



Department for  
Business, Energy  
& Industrial Strategy

# POST-IMPLEMENTATION REVIEW OF THE PEOPLE WITH SIGNIFICANT CONTROL REGISTER

Presented to Parliament pursuant to The Small Business, Enterprise and Employment Act 2015, The Register of People with Significant Control Regulations 2016, The Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016, The European Public Limited-Liability Company (Register of People with Significant Control) Regulations 2016, The Scottish Partnerships (Register of People with Significant Control) Regulations 2017.





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Companies House	<b>30/06/2016</b>
	<b>Recommendation: Keep</b>
<b>Contact for enquiries:</b> Olga Binions Tel: 020 7215 1517 Email: olga.binions@beis.gov.uk	<b>RPC Opinion:</b> Green

**1. What were the policy objectives of the measure?** (Maximum 5 lines)

The policy objective is to enhance transparency around the ultimate owners and controllers of UK companies through the implementation of a publicly accessible central register of company beneficial ownership information. The intention behind this enhanced transparency is to deter illicit activity and improve enforcement outcomes and promote good corporate behaviour.

**2. What evidence has informed the PIR?** (Maximum 5 lines)

The review was informed by research carried out by an independent contractor which assessed the wider impacts of the regulations by gathering the perspectives of key users and stakeholders of the PSC register. This included a survey of companies in scope of the regulations, which obtained estimates of the costs of regulatory compliance. We supplemented the primary research with management data from Companies House to assess use of the PSC register.

**3. To what extent have the policy objectives been achieved?** (Maximum 5 lines)

There is evidence that four out of five objectives have been, or are in the process of being, met. Measures to improve data quality would further improve performance against objectives and would require changes to the Companies Act (2006). For one objective – reducing illicit activity and improving corporate behaviour – there is no evidence either to confirm or deny that the objective has been achieved. This is due to challenges in inferring impact given the short time between the implementation of these regulations and this study and disentangling the contribution of the PSC regulations from other influences.

Sign-off for Post Implementation Review: Chief economist/Head of Analysis and Minister

***I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.***

Signed: ***Kelly Tolhurst***

Date: 15/10/2019

**4. What were the original assumptions?** (Maximum 5 lines)

All UK companies, with only a few exclusions, are in scope of the regulations and face costs of regulatory compliance. The Impact Assessment (IA) predicted that costs of regulatory compliance would be proportionate to the scale of a company's operations. This PIR shows that estimated actual costs are similar to predicted costs in the IA. Cost estimates were based on a survey sample that included companies of differing size and ownership structures.

**5. Were there any unintended consequences?** (Maximum 5 lines)

Our judgement is that the regulations are operating as intended. Over 99% (4.1m) of legal entities in scope have complied with their obligations to report beneficial ownership information, and the register contains information on 4.9m PSCs. The data is used and valued by many users. But there are more wide ranging concerns over the quality of all company data centrally registered at Companies House. These concerns predate the PSC regulations. Data improvements would increase the effectiveness of PSC regulations, however the remedies would require changes to general powers of the Registrar under the Companies Act 2006. No unintended consequences were identified.

**6. Has the evidence identified any opportunities for reducing the burden on business?**

(Maximum 5 lines)

No. There has been a paradigm shift in wider international debate on company beneficial ownership transparency. The trend is towards boosting transparency and reliability of information through an increase in reporting requirements and checks or corroboration of information supplied. Reducing burdens would almost certainly now be in breach of the UK's international obligations and potentially create loopholes for exploitation.

**7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business?** (Maximum 5 lines)

The UK measures predate and currently exceed the minimum EU requirements in this space. The most recent EU Directive (Fifth Anti-Money Laundering Directive) which will bring other EU countries more in line with UK measures on beneficial ownership transparency has a transposition deadline of 10 January 2020.

## Introduction

1. This post-implementation review covers the following regulations:
  - Part 21A of the Companies Act 2006 and related provisions of the Companies Act 2006 inserted by the Small Business, Enterprise and Employment Act 2015;
  - The Register of People with Significant Control Regulations 2016;
  - The Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016;
  - The European Public Limited-Liability Company (Register of People with Significant Control) Regulations 2016;
  - The Scottish Partnerships (Register of People with Significant Control) Regulations 2017.

Throughout this review, these regulations are referred to collectively as the 'PSC regulations'. And unless where specifically mentioned, references to a company should be understood in the broader context of all the different types of legal entities covered by those regulations. More detail on these regulations is provided in Annex A.

2. A Person with Significant Control, or PSC, is an individual who meets one or more of the following conditions:
  - (i) holds directly or indirectly more than 25% of shares in the company;
  - (ii) holds directly or indirectly more than 25% of voting rights in the company;
  - (iii) directly or indirectly holds the right to appoint or remove a majority of the board of directors of the company;
  - (iv) otherwise has the right to exercise or actually exercises significant influence or control over the company; or
  - (v) has the right to exercise or actually exercises significant influence or control over a trust or firm that would itself satisfy one of the above conditions if it were an individual<sup>1</sup>.
3. Companies and partnerships within scope of the PSC regulations are required to:
  - **Identify** the PSCs for the company or the partnership and confirm their information;
  - **Record** the details of the PSCs on the company's or partnership's own PSC register within 14 days (companies that have elected to hold their PSC register at Companies House and eligible Scottish partnerships simply have to file the information with Companies House within 14 days);
  - **Provide** this information to Companies House within a further 14 days;
  - **Update** the information on the company's or partnership's own PSC register when it changes within 14 days, and update the information at Companies House within a further 14 days;

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<sup>1</sup> These conditions apply in a modified fashion to companies without shares and partnerships.

- **Confirm** to Companies House that information on the public PSC register is accurate, where it has not been updated in the previous 12 months.<sup>2</sup>

### **Purpose of the Review**

4. The purpose of this post-implementation review is to establish whether and to what extent:
  - The objectives of the PSC regulations remain appropriate;
  - The PSC regulations have achieved their original objectives;
  - The objectives could be achieved through a less onerous regulatory provision to reduce the burden on companies and/or increase societal value;
  - The PSC regulations are still required and remain the best option for achieving those objectives.
5. The analysis also assesses the extent to which the effects anticipated in the original regulatory Impact Assessment (IA) occurred, and whether there were any unintended effects of the measure and the reasons for those.
6. This post-implementation review utilises evidence gathered from appropriate ongoing monitoring and evaluation measures, data collection, and primary research.

### **Policy Background**

7. The origins of the PSC regulations came from discussions held at the 2013 G8 summit on Trade, Tax and Transparency.<sup>3</sup> G8 members made commitments to publish action plans to tackle the problem of corporate opacity by requiring companies to obtain and hold information on who owns and controls them. Corporate opacity facilitates the abuse of companies for economic crimes and corruption.
8. The UK was the first country in the G20 to implement a central public register of company beneficial owners, showing who ultimately owns and controls UK companies. This was in line with the UK Government's efforts to promote corporate transparency and tackle criminal misuse of companies. The G8 and UK commitments are in line with the recommendations of the Financial Action Task Force (FATF), which sets global standards on combatting money laundering and terrorist financing.
9. Following the G8 summit in 2013, the Department for Business, Energy and Industrial Strategy (then the Department for Business, Innovation and Skills) launched the Transparency and Trust consultation on proposals to tackle corporate opacity<sup>4</sup>. This included proposals to create a public register of company beneficial ownership information.

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<sup>2</sup> These requirements do not apply to companies with voting shares admitted to trading on a regulated market in the UK or European Economic Area or on specified markets in Switzerland, the USA, Japan and Israel. These companies are subject to other transparency rules.

<sup>3</sup> Trade, Tax & Transparency. The 2013 UK G8 Presidency Report.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/271676/G8\\_report\\_WEB\\_FINAL.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/271676/G8_report_WEB_FINAL.PDF)

<sup>4</sup> <https://www.gov.uk/government/consultations/company-ownership-transparency-and-trust-discussion-paper>



10. The 2014 Transparency and Trust Impact Assessment (hereafter known as the T&T IA) [\[HERE\]](#) followed the government response to the Transparency and Trust consultation paper and considered impacts of the options to tackle corporate opacity. The Government's recommendation set forth in the IA was the establishment of a central publicly accessible beneficial ownership register – known as the People with Significant Control (PSC) register.
11. The T&T IA recognised that some information on the register should be protected from public disclosure where individuals are at serious risk of violence or intimidation as a result of the company activities they are associated with. An additional IA [\[HERE\]](#) considered options of implementing a Protection Regime for such cases. The recommendation of this IA was to provide individuals with an opportunity to apply to Companies House to have their information protected from public inspection. However, all PSC data, including protected information, would be available to law enforcement agencies and specified public authorities on request.

### **Rationale for Intervention**

12. The rationale for intervention had two elements:
  - a. Regulatory failure, associated with the corporate governance and company law frameworks, which enables those that control companies to remain anonymous and hence allows or facilitates financial crime.
  - b. An information asymmetry with respect to company ownership and control, between those that control companies and those that trade with them or invest in them. This causes inefficiency and reputational damage because it helps facilitate crime and reduces business activity and investment with negative impacts on economic growth.

### **Regulatory Failure**

13. Companies, other corporate entities and some forms of partnership have separate legal personalities, meaning they can enter into contracts and business relationships in their own name. In addition, when most companies incorporate,<sup>5</sup> they benefit from limited liability, as do limited liability partnerships and limited partnerships. In return for having limited liability, a company is required to put more information in the public domain (e.g. their accounts, and information on their shareholders and directors) compared to other business forms (e.g. sole traders).<sup>6</sup>
14. At the time of the Transparency and Trust proposals, there was growing international awareness of the potential for misuse of opaque corporate structures. This was because various aspects of the corporate ownership system (e.g. bearer shares, opacity of beneficial ownership, and the use of certain arrangements involving directors) could be used to conceal an individual's interest in a company.
15. The T&T IA summarised the evidence of the effects of this corporate opacity, including enabling criminality (such as money laundering and tax crimes) and impeding law enforcement investigations. It concluded that, where governance and company law frameworks do not ensure enough transparency to prevent

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<sup>5</sup> There are a very small number of companies with unlimited liability.

<sup>6</sup> Similar rules apply to other legal entities with limited liability. A limited liability partnership will disclose information on its partners etc.

opportunities for criminality, then it required risk mitigation measures by counterparties. This can be viewed as a regulatory failure.

16. The potential costs to the economy and to society of this regulatory failure include welfare damage to the victim, inefficient resource allocation and a forced redistribution of income, lost economic activity/output, inefficient insurance expenditure, and costs to the criminal justice system including the police.

### **Information Asymmetry**

17. The Transparency and Trust IA also set out the effects of imperfect / asymmetric information associated with opaque corporate ownership. The essential element of the definition of “beneficial owner” of a legal entity is that it extends beyond legal ownership and control to consider the notion of ultimate (actual) ownership and control. It focuses on the natural (not legal) persons who own and take advantage of capital or assets of the legal entity; as well as on those who really exert effective control over it, whether or not they occupy formal positions within that legal entity.
18. Corporate opacity occurs where there is insufficient information on those who are controlling the actions of a company – as distinct from those who are the legal owners of a company as recorded on the company’s register of members. This can lead to two sub-optimal outcomes:
  - a. The first sub-optimal outcome is a constraint on the ability of the members of the company to hold the Directors to account if they cannot fully identify other members. An individual holding 15% of the company’s shares will not, on their own, be able to influence materially a key company vote. However, that individual can look to other members to support their position, thereby gaining a much greater ability to support or block the vote. This process is facilitated by the member’s ability to access the company’s registers of members and ultimate beneficial owners – giving them the means to identify to whom else they need to talk.
  - b. A register of shareholders may not enable shareholders to hold companies to account where transparency is limited. If a bank holds shares in a company on behalf of a client, the bank is listed on the register and not the beneficial owners. This may restrict the ability of shareholders to unite and push for positive outcomes from the company’s board.
  - c. The second sub-optimal outcome is in terms of those who engage with a company wanting to know with whom they are dealing. Irrespective of the ‘protection’ that the corporate form affords in an economic sense, investors, suppliers and customers might want to know who actually owns and controls the company. This might reduce the reputational risk incurred as a result of transacting with a company subsequently found to have links to those facilitating crime or other social and economic harm, including terrorist groups or money launderers.
  - d. Knowledge of a company and its owners is therefore important in helping those who engage with a company to assess more accurately the risks involved in doing so. In addition, when corporate information is not readily available other parties must incur greater costs from conducting due diligence to mitigate this risk. Therefore, a lack of information increases

transaction costs, which may act as a barrier to entry, dampening economic activity and harming growth.

### **Policy Objectives**

19. The PSC regulations have the overarching objective of enhancing transparency around the ultimate owners and controllers of UK companies through the implementation of a publicly accessible central register of company beneficial ownership information. In doing so, the objective is to correct the regulatory failures detailed above.
20. Increased transparency, from the PSC Register and other measures implemented across government, has wider beneficial effects. It should promote better corporate behaviour and help deter illicit activity. Reducing opacity around corporate ownership should disincentivise illicit activity as beneficial owners are more exposed.
21. Increased transparency also means national and overseas law enforcement and tax authorities have more information available to support their investigations, while financial institutions and other regulated professional bodies have an additional source of information held on the central register to support their anti-money laundering due diligence checks on companies.
22. Increased transparency will mean that those who engage with a company (e.g. investors, suppliers and customers), can more easily identify with whom they are really doing business. This is likely to increase trust in UK business, with the potential to increase resource allocation and investment towards capital generating activity in the UK, with subsequent positive effects on economic growth.
23. Additionally, corporate transparency aims to give shareholders more 'voice' to influence company boards and hold them to account, particularly with respect to the company's ownership chain, and therefore promote corporate growth and long-term development.

### **Review Approach**

24. The evidence marshalled in the remainder of the review is collated from a variety of sources. As well as internal sources, an independent contractor (IFF Research) was commissioned to undertake research on the short and medium-term impacts of the PSC register on companies in scope, and how law enforcement agencies, civil society organisations, investor associations, business organisations, and financial institutions interact with the register. Details on the research are available in Annex B.
25. In addition to primary data collection, secondary data was collected on the operation of the register, including compliance, enforcement, access to guidance, access to information on the public register, and evidence of use of the register by general users. Data was also collected around the efficacy of the Protection Regime. When such data is presented, the source is identified appropriately. Much of the data and information was obtained from Companies House, who administer the PSC Register.

## Logic Model

26. Based on the policy background, rationale for intervention, and key policy objectives, a logic model was developed to summarise the relationship between the context, inputs, outputs, outcomes, and impacts associated with the regulations. This provides a framework for understanding the evidence presented in this review. The various components of the logic model are briefly outlined below:
- a. **Context:** The 2013 G8 summit set the standards for corporate transparency to decrease money laundering activities and increase investment in UK business. In response to a shared commitment to reducing corporate opacity made at the summit, the UK implemented an action plan which ultimately resulted in the PSC register.
  - b. **Inputs:** The UK government put in place regulations creating a public register. This included details of all PSCs to tackle the issue of corporate opacity and the potential for illicit activity and reduced investment this allows. UK companies were required to obtain and hold records on their beneficial owners and submit those to Companies House.
  - c. **Outputs:** Companies House then makes this information available on a public register. Where justifiable, the protection regime allows protection of certain information from public disclosure. This information remains accessible to law enforcement agencies<sup>7</sup>.
  - d. **Outcomes:** A public register that supports tax and law enforcement activities, assists financial institutions in their due diligence activities, and provides transparent information on company beneficial ownership. Additionally, the increase in information should assist law enforcement agencies in their investigations against money laundering, terrorist activity, and other organised criminal activity.
  - e. **Impacts:** The increase in transparency should contribute ultimately to an increase in economic growth for the UK, as individuals and companies are incentivised to do business in a more trustworthy, credible, business environment and are able to do so in a more efficient manner. In addition, a reduction in crime associated with corporate opacity reduces costs to the criminal justice system and enhances the reputation of the UK business environment with attendant positive economic effects.
27. There are specific challenges associated with attempting to quantify the outcomes and impacts of these regulations. To meet the deadline<sup>8</sup> for the review, the evidence in this review was collated only two years after the initial obligation on UK legal entities to hold and report information on their beneficial ownership to Companies House. The implementation of the PSC register measures staggered the reporting from the then 3.5m entities in scope, to allow the first PSC report to come to Companies House during the following 12 months, to coincide with the entity's annual confirmation statement covering the other information they must report to Companies House. This means that it is likely to be too soon to see the

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<sup>7</sup> An addendum to the PSC regulations allows PSCs that are at risk of violence or intimidation if their information was made publicly available to apply to have their details to be protected from public disclosure.

<sup>8</sup> The Impact Assessment set out that the regulation would be reviewed 3 years after Royal Assent of the primary and secondary legislation, i.e. 2019.

full outcomes and impacts of the regulations. There have also been other economic and anti-corruption reforms over the same period with overlapping objectives. Subsequent reviews of the PSC regulations will occur on a 5 yearly basis, i.e. the next will be published in 2024. We anticipate that this review will focus on strengthening the evidence base on the impacts that can be attributed to the PSC regulations.

### **Are the Objectives and the Rationale for the PSC Regulations still Relevant?**

28. Our judgement is that the objectives and rationale for the PSC regulations are still relevant. The regulations continue to be of significant international and domestic policy interest, and they continue to be a valuable tool to deliver increased corporate transparency:
- a. As noted above, there has been a significant shift in global perceptions towards beneficial ownership transparency. The UK is a global leader on these issues and was the first G20 country to regulate in this area. Over the time of the review, other countries and international bodies have agreed and, in many cases, implemented similar arrangements.
  - b. These regulations have been scrutinised (2017/2018) as part of assessments of the UK's regime to combat money laundering and terrorist financing by the Financial Action Task force (FATF<sup>9</sup>), and by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. The UK's legal framework was considered robust and effective, but some recommendations were made on data accuracy and cross checks.
  - c. More broadly in the international context, the Panama Papers were leaked at the time these regulations came into force. Since then several other major corruption stories have received significant media coverage. This and other stories, e.g. on the lack of transparency of UK property ownership, has increased public awareness of the issue and potential abuses. Many Governments have or are in the process of developing a similar regime. The EU has agreed two anti-money laundering directives: the fourth (4AMLD) which came into effect at the end of June 2017, and the fifth (5AMLD) which updates the fourth and the relevant parts must be implemented by 10 January 2020. The effect of these brings EU Member States in line with FATF best practice (4AMLD) and requires the registers to be public (5AMLD)<sup>10</sup>.
  - d. The UK Parliament has continued to take a close interest in this area. In 2018, the Sanctions and Anti Money Laundering Act was amended to require the Government to encourage UK Overseas Territories to adopt similar regulations. And if this is not possible, requiring the UK Government to pass legislation compelling the introduction of publicly accessible beneficial

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<sup>9</sup> FATF is an inter-governmental body, which sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

<sup>10</sup> We do not expect 5AMLD to have any impact on existing PSC regulations. The principal amendment is to require public access to the central register. The UK already meets this requirement in the 5AMLD. There are no changes to the number of entities that are in scope of the PSC register as a result of 5AMLD. HM Treasury are the lead Department. The Directive will be implemented through new or revised UK money laundering regulations and consequential amendments to other legislation.

ownership registers in the Territories.

- e. Through its early adoption of these regulations the UK has been able to cement its global reputation as a leader on corporate transparency issues. The UK PSC regime is held by others, especially amongst transparency Non-Governmental Organisations as a model to follow. The net effect is that the rationale and the objectives are arguably stronger today than when they were introduced.

### **Have the PSC Regulations Achieved Their Original Objectives?**

29. In this section of the review, evidence is presented relating to each section of the logic model presented earlier. The logic model is a mechanism for understanding a regulation from its policy background, through to the inputs required to produce outputs, outcomes and eventually impacts. At the end of this section we set out our judgement as to whether the objectives of the original regulations have been met.

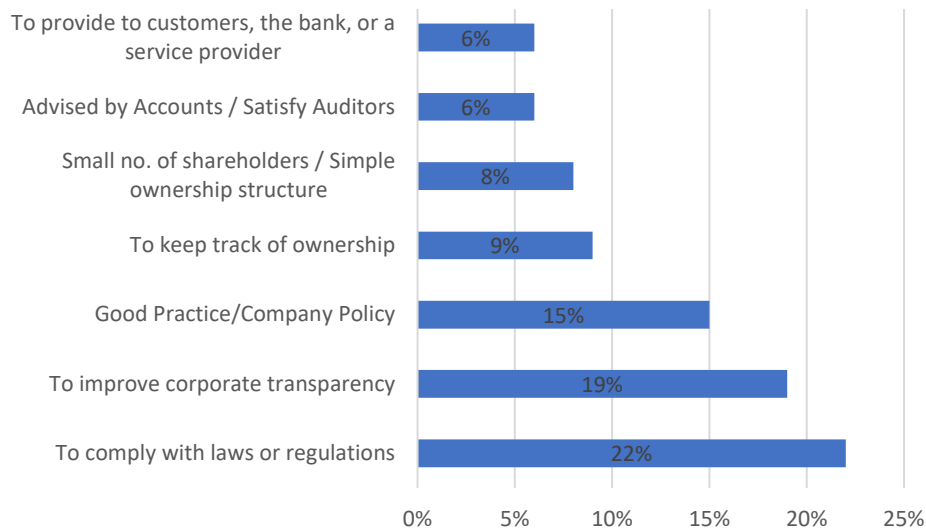
#### **Context**

30. The context is provided to understand the evidence and impact of the regulations.

31. The regulations were introduced at a time when many companies already had collected, or had begun to collect, data on beneficial ownership. Therefore, the impact on companies of complying with the regulations was reduced. They did so either because they needed to for regulatory purposes or because it is good practice.

- a. Of the 500 companies surveyed in the IFF contracted research, 71% of companies already kept beneficial ownership information before the PSC regulations came into force. Medium and large companies were more likely to keep these records than micro and small companies (76% vs 62%).
- b. A variety of reasons were given for keeping records of beneficial ownership prior to the introduction of the PSC register. Figure 1 shows that around one fifth of companies (22%) kept records in order to comply with existing laws and regulations, and a further fifth (19%) kept records to improve corporate transparency. Companies with a reasonably complex ownership structure were more likely to keep records to improve corporate transparency than companies with a simple ownership structure (24% vs 18%). Another key reason for keeping records of beneficial ownership prior to the introduction of the PSC register was that this was regarded as good practice or was company policy (15%). It is possible, furthermore, that some companies kept these records in anticipation of the regulations.

**Figure 1 (IFF Survey) Reasons for Keeping Beneficial Ownership Data Prior to the Introduction of the Register. N=356**



32. The large proportion of companies keeping records prior to the introduction of the regulations raises the question whether the regulation was required to deliver the transparency benefits. In our view the regulation was required for two reasons:

- a. First, 29% of companies interviewed did not keep beneficial ownership data prior to the regulations. Scaled up to the population of UK companies, well over one million companies might not have kept these records, indicative of considerable scope for addressing the problems the policy seeks to address.
- b. Second, where companies collected data before the regulations were in force, they were not obliged to report it to a central register or make it publicly available. Therefore, keeping private information on beneficial ownership before the regulations did not solve the issues, as set out in the rationale section, that the regulations seek to address.

## Inputs

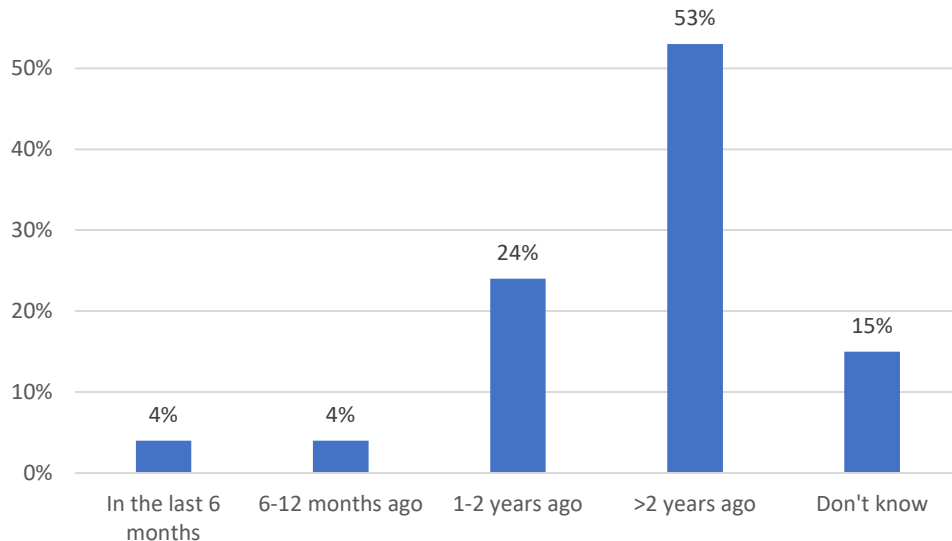
33. The PSC regulations require most UK companies, LLPs and SEs to keep a PSC register from 6 April 2016 and to send the information to the Registrar of Companies with their annual confirmation statement, or on incorporation, from 30 June 2016.

34. The IFF survey, (fieldwork January 2019) shows that most companies providing information on beneficial ownership did so straight after the regulation was introduced:

- a. Fifty three percent of companies submitted PSC information for the first time more than two years ago, i.e. early 2017 or earlier. This should be expected, as the requirement for companies and partnerships to send the PSC information to the Registrar of Companies with their annual confirmation statement began on 30 June 2016.

- b. Figure 2 shows that almost a quarter submitted information for the first time between one year and two years ago (24%), and around one in twenty submitted PSC information for the first time either in the last 6 months (4%) or between 6 and 12 months ago (4%).

**Figure 2 (IFF Survey) Timing of Companies' First Submission of PSC Information. N=500**



35. Companies with a complex or reasonably complex ownership structure were more likely to submit information for the first time more than two years ago than companies with only one layer of ownership (62% and 59% vs 48%). This is consistent with the finding that these types of business were also more likely to be keeping similar records before the PSC regulations were introduced, and therefore did not need to make a major change to their practices.

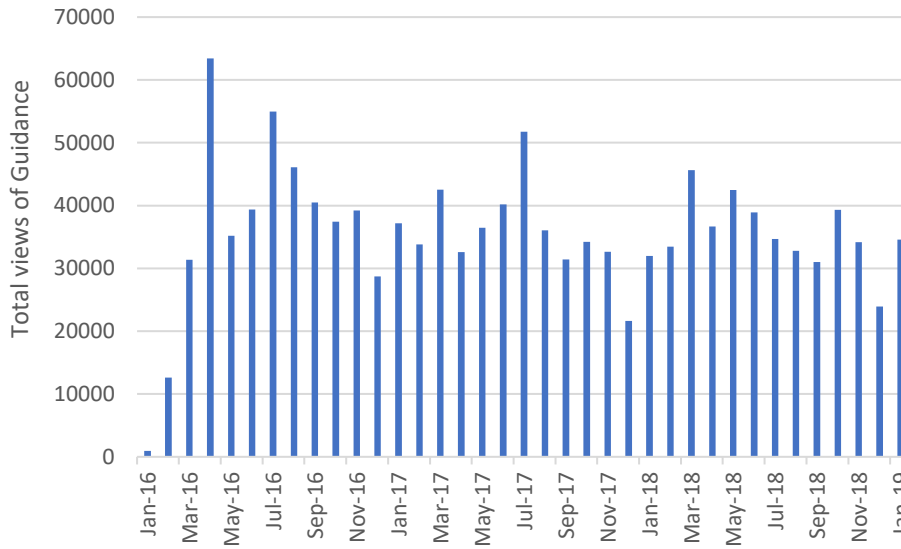
36. Companies House and BEIS Guidance<sup>11</sup> to companies submitting PSC information appears to be used and useful:

- a. Between January 2016 and December 2018, there were 1,285,466 views and 921,936 unique views of this guidance.
- b. Throughout the period when guidance has been available, there has been steady use, highlighting the fact that the guidance was used as a source of information when the regulations first came in, but also as a continued source of valuable information by companies and partnerships (Figure 3).

<sup>11</sup> The guidance sets out the meaning of “significant influence or control” over companies and partnerships in the context of the PSC register, provides information on the steps companies and partnerships need to take to identify their PSCs, and explains the requirements for the PSCs.

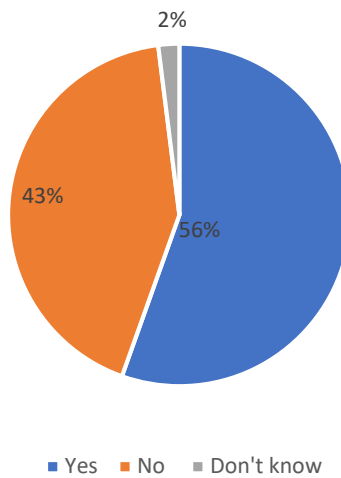


**Figure 3 (Companies House): Total Page Views for the Different Forms of PSC guidance for all Relevant Entities**



37. Figure 4 shows that most companies (56%) reported that they had checked that the PSC information they submitted was still correct (since their initial submission).
- a. Medium and large companies were more likely than micro and small companies to have checked this information (72% vs 56%).
  - b. Companies with a complex ownership structure were also more likely than companies with a simple ownership structure to have checked this information (70% vs 52%).

**Figure 4 (IFF Survey): Companies Checking Submitted Information Since Initial Submission. N=500**

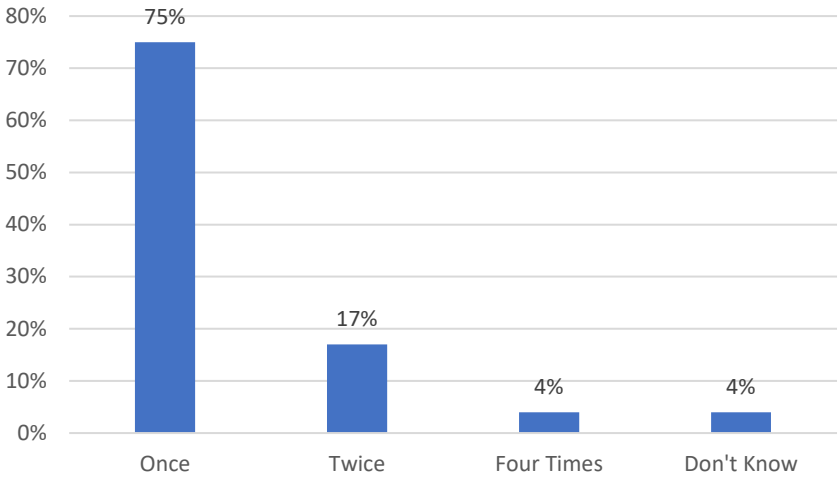


38. From 26 June 2017, companies were obliged to record changes to information on their PSC register within 14 days of obtaining the information, and to file that information with the Registrar within a further 14 days.

39. Companies are required to keep the information up to date. Out of 500 companies interviewed:

- a. One in ten companies (10%) said that their PSCs had changed since their initial submission of PSC information. Companies with a complex or reasonably complex ownership structure were more likely to have had changes to their PSCs compared to those with a simple ownership structure (15% and 17% vs 6%).
- b. Three quarters of those who had experienced a change to their PSCs said that this had only occurred once. One in six (17%) said that a change had occurred twice. These changes mostly occurred between 6 months and 1 year ago (38%) or between one and two years ago (28%).
- c. A large majority of companies that reported that there had been a change to their PSCs since their initial submission (94%) had informed Companies House about the change. Of the remaining six percent, four percent had not informed Companies House and two percent did not know if they had informed Companies House.

**Figure 5 (IFF Survey):** Number of Times Companies Have Changed Their PSCs.  
Base: All Companies Whose PSCs Have Changed. N=60



**Outputs**

40. This section first considers the usefulness of the PSC register before considering the effectiveness of the protection regime.

## The PSC register

41. The value of the register as a source of public information on PSCs depends on compliance and data quality.

### *Compliance*

42. Data from CH indicates that compliance is nearly total:

- a) Consistent with the survey findings above, compliance has increased over time. In July 2017, at the first point when all UK registered companies should have filed PSC information with Companies House, there were 226,445 non-compliant companies with no current PSC information. Within a year this was reduced to 47,931. In January 2019 the number of non-compliant legal entities with no current PSC information further reduced to 25,133<sup>12</sup> as a result of a strong enforcement and compliance programme.
- b) Consequently, the compliance rate has been increasing.<sup>13</sup> In December 2018 the compliance rate across these entities was 99.27%. This is an improvement over the 97.52% rate of compliance as of November 2017.

43. As at January 2019, the total number of active legal entities in scope of PSC requirements was 4,113,232. Twelve percent submitted a statement declaring they had no PSC or are taking steps to identify a PSC. Of the rest, sixty one percent declared one PSC; 22% declared two PSCs, and 5% declared three or more PSCs. Throughout 2018 and across all entities in scope, there have been a total of 870,827 PSC related forms received by Companies House updating PSC information. This equates a change in PSC information in approximately 1 in 4 UK companies<sup>14</sup>.

44. The primary aim of Companies House is to achieve compliance. Cases of continuing non-compliance can be referred for investigation and prosecution, and Companies House have engaged in enforcement action:

- a. As of the 8<sup>th</sup> March 2019, 243 criminal proceedings had been issued against directors and 227 against companies in connection with failure to comply with PSC requirements.
- b. From these, 65 directors and 77 companies have been convicted for failure to notify the Registrar of the company's PSCs or changes of PSCs. One director and two companies have been convicted for failure to comply with information gathering obligations.
- c. For reasons of public interest, such as following company compliance, 126 proceedings against directors and 108 proceedings against companies have been withdrawn.

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<sup>12</sup> A proportion of these are partnerships that no longer exist but had no obligation to notify when they dissolved.

<sup>13</sup> The compliance rate for the PSC register is the percentage of companies and partnerships that file PSC information at Companies House through the confirmation statement or event driven filings.

<sup>14</sup> As a PSC might have changed address or changed their holding in a company, this does not mean a new person became the PSC for 25% of companies.

- d. As at 8 March 2019, proceedings were pending against twenty directors and sixteen companies. The fines were typically in the range between £300 - £500. The highest fine as of 8<sup>th</sup> March 2019 was £1000 and the lowest £40.
45. To gather information on their PSCs, companies should serve notices to anyone they know or have reasonable cause to believe knows the identity of its PSCs. In cases where a company's requests for information and additional warning notices do not receive a response, it must consider whether it is appropriate to impose restrictions on any relevant portions of shares or rights held in the company. Applying restrictions is a significant step. This process has worked, albeit with some clarification from, and intervention by, Companies House:
- a. Between June 2016 and June 2017, whilst the PSC requirements were bedding in and companies were required to file PSC information as part of their annual confirmation statement, Companies House prioritised action against those who had made no filing and did not proactively follow up with companies who filed statements notifying the Registrar that they issued notices or restrictions.
  - b. At the end of the first year of PSC regulations being in force, Companies House increased its monitoring of restrictions. This revealed instances where companies mistakenly advised Companies House that restrictions had been issued. In these cases, advice was given on how companies could correct their record.
  - c. Following this activity and the support that has been provided to companies to improve their understanding of the process, there have been fewer restrictions. In December 2018, there were 20 restrictions in place.

*Data Quality: Integrity and Accuracy of the PSC Register*

46. The utility of the PSC data depends on its accuracy as well as high levels of compliance. Despite the very significant numbers of times the public register is accessed, which has increased significantly since the information became available, and the very low levels of error reporting to Companies House, several pieces of evidence suggest that the data may not be as accurate as it could be:
- a. Interviews carried out with key stakeholders highlighted a general concern that there were insufficient checks around register details. While no evidence was provided, this reflects a wider perception.
  - b. Validation checks by Companies House indicated that there were some inaccuracies, particularly early on. Reports suggested that a number of companies initially required help to comply, and Companies House systems were not sufficiently robust to reject e.g. variations in spelling of countries of residence. These and similar problems have been addressed through improvements to the customer interface for registering information.
  - c. One example of Companies House monitoring activities on PSC data integrity and accuracy took place in early 2018 when they became aware of a potential issue with Relevant Legal Entities (RLEs) who possibly did not meet the criteria to be an RLE. In early 2018, Companies House wrote out to over 3000 companies to check records. This was done, for example, to confirm that the legal entity listed on a PSC register is a registrable relevant

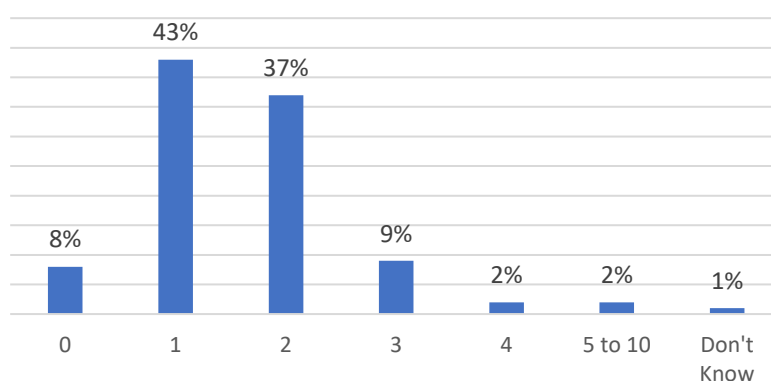
legal entity<sup>15</sup>. During the exercise over 70% of companies updated their records, 5% confirmed that the company did meet the criteria to be a registrable relevant legal entity while pursuit action continued for the other 25%.

47. There was also evidence of potential anomalies from the survey research. Participants were asked to give the number of PSCs for their company:

- a. Figure 6 shows that the majority (92%) had at least one PSC. Most companies report having one PSC (43%), followed by two PSCs (37%). Only around one in fifty had more than five PSCs (2%).
- b. Medium and large companies were more likely than micro and small companies to have no PSCs (18% vs 8%). Similarly, companies with a complex ownership structure were more likely than companies with a simple ownership structure to have no PSCs (15% vs. 5%).

48. After the completion of the quantitative survey, the number of PSCs reported by each business was compared to the number listed on the PSC register. Of those who provided the number of PSCs in their business, two thirds (67%) matched the number currently on the online register. Of those that did not match (33%), the figure was different by a median average of one person, a mean average of two people, with a range of 48. A range of factors may explain the discrepancies, including survey respondent error and timing issues around companies making changes to their PSC profile.

*Figure 6 (IFF Survey): Number of PSCs recorded per business. N=500*



49. Companies House is continuously looking at ways to improve the quality and reliability of information on the register, including PSC data. This includes making it easy for the users of the register to report any concerns over potential inaccuracies and carrying out proactive pursuit where Companies House identifies potential errors. For example, in order to encourage users to bring any issues relating to the information contained on company profiles, in 2017 Companies House introduced a 'report-it now' function.<sup>16</sup> For the PSC register specifically, there were an average

<sup>15</sup> A PSC, by definition, is an individual and not a legal entity (such as a company or a Limited Liability Partnership (LLP)). Companies might be owned or controlled by a legal entity, not an individual. A legal entity's details must be recorded on the company's PSC register if it is both relevant and registrable in relation to a company.

<sup>16</sup> Queries that Companies House receives through this facility are generally related to: an incorrect address, incorrect officer details, other incorrect information, system errors, alleged fraudulent activity, general queries or complaints, and personal details that should be protected from the public register.

of ten PSC related queries per month.

50. Additionally, in May 2019, Global Witness published a report [[HERE](#)] that identifies a number of areas of concern with the PSC register that further research might address.

- a. Firstly, the numbers of companies declaring they have no PSC, which is 335,010 - 7.9% of the total population as of 2019. Companies House report there are a total of 13% of active legal entities in scope without PSCs (of these 12% had registered a statement declaring that they had either no PSC or were in the process of investigations). The difference is that Companies House also report statistics on legal entities in the process of identifying their PSCs and confirming their details. Furthermore, having no PSCs is perfectly legitimate if no owners meet the criteria to be a PSC.
- b. A very small proportion of companies report a circular ownership structure, where they registered as controlling themselves (487, which accounts for 0.01% of the total companies on the PSC Register). Companies House are currently in the process of capturing these statistics in their own analysis of the Register in response to action taken by Global Witness.
- c. Some companies on the Register (8,872, 0.2% of total) name a PSC in their company as a foreign company that is based in a country without a recognised stock exchange. This is generally non-compliant filing, as such PSCs are not Relevant Legal Entities (RLEs).

Companies House has acted on feedback received from civil society groups to improve the quality of data and continues to do so. Following the earlier 2018 Global Witness report on the PSC register,<sup>17</sup> and the subsequent feedback, Companies House analysed the patterns highlighted and developed algorithms to monitor and pursue.

51. Measures are being considered as part of the wider register reform consultation to mitigate data quality concerns. On 5 May, the Government published a consultation on corporate transparency and register reform.<sup>18</sup> This consultation seeks views on a wide range of aspects of the company transparency and registration framework. It proposes reforms designed to deliver:

- a. more reliably accurate information on the companies register, reinforced by identity verification of individuals;
- b. effective protection of personal data;
- c. high compliance rates backed by an effective and respected investigation and enforcement regime for non-disclosure and false filing offences;
- d. the removal of technological and legal barriers to allow enhanced cross checks on corporate data with other public and private sector bodies;

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<sup>17</sup> <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/anonymous-company-owners/companies-we-keep/#chapter-0/section-0>

<sup>18</sup> <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

- e. continued investment in technology and the skills of Companies House staff to make the register more efficient, effective and resilient; and
- f. broader reforms to clamp down on misuse of corporate entities.

52. The proposals in this consultation, if all implemented, would amount to the most significant reform of the UK's company registration framework since a register was first introduced in 1844. It would end the requirement, under Companies Act 2006, for Companies House to accept, in good faith, information provided by companies by increasing its capability to cross reference and check data. If implemented in full, the proposals should increase the reliability of all the information held at Companies House and boost public confidence in its accuracy. The register reform consultation focuses on the role and powers of the Registrar and would not lead to changes to the PSC regulations. As the Registrar's powers relating to the scrutiny of information provided by companies are mostly contained in part 35 of the Companies Act 2006, it is the Companies Act 2006 that would require amendment, not the PSC regulations.

### Protection Regime

53. When a business submits information to the PSC register, most of it is made publicly available.<sup>19</sup> The information not published is the PSC's residential address and the day of their date of birth (only month and year are shown on the public register). This information is, however, available to law enforcement agencies and other specified public authorities (SPAs), and in some circumstances, credit reference agencies (CRAs).

54. In exceptional circumstances, where individuals, due to the activities of the company, are at serious risk of violence or intimidation if their details were made publicly available, an application can be made for their details to be protected.<sup>20</sup>

55. PSCs (or company on their behalf) may apply for two categories of protection:

- They may apply to restrict CRAs' access to the usual residential address; and/or
- They may apply to restrict CRAs' and the public from accessing any information about them.

56. In both cases the information still must be submitted to Companies House, and SPAs will be able to access the information on request.

57. From the time period between April 2016 and December 2018, Companies House received 903 applications from PSCs to have their details protected from disclosure on the public register, and 474 were successful for the different types of protection. Of the successful applications, 402 were granted protection of their

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<sup>19</sup> Publicly available information for each PSC includes their full name, month and year of birth, nationality, country of residence, a service address, the date they became a PSC, and which conditions for being a PSC are met.

<sup>20</sup> <https://www.gov.uk/government/publications/restricting-the-disclosure-of-your-psc-information/restricting-the-disclosure-of-your-information>

residential address, while 72 individuals were granted full protection, meaning that their details were protected from public disclosure. Table 1 provides more detail.

**Table 1: (Companies House): Protection Regime Application Data and Criteria for Protection.**

Application Status	Application for protection of residential address		Application for protection of all information		TOTAL	
<b>Total number of applications</b>	456		447		903	
<b>Successful applications</b>	402	88%	72	16%	474	52%
<b>Rejected</b> (e.g. error in application, insufficient payment, insufficient evidence)	15	3%	33	7%	48	5%
<b>Refused</b> (e.g. did not meet relevant criteria)	4	1%	162	36%	166	18%
<b>Awaiting Decision</b>	35	8%	180	40%	215	24%

58. Companies House reports that it has not yet been asked to provide protected information to third parties (e.g. law enforcement organisations). This was attributed to a lack of awareness that suppressed information was held by Companies House and could be shared.

59. As part of this study, Companies House staff were asked their views on whether the Protection Regime was fulfilling its purpose. While their overall message was positive, they reported that some applicants would advocate broadening the legislation to cover a wider range of risks. An example was provided of a situation where a PSC was being stalked and wanted to restrict access to their information on the PSC register, yet the situation was unrelated to the activities of their business.

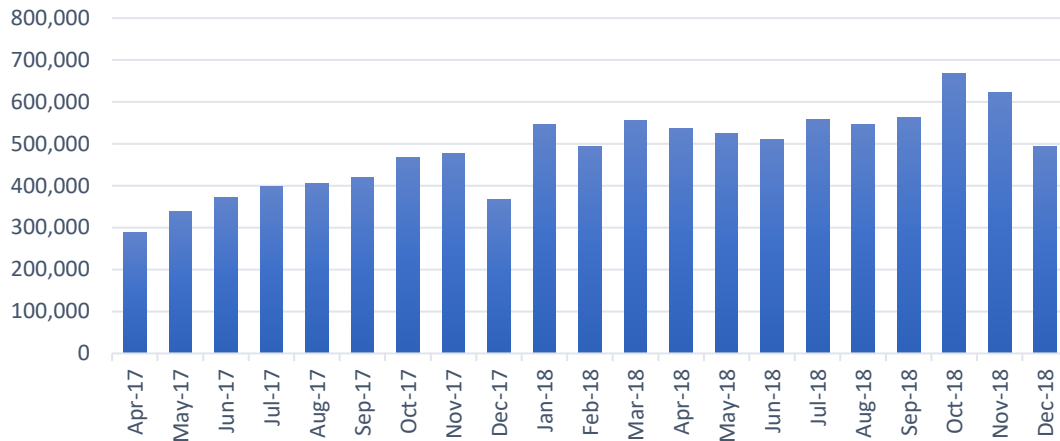
60. It was also suggested that the application process could be made more efficient through digitalisation, which Companies House are currently working on developing. The application process is currently paper based. Forms are posted between the applicant, Companies House and law enforcement organisations.

## Outcomes

61. PSC data is extensively used. Web traffic to PSC pages is indicated by the number of times information on the PSC register has been viewed from the Companies House Service. Figure 7 shows that From April 2017 to December 2018 there were 10,154,270 hits to the PSC detail pages, with a monthly average of 483,537 and a high of 668,150 views in October 2018.

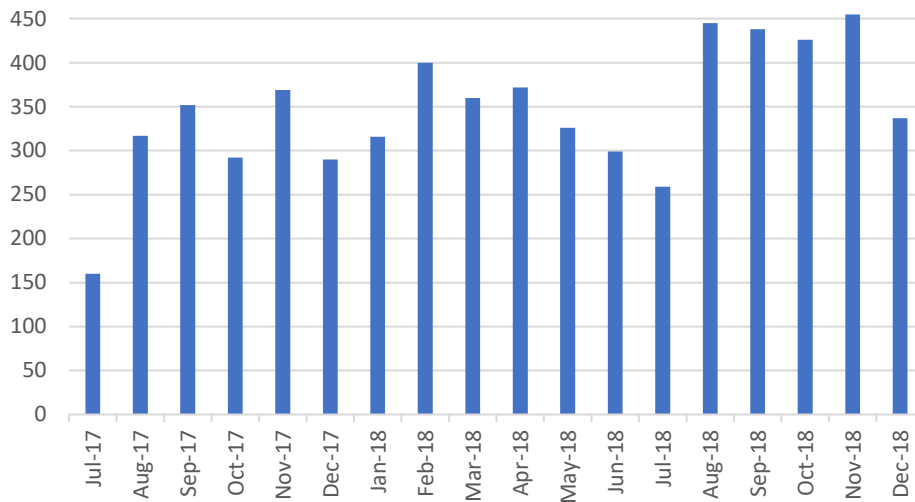


**Figure 7 (Companies House): Persons with Significant Control Page Views through Companies House Service (CHS)**



62. The People with Significant Control (PSC) Snapshot is a full list of PSCs provided free by Companies House. It is updated and published daily and can be downloaded by anyone visiting the website with no requirement to sign in to a service. The PSC snapshot is widely used, having been accessed over six thousand times in the period July 2017 to December 2018 (Figure 8).

**Figure 8 (Companies House): The Number of Total and Unique Occasions the PSC Snapshot has been Downloaded**



63. The qualitative interviews from the IFF research gives an indication of the use of the PSC Register by stakeholders:

- a. *Law enforcement agencies* use the PSC register to inform criminal investigations that involve corporate entities. The register is typically used on a record-by-record basis to identify and develop an understanding of

individuals who own or control corporate entities suspected of criminal activity (e.g. fraud or money laundering). Some law enforcement agencies analyse the PSC register at an aggregate level when investigating corporate networks. Often it is used in conjunction with other information, such as internal law enforcement databases, commercial databases (e.g. World-Check and Dunn & Bradstreet) and other information available from Companies House (e.g. confirmation statements).

- b. Most *law enforcement agencies* felt that the introduction of the PSC register has had a positive effect on their work. It was generally felt that the introduction of the register had not influenced the availability of information about PSCs, but that it has made it quicker and easier to obtain such information, increasing efficiency around understanding corporate networks.
  - c. *Financial institutions* report that they frequently use the PSC register to cross check data received as part of their customer due diligence requirements. Financial institutions report that they also use the PSC register to inform advice to clients, such as advising clients of the identity of PSCs of a company that they are targeting for a merger or acquisition. Financial institutions report that they also used alternative information sources to identify the PSCs of prospective corporate clients, such as the FAME database<sup>21</sup>, and Companies House confirmation statements.
64. Financial institutions are also involved in the submission of PSC information to Companies House on behalf of their clients. One institution estimated that they had done this for over 2,500 clients.
65. The overall view from *financial institutions* was mixed, however. Some thought that the PSC register had little effect on their work, with some citing lack of confidence in the data on the register as a reason, and that alternative data sources provided more reliable information to inform the due diligence process. Some organisations did remark that the PSC register made the task of obtaining information necessary for client verification simpler.
66. Overall, these responses suggest that the PSC register is meeting the objective of helping law enforcement investigations and, to a lesser extent, financial institutions' due diligence checks (para 21).
67. *Investment associations and business organisations* do not report using the PSC register extensively, although they are aware that the register is used by some of their members as part of the process of carrying out client verification and due diligence checks. One investment association said they had advised their members not to use the register as a primary mechanism of conducting due diligence checks due to concerns about the quality of the data. This suggests that the PSC register has been less effective at providing a source of information for shareholders (para 23). However, the information is used to inform mergers and acquisitions, so the objective is partly met.
68. *Civil Society Organisations* (CSOs) report mainly using the PSC as a research tool, on a record-by-record basis. Some CSOs have also used the data on the register in bulk to identify trends in the PSC population (e.g. ownership chains and the

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<sup>21</sup> FAME is a database that has information on over 11 million companies (including inactive companies) in the UK and Northern Ireland that draws on Companies House data.

country of residence of PSCs). CSOs have also spent time investigating the quality of data contained on the register to identify issues with data collection and ways in which the PSC register can be misused by companies, so that they can put forth recommendations to Companies House. Some CSOs have used the PSC register as a case study to advocate the creation of similar registers in other jurisdictions to promote transparency.

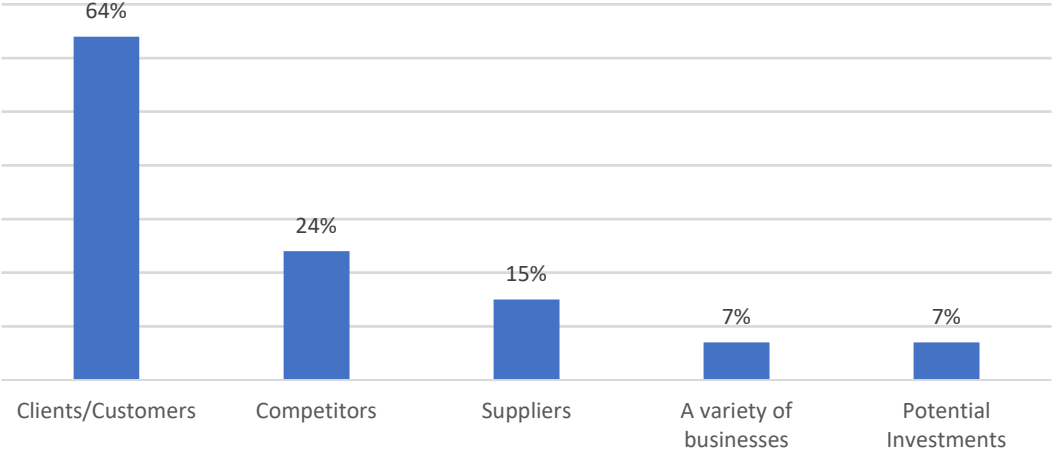
69. CSOs report that the PSC register has had a positive impact upon their work. Prior to its introduction, most CSOs were required to piece together information from past filings with Companies House and through primary research. The centralised, open nature of the register has reportedly made the process of investigating individuals, corporate entities and corporate networks cheaper and more efficient.
70. Overall, stakeholders were, therefore, positive in their outlook towards the regulations. Even though most of the information submitted to Companies House is supplied by intermediaries who are required to carry out customer due diligence checks, there were shared concerns around the lack of verification and validation on information on the register. As a result, there is a concern that individuals could still hide behind legal entities. There were two key suggestions for improvements to the register:
- a. First, stakeholders suggested that Companies House should introduce both validation and verification processes. The former could involve the introduction of checks at the point information is submitted; the latter could involve the introduction of checks to verify the information submitted (e.g. verifying that the individual is a PSC and checking that their personal information is correct).
  - b. Second, stakeholders suggested that the introduction of a unique ID for individuals listed on the register may improve the register. This may enable stakeholders to quickly identify all the companies that an individual is listed as a PSC for, which is currently not possible. Instead, users of the register are required to search for a business name. A stakeholder may be aware that an individual is listed as a PSC for one company but would not be able to determine that the same individual is the PSC of another company from the register alone. The corporate transparency and register reform consultation went live on May 5<sup>th</sup>, 2019, which suggested ways to improve the searchability of the register by arguing that verification will be a better means to link than unique identifiers.
71. As noted above, this is a criticism of the overall company law framework, rather than the PSC regulations. The remedies proposed could not be implemented through reform of the PSC regulations. However the responses of CSOs and others suggest that the PSC's objective of increasing transparency (para 19) has been met. That said the regulation is not as effective as it could be in meeting its objectives because of data quality issues.

### *Company Use of the Register*

72. Companies make use of the data. The use of the PSC Register by companies links back to one of the core objectives of the regulations: improving the business environment to facilitate greater confidence in doing business in the UK.

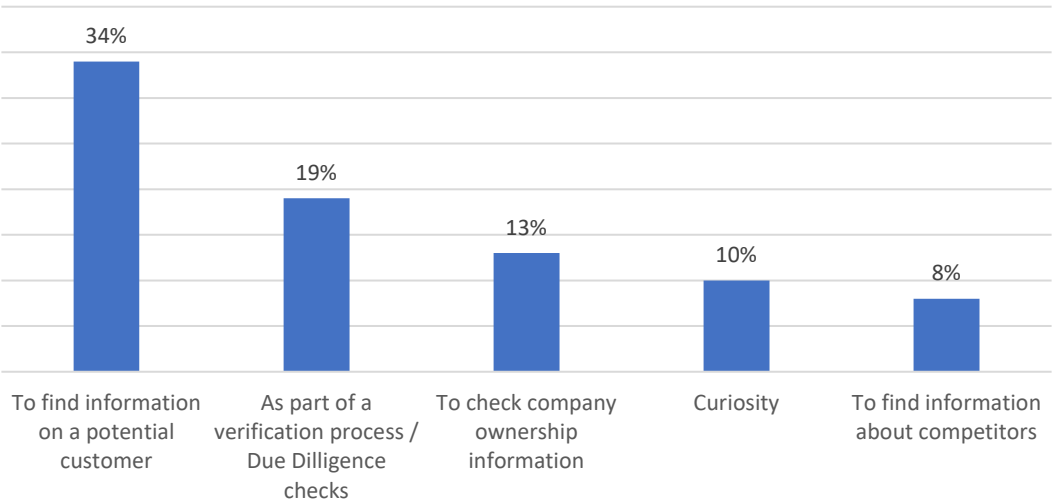
73. Of the 500 companies that participated in the company survey, around one fifth used the PSC register to look up information on other companies. Companies with a complex ownership structure (30%) were more likely to use the PSC register than those with a simple ownership structure (20%). Of companies that used the PSC register, the majority looked up information on clients and customers (64%) – Figure 9. Companies with a simple ownership structure were more likely to search for this information than companies with a complex ownership structure (65% vs 45%). Competitors and suppliers were also commonly searched for (24% and 15% respectively).

Figure 9 (IFF Survey): Groups Searched for on the PSC Register. N=123



74. Companies were also asked about the most common reasons for looking up other companies on the register. A third were looking up specific information on a potential customer, a fifth searched for the purpose of undertaking a verification process or to carry out due diligence checks. Ten per cent searched out of curiosity, and 8% used the register to find information on competitors (Figure 10).

Figure 10 (IFF Survey): Reasons for using the PSC Register



75. Of those firms that used the PSC register, the majority (64%) found the information on the register to be useful, with close to a third (29%) considering it to be very useful. Only 5% of companies said the information was not useful. Overall this evidence suggests that the objective of helping companies understand with whom they are doing business (para 22) is being met.
76. In summary, the outcomes observed to date indicate that the register is well used by both companies and stakeholders. It has increased transparency, centralised data, and delivered efficiencies to organisations searching for information on beneficial owners. There are, nonetheless, shared concerns around data accuracy and stakeholders have proposed potential ways of addressing these.

## Impacts

77. Due to the relatively short time period between implementation of these regulations and construction of the body of research informing this review, many companies and their investors will not have fully realised the positive benefits from the PSC Regulations. For example, strong evidence is not yet available to determine whether the regulations on their own have met the objective of promoting better corporate behaviour or deterring illicit activity (para 20).<sup>22</sup> Indeed, the wider intended impacts, concerning increased confidence in the UK business environment and positive effects on investment and, ultimately, economic growth, will take time to bed in. Moreover, isolating the effect of the PSC Regulations on such 'bigger picture' aims is likely to be difficult.
78. Nonetheless, some clear benefits to companies and citizens of the United Kingdom have been accrued so far, evidenced by the way it has been used and outlined in the above section on outcomes. This bodes well for the realisation of intended impacts over time.
79. Our overall assessment is that the objectives of the PSC regulations have been, or are in the process of being, met. The detail behind our assessment is given in Table 2 below.

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<sup>22</sup> That said there was a strong sense in some of the qualitative interviews that the PSC would have an impact. For example, a financial institution stated that "If you're operating in a jurisdiction where you see structures and processes in place that improve transparency around ownership that has to be attractive if you are a legitimate company or organisation...it can only be a benefit would be my view in attracting people in much the same way as a stable body of law. When you're looking at places to invest, a low corruption score is a great benefit."

**Table 2: Assessment of performance against objectives.**

<b>Objective</b>	<b>Summary of performance</b>
Enhance transparency around ultimate owners and controllers of UK companies	The evidence shows that compliance is near total and the data is being used extensively and has value to users. Our survey data is corroborated by the substantial amounts of data downloaded from, or viewed on, the Company House website. Civil Society organisations believe that the PSC regulations have had a big impact on corporate transparency in the UK. This objective has been met.
In combination with other measures implemented across Government, promote better corporate behaviour and help deter illicit activity	This is a more challenging objective to assess progress against. It depends on action being taken across government and it is difficult to disentangle the unique contribution of the PSC regulations. Although there is evidence that the PSC regulations help investigators, there is no evidence yet to say whether corporate behaviour is better or illicit activity is deterred. We cannot say therefore whether this objective is met or not.
Increase the information available to support investigations and due diligence checks	There is evidence from the qualitative interviews that the data is heavily used by law enforcement agencies during investigations and that this had a positive impact on their work. BEIS and CH officials have heard this many times from law enforcement colleagues as part of their routine contact. Financial institutions reported that they used the information to cross check their due diligence work or to provide advice during mergers and acquisitions. The views of financial institutions were mixed however, with some believing that data quality issues hindered its use. This objective is being partially achieved. Data quality is a barrier to full achievement.
Investors, suppliers and customers can more easily identify with whom they are doing business.	One fifth of all companies used the register to find information on other companies, mostly to obtain information on clients and customers but also competitors and suppliers (Figure 9). This objective is clearly being achieved.
Give shareholders more voice to influence company boards	Investment associations report that their members (e.g. investment funds) use the data to carry out client verification and due diligence. Financial institutions report that the data has been used to inform mergers and acquisitions. Again, given data quality concerns we consider that this objective has been partly achieved.

80. Our judgement is that the regulations are operating as intended:

- a. The data is used and valued by many users. But:
- b. There are clear concerns over data quality which are reducing the effectiveness of the regulations at delivering the policy objectives;
- c. Improvements to data quality can only be delivered through changes to Companies Act 2006;
- d. If changes to the Companies Act were made, then the quality of PSC data (and other Companies House data) would improve increasing the effectiveness of the PSC regulations.

81. This review has identified some clear evidence gaps which a later review will seek to fill, for example:

- a. The impact of the regulations on corporate behaviour and illicit activity;
- b. The impact of the regulations on shareholders.

### **Could the objectives be achieved through a less onerous provision?**

82. As noted above, the debate on corporate transparency has shifted since the introduction of the regulations. As global understanding of the issues of corruption and economic crime increases, more comprehensive regulations may be necessary to address the original reasons for intervention. The trend is towards greater transparency and more detailed reporting. This is reflected in the “Corporate Transparency and Register Reform” consultation which puts forward measure to increase transparency that is likely to require an increase in obligations on companies, company directors and PSCs.

83. We are confident that regulation to enforce greater transparency remains the most appropriate tool, compared to say, voluntary information provision. Compliance with the latter would have been much lower and the lowest where transparency concerns are the greatest. In this section we therefore take a different approach and consider whether the costs of the regulation significantly exceed those anticipated when the regulation was introduced.

### **Monetised Costs of the Regulations**

#### **Estimated ex-ante costs to entities in scope (prior to introduction)**

84. The PSC register impact assessment estimated the costs associated with the regulation that will be borne by those entities in scope.<sup>23</sup> The IA costs related largely to: the one-off tasks of regulatory familiarisation; identification of beneficial owners (later to be referred to as PSCs); the costs of collecting data; and collating information and submitting information.

85. The T&T IA 2014 utilised a telephone survey of 575 companies, carried out by IFF Research, to gather estimates of the costs of complying with the to be introduced PSC regime. Due to concerns about the reasonableness of some responses which resulted in some extreme cost estimates, the original survey was supplemented with further direct stakeholder engagement and a follow-up survey. This work led to a statistical treatment of the original survey results to lessen the influence of some extreme values. The results of the original survey and follow-up work are reproduced in Table 3 below.

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<sup>23</sup> The T&T IA is available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/324712/bis-14-908a-final-impact-assessments-part-a-companies-transparency-and-trust.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324712/bis-14-908a-final-impact-assessments-part-a-companies-transparency-and-trust.pdf)

**Table 3 (T&T IA 2014): Breakdown of costs to companies - wage costs and additional costs associated with obtaining external advice (2013 prices).**

<b>2013 prices</b>	Mean wage costs per company	Mean additional costs per company	<b>Total cost per company</b>	<b>Total costs</b>
<b>One-off costs</b>				
Familiarisation	£55.9	£35.6	<b>£91.5</b>	<b>£291.5m</b>
Identification and Collection	£4.3	£9.1	<b>£13.4</b>	<b>£42.7m</b>
Collation, processing and storage	£13.2	£11.7	<b>£24.9</b>	<b>£79.3m</b>
<b>Sub- total one-off cost</b>	<b>£73.4</b>	<b>£56.3</b>	<b>£129.8</b>	<b>£413.5m</b>
Responding to request for information (only for companies which hold more than 25% shares/voting rights or some other form of control over other companies).	£10.7	£19.4	<b>£30.1</b>	<b>£3.9m</b>
<b>On-going costs</b>				
Annually update own records	£11		<b>£11</b>	<b>£35m pa</b>
Report updates to Companies House annually	£13.4		<b>£13.4</b>	<b>£42.7m pa</b>
<b>Sub-total ongoing costs</b>	<b>£24.4</b>		<b>£24.4</b>	<b>£77.7m pa</b>

Notes: "Wage costs" refer to estimates provided by survey respondents that cover internal staff costs, while "additional costs" are costs provided where survey respondents thought they would have to seek external third-party advice. For example, the assessment estimated that, on average, the "Familiarisation" with the changes would use £55.9 worth of internal staff time and £35.6 of costs associated with bringing in external advice, meaning that the average total familiarisation cost per entity was estimated to be £91.5. The total is the most relevant figure for our purposes as our main concerns is the total regulatory burden imposed rather than whether specific entities choose to comply using internal resources or by bringing in external advice.

86. The IA therefore provided a best estimate of one-off costs of £413.5m and ongoing costs of just under £78m/year in 2013 prices. The aggregate costs were based on 3.185 million companies in scope. Of these, 130,000 companies were expected to incur additional costs arising from responding to requests for information, estimated to total £3.9m in 2013 prices.

87. The IA also provided a range for aggregate costs. These are presented in Table 4 below:



**Table 4 (T&T IA, 2014) Aggregate costs for one-off and ongoing costs.**

2013 prices, million	<b>Low</b>	<b>Best</b>	<b>High</b>
One-off costs	£331.5	£417.4	£758.5
Ongoing costs	£52.2	£77.7	£143.2

88. Based on 3.185 million companies in scope, this gives a range for unit off costs of between £104 to £238 (2013 prices) and a range for unit ongoing costs of £16 to £45 (2013 prices). Applying an 8.6% adjustment factor<sup>24</sup> to convert to 2018 prices gives a range of £113 to £259 for one off unit costs, and a range of £17 to £49 for ongoing unit costs.

### **Changes to the PSC register and additional costs as a result of the 4<sup>th</sup> Money Laundering Directive**

89. In 2017 the PSC register was extended in scope as a result of the Fourth Money Laundering Directive (4MLD) adding an estimated 86,500 entities. It also moved the PSC register from annual filing (as assumed in Table 1) to introduce an obligation on entities in scope of beneficial ownership reporting regime to report any changes to their beneficial ownership within 28 days.<sup>25</sup> The 4MLD IA largely applied the estimates and methodology developed in the T&T IA 2014, uprating estimates to adjust for inflation.

90. The main additions to the costs associated with the PSC register are:

- a. Entities already in scope of PSC reporting requirements had to update their understanding with regards to the change in filing frequency. **The IA assumed that these entities would face additional familiarisation costs of £19 (a fifth of the initial familiarisation costs) per entity (2016 prices). Applying a 4.1% adjustment factor<sup>26</sup> to arrive at 2018 prices gives a per entity familiarisation cost of £20.**
- b. 86,500 entities newly brought into scope by 4MLD would face the same one-off costs as applied in the T&T IA 2014. After uprating the T&T estimates in Table 2 for inflation this results in a total one-off cost of £141 on average in 2018 prices.
- c. Additional ongoing costs include the move from annual to event-triggered filing of PSC information. Using the number of director changes as a proxy for changes to PSC information, **the IA estimated the move to event-triggered filing to lead to a cost of approximately £3.5 per entity (2016 prices) or £3.6 in 2018 prices.**

91. Combining the analysis of the T&T IA 2014 and the 4MLD IA presented above, we can say that the ex-ante assessment of one-off costs in 2018 prices are:

<sup>24</sup> The adjustment factor is calculated using the ONS GDP deflator to account for inflation between 2013 and 2018. Data is taken from: <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2019-quarterly-national-accounts>.

<sup>25</sup> 4MLD IA available at: [http://www.legislation.gov.uk/ukia/2017/112/pdfs/ukia\\_20170112\\_en.pdf](http://www.legislation.gov.uk/ukia/2017/112/pdfs/ukia_20170112_en.pdf)

<sup>26</sup> The adjustment factor is calculated using the ONS GDP deflator to account for inflation between 2016 and 2018. Data is taken from: <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2019-quarterly-national-accounts>.

- a. **Most entities that were in scope of PSC regulation would face one-off costs of £161 on average** (£20 additional familiarisation costs plus £141 one off costs from the original regulation).
  - b. **Around 130,000 entities would face one-off costs of £194 on average** (£141 one off costs plus £20 in additional familiarisation costs plus £33 arising from responding to requests for information).
  - c. Around 86,500 entities brought into scope later in 2017 would face one-off costs of £141 on average.
92. Ex-ante estimates thus varied slightly depending on the type of entity considered, with best estimates ranging from £141 to £194 per entity. However, as the group of entities identified in the first bullet above makes up the vast majority of entities covered, it is fair to say that the **overall best estimate for one-off costs imposed by the PSC regulations on covered entities was around £161 per entity (in 2018 prices) prior to the introduction of the regulations.**
93. Up-rating the estimates of on-going costs in Table 1 to 2018 prices (increasing them by 8.6%) and combining them with the estimates provided in paragraph 83c), the PSC regulations were estimated to create an **annual ongoing cost of £30.1 per entity.**

#### **Ex-post assessment of costs to entities in scope**

94. The ex-post analysis in this PIR draws on analysis and a survey of companies carried out by IFF Research for the Department. This estimated the actual burden of these regulations as perceived by companies on the register. It thus draws on observations following the introduction of the PSC regime.
95. In this survey, companies were asked about the time they spent on tasks related to their initial submission and maintenance of information held on the PSC register. Questions mimicked the types of costs identified by the impact assessments, covering: familiarisation with the requirements of the regulations, the collection and collation of beneficial owner details, submitting PSC information, time spent checking information about the company's PSCs, identifying new PSCs, collecting and collating information about new PSCs, and submitting information about new PSCs.
96. Respondent companies estimated:
- The number of staff at senior manager, middle manager and administrative level that were involved in a task;
  - the amount of time spent at each staff level to complete a task;
  - the cost of any additional financial spend directly related to a task (e.g. the cost of using a third party).
97. To convert the results of steps above into a financial cost, the number of staff involved at each level was multiplied by the number of hours spent on the task. This figure was then multiplied by the average hourly wage for the relevant staff

level.<sup>27</sup> To calculate the overall cost of a task, this figure was then added to any additional financial spend directly related to a task.

98. Survey responses were collated by size of companies and by complexity of the ownership structure (that is: small simple; large simple; small reasonably complex; large reasonably complex; small complex; large complex; see Annex B for a complete description of the strata).
99. In depth analysis of the survey results revealed several issues with the methodology (more detail is provided in annex D). A small number of respondents estimated very high costs for the use of internal resources (wage costs) and the costs associated with seeking external advice to comply with the regulations. In contrast many companies provided zero or low-cost estimates. This caused artificially high average and total cost estimates.<sup>28</sup> To remedy this, and to maintain a sufficient degree of comparability with the ex-ante assessment, we applied a process called 'winsorization' – whereby the dataset was transformed in order to limit the effect of extreme cost estimates in an effort to reduce the effect of potentially spurious outliers. See Annex B for further information.
100. In summary, we made two changes to the dataset:
  - We adjusted extreme values in the dataset by transforming all values that fall above the top 97.5<sup>th</sup> percentile to equal the 97.5<sup>th</sup> percentile.
  - We re-coded zero wage estimates for each task to equal the minimum recorded cost estimate associated with that task.
101. The survey also provided estimates of the additional costs companies said that they had incurred after seeking external advice e.g. lawyers and accountants to comply with the regulations. In line with the approach taken in the IA, we did not adjust the zero values received, as it is plausible that for some companies there would be no necessity to seek external advice in complying with the regulations. Like the transformation we applied to the reported wage costs, we did the same process for additional costs in order to reduce the impact of outliers.
102. Based on the methodology outlined above, we were able to derive estimates for total cost and average per-entity costs for each task required for regulatory compliance. These estimates can be compared to estimates based on companies' expectations about potential impacts used in the ex-ante impact assessments.

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<sup>27</sup> For reasons of consistency, the same job classifications were applied here as in the T&T IA which used data taken from the 2012 Annual Survey of Hourly Earnings (ASHE) produced by the ONS. Due to a change in the granularity of available ASHE data, we could not use job-specific wage rates depending on business size and occupation for 2018. Instead, we applied an average wage inflation of 14.9% across the board to all roles to update 2012 wage rates to 2018 figures. We also further updated by 20.66% to account for non-wage costs in line with the Eurostat methodology.

<sup>28</sup> Though we would expect some degree variation in the costs to individual companies, the observed responses appear clearly unreasonable and are thus likely the result of mistakes and/or a misunderstanding of the question.

**Table 5: Costs of regulatory compliance on companies in scope after adjustment of extreme outliers.**

One off Cost (2018 prices)	No. of respondents reporting a cost	Weighted cost in survey (£) <sup>1</sup>	Weighted cost per entity covered by the regulation (£) <sup>2</sup>	Weighted cost per entity accounting for deadweight (£)
Familiarisation	500	94.9	94.9	94.9
Identifying	500	54.9	54.9	18.7
Collecting and Collating	431	35.1	30.5	10.4
Submitting	500	33.9	33.9	33.9
<b>Total</b>		<b>218.8</b>	<b>214.2</b>	<b>157.8</b>
<b>Ongoing Cost</b>				
Checking	322	30.1	16.8	5.7
Identifying Updated	56	70.6	14.8	5.0
Collecting and Collating Updated	56	54.3	11.4	3.9
Submitting Updated	56	31.3	6.6	6.6
<b>Total</b>		<b>186.3</b>	<b>49.6</b>	<b>21.2</b>

<sup>1</sup>This presents the adjusted mean value provided by respondents. No statistical transformation was applied to the following tasks: **Identifying new PSCs, Collecting and Collating Information on new PSCs and Submitting Updated Information on new PSCs** as their distribution followed a normal pattern without the presence of outliers.

<sup>2</sup> This column translates the mean respondent value into an estimated mean value per entity taking into account that not all entities will have undertaken that activity since the regulations were first introduced.

### Translating survey reported costs to average costs per entity in scope of PSC regulations

103. We calculate a cost per entity and will later apply it to the entire population of entities potentially captured by the regulation. However, we make two adjustments to the costs reported in the survey to estimate a cost per entity:
- a. Some of the one-off tasks and ongoing tasks will only be applicable to a proportion of companies on the register, for example the survey indicated that many companies did not change their PSCs.
  - b. The survey and analysis carried out by IFF Research revealed that a large proportion of companies (331.8 out of 500 or 66% of companies surveyed<sup>29</sup>) already kept beneficial ownership information prior to the introduction of the regulations for a variety of reasons. At least some of the costs identified above can thus not be causally attributed to the regulations. We therefore identify the potential level of ‘deadweight’ for each type of cost.
104. Our treatment of the one-off cost categories is as follows:
- a. Survey evidence (Table 5) shows that all companies incurred costs related to **familiarisation**. We judge that familiarisation costs are unlikely to be subject to deadweight: even if a company is already collecting PSC data

<sup>29</sup> 356 out of 500 (71%) companies reported that they had kept beneficial ownership information prior to the introduction of the regulations. These are unweighted results. The weighted equivalent numerator is 331.8. We use weighted estimates as we later multiply unit costs by the entire population of companies.

they will need to familiarise themselves with the regulations to ensure that they are compliant.

- b. All companies reported costs associated with identifying PSCs, but as noted earlier many companies already collected this information before the introduction of the regulations. Our survey indicated that 66% of surveyed companies said that they kept beneficial ownership information prior to the introduction of the regulations. We thus assume that (up to) 66% of the **one-off costs to identify PSCs**, are not attributable to the regulations<sup>30</sup>.
- c. **Collecting and Collating** – this cost is only relevant to those companies that have a PSC. Looking at data on the composition of the register provided by Companies House, 87% of companies on the PSC register have 1 or more PSC, and 12% have no PSCs or are in the process of finding their PSCs. We therefore multiply the survey cost estimated by 87%. We further reduce costs by 66% to take into account deadweight.
- d. All companies in the survey report costs related to **submitting that information to Companies House**. Also, this was a new requirement imposed by the regulations irrespective of whether companies collected the information prior to the regulation being introduced. Therefore, there is no deadweight adjustment applied to these costs.

105. Our treatment of ongoing costs is as follows:

- a. **For checking submitted information on PSCs**, we do not have information on the frequency with which all companies check PSC information, so we use data from our survey. Around 280 companies (weighted) out of 500 in the survey reported a cost for checking information on PSCs, i.e. we weight the survey costs by 56% to create a cost per entity for the entire population of entities. We reduce these costs by 66% to take into account deadweight.
- b. The remaining three ongoing costs apply only to those that experience changes in their PSCs. During the year of 2018, there were 870,827 real time updates<sup>31</sup>. As of January 2019, there were 4,113,232 active entities in scope of the regulations. Therefore, the average number of changes is approximately 0.21 per year. This figure is then applied to the weighted mean of respondents to arrive at the weighted mean per entity figures in Table 5. Of these costs only one is wholly additional – the requirement to submit updates to CH – the other two are subject to deadweight where the company was already collecting data.

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<sup>30</sup> The deadweight estimates are best interpreted as upper bounds. This is for two reasons. Firstly, larger companies are overrepresented in our survey and it appears to be reasonable to assume that larger companies were probably more likely to hold beneficial ownership information before the regulations. The true percentage of entities that held beneficial ownership information pre the legislation was thus likely slightly lower. Secondly, while many entities might have already held and collated beneficial ownership information, this did not necessarily provide all the information required by the regulation. Such entities might still have faced some costs to move toward compliance.

<sup>31</sup> Previously, for the 4MLD IA, changes in director information in 2016 was used as a proxy for changes in PSC information, and calculated that tasks related to changes in PSC information would be relevant to 50% of the population. However, we now have real data to make these estimates, as since June 2017, Companies House have introduced real time updates, allowing PSCs to change their information via electronic forms.

## Comparing ex-ante and ex-post estimation

### *One-off costs*

106. The ex-post assessment in Table 5 identifies per-entity one-off costs, accounting for deadweight, of £157.8 in 2018 prices. Considering inflation this is well within the range of one-off costs estimated in the original T&T IA. It is slightly above the best estimate of costs in that IA. However, since then additional obligations were introduced under the 4MLD. Once these are considered our estimate of one-off costs is below those anticipated (£157.8 compared to £161 in paragraph 91).

### *On-going costs*

107. The ex post assessment in Table 4 identified per-entity ongoing costs of £21.2 (in 2018 prices) annually, which is lower than the £30.1 in 2018 prices identified in the ex-ante assessment.

## Total Costs

### *One-off costs*

108. In totality, based on the information and analysis provided above, the one-off costs to companies for familiarisation, identification of PSCs, collection and collation of sensitive/personal data, and the submission of information are estimated to be £649m based on a population of 4.11m entities.

### *Ongoing Costs*

109. We estimate that the regulations have created £87.2m in annual costs to entities in scope, based on a population of 4.11m entities.

## Conclusion on Costs

110. Our estimates suggest that the actual costs incurred are broadly similar to those expected in the original IAs. This, plus the evidence that the regulation is working in terms of realised benefits, means that we judge that the costs of the regulation are not disproportionate.

## **Small and Micro Business Assessment (SaMBA)**

111. For the purpose of this review, small companies are defined as having up to 49 full time employees, and micro companies up to 10 employees. As explained in the ex-ante impact assessment, an exemption of such companies from these regulations is not viable in this policy context given that micro and small companies account for 98.5% of all UK companies. To achieve the policy objectives, they need to be in scope of the regulations. Exclusion would not be compatible with achieving a large part of the intended benefits of this measure— an increase in transparency around the business environment. It would also contravene UK international obligations under EU law and requirements under our membership of various international bodies such as FATF and Global Forum.
112. For example, law enforcement confirm that the majority of ‘shell’ companies would be classified as small or micro companies. Consequently, excluding small and micro companies from scope would be a significant risk and ultimately

counterproductive, as ‘shell’ companies are often the vehicle of choice for money-laundering and other crimes. Indeed, internationally, the US G8 Action Plan [\[HERE\]](#) considers targeting small and micro business for selective **inclusion** in scope of company beneficial ownership transparency and consider that larger companies might be exempted.

113. For this research, a total 500 companies were surveyed, of these 248 were classified as micro/small based on the definitions we used (see Annex B).
114. We have found no evidence that these micro/small companies will face disproportionately high financial costs of complying with the regulations from this mandatory reporting requirement. As noted earlier, costs of compliance and costs of seeking external advice vary by company size and complexity, which implies that small companies will face costs that will be proportionate to their size and scale of operations. Evidence of this is detailed below – with a comparison of the weighted mean for each task associated with compliance broken down by business size (refer to Annex B for a more detailed version of the costs).

**Table 6: Average Costs for Micro/Small and Medium/Large Companies.**

<b>One off Cost (£)</b>	<b>Micro/Small</b>	<b>Medium/Large</b>
Familiarisation	88.4	482
Identifying	52.1	225.6
Collecting and Collating	34	105.2
Submitting	32.1	155.8
<b>Total</b>	206.6	968.6
<b>Ongoing Cost (£)</b>		
Checking	27.9	133.8
Identifying Updated	69.9	109.1
Collecting and Collating Updated	53.8	54.9
Submitting Updated	30.6	64.2
<b>Total</b>	182.3	361.9

115. These are the average costs per respondent from the survey and do not follow the same approach detailed in Table 5 that provides a cost per entity.

## **Conclusion and Recommendations**

116. This review set out to evaluate the operation of the PSC register and to establish whether the regulations have met their intended objectives – namely increasing transparency of company beneficial ownership in the United Kingdom, thereby increasing confidence in the business environment, facilitating economic growth and aiding investigations into, and reducing the costs of, economic crime. Our main conclusions are:
- a. The PSC regulations are still relevant and, if anything, have become more so as other countries have agreed and implemented similar arrangements. The UK PSC regime is held by others as a model to follow.

- b. Compliance with the PSC regulations is near total. The PSC register shows the details of over 4.9m PSCs in relation to 4.1 m legal entities.
- c. Considering high compliance rates, the low levels of restrictions and low rate of initiating criminal proceedings appears to be appropriate. The government will continue to monitor compliance and enforcement actions.
- d. The data is extensively used by key stakeholders and companies and is delivering benefits:
  - The interviews carried out with key stakeholders show that the PSC register improved transparency of UK company beneficial ownership, by improving the efficiency of the operations of law enforcement agencies and financial institutions; and allowing civil society organisations to conduct research more effectively. This is achieved by centralising this information and making it more readily available free of charge.
  - Stakeholders use the PSC data alongside other company information available from Companies House, and alongside other company beneficial ownership sources.
  - The company survey carried out indicates that the register is widely used. Specifically, companies use the register to look up the beneficial owners of their clients, in order to identify with whom, they are ultimately doing business – increasing their confidence of doing business. The majority of those who used the register in this way found the information to be useful.
- e. Improving the accuracy and integrity of registry data is a priority. Feedback from stakeholders indicated that higher confidence in the accuracy of the information on the register would increase its use.
- f. The government has issued a consultation on the package of reforms to the overall companies register<sup>32</sup> which will deliver improvements in accuracy of the information on the register. Separately, the UK has already committed to implement measures under the EU Fifth Money Laundering Directive<sup>33</sup> which will require obliged entities, including financial institutions, lawyers, accountants and company service providers, to report discrepancies between the beneficial ownership information they hold for their customers, and the information held on the PSC register. These proposals will further improve the reliability of PSC data.
- g. The PSC register remains relatively new, and it is too early to evaluate its wider economic effects and contribution to the fight against criminal use of companies. It will continue to be challenging to disaggregate the effects of the PSC regulations from the impact of other activities.
- h. Our estimates suggest that the actual costs incurred are broadly similar to those expected in the original IAs. This, plus the evidence that the regulation is working in terms of realised benefits, means that we judge that the costs

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<sup>32</sup> <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

<sup>33</sup> <https://www.gov.uk/government/consultations/transposition-of-the-fifth-money-laundering-directive>



of the regulation are not disproportionate.

- i. Our overall assessment is that 4 out of 5 of the objectives of the PSC regulations have been, or are in the process of being, met. A later review will seek to fill evidence gaps e.g. relating to the impact of regulations on corporate behaviour and illicit behaviour.
117. The interviews suggested that some applicants would favour a wider scope of the protection regime, and a digitalisation of the application processes. The protection regime is intended to be used in exceptional circumstances, where individuals can provide evidence of serious risk of violence if their details were made public. The protection must be proportionate to ensure the register's objective of ensuring transparency of company beneficial ownership continues to be met. Therefore, the government will keep the scope of the protection regime in its current form but will continue to monitor its operation. Companies House are also working to transform the application process into a digital service to improve the usability for the customers and the law enforcement partners.
118. To conclude, the government does not intend to make changes to the regulations but will continue to monitor the operation of the PSC register. The government intends to take forward improvements to data quality as part of the wider package of reforms of the companies register, and as part of the implementation of the Fifth Money Laundering Directive. We would expect these changes to be delivered via changes to the Companies Act (2006) or to money laundering regulations. As these improvements cannot, and will not, be delivered by an amendment to the PSC regulations we recommend keeping the PSC regulations in their current form.

## **Annex A: Further Detail on the Regulations Under Review**

1. The Small Business Enterprise and Employment Act 2015 (SBEEA) amended the Companies Act 2006 by inserting Schedule 1A and Part 21A, requiring UK companies to keep a register of People with Significant Control (PSCs) over their company.
2. The Register of People with Significant Control Regulations 2016 then made provisions to support the operation of Part 21A and commenced the requirements.
3. The Limited Liability Partnerships (LLPs) and Societates Europaeae (SEs) that are registered in the United Kingdom were brought in scope of the requirements to keep a PSC register by the Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016 and the European Public Limited-Liability Companies (Register of People with Significant Control) Regulations 2016.
4. Most UK companies, LLPs and SEs have been required to keep a register of People with Significant Control (a PSC register) from 6 April 2016 and to submit the information to the Registrar of Companies with their annual confirmation statement, or on incorporation, from 30 June 2016.
5. The Information about People with Significant Control (Amendment) Regulations 2017 made changes to the frequency of information updating and extended the scope of Part 21A of the Companies Act 2006 to bring the UK's PSC regime into compliance with the EU Council Directive 2015/849/EU (the Fourth Money Laundering Directive). From 26 June 2017, companies were obliged to record changes to information on their PSC register within 14 days of obtaining the information, and to file that information with the Registrar within a further 14 days. These regulations also brought the unregistered companies and listed companies on UK secondary markets into scope of the PSC requirements, and these companies were subject to the obligations from 26 June 2017.
6. The Scottish Partnerships (Register of People with Significant Control) Regulations 2017 applied a modified version of the PSC regime to limited partnerships governed by the law of Scotland and to qualifying general partnerships governed by the law of Scotland, collectively known as 'eligible Scottish Partnerships'.

## **Annex B: Methodology of The IFF Review of the Implementation of the PSC Register Survey**

1. To inform this post implementation review, the Department for Business, Energy and Industrial Strategy (BEIS) commissioned IFF Research to undertake research on the short and medium-term impacts of the PSC register on companies in scope of the regulations, with a particular focus on the costs companies faced in complying with the regulatory requirements.
2. The research looked to adopt a wide view to determine how law enforcement agencies, civil society organisations, investor associations, business organisations, and financial institutions interact with the PSC register. It intended to ascertain specifically how law enforcement agencies and financial institutions use the PSC register, and whether the register acts as a tool facilitating increased intelligence for law enforcement investigations and for customer due diligence checks by financial institutions. The research examined the perceptions civil society organisations had of the regulations and sought the opinions of investors on whether use of the register resulted in reduced costs of due diligence when considering investment decisions. Finally, the perspective of business organisations to determine whether the PSC register has increased the confidence of doing business in the UK.
3. The research questions were constructed by IFF in consultation with BEIS, and the set of respondents from whom data was collected spanned a wide cross-section of stakeholders and provides a wide evidence base to provide an indication whether the regulations have met their intended objectives.
4. The commissioned research comprised two key methods. First, in-depth interviews with key stakeholders, primarily users of the PSC register. Second, a quantitative survey was undertaken with companies who were required to submit PSC related information to Companies House.

### **Sampling for the Quantitative Survey**

5. As of January 2019, there were 4,113,232 entities in scope of the regulations and required to submit PSC related information. Given the total population size, it is not possible to establish a sample size that provides full statistical representation across the many characteristics of companies across the entire register. Instead, a sample size of 500 companies was decided upon to reflect a varied representation of differing size and the complexity of company ownership structures. This achieved sample was drawn from a bigger sample of 7500 companies on the FAME database (which replicates data from the Companies House PSC Register) which was sent to the IFF research who then carried out the company survey. Companies were split into a 3x2 grid of quota cells based on corporate structure and size using the following definitions:

#### ***Corporate Structure***

- **Simple:** companies that are the only corporate entity in their ownership chain;
- **Reasonably complex:** companies that have one other corporate entity in their ownership chain;
- **Complex:** companies that have two or more other corporate entities in their ownership chain or have any element of their ownership chain based

overseas.

6. Due to the unavailability of population data pertaining to the number and location of corporate entities in the ownership structure of UK companies, it was necessary to use a proxy for the profile of complexity of ownership. The proxy used was the profile of the number of controlling shareholders UK companies have and was sourced from the FAME database.
7. The criteria used for company size was as follows:

### **Company Size**

**Table 1 (IFF Research): Company Size.**

<b>Criterion (2 out of 3)</b>	<b>Micro/Small company</b>	<b>Medium/Large Company</b>
Turnover	<£10.2m	>£10.2m
Balance Sheet Total	<£5.1m	>£5.1m
Average employees	<50	>50
<b>Number</b>	<b>3,612,889</b>	<b>54,705</b>
<b>Percent of total</b>	<b>98.5%</b>	<b>1.5%</b>

8. These stratification criteria are similar to those deployed in the 2013 Trust and Transparency Survey which informed the findings of the Impact Assessment. However, there are slight differences in the definition of ownership complexity to ensure each interlocking quota provides a more accurate representation of the profile of the total population.
9. This sampling framework enabled our analysis to identify how costs vary by company size and complexity. To understand the burden on UK companies, it was important to include a range of companies in the survey reflecting size and complexity combinations.
10. The profile of companies surveyed was as follows:

**Table 2 (IFF Research): Company Survey Profile.**

<b>Company Size and Ownership Structure Interlocking Quota</b>	<b>Number of interviews achieved</b>
Micro/Small & Simple	160
Micro/Small & Reasonably Complex	29
Micro/Small & Complex	59
Medium/Large & Simple	40
Medium/Large & Reasonably Complex	52
Medium/Large & Complex	160
<b>Total</b>	<b>500</b>

11. For the qualitative interviews, a range of stakeholders were identified who would be well placed to comment on how they engage with the PSC register. The contractor then invited them to be interviewed. The profile of stakeholders interviewed as part of the research was as follows:

- **Financial Institutions:** 12 Interviews
- **Law Enforcement:** 8 Interviews
- **Civil Society Organisations:** 6 Interviews
- **Investment Organisations:** 2 Interviews
- **Business Organisations:** 2 Interviews

12. The total cost figures were calculated based on the estimates of hours it would take particular employees to comply with the requirements. Once IFF compiled these data, they were multiplied by the hourly wage rates taken from the Annual Survey of Hourly Earnings. The uprated wage rates are detailed below:

*Table 3: Wage rates used in the company survey.<sup>34</sup>*

	<b>ASHE wage data</b>	<b>Micro and small companies</b>	<b>Medium and large companies</b>
<b>Senior Management</b>	Chief executives & senior officials	£56.73	£67.30
<b>Middle Management</b>	Corporate managers and directors (excluding chief execs & senior officials)	£21.57	£28.12
<b>Administrative Staff</b>	Administrative & secretarial occupations	£12.69	£13.69

13. The data was weighted to reflect the profile of UK companies in terms of size and complexity of ownership structure (using the definitions outlined above) using the FAME database:

<sup>34</sup> The statistics taken from ASHE are based on the median and not the mean, it therefore gives a better indication of typical pay than the mean. The survey takes a sample of employee jobs drawn from HMRC records of gross pay before tax, National Insurance or other deductions. These figures were based around those used in the Final Impact Assessment. Initially, we removed the non-wage uplift, and then we uprated the figures originally used in the final impact assessment by 14.9% to account for wage inflation. The final step was to uplift the figures by 20.66% to reflect non-wage costs, which is consistent with the Eurostat methodology, and is an example of standard practice.

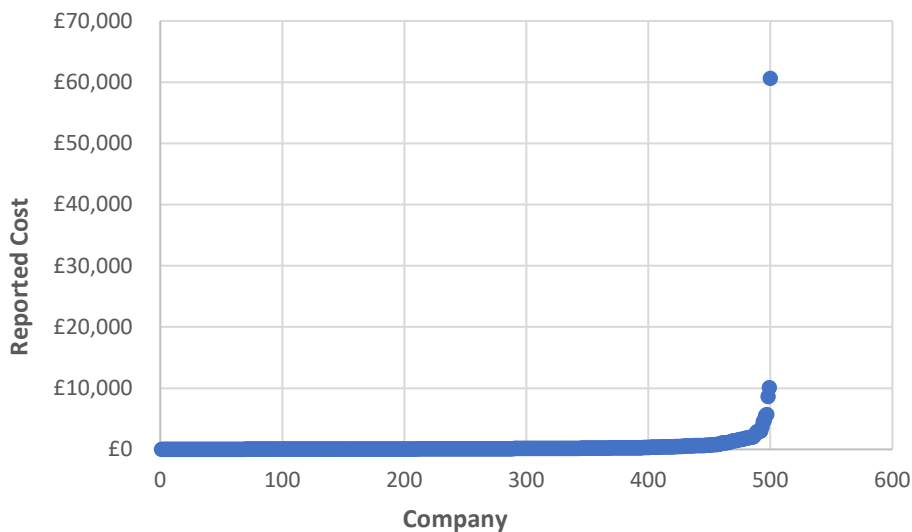
**Table 4: Weighting profile of companies in the survey.**

	<b>0 or 1 controlling shareholders (Simple)</b>	<b>2 controlling shareholders (Reasonably Complex)</b>	<b>3 shareholders or more (Complex)</b>
<b>Micro/Small</b>	60%	28%	11%
<b>Medium/Large</b>	1%	1%	1%
<b>Total</b>	60%	28%	12%

**Issues with the Survey Data**

14. After reviewing the final impact assessment and the raw survey data we received from IFF for this review, we discovered some potential issues with the data.
15. Although there were no reported issues with the respondents’ understanding of the questions, we discovered that distribution of the survey questions relating to one-off costs and for the ongoing task of ‘Checking information on PSCs’ were heavily skewed. This was due to a small number of companies reporting extremely high costs in comparison to the majority who reported zero or relatively low costs. For instance, the question relating to the cost of familiarisation with the regulations yielded the following distribution of responses.

*Distribution of Familiarisation Costs*



<b>Mean Staff Cost (£)</b>	<b>Mean Additional Cost (£)</b>	<b>Mean Total Cost (£)</b>
136.68	31.05	164.60

16. After close interrogation of the costs associated with familiarisation, along with the other tasks, we found that the high costs were reported primarily by large and complex companies, with a smaller number falling on large and simple and large and reasonably complex. Even though these costs were higher than our expectations, the overall impact on the total and the mean will be relatively small, given the weighting held by large companies – 0.06 for large and simple, 0.05 for large and reasonably complex, and 0.02 for large and complex.
17. The low weighting assigned to reporting costs from large companies means their overall contribution to the weighted cost will be significantly smaller than their reported unweighted cost. The opposite is true for small companies, with weightings of 1.87 for small and simple, 4.74 for small and reasonably complex, and 0.93 for small and complex.
18. In the main methodology we have decided upon applying one sided winsorization to the dataset in order to lessen the impact of potentially spurious outliers – this means we identified the outliers in the dataset by plotting the distribution of the costs for each task, and decided upon an adjustment based on the proportion of costs that fell outside of the normal distribution. This involves calculating the 97.5<sup>th</sup> percentile for wage and additional one-off costs and for wage and additional costs for checking information on PSCs. Following this, the values that fell above the 97.5<sup>th</sup> percentile were transformed to equal the exact value of the 97.5<sup>th</sup> percentile.











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