/branches in the UK. These costs are considered as direct costs to UK business for the reasons set out in the earlier sections.
166. The table below summarises these costs and shows that together they have a net present value of around -£21.37m and an **equivalent annualised direct net cost to business (EANDCB) of £2.48m per year**. As such, we judge this measure to fall under the 'de minimis' threshold of a £5m EANDCB with a significant level of certainty.
167. This Impact Assessment concerns the primary stage of legislation. Greater detail will be provided on some aspects of the policy in secondary legislation. While any impacts only materialise at that stage, and the primary legislation does not cause the impacts per se, this Impact Assessment has attempted to provide a best estimate for the likely impacts. These could change, and assessments at the stage of secondary legislation will update the provided estimates as necessary, for example if the fee structure takes a different shape than assumed at this stage or if the actual number of non-EU entities with a UK presence does not develop in line with what is assumed in this assessment. If necessary, the assessment at secondary stage will also revisit the 'de minimis' assessment. For reasons set out above, this assessment at this stage not include potential impacts on entities that are already subject to equivalent transparency requirements elsewhere. An updated assessment at the secondary stage of legislation will include impacts on these entities if they are deemed to be non-negligible.

| Year of appraisal period | | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|--|-------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Stock of non-EU overseas companies with UK establishments | | 8844 | 8918 | 8992 | 9066 | 9139 | 9213 | 9287 | 9361 | 9435 | 9508 |
| Estimated new registrations | | n/a | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 | 433 |
| Cost | per entity value | | | | | | | | | | |
| <i>One-off cost</i> | | | | | | | | | | | |
| Familiarisation | £156 | £1.38 | £0.07 | £0.07 | £0.07 | £0.07 | £0.07 | £0.07 | £0.07 | £0.07 | £0.07 |
| Identifying and collecting beneficial ownership information | £129 | £1.14 | £0.06 | £0.06 | £0.06 | £0.06 | £0.06 | £0.06 | £0.06 | £0.06 | £0.06 |
| Providing beneficial ownership information to a central registry | £55 | £0.49 | £0.02 | £0.02 | £0.02 | £0.02 | £0.02 | £0.02 | £0.02 | £0.02 | £0.02 |
| Verification costs | £200 | £2 | £0.09 | £0.09 | £0.09 | £0.09 | £0.09 | £0.09 | £0.09 | £0.09 | £0.09 |
| <i>Ongoing costs</i> | | | | | | | | | | | |
| Identifying and collecting new beneficial ownership information | £136 | n/a | £1.22 | £1.23 | £1.24 | £1.25 | £1.26 | £1.27 | £1.28 | £1.29 | £1.30 |
| Submitting beneficial ownership information | £35 | n/a | £0.32 | £0.32 | £0.32 | £0.32 | £0.33 | £0.33 | £0.33 | £0.33 | £0.34 |
| Verification costs | £40 | n/a | £0.36 | £0.36 | £0.36 | £0.37 | £0.37 | £0.37 | £0.37 | £0.38 | £0.38 |
| Fee | £20 | £0.18 | £0.18 | £0.18 | £0.18 | £0.18 | £0.18 | £0.19 | £0.19 | £0.19 | £0.19 |
| Total costs to business (2019 prices) | Total | £5 | £2.12 | £2.14 | £2.15 | £2.17 | £2.18 | £2.20 | £2.22 | £2.23 | £2.25 |
| NPV (£m) | | -21.37 | | | | | | | | | |
| EANDCB (£m) | | 2.48 | | | | | | | | | |

VI. Risks and assumptions

Potential policy risks

Effectiveness of the protection regime

168. As explained, those individuals that would be put at risk by providing the required information publicly can apply to a protection regime. In theory this comes with two risks. Firstly, there could be a risk that the regime does not provide sufficient protection to individuals, for example if the scenarios described in paragraph 54 are applied too narrowly. Secondly, if the scenarios are too wide, the protection regime could be misused to hide information from the public. It is important to note that any information provided by individuals under the protection regime might not be on the public register but will still be available to enforcement agencies. The protection regime will also mimic the regime already in place for the domestic PSC register, which was reviewed in 2019 for its effectiveness.³⁹ The overall risk should thus be minimal.

Treatment of trusts

169. The research accompanying this Impact Assessment identified that some stakeholders were concerned that excluding trusts and other arrangements without legal personality from the scope of the register may create a loophole. Most stakeholders were, however, unable to comment on this as they had no experience dealing with trusts in a property investment context. The Joint Committee on the Draft Registration of Overseas Entities Bill also queried whether *“these exemptions and omissions will amount to loopholes that money launderers might seek to exploit.”*⁴⁰

170. As is set out more fully in paragraphs 35-36, government already requires non-UK trusts which generate a UK tax consequence to register their beneficial ownership information with HMRC, and to make this information available to UK law enforcement on request. The scope of this registration requirement was extended through the transposition of 5AMLD. This will continue to strengthen the abilities of law enforcement to readily access information on the beneficial ownership of property held within trusts. In response to concerns raised by some stakeholders and the Joint Committee, the Draft Bill was amended to require overseas entities to declare their nature of control e.g that they are the trustee of a trust.

³⁹ See: <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

⁴⁰ See: <https://publications.parliament.uk/pa/jt201719/jtselect/jtovensent/358/35802.htm>

Adverse impacts on overseas investment and subsequently on the property market

171. We discuss potential impacts on overseas investment into the UK property market and potential subsequent negative impacts on the market itself in detail earlier in the Impact Assessment. Overall, we assess the likely impact to be minimal.

Impacts on innocent third parties due to non-compliant entities

172. Concerns have been raised by stakeholders regarding adverse effects on innocent third parties due to non-compliant entities. As discussed in earlier paragraphs, the entity has 18 months to provide their beneficial ownership information to the register after which, if they have not done so, the restrictions on sale, lease and charges will come into force. This could result in risk to innocent third parties, for example where they cannot register title to land because of circumstances they could not be aware of – if the overseas entity provided Companies House with false information. We have mitigated against this risk by including a mechanism to consent to register a disposition that otherwise could not be registered. We do, however, expect this to be rarely used, and in situations where there are potential negative implications for innocent third parties (in this example, tenants).

Uncertainties in the economic assessment

Non-monetised costs and benefits

173. For reasons set out in paragraph 72, this assessment at this stage does not include potential impacts on entities that are already subject to equivalent transparency requirements elsewhere (at this stage this analysis has focused on those incorporated in an EU member state). An updated assessment at the secondary stage of legislation will include impacts on these entities if they are determined to be non-negligible.

174. Our estimates have been unable to monetise any potential negative impact of the new requirements on foreign investment into the UK and particularly the UK property sector. Furthermore, we have been unable to estimate a monetary value for the potential reduction in crime that may occur due to the reforms. We have attempted to discuss these in detail, and we have analysed any potential adverse impact on overseas investment into the UK property market. As explained, we expect any impacts on the property market to be limited overall and to be concentrated in areas with currently high levels of overseas investment in the property market.

175. The commercial real estate market could be more greatly affected than we have so far argued. As previously noted, the Bank of England estimate that foreign investors accounted for around 45% of the value of total commercial real transactions since 2009. Our presumption was that much of this came from

institutional overseas entities which are unlikely to value the anonymity of their beneficial owners so highly as to forego profitable investments. However, it may be the case that private foreign investors actually play a larger role than we have so far expected.

176. We noted that this group of ultra-wealthy individuals and families may well respond to their loss of anonymity by exiting their investment positions in UK property. This is because they are more likely to value their anonymity very highly. If it is the case that these private investors represent a significant proportion of the overall 45% of commercial real estate investment coming from overseas, then their retreat from the market could have an impact.

177. Overall secrecy and opaqueness is inherent to the problem we are trying to address, which in turn makes it very hard to robustly anticipate the effects or the intensity of the expected effects from a change in policy. We thus acknowledge the real uncertainties that lie behind the analysis we have presented.

Long time-horizon until likely implementation

178. This Impact Assessment accompanies primary legislation. As explained, secondary legislation will provide greater detail on some policy aspects, currently estimated to be the case in 2025. The appraisal period of ten years thus only starts at that time. Giving the long lead-in time it is likely that some of the policy detail might shift. It is also possible that we experience a trend-break in the number of overseas companies with UK establishments and that fee levels will be set at a different level than assumed. Where this is the case, these changes will have to be reflected in an assessment at a later stage.

179. The appraisal model applied is multiplicative in nature⁴¹, meaning that if, for example, the number of affected overseas entities in 2025 was twice the number forecast in this assessment, the overall costs would double.

180. The costs attributable to fees are very small so any significant deviation from the fees assumed in this assessment will not have a substantial impact on the overall cost estimates provided.

⁴¹ It largely takes the form of: *number of entities in scope * cost per entity = total cost.*

VI. Wider impacts

181. This section explores the wider impacts of these policy proposals.

Public sector impact

182. The impact on the public sector has been considered throughout the Impact Assessment. Most notably, we look at the cost of these proposals to Companies House.

Statutory equality duties

183. The Equality Act 2010 protects against unlawful discrimination on the basis of the following protected characteristics:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion or belief
- Sex and sexual orientation

184. The Department for Business, Enterprise and Industrial Strategy is subject to the public sector equality duties set out in the Equality Act 2010. It requires public bodies to have due regard to the need to:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- Advance equality of opportunity between people who share a protected characteristic and those who do not; and
- Foster good relations between people who share a protected characteristic and those who do not.

185. The policy considered in this Impact Assessment applies directly to legal entities, introducing an additional requirement on overseas companies that own UK property to publicly display their ultimate owners, with very limited burdens placed on individuals directly.

186. Therefore the measures under this proposal are not expected to give rise to discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010. Further, they do not make specific or direct provision in respect of any of the protected characteristics, and they are not expected to result in outcomes where people who share particular protected

characteristics are treated differently from people who do not. They are not expected to give rise to a direct or indirect impact on individuals because of any protected characteristic they may have. On this basis, we do not consider it is necessary or proportionate to seek further evidence to support this assessment, or to recommend any changes to our existing plans.

A summary of the potential trade implications of measure

187. We do not envisage any implications of trade due to these measures.

Environmental impacts

188. There are no obvious direct concerns in this area.

Human rights

189. There are no obvious direct concerns in this area.

Justice system

190. A Justice Impact Test (JIT) is the Ministry of Justice tool that helps policymakers across government find the best way of achieving their policy aims whilst minimising the impact on the justice system. A JIT was sent to the Ministry of Justice when the draft Bill was submitted in 2018.

Competition and Innovation Impact Test

191. We do not expect this policy to give rise to any competition or innovation impacts.

Impact on small and micro business

192. There is scope for this measure to have an impact on small and micro businesses. For example, some of the UK establishments that face new familiarisation and compliance costs could well fall under the definition of 'small' or 'micro'. Furthermore, some 'family offices' that could relocate following the loss of their beneficial owner's anonymity may also employ only a handful of full-time staff and so count as small businesses.

193. The other types of entities that will be subject to the new register, such as single purpose entities being used by private investors, could plausibly also be small businesses in a technical sense. However, they are not engaged in on-going economic activity in the UK and are thus not considered within this assessment.

194. Overall, introducing exemptions based on company size would undermine the objectives of the policy. It would open loopholes that criminals could exploit to carry on using UK property as a store or means to launder their criminally acquired wealth. It would also not be logistically feasible given the lack of information the UK holds about entities registered in overseas jurisdictions. For

these reasons, we do not consider an exemption for small and micro businesses to be desirable.

Families' assessment

195. The policy aims to ensure that the ultimate owners of overseas companies that own UK property are transparent. There is no evidence for any direct impacts on family formation, on families going through key transitions such as becoming parents, or on the ability of family members to play a full role in family life. There is also no evidence that it will specifically affect those families most at risk of deterioration of relationship quality and breakdown.

VII. Monitoring and evaluation

196. The Department, working with Companies House, will monitor the impacts following these reforms:

- We will monitor and evaluate whether the costs to business estimated were reflective of the impact on business.
- We will continue to engage with key stakeholders - such as Land Registry and Law Enforcement.
- We will monitor Companies House and Land Registry data.

197. By introducing these proposals and having more data it will enable us to gather a greater understanding of the impact of this policy.