

Title: Article 30 of the Fourth Money Laundering Directive (4MLD) IA No: BEIS013(F)-17-BF RPC Reference No: RPC-3610(1)-BEIS Lead department or agency: Department for Business, Energy and Industry Strategy Other departments or agencies: Companies House, HMT	Impact Assessment (IA)		
	Date: 13/01/2017		
	Stage: Final		
	Source of intervention: EU		
	Type of measure: Secondary Legislation		
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Summary: Intervention and Options		RPC Opinion: GREEN	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
-£276.2m	-£364.7m	£39.0m	Out of scope	Non-qualifying provision

What is the problem under consideration? Why is government intervention necessary?

In 2015 the European Union (EU) adopted the Fourth Money Laundering Directive and Member States are required to implement it in domestic law by June 2017. Article 30 of the Directive requires member states to introduce a register of the beneficial ownership of companies incorporated in their territory. The UK has an existing beneficial ownership register and so already meets the majority of the requirements of Article 30. However some amendments to the UK's existing regime are required to ensure full compliance. Doing so remains a legal obligation given the UK's current European Union membership.

What are the policy objectives and the intended effects?

The objective is to implement the Directive in a way that meets its requirements but does not place unnecessary new burden on business. The objectives of both Article 30 of the Directive and the UK's existing beneficial ownership register is increase corporate transparency. The intended effect of doing so is to reduce the ability of criminals to use corporate structures to engage in illegal activities by making it easier for law enforcement agencies to identify the individuals responsible for the criminal behaviour. In addition increasing transparency is expected to improve the business environment by facilitating trust and reducing the information asymmetries that can exist between companies. These improvements could result in more economic activity.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: Do nothing. This is not a viable option given the UK's current membership of the EU

Option 1: Make the minimum amendments to the UK's existing beneficial ownership register required to comply with the Directive. Two key changes have been identified as needed to achieve this:

- 1) Event triggered filing: Introduce an obligation on companies in-scope of beneficial ownership reporting regime to report any changes to their beneficial ownership within 28 days.
- 2) Extend the scope of the register: Bring into scope of beneficial ownership reporting approximately 86,500 legal entities currently excluded under the UK's existing regime.

Will the policy be reviewed? It will be reviewed If applicable, set review date: 07/2022						
Does implementation go beyond minimum EU requirements?				No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)				Traded: N/A		Non-traded: N/A

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

Signed by the responsible Minister:

Margot James

Date: 21st June 2017

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year: 2016	PV Base Year: 2017	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -711.5	High: -139.5	Best Estimate: -276.17

COSTS (£m)	Total (Constant Price)	Transition Years	Average (excl. (Constant Price)	Annual Transition)	Total (Present Value)	Cost
Low	47.3		16.7		189.4	
High	187.8		85.6		915.7	
Best Estimate	82.4		33.2		364.7	

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

There are four main monetised costs. The first is the familiarisation costs to the legal entities already in-scope and those being brought into scope. These familiarisation costs also fall on new entrants and so represent an ongoing cost. The second is the cost of event triggered People with Significant Control (PSC) filings, which again falls on both groups. The third and fourth costs are to legal entities being brought into scope; these cover the costs of annual confirmation statements and the initial costs of identifying their beneficial owners and storing their information.

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

The costs to industry funded regulators, which represent a direct cost to business, have not been monetised in this impact assessment. This is due to a lack of information at this stage on the potential costs of introducing these changes and the responsibility of regulators to appraise this cost themselves. BEIS will submit a revised impact assessment covering these costs to the RPC in 2017.

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

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

The benefits of these proposals have not been monetised due to the difficulty in forecasting their impact on the use of corporate structures for illegal means, such as money laundering. Any attempt to quantify this would be spurious and likely highly inaccurate.

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

The main benefit of the changes outlined is that they will ensure the UK meets its obligations as a member of the EU. Beyond this, the greater transparency created by a more up to date register covering more entities has the potential to build on the benefits of the existing regime, such as offering greater information to law enforcement to help tackle crime that utilises corporate structures and increasing trust in the UK's business environment thereby potentially increasing economic activity.

Key assumptions/sensitivities/risks **Discount rate (3.5%)**
 The two assumptions that have the largest impact on the final cost estimate are the proportion of our familiarisation cost estimate to apply to entities already in scope and the proportion of changes to PSC information that will involve a PSC that is also one of the company's directors A sensitivity analysis is carried out to generate a high and a low cost scenario.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m: 0
Costs: £39.0m	Benefits: Not monetised	Net: -£39.0m	

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On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The assumptions used in this Impact Assessment have been chosen accordingly.

A. Background

1. In 2015 the European Union (EU) adopted the directive on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing (2015/849). This is known as the Fourth Money Laundering Directive (4MLD or “the Directive”), and Member States are required to implement it in domestic law by June 2017.
2. A consultation on the full suite of measures included in the Directive was published on the 15th of September 2016 by Her Majesty’s Treasury (HMT). Alongside this a consultation stage impact assessment was also produced. This received a ‘fit opinion from the Regulatory Policy Committee (RPC)¹.
3. In that opinion the RPC stated “*if in implementing the Directive, there are significant changes to the People with Significant Control (PSC) regime, these measures should be submitted to the RPC for scrutiny.*”
4. Following a consultation by the Department for Business, Energy and Industrial Strategy (BEIS) specifically on Article 30 of the Directive, which covers the requirement for a central register of corporate beneficial ownership information, it has been established that a number of legislative changes to the UK’s existing PSC regime are needed in order for the UK to meet the requirements of the Directive.²
5. This Impact Assessment (IA) pertains to these changes only and should be regarded as a final stage IA following on from the earlier consultation stage document which covered the whole Directive.

B. Problem under consideration

6. The problem Article 30 of the 4MLD attempts to tackle is opacity in corporate structures facilitating illicit activities. The UK has already taken action in this area and now faces the challenge of aligning its existing arrangements with the requirements of the Directive. We discuss these two issues in turn below.

¹ RPC-HMT-3244(1)

² <https://www.gov.uk/government/consultations/implementing-the-fourth-money-laundering-directive-beneficial-ownership-register>

1. Lack of transparency facilitating illicit activity

7. Corporate opacity can facilitate illicit activity, and lead to poor corporate behaviour which erodes trust and damages the business environment. Both crime and a lack of trust can impede economic growth by negatively impacting on companies and investors perception and willingness to do business.
8. Estimates vary on how much criminal money is generated and laundered within and through the UK. A 2012 EU-sponsored study estimated that about €25bn a year is laundered from UK crime³. The Home Office judged that in 2010/11, UK organised crime generated about £13bn, of which they estimate about £10.5bn is laundered. This figure excludes 85% of fraud and other non-organised crime⁴. Furthermore, the social and economic costs of organised crime in the UK are estimated to be £24bn⁵, of which £8.9bn are associated with fraud.
9. Of course not only criminal money generated in the UK is laundered through UK companies and institutions. Legal structures established in the UK can be used to launder money illegal generated overseas. The UK's National Crime Agency, taking this wider view of money laundering, has assessed that "many hundreds of billions of pounds of international criminal money is laundered through UK banks, including their subsidiaries, each year."⁶
10. More generally The Centre for Counter Fraud Studies at the University of Portsmouth in their Annual Fraud Indicator (2016) report⁷ estimate that the total losses arising from fraud in the UK are £193bn per year; with £144bn of that falling on the private sector.
11. There is a clear link between such illicit financial flows and company structures, described with concern by a range of international expert organisations. The Organisation for Economic Co-operation and Development (OECD; 2011) has observed that: "*almost every economic crime involves the misuse of corporate vehicles [i.e. companies].*"⁸ A World Bank review⁹ reported that 150 of the 213 grand corruption cases investigated involved the use of at least one corporate vehicle to hide beneficial ownership and the true source of funds; the World Bank has confirmed that 26 of these cases involved UK corporate vehicles. In these

³ Project 'ECOLEF', the Economic and Legal Effectiveness of Anti-Money Laundering and Combating Terrorist Financing Policy (November 2012)

⁴ Home Office (2013): *Understanding organised crimes: estimating the scale and the social and economic costs*

⁵ Home Office (October 2013): *Serious and Organised Crime Strategy*. This estimate does not include money laundering.

⁶ <http://www.nationalcrimeagency.gov.uk/crime-threats/money-laundering>

⁷ <http://www.port.ac.uk/media/contacts-and-departments/icjs/ccfs/Annual-Fraud-Indicator-2016.pdf>

⁸ OECD (2011): *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*

⁹ World Bank Publications (2011): *The Puppet Masters : How the Corrupt Use Legal Structures to Hide Stolen Assets and What to do About It*.

150 cases, the total proceeds of corruption were approximately \$56.4bn. Meanwhile, the World Economic Forum (WEF; 2013)¹⁰ highlighted the increasing number of problematic cases confronting law enforcement agencies involving illegitimate business activity co-mingling with legal business activity, and illicit funds with licit funds.

12. While law enforcement agencies have statutory powers of investigation which they can use to try and identify beneficial ownership, it can be very difficult to prove that the person suspected of benefiting from a company in question is actually the beneficial owner. This can have an adverse impact in terms of the amount of time and resource expended in investigating a case; but also in terms of the ultimate case outcome (e.g. the ability to prosecute successfully).
13. Aside from the problem of opacity of company ownership hindering anti-money laundering due diligence checks and enforcement action, the general lack of transparency of UK company ownership may also have an adverse impact on levels of trust in UK business. It may also impact investors and suppliers' perceptions of the UK as a safe and open place to do business. This may result generally in companies doing less business in the UK. Similarly, without this transparency, where one company wants to identify with whom they are really doing business, they may have to spend more time or resource in obtaining this information, or be more reluctant to engage with the other company in the first place.
14. The problem of opaque company ownership structures can therefore be summarised as increasing the potential for criminal activity and potentially also reducing levels of trust in business.

II. Compliance with the requirements of Article 30 of the Fourth Money Laundering Directive

i. Scope of entities covered

15. Article 30 of 4MLD requires Member States to ensure that adequate, accurate and current information on the beneficial ownership of "*corporate and other legal entities*" incorporated within their territory to be held on a central register. It also requires that Member States allow law enforcement and other organisations which combat money laundering and other financial crimes to access that information.

¹⁰ World Economic Forum (2013): Organised Crime Enablers

16. The UK has already legislated to require transparency around the beneficial ownership of UK companies, limited liability partnerships and societies europeae. An obligation on companies to maintain a register of people with significant control (“PSC register”) and provide this to the UK registrar of companies (“Companies House”) was put in place through the Small Business, Enterprise and Employment (SBEE) Act 2015¹¹, and a subsequent suite of regulations in March 2016¹². The PSC register is publicly accessible, enabling not just UK law enforcement but also anyone with an interest to find out who really owns and controls UK companies.
17. The UK’s existing domestic requirements apply to most companies and limited liability partnerships, however legal advice leads us to interpret the Directive as requiring the widest necessary range of entities to be covered. This leaves a range of other types of legal entities not currently in scope of the UK’s domestic legislation to which beneficial ownership obligations will also need to be applied in order to meet the more broadly framed EU requirements.
18. When establishing the UK’s existing beneficial ownership reporting requirements the Government took the view that legal entities already subject to the Financial Conduct Authority’s (FCA) Disclosure and Transparency Rules reporting standards should not be subjected to new requirements. As such the UK’s existing legislation exempts UK companies traded on UK regulated markets, such as the London Stock Exchange Main Market, and prescribed markets such as the Alternative Investment Market (AIM) and the Intercapital Securities and Derivatives Exchange (ISDX). For the same reason the Directive exempts companies listed on regulated markets from its beneficial ownership requirements. However it does not expressly exclude those listed on prescribed markets. As such to meet the Directive’s standards the UK will need to bring companies listed on prescribed markets into scope of PSC reporting. This possibility was noted in the Government consultation response in 2014.

ii. Current PSC information

19. In addition to scope there is one other technical amendment to the UK system needed to bring the existing UK requirements into line with those of the Directive.

¹¹ Small Business, Enterprise and Employment Act 2015:

<http://www.legislation.gov.uk/ukpga/2015/26/contents>

¹² The Register of People with Significant Control Regulations 2016; The European Public Limited-Liability Company (Register of People with Significant Control) Regulations 2016; and The Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016:

<http://www.legislation.gov.uk/uksi/2016/339/contents/made>;

<http://www.legislation.gov.uk/uksi/2016/375/contents/made>; and

<http://www.legislation.gov.uk/uksi/2016/340/contents/made>

This covers the frequency at which the PSC register is updated. The Directive requires that “*information held in the central register [...] is adequate, accurate and current*”. The UK’s PSC register regime clearly meets the ‘adequacy’ and ‘accuracy’ requirements.

20. The PSC rules meet the ‘adequacy’ provision by requiring provision of the PSC’s: full name; full date of birth; nationality; country, state or part of the UK where the PSC usually lives; service address; usual residential address; the date the individual became a PSC; and the nature of the PSC’s control over the corporate entity.
21. They also meet the ‘accuracy’ condition as it is a criminal offence to provide false information to Companies House and the domestic legislation requires both the corporate entity and the PSC to ensure the information on the register is accurate. Furthermore the public accessibility of the information means it benefits from scrutiny by the public at large.
22. This leaves the ‘current’ condition. As it stands UK entities subject to the PSC reporting are required to confirm that their PSC information is accurate with Companies House at least once every 12 months via their Confirmation Statement (previously known as the Annual Return). Even though companies can update their PSC information whenever they want the fact that they only need to confirm its accuracy once a year means, at the extreme, there could be a gap of just under 12 months between a change in PSC information and the notification of the change on the public register. This possibility renders the UK’s existing framework not in compliance with the ‘current’ requirement.

iii. Protection regime

23. The UK has a ‘protection regime’ for the PSC register in place which allows information regarding PSCs who would be at serious risk of violence or intimidation due to the company’s activities or their association with the company to be suppressed from the public register. Companies House have to consider applications for ‘protection’ on a cases-by-case basis, taking advice from law enforcement authorities before coming to a view.
24. Article 30 also includes a condition which allows access to PSC information to be restricted in circumstances “*where such access would expose the beneficial owner to the risk of fraud, kidnapping, blackmail, violence or intimidation, or where the beneficial owner is a minor or otherwise incapable*”. The Article requires that such restriction on access can only be granted “*on a case-by-case basis in exceptional circumstances*”. Only competent authorities and the financial intelligence unit (FIU) have the right to access this information.

25. The UK's protection regime already, by and large, meets this. The UK however will have to extend access to the protection regime to any legal entities brought into scope of PSC reporting as a result of the Directive.

C. Rationale for intervention

26. When the UK Government intervened domestically in 2015, by establishing the PSC register, its case for doing so primarily rested on two issues.

- 1) Upholding the well-established role for the State in addressing criminal behaviour.
- 2) Reducing information asymmetries between companies, suppliers and investors which can harm the functioning of economic markets.

27. These rationales also hold in this case as the amendments being made only increase the strength of the transparency requirements.

1. Addressing criminal behaviour

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

29. As elaborated earlier opacity of corporate ownership can facilitate criminal activities such as money laundering and can also hamper law enforcement in their response to potential criminal activities.

30. The potential for anonymity offered by corporate structures mean that individuals who 'stand behind' companies can then use their company as a front, for example, to launder the proceeds of crime and to finance organised crime and terrorism¹³. A Home Office rapid evidence review (February 2014) concluded that corporate entities can be used to enable or assist criminality, to launder money or to provide prestige or perceived legitimacy. UK enforcement agencies have provided examples of the types of activity that can be facilitated using opaque corporate structures. These include tax crimes such as Missing Trader

¹³ That is to say the money passing through the company can be of criminal origin, and / or can be used to support further crimes, and through the relative anonymity of the company structure the individuals involved can be concealed.

Intra Community (MTIC) fraud¹⁴; hiding stolen assets and the proceeds of crime; fraud; and drug and people trafficking.

31. The anonymity afforded by the corporate structure also means law enforcement agencies cannot always readily identify the individuals really responsible for the criminal activity - resulting in less efficient and effective investigations; and potentially sub-optimal outcomes. Where the corporate governance and company law frameworks do not ensure sufficient transparency to prevent this opportunity, and hence fail to reduce the need for risk mitigation measures by counterparties or inefficient corporate activity, it can be viewed as a regulatory failure.
32. Thus, in this case, regulatory failure facilitates crime which can lead to costs to the economy and more widely to society. These costs include the damage to the victim's welfare; inefficient resource allocations and a forced redistribution of income; lost economic activity/output; inefficient insurance expenditure; and costs to the criminal justice system, including the police¹⁵.

II. Reducing information asymmetries

33. In all economic transactions, one party to the transaction must acquire information about the other party to understand sufficiently the quality and risks associated with the goods, service or investment opportunity on offer. In particular, when engaging in high cost and long term economic relationships involving complex goods, services or investments, the information asymmetry between parties is likely to be large and significant.
34. The corporate form helps mitigate the impact of information asymmetry. This is because the company has separate legal personality: "As a separate legal entity [...] the company must be treated like any other independent person with rights and liabilities appropriate to itself¹⁶." In other words, a person may engage with the company without needing to satisfy himself or herself of the nature of the persons behind the company - they simply need to be satisfied with the 'credentials' of the company itself, which is evidently a less onerous and more efficient process than needing to satisfy themselves with respect to all the individuals who might be associated with a company in various ways.

¹⁴ Missing Trader Inter Community (MTIC) fraud contains two elements: a missing trader and an intra-community supply. There are two types of MTIC fraud - acquisition and carousel - as well as one variant - contra trading. For more information go to: <http://www.hmrc.gov.uk/manuals/vatfmanual/vatf23300.htm>

¹⁵ See Brand and Price (2000): The economic and social costs of crime, Home Office Research Study 217

¹⁶ Hannigan, B (2003): Company Law, Clays Ltd

35. Corporate opacity undermines this advantage. Knowledge of a company and its owners is important in helping those who engage with a company to assess the risk of company transactions more accurately. Not knowing who ultimately owns or controls a company means that there is a greater inherent risk of making sub-optimal investments, not being paid correctly for goods/services or inadvertently financing crime. This can make economic transactions/activities less attractive¹⁷ and hence less likely to go ahead or they might go ahead but at a higher cost or lower level of activity. For instance, Easley and O'Hara (2004)¹⁸ find that companies which keep a greater proportion of their information private require a greater compensating return for the lack of transparency, i.e. they face a higher cost of capital. This is a common finding in the economic literature¹⁹.
36. This asymmetry of information could also drive adverse selection. Here the potential investor/lender/customer/ supplier of a company cannot distinguish between a low-risk transaction and a high-risk one because of asymmetric information around ownership and control. Therefore they offer 'average' terms and conditions for that transaction. This means that some mutually beneficial business will only go-ahead at a sub-optimal quantity, or not at all. Over time, standard economic theory suggests that less mutually beneficial business will take place as fewer high quality offers are put to the market on the supply side and risk averse firms and investors start to opt out of the demand side. On this basis, a lack of transparency and trust can inhibit optimal economic activity.
37. If corporate opacity can lead to higher cost of capital and greater due diligence costs then one may ask: why don't all companies volunteer the information required by Article 30 proactively? As discussed this may be to engage in illicit activities but clearly this will not be the case for most firms. One possibility is that an individual's rationality is bounded by the information they have, the finite amount of time at their disposal and limits to their ability to process and analyse all the information available. It is plausible that even though information about the business advantages of corporate transparency exists, companies may be unaware of it. Alternatively, the costs of identifying, accessing, understanding and applying this information (e.g. the opportunity cost of a company director's time) might outweigh the perceived benefits, particularly if the action was carried out unilaterally. Furthermore, evidence may be available only in an abstract sense,

¹⁷ Furthermore, considering adverse selection, if the share of 'bad' companies exceeds a certain threshold, the market will cease to exist as 'good' companies are driven out of business.

¹⁸ Easley, D. and O'Hara, M. (2004): Information and the Cost of Capital. *The Journal of Finance*, Vol. 59, No 4.

¹⁹ See Barry, C., and S. J. Brown (1985): *Differential Information and Security Market Equilibrium*. *Journal of Financial and Quantitative Analysis* 20, no. 4: 407-22 for a model, which demonstrates that securities with relatively little information are of a higher systemic risk. See Merton, R. (1987): *A Simple Model of Capital Market Equilibrium with Incomplete Information*. *Journal of Finance* 42, no. 3: 483-510. Finds that in a model where investors are not aware of all stocks available i.e. suffer from incomplete information, the equilibrium value of each company is always lower.

and not easily accessible to many companies. Therefore, many companies may not volunteer relevant corporate information in these circumstances.

38. Regulation has therefore proven necessary to help move towards a better equilibrium where information asymmetries and potential for adverse selection is reduced.

III. Meeting the UK's legal obligation to comply with EU directives and maintain its position as a global leader

39. The UK remains a full member of the European Union and is therefore required to comply with EU directives. Ultimately this is the primary rationale for revisiting the UK's existing requirements.

40. The UK has already fulfilled much of the Directive's requirements through its existing domestically initiated legislation. The amendments discussed and appraised in this impact assessment are therefore required to ensure full compliance.

41. Both the EU Directive and the UK's domestic regime are based on international best practice. To maintain the UK's position as a global leader in this area and to ensure the UK remains a hostile environment for money launders and terrorist financing we cannot rule out further regulation.

D. Policy objective

42. The objective is to transpose the Directive in a way that meets its requirements but does not place unnecessary new burdens on business.

43. The two key requirements of the Directive can be summarised as follows.

- 1) EU Member States must hold adequate, accurate and current information on beneficial ownership of corporate and other legal entities incorporated within their territory in a central register.
- 2) Such information should be made available to specific authorities and organisations across the EU.

44. As the UK's current PSC register meets most aspect of these requirements the chosen policy option should only extend the current regime in ways required to comply with the Directive and/or in a ways consistent with meeting the original objectives of the PSC register which were to:

- reduce crime, and
- improve the business environment so as to facilitate economic growth.

E. Description of options considered (including status-quo)

I. Option 0 – Do Nothing

42. Under the ‘Do Nothing’ option the UK’s existing PSC register regime would continue to operate. This will result in the UK meeting many of the requirements of the Directive.

43. However it would be insufficient to ensure the UK reaches a level of compliance consistent with meeting the UK’s legal obligations as an EU member.

44. As such the ‘Do Nothing’ option is not considered viable given the UK remains a full member of the European Union with all the rights and obligations of EU membership still in force.

II. Option 1 (preferred) – Minimum implementation

48. In each of the three areas of the UK’s current approach to PSC information identified as needing some change in order to comply with the Directive (scope, currency and the protection regime) we have taken legal advice and consultation responses into consideration in order to develop a set of amendments to the UK’s existing regime. We are confident these amendments meet the Directive’s requirements while reducing to a minimum any new burden on UK business.

49. The table below gives a brief outline of the Directive’s requirements, the equivalent requirements of the UK’s current regime and the proposed change to make them equivalent. This is followed by a more detailed description of the policy changes.

Table 1: Summary of minimum changes required to bring the UK's PSC regime into compliance with the Directive

	Directive Requirements	UK's current requirements	Proposed change
Scope of entities covered by the PSC regime	Applies to all “ <i>corporate and other legal entities incorporated within Member State (MS) territory</i> ”, only explicit exemption is those companies traded on a Member State Main Market.	The UK's current PSC register applies to all bodies corporate that register information on their members at Companies House but excludes DTR5 issuers such as companies listed on a UK regulated or prescribed market, certain forms of partnership and unregistered companies as well as corporate bodies established under legislation other than the Companies or Partnerships Acts which report to and are regulated by bodies other than Companies House.	Extend PSC reporting to all private legal entities constitutionally capable of legitimately having a beneficial owner as well as those public companies listed on regulated markets
Currency of PSC information	Requires that information held in the central register is “adequate, accurate and current”.	Requires entities to update PSC information on their own register as soon as practicable and confirm via the annual Confirmation Statement to Companies House.	Require entities to update their own PSC records with 14 days of a change and update the central register held by Companies House within a further 14 days.
Access to PSC information	Allows for PSC information to be protected (except from competent authorities and FIU) “where such access would expose the beneficial owner to the risk of fraud, kidnapping, blackmail, violence or intimidation, or where the beneficial owner is a minor or otherwise incapable”.	PSCs who are at serious risk of violence or intimidation may apply to have their usual residential address (URA) suppressed from credit reference agencies or obliged entities which are not credit or financial institutions, or all their PSC information removed from the public register. If granted the information will still be accessible to specified public authorities (SPAs)	Extend access to the existing protection regime to those entities/organisations brought into scope of PSC reporting as a result of the Directive.

i. Scope of entities covered by the PSC regime

48. The criteria we have applied to ascertain the scope of beneficial ownership reporting consistent with the minimum implementation of the Directive is as follows:
49. The **entity must be incorporated**. In this context, the standard legal meaning of incorporation is inferred, i.e. that the entity in question has ‘legal personality’²⁰.
50. The entity has been **incorporated in the UK** and has **not re-domiciled** (i.e. legally transferred its seat (or its incorporation) to another jurisdiction).
51. The entity must be **constitutionally capable of legitimately having a beneficial owner**²¹. If not, and the entity cannot amend its constitution to acquire beneficial ownership, it would clearly be inappropriate to seek to impose requirements for the collection and disclosure of information on beneficial ownership²². The information reported by entities to the central register should provide greater transparency over the entity and have value for enforcement purposes. For instance legal entities such as Sports and Working Men’s Clubs, which are membership bodies that operate on a ‘one member one vote’ basis, already place on record details of their legal ownership and or management and could only have a beneficial owner if they had fewer than four members²³.
52. We identify the following types of legal entities as being both able to fulfil each of the above criteria in normal circumstances and not currently subject to the UK’s domestic PSC legislation.
- European Co-operative Society (SCE), Open Ended Investment Companies (OEICs) and Investment Companies with Variable Capital (ICVCs)
 - Scottish Limited Partnerships
 - Scottish Partnerships, each of whose members is a limited company.
 - Unregistered Companies subject to the Unregistered Companies Regulations 2009. This includes some Royal Chartered bodies. (City of London Livery

²⁰ Having legal personality means that the entity may in its own name: own property; enter into contracts; raise finance by taking loans and giving security over its assets in respect to the loans; issue share capital (if a company is limited by shares); and sue and be sued in relation to contracts and other legal issues.

²¹ The consideration of whether or not a type of entity could or could not legitimately have a beneficial owner is a separate issue from whether any individual entity that could potentially have a beneficial owner actually has one.

²² This is relevant to bodies that are incorporated under legislation other than the Companies Act 2006. The governing legislation may not permit the ownership, management and control structures to be varied. For example, Government arm’s length bodies that have a degree of independence from the Government, have legal personality, and are quasi-corporate, but whose governance and control structures are fixed by legislation, such as NHS foundation trusts and sixth form colleges.

²³ Or a group comprising more than 25% of the membership collectively agreed to exercise their votes jointly in a pre-determined manner

Companies, Guilds, and other learned societies and professional bodies, but not universities or overseas based bodies.)

- Companies listed on a UK regulated market such as AIM or ISDX.

53. **The above bodies will, following the commencement of the Directive, be required to investigate and report to a central register the details of their beneficial ownership.** Where they do not have a beneficial owner such entities will still need to report that finding.

54. In addition there is a second group of legal entities which are structured in a way that does make it possible for them to have a beneficial owner, and fulfil the above criteria, but in practice are very unlikely to. The types of entities which fall into this second group are listed below.

- Charitable Incorporated Organisations (CIOs), Scottish and Northern Irish CIOs

55. **These entities, currently not in scope of the UK's PSC regime, will now be required to place information on the PSC register only in the instance they identify themselves as having a beneficial owner.** If an entity of one of the types above does not believe themselves to have a beneficial owner, no action will be required. In the rest of this impact assessment we refer to this situation as being subject to PSC reporting *by-exception*.

ii. Current PSC information

56. Legal entities registered at Companies House are required to file a confirmation statement at least once a year, even if the company is dormant. The purpose of this annual statement is to confirm that the information held against a company is up to date.

57. It is via the confirmation statement form that entities confirm the accuracy of their PSC information held on the central register. As firms are only required to submit a confirmation statement on an annual basis, it is possible that some of the PSC information held by Companies House is close to a year out of date. It has been determined that this situation is incompatible with the requirement of the Directive for PSC information held on the central register to be "current".

58. **As a result all entities within scope of PSC reporting, both those previously in scope and those being brought into scope, will now be required to inform their regulatory authority of any changes to their PSC information within 28 days of that change.**²⁴

²⁴ In most cases the regulatory authority will be Company's House but as some of the new types of legal entity being brought into scope don't have a pre-existing relationship with Companies House they will be allowed to file their PSC information through their own regulator, such as the Charity Commission or the Financial Conduct Authority.

iii. Protection regime

59. The UK's existing protection regime, which allows individuals to apply to have their PSC information redacted from the public register (although still available to the relevant authorities), meets the Directives requirements.
60. As a result there will be no change to the application procedure or the criteria on which an application may be granted. The key change will be the extension of the regime to those entities brought into scope of PSC reporting as a result of the Directive. More minorly, PSCs will also be allowed to protect their usual residential address from obliged entities (which are not credit or financial institutions) as well as credit reference agencies.
61. Newly in-scope entities will be able to apply to the protection regime in the same way as already in-scope entities.

III. Alternative options considered

62. The number of viable options is limited by the need to comply with the Directive and our explicit aim of minimum implementation. As such the only source of alternative options came from the possibility of different legal interpretations of the Directives requirements.
63. The set of legal interpretations taken over aspects such as scope and the currency of PSC information are considered by government legal teams to be both robust to legal challenge and to represent the minimum required by the Directive.
64. For example the restriction of the scope of the PSC register to those entities that are constitutionally capable of legitimately having a beneficial owner has resulted in fewer organisations being subjected to new administrative requirements than might have otherwise been the case.

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

Option 0: Do Nothing

Costs

66. The two costs of no action are:
- i) Forgoing the benefits of action.
 - ii) Potential legal costs arising from the UK failing to implement EU law.

Benefits

67. The key benefit of no action is avoiding the potential costs of implementing the changes required to align the UK's PSC register with the regime prescribed by the Directive. These costs are described in the section which follows

Option 1: Minimum implementation of the Directives requirements

Costs

I. Costs to business / civil society organisations

68. In the table below we give a breakdown and description of the potential costs associated with the policy changes described under Option 1 both for those entities already in scope and those entities being brought into scope.

69. We can simplify these costs into five types with **(1)** familiarisation and **(2)** event triggered filing applying to both those already in scope and those being brought into scope. While **(3)** identification of PSCs, **(4)** annual reporting and **(5)** protection regime application costs only represent additional cost to those coming into scope for the first time. Finally **(6)** the costs to regulatory authorities who are industry funded will be subject to a separate impact assessment.

Table 2: Types of costs to business associated with policy changes required to implement the minimum requirements of the 4MLD (option 1)

Policy change	Potential costs to business	Type	Description
Entities already in scope of PSC reporting			
Event triggered PSC filing	(1a) Familiarisation	One off	Companies will need to spend time making themselves aware of the changes.
	(1b) Familiarisation for new entrants	On-going	Before establishing a new company the founder will need to be aware of the event-triggered PSC filing requirements.
	(2a) Extra filing beyond annual confirmation statement		Companies will now have 28 days to inform their regulatory authority of any changes to their PSC information.
Entities being brought into scope of PSC reporting			
Having to comply with the existing PSC regime	(1c) Familiarisation*	One off	Becoming aware that they are now in scope and what requirements this places on them.
	(3) Initial identification* and collection and storage of PSC information		Identifying if they are capable of having a PSC and if so finding out who is/are their PSC(s), collecting their details and recording them on their own locally held register. The time it takes to do this will likely depend on the size and complexity of the organisation. In addition some of this cost of obtaining this information will fall on the individual or 'relevant legal entity' identified as the PSC.
	(1d) Familiarisation for new entrants	On-going	Before establishing a new entity the founders will have to familiarise themselves with the requirements of being in-scope of the PSC register.
	(4) Reporting to a regulator annually		Informing the regulatory authority that the company's information remains accurate.
	(5) Cost of applying for the protection regime		PSCs of entities brought into scope who want to have their information removed from the public register will have to apply to the protection regime. This involves time and a fee of £100. Some of this cost may fall on the entity itself but most will likely fall on the individual PSC.
Event triggered PSC filing	(2b) Filing associated with a change in PSC information	On-going	Companies will now have 28 days to inform their regulatory authority of any changes to their PSC information.
Costs to regulatory authorities**			
IT costs	(6) Opportunity cost/fee increase	One off	These costs will be the subject of a future impact assessment. Where a regulatory authority is funded by its members, or by businesses that use its services, any cost to the regulatory authority also represents a direct cost to business even if fees charged do not increase.
Increased compliance checks		On-going	
Communications costs		One off	

*These also apply to those entities being brought into scope on a "by exception" basis

** Subject to a future impact assessment

II. Sources of data to estimate costs to business

i. Trust & Transparency impact assessment²⁵

70. The primary source of information we can use to inform our cost assumptions comes from the Trust & Transparency (T&T) impact assessment (IA). This IA covered the introduction of the UK's own PSC regime. The Regulatory Policy Committee rated it fit for purpose in 2014. The costs identified and estimated by the T&T IA have strong similarities with the costs identified in table 2 above.
71. The T&T IA utilised a telephone survey of 575 companies, carried out by IFF Research (2014)²⁶, to gather estimates of the costs of complying with the then to be introduced, now active PSC regime.
72. 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.
73. This work led to a statistical treatment of the original survey results to lessen the influence of some extreme values. The result of the original survey and follow up work was a robust set of costs estimates which are displayed in Table 3 of that IA and is re-produced below.

Figure 1: Cost estimates used to appraise the introduction of the UKs current PSC regime

	Best estimate - Adjusted mean wage costs per company £	Best estimate - Adjusted mean additional costs per company £*
One-off costs		
Familiarisation costs	55.9	35.6
Identification and collection**	4.3	9.1
Collation, processing and storage	13.2	11.7
Sub – total average one-off cost	73.4	56.3
Responding to request (only for companies which hold more than 25% shares/voting rights or some other form of control over other companies)	10.7	19.4
Ongoing costs		
Annually update own records***	11	
Report to Companies House annually****	13.4	

Table 3: Breakdown of costs to businesses – wage costs and additional costs associated with obtaining external advice

²⁵ 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

²⁶ IFF Research (2014): Transparency and Trust Company Survey – <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-survey-and-follow-up-research>

74. The main limitations of using these estimates for the purpose of appraising the cost of the Directive are the following:

- The surveys on which they are based do not include responses from all of those types of entities who are being brought into scope as a result of the Directive.
- They do not isolate the new costs associated with the move to event triggered filing.

75. By using these estimates we are therefore forced to make a key assumption. We expect costs to vary by the complexity of the ownership and size of organisations. The raw IFF survey responses used in the T&T IA were weighted to ensure they more accurately represented the mix of these two characteristics amongst the population of private businesses in the UK. We therefore assume that the distribution of these characteristics is the same among the population of entities being brought into scope by the requirements of the Directive. Making an alternative assumption would have no great impact as the number of entities being brought into scope as a proportion of those already in scope is very small.

76. In addition due to the lack of direct information on the familiarisation costs associated with the event triggered filing we are forced to apply an assumption to the T&T familiarisation cost estimates in order to scale them down to cover this single change. This is discussed more in the cost methodology section.

77. Each time we use one of the cost estimates from the T&T IA we discuss its applicability to this new situation.

ii. Stakeholder survey results

78. To supplement the T&T estimates we also carried out a number of our own surveys. Due to limitations over who we could obtain contact information for, and in line with a proportionate approach to analysis, we used pre-established contacts between Companies House and a number of “*presenters*”. These are companies who file documents such as confirmation statements and annual accounts with Companies House on behalf of their clients.

79. We contacted *presenters* who have experience representing companies already in-scope of the PSC regime and *presenters* with experience of representing organisations which are being brought into scope, notably Scottish Limited Partnerships.

80. Beyond these bodies we also used contact details provided by the Charities Commission of England & Wales in order to contact a number of Charitable Incorporated Organisations (CIOs). As previously described CIOs will be brought

into scope on a “by exception” basis with reporting requirements only taking effect when a CIO identifies themselves as having a beneficial owner.

81. This gave us three distinct groups to survey.

- Companies House presenters who represent currently in scope organisations.
- Companies House presenters who have experience of representing Scottish Limited Partnerships.
- Charitable Incorporated Organisations.

82. We sent surveys to samples of each of the above groups. Taken together these three groups do not necessarily constitute a representative sample of the type of organisations that will be impacted by the proposed changes to the PSC regime. Legal forms other than SLPs are being brought into scope for example and, with the exception of CIOs, the surveying of presenters means the responses do not come directly from those subjected to the requirements of the PSC regime.

83. We do not believe it would have been proportionate to commission a survey similar to that used in the T&T IA in this case. The establishment of the UK’s PSC regime was a significantly larger event in terms of changing the status quo. The changes to the UK’s regime in order to comply with the Directive are relatively smaller in scope and ambition when compared to the introduction of the domestic regime. As such the resources used in the appraisal of these amendments should be commensurately lower as well.

84. A summary of the sample size and response rate from the surveys that were conducted is given in the table below.

Table 3: Survey response rate summaries

	In-scope presenters	Out of scope presenters	Charitable Incorporated Organisation
No. of organisations survey sent to	350	350	7,300
Response rate	12% (43/350)	2% (8/350)	2% (149/7300)
Average responses per question	9	2	60

85. **Given the limitations highlighted earlier and the very small sample sizes achieved we limit our use of the results from these surveys, preferring to rely on the T&T estimates where possible.**

86. However one key use of these surveys is to inform our assumption about the proportion of CIOs who believe they have or are capable of having a PSC. We estimate this to be somewhere between 5% and 20% and take the conservative choice to use the higher estimate as our central scenario.

87. This estimate was generated from the responses to the two questions below, where 13% of CIOs responded they were capable of having a beneficial owner and 40% said they currently did have a beneficial owner. Taken together these imply around 5% of CIOs are capable and do have a PSC (13% x 40%). However if we treat all “don’t knows” as “Yes” we get closer to 20% ((13%+17%) x (40% + 27%)).

88. As a result in some cost estimates we exclude 80% of CIOs from our calculations as they are assumed to not have a beneficial owner and therefore are not required to take any new actions.

Q1. To your knowledge is your organisation capable of having a beneficial owner?

Answer Options	Response Count	%
Yes	20	13%
No	104	70%
I don't know	25	17%

Q2. To your knowledge does your organisation currently have a beneficial owner?

Answer Options	Response Count	%
Yes	6	40%
No	5	33%
I don't know	4	27%

iii. Business demography information

89. In order to estimate the full costs of the Directive we need to scale up the per organisation costs estimates generated using the sources described above. To do this we use estimates of the number of entities of different legal forms taken from various sources listed in the table below.

90. The number of Scottish partnerships given in the table below refers to all partnerships (excluding LPs and LLPs) with a business address in Scotland. This

likely overestimates the number of Scottish partnerships that will come into scope of the PSC register as only those partnerships where each member is a limited company will be caught by the new requirements.

Table 4: Number of organisations by legal type

Legal type	Number	Source
Already in-scope		
Private	3,548,514	Companies House ²⁷
Coming into scope		
Open Ended Investment Companies (OEICs)/ Companies with Variable Capital (ICVCs)	209	FCA ²⁸
Scottish Limited Partnerships	27,604	FAME ²⁹
Scottish Partnerships	46,002	HMRC ³⁰
Unregistered Companies	43	FAME
Companies listed on a prescribed market	795	AIM, ISDX ³¹
Coming into scope by exception		
Charitable Incorporated Organisations	11,864	CC & OSCR ³²
Total coming into scope	86,517	
Total	3,635,031	

91. Overall these estimates show that the stock of organisations already in-scope of the UK's existing PSC requirements dwarfs the number that are likely to be brought into scope as a result of the Directive.

92. As a result of this disparity any additional costs to the stock of firms, namely of familiarising and complying with event triggered PSC filing, will significantly outweigh the likely higher overall costs to the over 86,500 organisations being brought into scope. The overall cost to business will therefore be much more sensitive to the assumptions we make about the costs of the move to event triggered filing than any other of the costs highlighted in Table 2.

²⁷ Effective numbers of companies on the Company's House register as of 2016 Q3

²⁸ Search of the Financial Conduct Authority Register for companies with ICVC at the end of their name

²⁹ Fame is a database of UK and Irish companies compiled and updated by Bureau Van Dijk Publishing

³⁰ Number provided by Her Majesty's Revenue & Customs with whom partnerships register

³¹ The London Stock Exchange and ISDX

³² A search of the Charity Commission (CC) for England & Wales and the Office of the Scottish Charity Regulators online register

III. Cost estimates

i. Familiarisation (1)

93. The term “familiarisation costs” describes the need for firms to understand how changes to regulations might require them to act in a different way. This might materialise as a cost by taking time out from more productive activities to read government guidance for example.

Transparency & Trust impact assessment estimates

94. The T&T impact assessment estimated familiarisation costs of £55.90 per company with a potential additional costs of £35.6 associated with obtaining external advice. In total a cost of **£91.5 for each organisation within the scope of the PSC regime** was used, equivalent to £95.99 in today’s prices. For context this equates to around 3.6 hours of an average corporate manager/director’s time (at £26.52/hr³³), or around 3 hours when uprating by 20% for non-wage costs.

95. These estimates came from the results of the telephone interviews carried out by IFF Research, which were adjusted for extreme values/outliers and had implausible results removed/adjusted.

96. We are confident that the familiarisation cost estimates arising from the T&T survey do a good job of approximating the familiarisation costs to entities being brought into scope of the amended PSC regime for the following reasons.

- The set of requirements that newly in-scope entities will face are very similar to those that were faced by businesses when the PSC regime was originally established.
- The introduction of event triggered filing may make familiarisation somewhat more costly but it is unlikely to make a substantial impact.
- There is no strong reason to expect the familiarisation costs to vary significantly between organisations of different legal forms. The amount of familiarisation required for private limited companies to understand PSC reporting, which the T&T survey attempts to estimate, should be very similar to the familiarisation needed for the types of legal entity being brought into scope.

97. The use of the T&T estimates and the unsuitability of our own survey results means we do not have a ready way of splitting up the familiarisation costs into various components. The extent of new requirements faced by the three groups impacted by the changes (the already in scope, the coming into scope and the coming into scope by-exception) differ significantly. The already in scope will only

³³ ASHE 2016 (ONS) Mean gross hourly wage “Corporate managers and directors” SOC 11 - £26.52.

need to familiarise themselves with the introduction of the event triggered filing. Those organisations being brought into scope for the first time will need to familiarise themselves with the entire PSC regime. Those being brought into scope by exception will, in the first instance, need to familiarise themselves with the definition of a PSC. If they identify themselves as having a PSC they will then need to familiarise themselves with the rest of the regime.

98. As a result of this and lacking any further information we are forced to make two key assumptions about how to apply the T&T estimate to each of these three groups.

- We apply the **full** T&T estimate (uprated for wage inflation) to both those coming into scope and those coming into scope by exception.
- We apply **one fifth** the T&T estimate (uprated for wage inflation) to the stock of firms already in scope.

99. Applying the full T&T estimate to already in-scope entities would significantly overestimate the cost of familiarising oneself with just the event triggered filing requirement. Familiarisation for those in scope will solely consist of being aware that changes to PSC information will need to be filed within 28 days, similar to the regime already in place for company director changes. As such we have chosen to apply one fifth of the T&T familiarisation cost estimate to this group. The decision to apply a 0.2 scaling rather than any other is arbitrary and we will assess its impact through sensitivity testing in section H of this IA.

100. The business population estimates of the number of different legal entities are given in table 4 above. They show that the in-scope population is around 3.5 million while the population that have the potential to fall into scope for the first time is around 86,500.

101. Applying these per organisation costs to the population estimates results in a total one-off cost of £76.4 million. The calculations are detailed in the box below.

Familiarisation costs summary

Cost per organisation (2013 prices): £91.50 *source: Trust & Transparency impact assessment*
Wage inflation (2014-2016): 4.9% *source: ASHE (2016) median gross hourly earnings full-time employees*

Cost per organisation (2016 prices): $£91.50 \times 1.049 = \mathbf{£95.99}$ (*equivalent of 3.6 hours of an average corporate manager/directors time*)

Number of organisations: 3.5m in scope *source: Table 4*
0.09m coming into scope

Total one-off cost: $(£95.99 \times 0.09m) + ((£95.99 \times 3.5m) / 5) = \mathbf{£76.4 million}$

ii. Event-based filing (2) and the annual confirmation (3)

102. Under the current regime organisations subject to PSC reporting are required to confirm the accuracy of their PSC information by filing an annual *confirmation statement* with Companies House.
103. The move to event-triggered filing means that organisations will now have 28 days in which to inform their regulatory authority of any change in their beneficial ownership information and provide the new updated details. These filings will be in addition to an annual confirmation filing.
104. The continuation of the annual confirmation means that at a minimum all organisations within scope of the new regime will have to file with their regulatory authority at least once a year. If their beneficial ownership information changes once within a given year they will have to file twice (discounting the possibility the change happens within 28 days of the date of the annual confirmation) and so on.
105. As PSC information will be continually updated the annual confirmation will be a case of re-confirming the registers accuracy rather than filing new information, potentially rendering it less costly. However for organisations whose PSC information doesn't change within a year the status quo remains in place. As such we treat both the annual confirmation and an event triggered update in the same way and assume they are equally as costly to complete. In addition to having to file with their regulatory authority, in scope organisations will also need to update their own locally held records within 14 days of a change.
106. For organisations already in scope of the current regime only the event triggered filings are additional compared to the do nothing option. While for those being brought into scope both the event triggered filings and the annual confirmation represent new cost. Furthermore these filing costs will not apply to those CIOs who are exempted from the PSC regime due to not having a PSC (which we earlier estimated at 80%).
107. We again use the T&T estimates (listed in Figure 1) as the basis for our own estimates. This gives the cost of filing PSC information with Companies House as being £13.7; we make the assumption that the cost of filing with other regulatory authorities will be the same. The cost of updating the records held by the organisation itself is estimated to be £11.2. As we did with familiarisation costs we uprate the T&T estimates by 4.9% in line with wage inflation between 2014 and 2016.
108. The combined and uprated costs of updating beneficial ownership information and providing that information to the central register therefore totals £25.66. This

is equivalent to about an hour of a corporate manager/director's time (or around 45 minutes if non-wage costs are included)³⁴.

109. In practice this cost represents the time it takes to acquire and confirm the changed PSC information (name, address, nature of control) and then type it into a locally held document and into an online form. As the vast majority of businesses on the UK's register are small, with on average 2 shareholders³⁵, it is likely that many PSCs will also be one of the company's directors. There is already a requirement on companies registered with Companies House to update directorship details with 14 days of a change³⁶. In many instances the additionality of the new PSC currency requirements is therefore reduced to copying and pasting the updated directors details into the PSC fields of the online filing system. **In those circumstances a cost estimate equivalent to an hour of a manager/director's time would result in a significant exaggeration of the true additional costs.**

110. We start by estimating the cost of the annual confirmation filing that newly in-scope entities will have to carry out for the first time. While the already in-scope will also have to file annual confirmations this is not a new requirement and is included in the estimated costs of the original T&T impact assessment.

111. The on-going cost of confirmation statements for the newly in-scope is estimated to be £1.08 million per year.

Annual cost of confirmation filing for newly in-scope entities

Cost of annual confirmation = £13.4 x 1.049 = £14.06

(1) Number of entities being brought into scope = 86,517

(2) Number of CIOs exempted from PSC reporting = 80% of 11,864 = 9,491

(1) – (2) Total number of newly in scope entities subject to filing costs = 77,026

Total annual cost = 77,026 x £14.06 = **£1,082,820**

112. We next consider the additional cost caused by the introduction of event triggered filing. We do this by estimating the likelihood that PSC information changes in a given year.

³⁴ ASHE 2016 (ONS) Mean gross hourly wage "Corporate managers and directors" SOC 11 - £26.52.

³⁵ Mean number of shareholders per company on the Companies House register

³⁶ <https://www.gov.uk/make-changes-to-your-limited-company/overview>

113. Given the aforementioned overlap between PSCs and directors we use the number of changes in director's information as proxy for the number of PSC changes that we might expect to see going forward. During 2015/16 there were approximately 1.7 million changes to director's information (appointments/terminations/changes in details)³⁷; over the same period there were approximately 3.4 million companies on Company's House register. **The average number of changes to director's details was therefore approximately 0.5 per company per year.** Again, due to the lack of any better source of information we apply this rate of change to currently out of scope entities as well. In total we estimate the number of changes to PSC information to be around 1.8 million per year (3.64 million registered entities x 0.5 changes per year on average).
114. Again, as previously mentioned, applying the full £25.66 figure to all 1.8 million changes will likely grossly overestimate the true cost. This is due to the significant probability of a coincidence between changes to PSC information and changes to director's information. This coincidence is almost guaranteed for the smallest and simplest companies.
115. It has not been possible for Companies House to ascertain the proportion of the 1.6 million registered PSCs that are also registered as company directors. However we do know that 76.4% of the company accounts filed with Company's House in 2015/16 were either abbreviated small or micro company accounts or accounts exempt from audit, meaning at least that proportion of companies on the register have fewer than 50 employees (some may choose to file full accounts despite their size).
116. It is our contention that in small companies it is highly likely that management and ownership will be one in the same and so directors and PSCs will also be the same people.
117. It is also our contention that when the number of shareholders is small then the likelihood they are also directors is very high. When only one or two people own a company it would be unusual that they were not involved in the running of that company i.e. a company director. By definition when the number of shareholders is four or less they all must be PSCs. We know that the mean number of shareholders for companies on the Company House register is two. Given the skewed nature of the business population, with a large tail of very small companies, we know that the mean is likely to be significantly above the median in this case. As such we can conclude that significantly more than 50% of businesses have 2 or less shareholders. This combined with our contention that when the number of shareholders/PSCs is small they are very likely to also be

³⁷ Company House data provided to BEIS

directors we argue there is good reason to expect that in substantially more than 50% of cases PSCs will also be directors.

118. We use these two pieces of contextual evidence, that at a minimum 76% of business on Company's House register are 'small' and that more than 50% of firms have 2 or less shareholders, as the basis for our **assumption that in 75% of cases PSC changes that will involve a PSC that is also a company director**. This assumption reflects our best guess at reality but we also acknowledge its subjective nature. Significant sensitivity testing is presented in section H of this IA and a high and low cost scenario is generated in part by varying this assumption between 25% and 90%.

119. **Where this is the case we assume there is no additional cost arising from the move to event triggered filing.** This is because the additional action being required is no more than copying and pasting the details provided for the director (an existing requirement) into the text fields for the PSC information. This action could be measured in seconds rather than minutes and so is not considered meaningful.

120. Using these assumptions we estimate the total annual filing costs resulting from the move to event triggered filing to be £11.6 million, which when combined with the confirmation statement costs results in an on-going cost of £12.7 million/year (see box below).

Total cost of additional annual confirmation filings: **£1,082,820** (see earlier box below para 109)

Cost of an event triggered filing

Cost of filing with regulatory authority (uprated) = £13.7 x 1.049 = £14.23

Cost of updating own PSC records (uprated) = £11 x 1.049 = £11.43

Total cost of an event triggered filing = £14.23 + £11.43 = £25.66

Cost of an event triggered filing where the PSC is a director

No additional cost

Number of event triggered filings

Number of organisations = 3.54m + 77,026 (excludes 80% of CIOs) = 3.64 million

Number of PSC changes per organisation per year = 0.5

Proportion of changes where the PSC is a director = 75%

Number of standalone PSC changes per year = 3.64m x 0.25 x 0.5 = 0.45 million

Number of PSC changes with associated directorship change per year = 1.36 million

Total annual cost of event triggered filings

0.45 million changes x £25.66 per change = **£11.6 million**

1.36 million changes x £0 per change = **£0**

Total additional filing costs: £11.6m + £1.08m = £12.7 million/year

121. Existing entities coming into scope of the PSC regime for the first time may not know whether they have a beneficial owner or owners. Even if they do they will need to collect their information or confirm the information they have is accurate. Doing this represents a one off cost.
122. The information that will be required to be recorded for each PSC is as follows:
- Full name
 - Full date of birth
 - Nationality
 - Country, state or part of the UK where the PSC usually lives
 - Service address
 - Usual residential address
 - The date he or she became a PSC in relation to the corporate entity
 - An indication of the nature of the PSC's control over the corporate entity
123. In addition to collecting this information there is a requirement to hold it in a secure manner locally. In most instances this will be as simple as a having a text or spreadsheet document saved.
124. Once an organisation has established a method for identifying beneficial owners and storing their details we assume this need not be repeated and so represents a one off cost. Entities already within the scope of the existing PSC regime will have already established such procedures. The cost of using these procedures when PSC information changes are captured in the costs monetised earlier.
125. We again rely on the T&T estimates to form the basis of our cost calculations. The limitation is that the T&T estimates are based on survey responses from the types of legal entities that are now already in scope of the PSC reporting. We are interested in monetising the cost of this process for entities that are going to fall into scope following the commencement of the Directive. Due to the lack of an alternative we therefore assume that the cost of identification, collection and storage of beneficial ownership details is the same for both groups. In reality there does not appear to be a compelling reason to expect that the costs to be wildly different between these two groups.
126. In addition we have decided to include all CIOs in our estimate of this cost despite the fact that the majority of CIOs will only need to establish that they do

not have a beneficial owner. We do this as it we have no strong basis on which to estimate a lower cost for those CIOs that find themselves exempt.

127. The T&T estimates given in Fig 1 show a total cost of identification, collection, processing and storage of beneficial ownership information of £38.30 (£4.3 + £9.1 + £13.2 + £11.7). As standard we uprate this for wage inflation to generate a total per organisation cost of £40.18 (£39 x 1.049).

128. We apply this cost estimate to the approximately 86,500 entities being brought into scope (see table 4) to result in a final total one off cost estimate of **£1.75 million**.

T&T “identification & collection” cost estimate = £4.3 + £9.1 = £13.4
T&T “collation, processing and storage” cost estimate = £13.2 + £11.7 = £24.9
Total T&T estimate = £13.4 + £24.9 = £38.3
Uprated for wage inflation = £39 x 1.049 = £40.18

Number of organisations coming into scope: 43,543

Total one off cost of identifying, collection and storage beneficial ownership details:

43,543 x £40.18 = **£1.75 million**

iv. Cost to newly in-scope entities wishing to access the protection regime (5)

129. The existing protection regime is open to applications from all entities within scope of the UK’s current PSC regime. Applications can be made by the individual, or the company, or the subscriber to a memorandum of association. The applicant can apply in advance, at the same time, or after becoming a PSC. The registrar will assess applications and if granted the individual’s PSC information will be protected indefinitely from public inspection, both on the public PSC register and the company’s own register.

130. There is a fee of £100 which must be paid prior to an application for access to the protection regime. This fee is levied on a cost recovery basis. The cost of the application could be borne by the individual PSC or by the company. To provide a sense of scale of the costs to businesses we refer to the estimates presented in the impact assessment which covered the original introduction of the PSC protection regime³⁸.

³⁸ http://www.legislation.gov.uk/ukia/2016/76/pdfs/ukia_20160076_en.pdf

131. The protection regime impact assessment estimated the total gross cost to business of the protection regime, both familiarisation costs and application costs, was £39 million in year zero followed by £0.3 million in each subsequent year. These estimates covered the cost to a population of 3.43 million businesses. In our case we are only interested in the potential cost to approximately 86,500 thousand newly in-scope entities. Scaling down the original estimate by a factor of 0.013 ($86,500/3,430,000$) and then uprating them by 4.9% for wage inflation we get a **cost to business of £0.5m in year zero followed by an annual cost of £3,800.**
132. In reality individuals will only apply to the regime when they believe they have a reasonable chance of being accepted and when they have concluded the benefits of doing so outweigh the costs.
133. As applications to the protection regime remains a choice we assume companies will only do so where they have concluded that the benefits outweigh the costs. **We therefore treat the potential application costs to the protection regime as having zero net cost to business.**
134. The fact that some entities have applied for the protection regime implies that some do estimate that the benefits exceed the costs. In such cases we can infer that individuals consider having their information publicly accessible burdensome. This inferred cost will fall on the individual rather than the company and therefore is also not included in our net direct cost to business estimate.

v. Costs to industry funded regulatory authorities (6)

135. The costs of additional filing, changes to IT systems, communication costs etc. that industry funded regulatory authorities such as Companies House and the Financial Conduct Authority will face should be treated as a direct cost to business, independent of their impact on fees charged.
136. This is because even when the extra costs are absorbed and do not result in higher fees it indicates an efficiency gain which could, in the absence of the new costs, have been used to lower fees or improve the service provided.
137. Companies House and other regulatory authorities are currently in the process of assessing the implications of the changes for their operations. The regulators affected are independently within the scope of the governments deregulation framework and the scoring costs to business will to a large extent rely on the implementation choices the regulators themselves make. **As such we have decided to postpone the appraisal of these costs until the relevant regulatory bodies have made their own assessments.**

138. The Department for Business, Energy and Industrial strategy will co-ordinate the submission of a single impact assessment detailing the outturn of these costs, enabling them to be accurately scored against the Business Impact Target.

139. The cost to Companies House of implementing the UK's current PSC regime was estimated to be £92.4k in one off IT and communications costs staff costs of £225k per year³⁹. It is reasonable to expect the costs arising from the changes discussed in this impact assessment will be considerably smaller. We therefore do not expect that their absence from this impact assessment will meaningfully change our final cost to business estimate.

vi. Growth in the number of companies subject to the PSC regime

140. The on-going costs associated with the introduction of event triggered PSC filing scales with the number of companies affected. We therefore seek to reflect the likelihood that the number of incorporated entities in-scope of the PSC register will grow over time.

141. To do this we use Company House's own internal projections for the increase in the size of their register. These projections cover the financial years 2016/17 to 2019/20 and are given below.

	2016/17	2017/18	2018/19	2019/20
Projected increase in Company House's business register	6.3%	5.5%	4.9%	4.5%

142. Our starting figures for the number entities, as given in table 4, generally reflect the position near the end of 2016. The transposition deadline for the Directive is June 2017; as such we apply half the 2016/17 Companies House projection to year zero of the appraisal period to bring us up to the beginning of the implementation date. We then apply the remaining projections to years 1-3, followed by the projection for 2019/20 (4.5%) to the rest of the appraisal period (years 4-9). This result in an average annual growth in the number of entities of 4.5%. These increases are applied to all entities, those already in-scope and those coming into scope.

³⁹ T&T impact assessment

Table 5: Projected number of in-scope entities

	Total in-scope entities inc. all CIOs (2016)	10 year appraisal period)									
		0	1	2	3	4	5	6	7	8	9
Number of entities (millions)	3.6	3.7	4.0	4.1	4.3	4.5	4.7	4.9	5.2	5.4	5.6
Increase in the number of in-scope entities		3.2%	5.5%	4.9%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
<i>Cumulative increase</i>		3%	9%	14%	19%	25%	30%	36%	42%	49%	55%

143. The cumulative impact of these annual increases is to increase the number of in-scope entities by over 55% by the end of the appraisal period. Uprating the number of entities in this way increases our final EANDCB estimate by 20.5% (£6.6 million).

vii. Additional familiarisation costs to new entrants (on-going)

144. Establishing a new legal corporate entity requires due diligence and familiarisation with the obligations that comes with founding such an organisation. Following the reforms covered in this impact assessment, those wishing to establish a new business of one of the types newly in scope will for the first time need to be familiar with the beneficial ownership regime.

145. Those establishing legal entity types already in scope of the regime will now additionally need to understand the use of event triggered filing. These additional familiarisation costs to both groups were covered earlier in section III.i but applied only to the existing stock of legal entities. In this section we acknowledge that these costs will also apply to entities as they are established for the first time, generating some additional familiarisation costs in each year of the policy.

146. To estimate this cost we use the historic ratio of the number of new incorporations to the size of the Company’s House register in a given year. The average of this ratio was 0.17 between 2009/10-2015/16, with a range of 0.15 to 0.18. We apply this ratio to our projections of the number of in-scope entities detailed in table 6 to get a gross number of new entities per year that is consistent with our overall projections. This methodology in effect assumes the churn in the number of legal entities being brought into scope is the same as those already in-scope. This assumption has a very limited impact given the very small number of entities coming into scope compared to the stock of already in-scope.

147. Following this methodology for the two groups (in-scope and coming into scope) and applying the same T&T cost estimates updated for inflation used earlier, £19.20 for those already in-scope and £95.99 for those coming into scope, we get a schedule of annual direct costs to business as below.

Table 6: Familiarisation costs to new entrants

Year	0	1	2	3	4	5	6	7	8	9
In-scope										
Number (millions)	3.7	3.9	4.1	4.2	4.4	4.6	4.8	5.0	5.3	5.5
<i>Ratio</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>
New entrants (millions)	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	1.0
<i>Cost per entrant</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>	<i>£19.20</i>
Total costs (millions)	£12.11	£12.78	£13.41	£14.01	£14.64	£15.30	£15.99	£16.71	£17.46	£18.24
Coming into scope										
Number (millions)	0.09	0.09	0.10	0.10	0.11	0.11	0.12	0.12	0.13	0.13
<i>Ratio</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>	<i>0.17</i>
New entrants (millions)	0.015	0.016	0.017	0.018	0.019	0.019	0.020	0.021	0.022	0.023
<i>Cost per entrant</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>	<i>£95.99</i>
Total costs (millions)	£1.48	£1.56	£1.63	£1.71	£1.78	£1.87	£1.95	£2.04	£2.13	£2.22
Total	£13.6	£14.3	£15.0	£15.7	£16.4	£17.2	£17.9	£18.7	£19.6	£20.5

viii. Summary of costs to business

148. The summary of the direct costs estimated in the sections above is given in the table below (all costs estimated are considered direct in this case). We appraise the total cost over a 10 year period as is standard practice.

Table 7: Summary of the direct costs to business

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
One-off costs (millions)	£82.4	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Familiarisation	£78.8	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Identification, collection and storage	£3.6	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
On-going costs (millions)	£26.7	£28.2	£29.6	£30.9	£32.3	£33.7	£35.2	£36.8	£38.5	£40.2
Annual confirmation statements for newly in-scope	£1.1	£1.2	£1.2	£1.3	£1.3	£1.4	£1.5	£1.5	£1.6	£1.7
Additional filing due to changes to PSC information	£12.0	£12.7	£13.3	£13.9	£14.5	£15.2	£15.8	£16.5	£17.3	£18.1
Familiarisation costs to new entrants	£13.6	£14.3	£15.0	£15.7	£16.4	£17.2	£17.9	£18.7	£19.6	£20.5
Total costs (millions)	£109.1	£28.2	£29.6	£30.9	£32.3	£33.7	£35.2	£36.8	£38.5	£40.2
2015 PV / 2016 Prices	£109.1	£27.2	£27.6	£27.9	£28.1	£28.4	£28.7	£28.9	£29.2	£29.5
Net Present Value 2015 PV / 2016 Prices	£340.4									
Net Present Value 2015 PV / 2014 Prices	£335.3									
Equivalent Annualised Net Direct Cost to Business (EANDCB)	£39.0									

ix. Costs to the public sector

149. Beyond the costs to industry funded regulatory authorities covered above, there are also potential costs to other regulatory authorities which are not funded by industry – such as the Charity Commission (England & Wales), Charity Commission (Northern Ireland) and the Office of the Charity Regulator Scotland which are directly funded non departmental public bodies.

150. The costs to these bodies are not monetised in this impact assessment.

x. Costs to individuals

151. As a result of coming into scope of the PSC register some individuals may incur a cost of having to provide their details to the entity for which they are a PSC. In most cases this will be trivial, or potentially non-existent, in terms of the additional burden.

152. The costs to individuals are not monetised in this impact assessment.

IV. Benefits

i. Indirect benefits to business

153. A proportion of the costs that in-scope businesses will face will come in the form of obtaining outside advice from service providers such as accountants. This is reflected in the “additional costs per company” estimates from the IFF survey that we have used as the basis of this impact assessment.

154. Payments to these third party firms represents a direct cost to business subject to PSC reporting but also an indirect benefit to the third party firms themselves. The use of external advice accounts for 39% of the cost of familiarisation and 54% of the costs of identifying, collecting and storing PSC information (see Figure 1).

155. By treating these payments to third parties as indirect benefits the overall Net Present Value of the reforms presented in this IA is reduced by around 24% but the direct cost to business estimate (EANDCB) is unaffected.

ii. Direct benefits

156. The benefits of the reforms outlined in option 1 (preferred option) are primarily that they make sure that the UK meets its legal obligations as an EU member. They do so in a way that is consistent with transposition guidance as they seek to minimise burden on UK businesses and do not go beyond the minimum EU requirements.

157. It is difficult to appraise the potential monetary benefits of the move to event triggered PSC filing and the application of PSC reporting to organisations of legal forms previously exempted. In the most basic practical terms this will result in a register of beneficial ownership which is more up to date and covers a wider range of organisations.

158. The purpose of the register, as described earlier, is to help reduce illicit activities and to improve the business environment by increasing trust and reducing information asymmetries between companies/individuals/investors. There does not appear to be a mechanism by which the proposed changes to could undermine these objectives and in fact have the potential to expand the benefits.

159. We make no attempt to monetise these potential benefits. Establishing a link between these changes and any particular outcome is not possible. However we can look at the cost of money laundering to day to contextualise the extent of the

problem and therefore the improvement needed to generate benefits equal to the costs.

160. There is no direct estimate of the cost of money laundering and other criminal activities facilitated as a direct consequence of opacity over corporate ownership. We therefore look more generally at estimates of fraud and money laundering.

161. The Centre for Counter Fraud Studies at the University of Portsmouth in their Annual Fraud Indicator (2016) report⁴⁰ estimate that the total losses arising from fraud in the UK are £193bn per year; with £144bn of that falling on the private sector. While the National Crime Agency assessed “that many hundreds of billions of pounds of international criminal money is laundered through UK banks, including their subsidiaries, each year.”

162. Taking an estimate of around £100bn as the cost to the economy of criminal activities which can be facilitated by corporate opacity, the break-even percentage reduction in private sector fraud need to equal the estimated annual £39.0 million cost of these reforms (EANCDB) is around 0.04%. Determining whether this level of reduction could reasonably be expected to arise directly as a consequence of the expansion in scope and move to event triggered filing is unclear.

G. Scoring of costs and benefits against the Business Impact Target

163. The amendments to the UK’s beneficial ownership reporting regime appraised in this impact assessment have their origins entirely within the EU directive. The changes articulated have been determined as necessarily to fulfil the UK’s obligations as an EU member state. As such there is no gold plating in this case.

164. One slight complication to this determination is the UK’s existing requirement for the PSC register to be publically accessible. This is not a requirement of the EU directive, which only requires beneficial ownership information to be available to:

- Competent authorities and FIUs, without any restriction;
- obliged entities;
- any person or organisation that can demonstrate a legitimate interest.

165. Maintaining the UK’s register as publically accessible does, in a strict and technical sense, therefore go beyond the minimum required by the Directive. However in line with the RPC’s case histories this merely represents maintenance of higher existing standards (RPC case histories 5.5.2). Additionally

⁴⁰ <http://www.port.ac.uk/media/contacts-and-departments/icjs/ccfs/Annual-Fraud-Indicator-2016.pdf>

the UK's existing publically accessible PSC register was introduced as a result of an international commitment made by the UK at the 2013 G8 Summit. The impacts associated with its introduction were considered and confirmed by the RPC to be out of scope as a result. Furthermore maintaining a public register achieves the level of access required by the Directive in a way that is simple, understandable and easy to administer.

H. Risks and assumptions

166. A number of simplifying assumptions were used to come to the cost estimates presented. Each of these assumptions were taken after careful consideration of the trade-offs between any potential improvement in accuracy and the resources that would be need to achieve that improvement.
167. The table below lists the key assumptions used and the sensitivity of the EANDCB estimate each of them individually. The sensitivity test involves applying a 50% transformation (in the direction that will increase the EANDCB estimate) to the value used in the calculations from the sections above. The impact of this transformation on the EANDCB estimate is given as a percentage change. Those values that generate a 10% or less increase in the EANCDB are given a green rating, an >10-50% increase gets an amber and a greater than 50% (i.e. disproportionate sensitivity) is represented with a red rating.
168. From this exercise we can see that, as expected, it is the assumptions about the move to event triggered filing that have the biggest impact. In particular the proportion of PSC changes that will involve a PSC that is also a company director and the number PSC changes per company per year are the two assumptions with the biggest impact on the final estimate. Both assumptions are based on evidence. The assumption about the number of PSC changes draws on the frequency of changes to company director's information while the proportion of those changes that will also require a change to director's details comes from our knowledge of the size distribution of the business population.

Table 8 – Sensitivity of cost to business impact to key assumptions

Costs	Key Assumptions	Sensitivity test			
		Current	Δ50%	Impact on EANDCB (%)	RAG
One-off costs					
Familiarisation	T&T IA cost estimate	£91.05	+50% (£137.25)	31%	
	Applying only 20% of the T&T IA estimate to those already in scope	20%	+50% (30%)	27%	
Identification, collection and storage of PSC details	T&T IA cost estimate	£38.30	+50% (£57.45)	0.5%	
Annual costs					
Annual confirmations for newly in-scope	80% of CIOs exempt from PSC reporting	80%	-50% (40%)	0.2%	
	T&T IA cost estimate	£13.40	+50% (£20.10)	0.4%	
Event triggered PSC updates	T&T IA cost estimate	£24.40	+50% (£36.60)	0.5%	
	Number of PSC changes per year	0.5 /year	+50% (1/year)	35%	
	Proportion of PSCs that are also directors	75%	-50% (37.5%)	52%	
	Average annual increase in the number of entities	4.50%	+50% (6.75%)	6.4%	
Familiarisation costs to new entrants	Ratio of new entrants to register size	0.17	+50% (0.26)	20%	

169. Overall we are satisfied that these assumptions are the best possible given the information available but acknowledge the inherent uncertainty that surrounds them. For example the T&T cost estimates were based on responses made before the current regime was in place. Companies, having had experience of the system in practice, might now respond with significantly different estimates should a similar survey be run again.

170. To generate a low and high cost scenario we focus on those assumptions that were more subjective in nature, notably the proportion of the T&T familiarisation cost estimate applied to entities already in-scope and the proportion of PSC

changes that will involve a PSC who is also one of the company’s directors. Judgement and contextual evidence were used to conclude that 20% and 75% were reasonable assumed values for these two proportions. **We generate our low and high cost scenarios by varying these two proportions between 10-50% and 25-90% respectively.**

Table 9: Impact of varying two assumptions on the EANDCB

		% of T&T familiarisation cost applied to already in-scope entities	
		50%	10%
% of PSC changes that involve a PSC/director	90%	£62.6 million	£20.2 million
	25%	£97.8 million	£55.5 million

171. The high and low estimates generated by varying these two assumptions results in an **EANCDDB with a range between £20.2 million and £97.8 million.** Our central estimate (using 25% and 75%) remains £39.0 million, which is 193% of the lower bound and 40% of the upper bound.

I. Small and micro businesses assessment (SaMBA)

172. As an EU measure this impact assessment does not require a SaMBA. However it is clear that, as more than 3.5 million businesses are impacted in some way by these proposals, a substantial majority of those affected will be small or micro sized. It is also evident from the nature of the policy that any exemption from PSC reporting for small or micro entities would result in the UK failing to meet the requirements of the Directive and would undermine the rationale for the UK’s existing reporting arrangements.

J. Families test and equalities test

173. The policy in question applies directly to legal entities rather individuals and as such there is limited scope for these measures to have an impact on the family or any disproportionate impact on individuals with protected characteristics.

174. The only noticeable impact on individuals will be for those individuals who are PSCs of legal entities newly in-scope of the beneficial ownership register. They will now face having some personal information publically accessible. This information will include their name, correspondence address, date of birth, nationality, country of residence and the nature of their control. In addition their usual residential address will be available to credit reference agencies (CRAs), specified public authorities (SPAs) (e.g. the police) other obliged entities.

175. Where this proves problematic individuals will be able to apply to the protection regime to have their residential address suppressed from CRAs and other obliged entities. And where they can show that they are at risk of violence or intimidation they can apply to have all their PSC information suppressed from the public register.
176. While the protection regime offers a solution for individuals who need protection the uncertainty over whether applications will be accepted might generate anxiety for some individuals. This anxiety could in the extreme case impact on family life.
177. There is no reason to expect any of the impacts on individuals to vary in a systematic way by any of the protected characteristics as defined in the Equality Act 2010.

K. Post implementation review plan

Basis of the review:

It is intended to implement 4MLD, including article 30 covered by this impact assessment, into domestic law by June 2017. The review of the changes will take place in 2022 after the changes have been established sufficiently. There will also be an early opportunity to consider the effectiveness of the theses reforms as in 2019 the UK's existing beneficial ownership reporting regime will be reviewed.

Review objective:

The objective of the review is to assess the (cost) effectiveness of the policy in achieving the policy aims set out in the impact assessment:

- Meeting the UK's legal obligation to implement the Directive.
- Upholding the well-establish role for the State in addressing criminal behaviour and reducing information asymmetries which can harm the functioning of economic markets.

The policy aims to achieve this in the least burdensome way to business, and part of the review would be to review whether this was achieved.

Review approach and rationale:

The impact assessment has not aimed to monetise the potential positive effects in terms of a reduction in information asymmetries or financial crime as it appears impossible to robustly estimate any marginal effects caused by this policy. It will also be extremely difficult to provide an ex-post review for this. Instead, the review will focus on identifying whether the cost estimates and underlying assumptions have been met. This in turn should inform whether the policy could be tweaked to deliver the same outcomes in a more cost-effective way.

Baseline:

The current PSC regime has been in place since 6 April 2016 and Companies House began collecting information shortly after. As explained in the impact assessment, the majority of the cost does not arise from widening the scope (i.e. a small increase in the number of companies required to report their PSCs), but from event-triggered reporting. Companies House data of PSC filing before the change will provide a baseline scenario.

Success criteria:

- Meeting the UK's legal obligations.
- Costs not significantly exceeding the estimates.

Monitoring information arrangements:

Data and information will be monitored mainly via data collection by Companies House. This data should enable us to review how many companies reported on PSCs, and how often they did so. We will also remain in close contact with business stakeholders to gather their views on the level of additional burden created by this policy.