



COSTS OF BENEFICIAL OWNERSHIP DECLARATIONS

A report by John Howell & Co. Ltd.

For Global Witness

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1. INTRODUCTION

1.1. Background

John Howell & Co Ltd. has been commissioned by Global Witness to produce a report updating the analysis contained in the 2002 Treasury/DTI Regulatory Impact Analysis¹ (“the 2002 RIA”) of the costs of establishing a UK registry of beneficial ownership of private limited companies. The 2002 RIA was carried out by Compliance Chain Ltd., a precursor firm of John Howell & Co Ltd.

The costs in this report are based on the methodology used in the 2002 RIA, using updated figures where they are available and updated assumptions, based on expert opinion. Where appropriate, we have also updated the methodology and highlighted areas where further empirical research may shed further light on the costs.

Although the issue is frequently discussed, and opinions on the costs of beneficial ownership declarations (either to the company itself or to a public register) appear to vary from prohibitively expensive to almost negligible, the 2002 RIA is one of very few pieces of work to have attempted to quantify such costs. An EU-wide cost benefit analysis, financed by the European Commission, was published by Transcrime in February 2007² (“the 2007 CBA”), using a similar costs model, but a different methodology.

1.2. Definitions

In 2002 the debate on beneficial ownership was much less advanced than now, particularly on practical definitions. Although the basic definition of beneficial ownership is fairly straightforward (being the natural person(s) who ultimately owns or controls a company) it is difficult to get to practical, definitive measures. Both the Financial Action Task Force (FATF) and the European Commission (EC) have now practically defined beneficial ownership by a hierarchy of types of information. According to the FATF Recommendations, revised in February 2012³, a beneficial owner is:

- The natural persons who ultimately have a controlling ownership interest in the company (e.g. any person owning more than a certain percentage)
- If there is doubt about the controlling ownership, the person exercising control of the company through other means
- Where no natural person is identified as above, the relevant natural person who holds the position of senior managing official

The EC’s proposal for a 4th Directive of the European Parliament and of the Council on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing⁴, published in February 2013, requires legal persons to hold

¹ *Regulatory Impact Analysis: Disclosure of Beneficial Ownership of Unlisted Companies*, HM Treasury/DTI, July 2002; http://www.hm-treasury.gov.uk/d/ownership_long.pdf

² *Cost Benefit Analysis of Transparency Requirements in the Company/Corporate Field and Banking Sector Relevant for the Fight Against Money Laundering and Other Financial Crime*, Transcrime, February 2007; http://transcrime.cs.unitn.it/tc/fso/publicazioni/AP/CBA-Study_Final_Report_revised_version.pdf

³ *The FATF Recommendations*, FATF, February 2012; http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf

⁴ *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing*, European Commission, 5 February 2013;



information on their own beneficial ownership. The EC unsurprisingly have suggested a similar approach to that of the FATF, adopting a threshold of over 25%. In the case of corporate entities, the beneficial owner “shall at least include”;

(i) the natural person(s) who ultimately owns or controls a legal entity through direct or indirect ownership or control over a sufficient percentage of the shares or voting rights in that legal entity, including through bearer share holdings, other than a company listed on a regulated market that is subject to disclosure requirements consistent with European Union legislation or subject to equivalent international standards.

A percentage of 25% plus one share shall be evidence of ownership or control through shareholding and applies to every level of direct and indirect ownership;

(ii) if there is any doubt that the person(s) identified in point (i) are the beneficial owner(s), the natural person(s) who exercises control over the management of a legal entity through other means

In common with the 2002 RIA and 2007 CBA, this report mainly considers beneficial ownership derived through direct or indirect shareholdings. Both the FATF and EC text effectively expect beneficial ownership identification to stop at the point that natural persons owning or controlling a certain percentage of shares (or voting rights) have been found – it is only if this is *not possible* that consideration is given to other means of control. In such circumstances, say where a company’s shares are widely held with no individual owning a percentage above whatever threshold is set, in broad terms we expect companies to be able to easily identify one or more person(s) exercising management control.⁵

Terminology has proved problematic in this area. The 2002 RIA referred to beneficial ownership separately to legal ownership (by which it meant shareholding, either directly or through warrants). As will be seen from above, the FATF and EC definitions explicitly state that natural persons owning or controlling shares on their own account may be beneficial owners themselves. In terms of estimating transactional costs, there is an additional overhead for recording (and possibly identifying) those individuals up one (or more) tier of shareholding, such as indirect shareholders, which is why a distinction has to be made. Essentially, there are three situations for each shareholding:

- 1) A natural person registered in the company’s share register owns and controls the shares on their own behalf and is therefore the beneficial owner – in this case we will refer to these individuals as “**registered beneficial owners**”
- 2) A natural person registered in the company’s share register does not own or control the shares on their own behalf (e.g. they are acting as a nominee) and one or more natural persons need to be identified as the beneficial owners of those shares
- 3) A legal person (e.g. a company) is registered in the company’s share register as the owner of shares and one or more natural persons need to be identified as the beneficial owners of those shares, through ownership or control of the legal person registered as owning the shares

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52013PC0045:EN:NOT>

⁵ This assertion may not be held by all stakeholders and no doubt there will be a degree of policy and legal drafting subtlety to achieve the end required, but in terms of transaction costs the effect is negligible.



In both cases (2) and (3) we will refer to the additional natural persons who are the beneficial, but not registered, owners of the shares as “**unregistered beneficial owners**”.⁶

1.3. Scenarios

We were asked to consider various different scenarios in the specification for this update:

- Companies collect and maintain an internal registry of their own beneficial ownership. Require answer to be in costs to companies
- Companies declare to Companies House their beneficial ownership. Require answer in costs to companies and Companies House
- Companies declare to Companies House their beneficial ownership and this information is made public. Require answer in costs to companies and Companies House
- Companies provide ID verification (e.g. a copy of a passport) of each beneficial owner. Require answer in costs to companies and Companies House
- Whether the information is provided as part of the annual report or “real time” (realistically there would be a slight delay of a week or so for the information to be collected and sent to Companies House). Require answer in costs to companies and Companies House

We collated these scenarios into four options to be considered (with two variants of Option 2, Annual and Event Driven), which have cumulative costs:

- **Option 1** - Companies collect and maintain an internal registry of their own beneficial ownership
- **Option 2 (Annual)** - Companies declare their beneficial ownership to Companies House annually
- **Option 2 (On Event)** - Companies declare their beneficial ownership to Companies House as any change occurs (in near real time)
- **Option 3** - Companies declare their beneficial ownership to Companies House and it is made public
- **Option 4** - Companies keep or provide ID verification of each beneficial owner

The proposed EC text for a new Directive was published after our work was started. In terms of UK policy decisions, if the intended provision on beneficial ownership in the text (i.e. that legal persons will be required to hold information on their own beneficial owners) is accepted by the Parliament and Council, the costs of Option 1 are irrelevant as the UK will have to introduce a provision for harmonisation with the Directive. We have included those costs, nonetheless, as the ratio of the extra cost of declaring to Companies House, and Companies House making the information public, to the costs of companies themselves holding a register of beneficial ownership is a useful comparison. The EC published an impact assessment for their proposals – on the beneficial ownership requirement it noted that for most firms there would not be significant burdens or substantial costs, but did not provide quantification of the expected costs or, indeed, quote the 2007 CBA (funded by the EC) on this point.

⁶ This terminology itself is unsatisfactory as the point is that *all* beneficial owners will be registered in the beneficial ownership registry. We believe it is sufficiently clear, however, as we are estimating the costs of establishing and maintaining a new BO register, given that the register of members exists, and using “currently registered in the members register” or “not currently registered...” adds unnecessary verbiage.



2. SUMMARY TABLE OF COSTS

Figures in brackets represent updated 2002 methodology calculations

	Transition costs – companies (total)	Ongoing annual costs – companies (total)	Transition costs – Companies House	Ongoing annual costs – Companies House
Option 1: Companies collect and maintain an internal registry of their own beneficial ownership.	£14.08 m (£13.46m)	£0.27 m (£0.11 m)	-	-
Option 2 (annual): Companies declare to Companies House	(Option 1) + £10.02 m (£4.42 m)	(Option 1)+ £2.03 m (£1.97 m)	£0.35 m (£0.35 m)	-
Option 2 (on event): Companies declare to Companies House	(Option 1) + £14.59 m (£9.55 m) (If not phased introduction at Annual Return – see note in text)	(Option 1) + £3.84 m (£3.72 m)	£38.6 m (If not phased introduction at Annual Return – see note in text)	£10.76 m (10.42 m)
Option 3: The declared information is made public	We see no extra direct costs for this option.			
Option 4: Companies provide ID verification (e.g. a copy of a passport) of each beneficial owner	Extra cost £49.65 m (£48.09 m)	Extra cost £6.45 m (£6.25 m)	Extra cost £0.15 m	-



3. NUMBERS OF COMPANIES AND SHAREHOLDERS

3.1. *Numbers of companies*

At the end of 2012 there were around **2.72 million** active private companies on the register, compared to approximately 1.5 million in 2002. The 2002 RIA applied an estimate of an *average of 3.5 legal shareholders per company* for all private companies. It also estimated that *80% of all private companies* (the Companies House estimates of both 'husband and wife' firms and companies with up to three members) had an average of *2.5 legal shareholders/firm*.

With the benefit of better data⁷, we can now estimate that **92%** of firms have up to three members, considerably up on the 2002 figure of 80%. Firms with up to 5 members account for around **97%** of all companies. The average number of shareholders is approximately **1.5 for firms with up to 3**, and **1.6 for companies with up to 5** members, again less than the 2002 estimate. **52%** of all companies have just one shareholder. **99%** of all firms have 10 or fewer shareholders and the number of firms with more than 100 shareholders is approximately **0.1%** of the total number. We estimate the total number of individual shareholdings in private companies to be **5.5 million**.

The 'size' of a firm can be drawn from the Companies Act 2006 definitions of small, medium and large firms for accountancy requirements (based on turnover, balance sheet and number of employees).⁸ Figures provided by the Department for Business, Innovation and Skills indicate that 98% of private firms are small by this definition, 1.3% medium and 0.7% large. Research in 2009⁹ found that family firms (defined as a firm with more than 50% of shares held by a family and also a family shareholding director) accounted for 30% of small firms, 22% of medium firms and 15% of large firms. Applying those figures to the 2.72 million private companies in the UK, we find approximately:

Small firms – 2.66 million, of which 798,000 are family firms

Medium firms – 35,400, of which 7,800 are family firms

Large firms – 19,000, of which 2,900 are family firms

This same research found that on average 83% of shares in family firms are owned by directors, as opposed to 52% in non-family firms, suggesting that beneficial ownership information should be more readily available in such firms.

3.2. *Numbers of beneficial owners and reports*

Data on unregistered beneficial ownerships and their relation to registered shareholdings is scarce. The 2002 RIA took an average and probabilistic methodology,

⁷ One major change has been the computerisation of Companies House records. However, the best data on company shareholdings is found in commercial databases, such as those maintained by Bureau van Dyke, to whom we are grateful for some of this data.

⁸<http://www.companieshouse.gov.uk/companiesAct/implementations/apr2008ExemptionThreshold.shtml>

⁹ UK Family Businesses: Industrial And Geographical Context, Governance And Performance, Institute of Family Businesses Research Foundation, November 2010



which could be described as ‘top-down’, and gave figures for the population of firms as a whole. We first update the 2002 calculations for comparison and then suggest improvements to the methodology, to take account of both the changed corporate environment and better availability of data.

Total numbers of beneficial owners

The 2002 RIA assumed that 80% of companies had a close shareholding, either family or individuals working closely together, and that therefore they would have only the registered beneficial owners, and would have an average of 2.5 shareholders. The figures on legal shareholdings above indicate that this percentage figure is probably now higher, so we now assume **90%** of companies fall into this category, and that they would have an average of around 1.6 shareholders. Thus **10%** of private firms, **272,000**, have what the 2002 RIA described as a greater potential for beneficial owners (i.e. unregistered beneficial owners in our current terminology). According to our estimates, the average number of shareholders in firms with more than 3 legal shareholders is around **11**, so we estimate there are approximately **3 million** individual shareholdings with potential to have unregistered beneficial owners.

The 2002 RIA relied on expert opinion to estimate that around 5% of shareholdings in these firms would represent unregistered beneficial ownership. We believe that this is likely to have increased since then, based on anecdotal information, so have increased this estimate to **7.5%**. **Thus we estimate using the 2002 methodology that there are 225,000 unregistered beneficial ownerships.**

Sensitivity analysis and methodology update

The 2002 methodology is essentially based on a probabilistic measure, the likelihood of a company having unregistered beneficial ownership (although it appears to then assume that all shareholdings in such a company will have unregistered beneficial owners). The “likelihood of beneficial ownership” percentage figure was obtained through expert opinion and we have updated it to reflect increasing use of company structures, both by individuals (perhaps reflecting the increase in self-employment and the effect of tax measures such as IR35) and by companies themselves, particularly those operating in more than one jurisdiction, where well-publicised cases highlight the tax advantages they can (legitimately) exploit.

The 2002 methodology excludes companies with small numbers of shareholders from the likelihood of having unregistered beneficial ownership. This is demonstrably not true in some cases, particularly where companies are wholly or mostly owned by other companies, because the shareholder register will not get to the natural persons behind the owning companies. The Law Society has expressed particular concern about companies needing to keep registers of the shareholders of companies who own shareholdings in them and so on up the ownership chain.

The rationale behind this exclusion was that the majority of tightly held companies are ‘family firms’ or small enterprises where the principals of the business own the shares and know sufficient about each other to understand the ownership structure and readily report on the beneficial ownership, without further enquiry. This no doubt remains true of a proportion of tightly held companies.

In the case of companies owning interests in other companies, the situation resolves into the following scenarios:



- The shareholding company is itself a private UK company and subject to the same BO registration requirement. In this case, we would imagine a well written regulation would **not** require the ‘held’ company to keep details of the beneficial ownership of the shareholding company, as those details should be available through the beneficial ownership register of that company, so no additional costs accrue.
- The shareholding company falls under a “widely held” exemptions (e.g. it is a listed company) and therefore has no beneficial ownership to report.
- The shareholding company is of another form (most likely an offshore unlisted company) and therefore has to report its beneficial ownership to the ‘held’ company. There are some policy issues here – whether a company will still be allowed to incorporate/operate if the offshore company fails to supply its beneficial ownership (say in the case of it being illegal to do so in that jurisdiction), what the extraterritorial reach of the enforcement regime may be and so on. In any case companies which cannot (or claim they cannot) provide the information and therefore (presumably) have to nominate a senior manager as the identified natural person who acts as beneficial owner, will be flagged as requiring extra due diligence by financial institutions. However, it may be that extra costs should be allocated to companies with small numbers of shareholders that themselves are companies.

Unfortunately, what the 2007 CBA described as the “company information gap” still applies. The lack of information recorded on shareholders in Companies House records means it is difficult to identify from public sources the numbers of such firms (and it has been beyond the scope of this updating exercise to carry out extensive empirical research). Commercial data providers do have more information on shareholders, obtained through their own manual research beyond the public record and have developed products to make this available to their clients. Unsurprisingly, this information is very commercially valuable.

The 90% of companies excluded from the 2002 methodology’s probabilistic approach amount to around 2.45 million companies. Removing the number of family firms from this leaves 1.64 million companies, with around 2.46 million individual shareholdings, some of which will be held by natural persons and some by various legal structures, such as companies, as described above. If we apply the factor as before, 7.5%, then we would need to consider around a further 185,000 unregistered beneficial ownerships, giving a revised total across all companies of **410,000 unregistered beneficial ownerships**.

It is extremely likely, for the reasons outlined in the bullet points on company ownership above that the number will be smaller than this, but in the absence of sensible data on which to make an estimate we have decided to stay with the higher figure.¹⁰ It is possible that research using some of the commercially available data on shareholdings¹¹ and also survey/expert opinion drawing on several years’ experience in both financial institutions and corporate service providers of collecting beneficial ownership data could better refine this estimate.

¹⁰ Data on directors is easier to come by, because more details are recorded at Companies House. Available figures suggest that in November 2012 7.7% of directorships were filled by companies –applying a similar percentage to shareholdings, and taking into account the reduction for listed and UK private companies because of BO declaration exemptions outlined in the text, would reduce the figure of unregistered beneficial owners significantly. Similarly, according to the Guardian newspaper in April 2013, around 2% of active UK companies had directors in offshore jurisdictions.

¹¹ We understand that both HM Treasury and BIS have access to this data through one or more commercial provider.



These assumptions and calculations lead us to assume figures of:

Updated 2002 methodology: 4% of all shareholdings represent unregistered beneficial ownerships

Revised methodology: 7.5% of all shareholdings represent unregistered beneficial ownerships

New beneficial owners per year

There were 455,000 new private companies registered in 2011/12, representing around 920,000 new shareholdings using an average figure of shareholders/firm across all companies. Using our assumptions calculated above, this represents:

Updated 2002 methodology: 36,800 new unregistered beneficial owners

Revised methodology: 69,000 new unregistered beneficial owners

Annual transactions

In the 2002 RIA methodology, the rate of transfer of unregistered beneficial interests was assumed to occur at the same rate as transfer of registered ownership of shares generally derived from HMRC figures, approximately 10%.¹² Applying the same rate to the numbers of beneficial ownerships calculated above gives estimates of:

Updated 2002 methodology: 22,500 transfers in unregistered beneficial ownership

Revised methodology: 41,000 transfers in unregistered beneficial ownership

The 2002 RIA also calculated the rate of change in Director's particulars reported to Companies House (these include changes in addresses) as around 3% of the total number of appointments. Applying the same rate to the total number of unregistered beneficial ownerships calculated above, gives figures of:

Updated 2002 methodology: 6,750 changes in unregistered beneficial owners' particulars

Revised methodology: 12,300 changes in unregistered beneficial owners' particulars

4. CALCULATING THE COSTS

4.1. *Option 1: Companies collect and maintain an internal registry of their own beneficial ownership.*

We assume that under this option, registered shareholders will have an obligation to either declare to the company that they are the beneficial owner of their shares, or provide details of the (unregistered) beneficial owner(s). These unregistered beneficial owners would also be expected to declare their interest to the company. Details

¹² It is worth noting that not all share transfers in private companies are reported to HMRC. None are required to be reported to Companies House.



expected would be (at a minimum) name, address and date of birth, in accordance with usual practice on AML/CFT identification of individuals. Currently firms are required to maintain a register of members, but this does not include dates of birth, so additional details will be required from registered shareholders in this register. We also assume that notifications of transfer of beneficial ownership will be required in the same way as transfer of share ownership.

Transition costs: We assume that companies will amend their register of members to include dates of birth and a declaration of beneficial ownership, and will create a parallel register of beneficial ownership for nonregistered beneficial owners. This will require systems changes either by firms who keep their own register or in commercial providers who supply this service (who we assume will pass their costs on to firms in increased fees).

As a system for the members register must already exist, we assume these changes are relatively minor (either requiring manual amendments if paper systems are used, updates to spreadsheets or changes in software provided by commercial registrars). We anticipate that software packages and commercial registrar services would be updated as part of their service agreement, so the cost of updating is low bordering on negligible, as the overall cost of such services themselves can be very low, but we nonetheless include a marginal cost of £2/company, an overall cost of **£5.44 million**.

There will also be a need for a one-off exercise to update the register of members with their date of birth and to populate the beneficial ownership register where required. Assuming 1 minute per legal owner (date of birth only) and 10 minutes per beneficial owner (full details) to carry out this task, at an hourly rate of £20, we calculate these total costs as:

(registered shareholders x 1 minute) + (unregistered beneficial owners x 10 minute) x 20/60

Updated 2002 methodology:

(5.5 million) + (225,000 x 10) x 20/60 = **£2.58 million**

Revised methodology:

(5.5 million) + (410,000 x 10) x 20/60 = **£3.2 million**

These figures assume that the details required will be provided to the company by the unregistered beneficial owners. In companies with more complicated structures, it has been suggested that more time will be required to properly understand the beneficial ownership. Taking the 2% of companies with offshore directors as a proxy figure, we assume some 54,400 companies would spend up to five hours of time on this, adding a further cost overall of **£5.44 million**

Total transition costs:

Updated 2002 methodology: £13.46 million

Revised methodology: £14.08 million

Ongoing costs: As registered shareholders already report share transfers to the company, once the systems have been amended there will be no marginal cost for



including a declaration of beneficial ownership. Increased costs will arise from registering new reports of transfers of beneficial ownership (without change in registered share ownership) and changes in beneficial owners' details. Assuming 15 minutes at £20/hour for each of these changes, we calculate annual additional ongoing costs to companies as:

Updated 2002 methodology: $(22,500 + 6,750) \times 15 \times 20/60 = \text{£}110,000$

Revised methodology: $(41,000 + 12,300) \times 15 \times 20/60 = \text{£}266,500$

4.2. Option 2 (annual): Companies declare to Companies House their beneficial ownership on an annual basis

Under this option, we assume that companies would declare their registers of members and beneficial owners annually to Companies House, as part of the Annual Return. These options are cumulative, so the costs of collecting the data would be as set out above. Additional costs on companies are simply the administrative costs of reporting to Companies House.

Transition costs - companies: Although changes to software packages that automatically extract details from electronic registers would be required, those costs could be borne in the systems changes outlined above under Option 1. There would be no additional development costs for manual systems. On the first annual return after the requirement was introduced, the dates of birth and addresses would need to be added for registered beneficial owners (only names of shareholders are currently submitted to Companies House and all details of unregistered beneficial owners would be included – we will use the same time estimate as to record the details in the register for unregistered beneficial owners (10 minutes) and add an extra minute for the address details as well as the date of birth (so 2 minutes) respectively, giving:

Updated 2002 methodology: £4.42 million

Revised methodology: £10.06 million

Ongoing costs – companies: On each subsequent annual return, changes to both registered and unregistered beneficial owners would need to be updated. Although the cost for this is likely to be almost negligible compared to the rest of the return, we will estimate the time required. For new owners (where we assume a change rate of 10%), we allow 10 minutes to add to the return. For changes in details of existing owners, we assume 1 minute (in almost all cases this would presumably be an update to the address).

Updated 2002 methodology:

New owners: $(550,000 + 22,500) \times 10 \times 20/60 = \text{£}1.91$ million

Changes in details: $(165,000 + 6,750) \times 1 \times 20/60 = \text{£}57,000$

Ongoing costs of £1.97 million

Revised methodology:

New owners: $(550,000 + 41,000) \times 10 \times 20/60 = \text{£}1.97$ million



Changes in details: $(165,000 + 12,300) \times 20/60 = \text{£}59,100$

Ongoing costs of £2.03 million

Transition costs – Companies House: Changes would be required in Companies House systems to include the extra details of legal owners and full details of beneficial owners. Based on estimates in previous RIAs, we assume these changes would cost in the region of **£300,000**. Most annual returns are filed electronically, so once systems had been changed there would be no additional annual costs for these filings. Around 3% of returns are filed on paper and there would be a marginal increased cost of processing these forms to account for the extra beneficial owner details. All beneficial owners would have to be recorded on the first return. These costs would be, assuming the extra details take on average 5 minutes to input and an hourly rate of £15:

$(\text{Number of beneficial owners} \times 3\%) \times 5 \text{ minute} \times 15/20 =$

Updated 2002 methodology: $225,000 \times 3\% \times 5 \times 15/20 = \text{£}25,300$

Revised methodology: $410,000 \times 3\% \times 5 \times 15/20 = \text{£}46,100$

Total transition costs Companies House:

Updated 2002 methodology: £325,300

Revised methodology: £346,100

Ongoing costs – Companies House: Once the beneficial owners are registered, they will either be confirmed as current on the annual return or changes will be notified. Again, this should have no marginal cost for electronic submissions, but would require inputting on the 3% of forms submitted on paper, but we assume this cost to be negligible compared to processing the form.

4.3. Option 2 (on event): Companies declare to Companies House their beneficial ownership in near real time

Under this option, changes in both registered and unregistered beneficial ownership would be reported to Companies House as they occur. We have assumed at Option 1 above that firms would be updating their registers on an event driven basis (share transactions are required to be reported to the company), so the information would be available, but extra costs would arise to report to Companies House, as such reports are not currently required.

Transition costs – companies: There would need to be an initial declaration of all beneficial owners and the extra details of legal owners, following introduction of the requirement. Assuming appropriate changes to systems have been made, this would amount to similar costs as adding to the first annual return, plus an overhead of 5 minutes per firm for preparing the extra form if the annual return was not used (assuming all companies had to report on the date of commencement of the regulation) – this overhead would apply to 2.72 million companies and the cost would be £4.53 million). This gives overall costs for the first registration of:

Updated 2002 methodology: $(\text{£}4.42 + \text{£}4.53) \text{ million} = \text{£}9.95 \text{ million}$

Revised methodology: $(\text{£}10.06 + \text{£}4.53) \text{ million} = \text{£}14.59 \text{ million}$



NB: This cost assumes that a first declaration of all legal and beneficial owners would be made using new forms required for reporting changes on an event-driven basis. Not only is this expensive, as outlined above, it would put considerable processing pressure on Companies House. An alternative would be to have a hybrid, phased introduction, where the initial declaration could be made as part of the first annual return following the introduction of the reporting requirement (as outlined in Option 2 (annual)) and subsequent changes made on an event-driven basis.

Ongoing costs – companies: There would be new reporting requirements relating to all beneficial ownership changes. Applying the same estimate of rate of changes in share ownership (10%) and in details of owners (3%) the number of these notifications would amount to:

Updated 2002 methodology: $550,000 + 22,500 + 165,000 + 6,750 = 744,250$

Revised methodology: $550,000 + 41,000 + 165,000 + 12,300 = 768,300$

Assuming each report requires 15 minutes, at £20/hour ongoing costs for companies would be:

Updated 2002 methodology: $744,250 \times 15 \times 20/60 = \text{£}3.72 \text{ million}$

Revised methodology: $768,300 \times 15 \times 20/60 = \text{£}3.84 \text{ million}$

Transition costs – Companies House: reporting these changes as they occur, rather than on an annual return, would require more significant changes to Companies House systems – new forms and reporting mechanisms would be required, as well as the changes in the database. We therefore estimate the cost as higher than the changes to the annual reporting system, at **£500,000**. There would also be a cost of initially processing details of all beneficial owners and extra details for all legal owners. Assuming an overall cost of processing per form of £14 (from current Companies House cost model figures), and that all firms would submit one form covering both legal owners and non-shareholding beneficial owners we estimate an initial inputting cost of:

$(2.72 \text{ million}) \times 14 = \text{£}38.1 \text{ million}$

NB: This cost assumes that a first declaration of all legal and beneficial owners would be made using new forms required for reporting changes on an event-driven basis. Not only is this expensive, as outlined above, it would put considerable processing pressure on Companies House. An alternative would be to have a hybrid, phased introduction, where the initial declaration could be made as part of the first annual return following the introduction of the reporting requirement (as outlined in Option 2 (annual)) and subsequent changes made on an event-driven basis.

Total transition costs Companies House = £38.6 million

Ongoing costs – Companies House: once the registers have been initially populated, there will be ongoing costs of processing the extra event driven reports of changes mentioned above, amounting to:

Updated 2002 methodology: $744,250 \times 14 = \text{£}10.42 \text{ million}$

Revised methodology: $768,300 \times 14 = \text{£}10.76 \text{ million}$



4.4. Option 3: Companies declare to Companies House their beneficial ownership and this information is made public

This option will have no additional costs for companies, as they will supply the information as outlined above. Companies House already make data available through searches of the register, so we assume this cost would be borne in the transition costs of whichever reporting option (annual or 'on event' is chosen). Any additional costs would be recovered through search fees, but we regard them as minimal, as the data would simply be made available through current search mechanisms as part of the systems design.

4.5. Option 4: Companies provide ID verification (e.g. a copy of a passport) of each beneficial owner.

We assume here that the requirement to verify beneficial owners would be analogous (and no more onerous) than that imposed on firms covered by the Money Laundering Regulations. Broadly speaking there are two ways that identification can be verified – electronically or through supply of documents.

Electronic verification – there are many suppliers in the market, with different cost models, but it seems that per identity costs would amount to around £2-3. Suppliers make claims of 90%+ success rate. No copies of documents will be supplied to Companies House, as the electronic verification can be replicated, but the firm would have to confirm that the verification had taken place.

Verification through documents: Costs vary depending on the degree of 'certification' required. Companies could simply collect copies of two documents from each legal and beneficial owner, or there could be a requirement to have them certified, possibly by a professional such as a lawyer. The Post Office will certify three documents as true copies for £7-15, lawyers may charge up to £50 (or more).

We assume that firms will utilise both systems and that 80% of identities will be verified by electronic means at a cost of £3. Copying documents is taken to cost around £5 of time, an average cost of £20 for certification, and submission to Companies House to take a further £5. Thus supplying document verification would cost £30.

Transition costs – companies: All registered and unregistered beneficial owners will need to be verified in the first instance. Costs would be:

$$(80 \% \times \text{total number owners} \times \text{£}3) + (20\% \times \text{total number owners} \times \text{£}30) =$$

Updated 2002 methodology:

$$(80\% \times 5.725 \text{ million} \times \text{£}3) + (20\% \times 5.725 \text{ million} \times \text{£}30)$$

Transition costs = £48.09 million

Revised methodology:

$$(80\% \times 5.91 \text{ million} \times \text{£}3) + (20\% \times 5.91 \text{ million} \times \text{£}30)$$

Transition costs = £ 49.64 million



Ongoing costs – companies: The identities of all new registered and unregistered beneficial owners would need to be verified, as above, and where there are changes in particulars of existing owners (such as address), they would require re-verification. The number of identities requiring verification would therefore be 744,250 or 768,300 as calculated previously. Applying the same formula for a mix of electronic and document-based verification, we estimate ongoing costs as:

Updated 2002 methodology:

$$(80\% \times 744,250 \times \text{£}3) + (20\% \times 744,250 \times \text{£}30)$$

Ongoing costs = £6.25 million

Revised methodology:

$$(80\% \times 768,300 \times \text{£}3) + (20\% \times 768,300 \times \text{£}30)$$

Ongoing costs = £6.45 million

Transition costs – Companies House: We assume that verification will accompany notification. Companies House already has systems to store document scans, and we therefore foresee a further system change in this instance to link the copies of documents to the submitted forms. We estimate **£150,000** for this.

Ongoing costs – Companies House: We assume the processing of copies of documents accompanying the forms will be included in the overall cost estimate at Option 2.

4.6. Training and awareness costs

The costs model has not built in training and awareness (including, for example, legal or other professional advice), on the assumption that the regulations would be clear and well-written, and that for the vast majority of companies the situation is clear (in most cases not extending beyond registered shareholdings). Representatives of the professional services sector suggest this is unrealistic and expect very significant costs.

It is, of course, difficult to be more definite without actual proposals for the reporting requirement, but other recent Impact Assessments (IAs) for changes to company law have not included such costs, nor did the IA for the Bribery Act¹³, which affected all companies, and simply note that there would be one-off familiarisation costs for businesses, without monetising them.

We would imagine the market would ensure that those companies currently using professional advisors or company secretarial services will find any additional costs mostly absorbed in their fees and their advisers capable of understanding and complying with the new reporting requirements. It is possible, given that many firms outside the regulated sector will be subject to what is effectively a specific AML/CFT requirement for the first time (although enforcement for most transgressors we imagine will fall under company law-type provisions), that more companies will either use such services or take specific advice on this issue, but it is not possible to estimate the number of such firms or the costs.

¹³ <http://www.justice.gov.uk/downloads/legislation/bills-acts/bribery-bill-ia.pdf>



5. CONCLUSION

It is, of course, difficult to estimate costs of as yet unformed (other than in broad concept) policy options and no doubt as proposals for actual legislative or regulatory provisions are drafted, costs estimates will improve. However, we do conclude that in the vast majority of firms, which we expect to be compliant and to have compliant shareholders (there are high rates of compliance with company law requirements in the UK), there should be little difficulty in satisfying beneficial ownership declaration requirements and that the transaction costs for companies (which primarily relate to time required to record and report details) should be comparatively small.

As might be expected, most of the costs are in transition, i.e. establishing registers and recording beneficial ownership in the first instance. Ongoing costs are additions to current requirements to maintain a register of members and to report some details to Companies House, which would naturally be higher if reporting is required in near real time, but even then the actual amounts in for most companies are not estimated to be large.

There is a degree of sensitivity around estimates of small amounts of time – for example, allocating two minutes instead of one would double costs of that particular item, but in real terms the costs for most companies would remain low.

We acknowledge that for the small number of companies with complicated ownership structures there are likely to be higher costs. With currently available information it is difficult to say with a degree of accuracy how many companies this would effect and what the costs would be, although we have included estimates. Further detailed research could no doubt improve those estimates, but was beyond the scope of this assignment.