

## CONFIRMATION OF FUNDAMENTAL COMPANIES HOUSE REFORMS

The Department for Business, Energy & Industrial Strategy (**BEIS**) has published a [White Paper](#) setting out the Government's final position on reforms to Companies House following a series of consultations. The most significant of these reforms relate to: (i) identity verification and other measures relating to directors, persons with significant control (**PSCs**) and agents; and (ii) new powers for Companies House to query, reject and remove information submitted to it.

The Government has stated that it will introduce legislation to Parliament to give effect to the reforms in the coming months as part of a wider package of legislative proposals to tackle illicit finance. A transition period will provide existing directors, PSCs and other registrable individuals and entities a set amount of time to comply with the new requirements relating to identity verification. Those who do not comply by the end of the transition period may face criminal sanctions and be liable for civil penalties.

### Identity verification

#### *Who will need to verify?*

Individuals who belong to any of the following categories will need a verified account at Companies House:

- company directors (and equivalents for other entities that are corporate bodies subject to the disclosure requirements of the Companies Act 2006 subject to limited exceptions for UK Societas and UK Economic Interest Groupings);
- PSCs;
- members of limited liability partnerships (**LLPs**);
- general partners of limited partnerships (**LPs**);
- at least one individual managing officer of corporate general partners of LPs;
- directors (or equivalent) of Relevant Legal Entities (**RLEs**); and
- anyone else submitting filings to Companies House (e.g. company secretaries and employees who make filings).

#### Key issues

- Compulsory identity verification for directors, PSCs and agents.
- Criminal sanctions and civil penalties for failure to verify.
- Greater powers for Companies House to query information before, and remove information after, it is placed on the public register.
- Government to legislate "in the coming months" – accordingly, timing (including any transitional period) and detail are yet to be confirmed.

### ***Verification process***

Verified accounts will be set up directly with Companies House or through UK registered third party agents either before or during the individual's registration process at Companies House. The primary method for identity verification will involve the individual taking photographs of their face and an authorised identity document, and the two being compared using likeness matching technology, to be completed in a matter of minutes. Alternative methods will be available for individuals without photographic ID and digitally assisted identity verification will be available for users who cannot use the digital identity verification system.

### ***Consequences of failure to verify***

Given that the vast majority of those being verified will be associated with UK companies, the White Paper sets out the process and requirements for identity verification of company directors, but similar processes will apply for individuals associated with other types of entity (e.g. members of LLPs). When a person is appointed as a director, they are vested with all the powers and responsibilities of a company director. The director's appointment must then be registered at Companies House within a set period after their appointment (currently 14 days pursuant to section 167 of the Companies Act 2006). Following the reforms, a director will not be able to be registered at Companies House without a verified account. A director who has not registered at Companies House by the end of the set period will be committing an offence and may also be liable for a civil penalty. In addition, a company that has an unverified director will also commit an offence.

The White Paper also sets out the process and requirements for identity verification of PSCs. Unless they have already done so, PSCs will need to open a verified account after they have been identified as a PSC. After a company has submitted the relevant PSC notification to Companies House, if the PSC does not have a verified account, Companies House will notify the PSC and the company of the verification requirement. If the PSC does not verify their identity within a set period after notification, Companies House will flag the PSC as 'not verified' and the PSC will have committed a criminal offence and may be liable to civil penalty.

### ***Other measures***

The White Paper confirms a number of other reforms linked to those relating to identity verification, the most significant of which are summarised below:

- It will be a requirement to have at least one designated member who is an individual to successfully register an LLP.
- Corporate directors will be required to have boards that are wholly comprised of individuals, so that where a proposed corporate director itself has a corporate director, that appointment will be invalid. However, the White Paper confirms that the Government is not minded to extrapolate the same restrictions for corporate members of LLPs or corporate general partners of LPs.
- Corporate directors of limited companies must be registered within the UK, ceasing the current practice of allowing corporate directors incorporated in overseas jurisdictions.
- Certain companies will be required to provide a one-off full shareholder list, with changes to be updated annually when a company files a confirmation statement, as is currently the case. The White Paper indicates that this

requirement will apply to: (i) private companies, though an annex to the White Paper suggests that all non-traded companies will be captured by this requirement; and (ii) traded companies where shareholders hold at least 5% of the issued shares of any class of the company, though it is yet to be clarified how this qualification is intended to be interpreted.

- Companies House will publish more information from companies claiming an exemption from the requirement to provide details of their PSCs (including the reason for the exemption), and if listed on a regulated market the name of such market (along with any other RLE conditions satisfied to be recorded as a PSC), and information that will direct searchers to where PSC information is published.

## **New powers for Companies House**

The Government will change the statutory role of Companies House from being a largely passive recipient of information to a much more active gatekeeper over company creation and custodian of more reliable data.

### ***A new querying power***

Companies House will have a new role in promoting and maintaining the integrity of the information it holds and this will be supported by new powers to query and reject new filings, as well as to query information already on the public register, where errors, anomalies or inaccuracies are identified or information is identified as potentially fraudulent, suspicious, or might otherwise impact upon the integrity of the public register or wider business environment.

Companies House will no longer be obliged to accept documents that are delivered where there is reason to query the information provided. Where a query is raised pre-registration, the filing will be rejected, and a reason provided. The entity will be able to re-submit the filing, ensuring that the query has been addressed and supplying evidence if required. Should a filing be re-submitted with the query remaining unaddressed or not resolved satisfactorily, it will continue to be rejected.

Where a query is raised in respect of information already registered, the recipient entity will have 14 days to respond and provide evidence to support the response (with Companies House having discretion to extend the time limit where it is satisfied that this is appropriate). Should the entity fail to respond to a query or fail to provide sufficient evidence in its response, Companies House will be able to take a number of actions, including if appropriate imposing a sanction upon the entity (the range of sanctions is currently being considered).

The querying power will be used on a discretionary basis and Companies House will not be under any legal obligation to exercise the power. Querying will be prioritised in the cases that Companies House considers present the biggest risks to the integrity of the public register and the quality of information it holds. Guidance will be produced to help companies understand how and why the power might be used, and to provide examples of appropriate evidence. It will be particularly important for such guidance to set out how and why the power might be used in relation to material submitted to Companies House that has legal consequence (e.g. Form SH19 (and statement of capital) on a reduction of share capital under section 626 of the Companies Act 2006).

### ***Removal powers***

The White Paper confirms that a previous proposal for Companies House to have a discretionary power to remove material which impacts upon the integrity of the public register will be taken forward. However, BEIS seeks to address concerns relating to material submitted to Companies House that has legal consequence once filed by stating its belief that the removal of such material should, in the majority of cases, remain a matter for the courts.

### **Other reforms**

The White Paper sets out a number of other reforms relating to operational transformation of Companies House, enhanced data sharing, preventing abuse of personal information on the public register and improving the financial information on the register, including:

- Companies House will have the power to proactively share the intelligence it has collected with law enforcement partners and other relevant agencies where certain conditions are met (though it will not proactively share information with overseas bodies).
- Companies House will gain the power to request external data, cross-reference this data against its register, and take appropriate action in respect of any discrepancies (including sharing relevant intelligence with law enforcement partners or querying inaccurate information already on the register, which may lead to removal of the information). Its initial focus will be on cross-referencing data with public authorities such as HMRC, the Insolvency Service and the Charity Commission. The power will not mandate organisations to provide the data requested and they will retain the discretion as to whether their data should be disclosed.
- The requirement under the Money Laundering and Terrorist Finance (Amendment) Regulations 2019 for regulated professionals (such as financial institutions) to report discrepancies between information that they hold on beneficial owners of companies and that held by Companies House about PSCs will be expanded, in the first instance, to apply to director information and registered office addresses, with the Registrar of Companies being given the power to further amend this requirement in the future.
- Company accounts will be required to be filed with Companies House in a digital format using the industry standard Inline Extensible Business Reporting Language (iXBRL), with the information to be fully tagged.
- The filing options available to small and micro companies will be reduced to just two: micro-entities and small companies (removing the abridged and “filleted” accounts options). All small companies (including micro-entities) will be required to file a balance sheet and a profit and loss account. Small companies will also have to file a director’s report unless they meet the micro-entity thresholds, in which case they will still have the option not to prepare or file a director’s report.

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