

## **Response to Corporate Transparency and Register Reform: Consultation on improving the quality and value of financial information on the UK companies register (January 2021)**

This response has been prepared by Mrs Donna McKenzie Skene and Dr Alisdair MacPherson, acting as a working group of the Centre for Commercial Law at the University of Aberdeen.

### **General Comments**

Having responded to the consultation on corporate transparency and register reform in 2019, we welcome the opportunity to respond to this and the two other related consultations. We are generally in favour of the proposals contained in this consultation, in particular the development of a file once with government approach. As academics, however, we are not able to comment in detail on all of the practical aspects of the proposals.

### **Responses to Questions**

We would respond to the specific consultation questions as follows.

#### **Section 1: Towards file once with government**

##### **Q1: What features of the Companies House and HMRC filing regimes should be kept under a harmonised filing process?**

We are not in a position to comment on this.

##### **Q2: What information (if any) in annual accounts should not be made public?**

We consider that personal information which might be misused for fraudulent purposes or commercially sensitive information should not be made public. There should be a process for determining what should not be made public if this is queried/disputed.

##### **Q3: What benefits do you envisage for filing once across government?**

Reduction of burdens on those filing; consistency of information for recipients; reduction of opportunity for fraud/economic crime.

##### **Q4: What challenges do you envisage for filing once across government?**

The main challenge would appear to be developing an appropriate format since different information may be needed for different purposes by different recipients and some filtering may therefore be required. There may also be legal and practical issues with information-sharing across recipients, for example, where the electronic systems used are different. We consider, however, that it would be possible and worthwhile to address these.

#### **Section 2: Requiring financial information to be delivered in a digital format**

##### **Q5: In your view, why do some companies continue to file on paper?**

We cannot comment in detail from personal experience, but it may be surmised that some companies may continue to do this simply because this is the way that it has always been done, even where the documentation is now produced in electronic format for other purposes. There may also be issues with technology.

##### **Q6: What challenges will mandatory digital filing present?**

**Q7: What can government do to assist these companies to transition to digital filing?**

Clearly this will involve a greater or lesser degree of change for companies which do not currently file digitally. This may include changes in technology and/or internal processes. Given this, we consider that there would have to be an appropriate transition period. Information and guidance would need to be made available, and perhaps appropriate software could be developed which could be made available free or at subsidised cost in appropriate cases. The ability to access technical assistance would also be helpful. Ensuring access to quality broadband provision in all locations is also important so that users are in a position to file digitally whatever their location.

**Section 3: Full iXBRL tagging of financial information**

**Q8: What challenges do you foresee with filing fully tagged accounts with Companies House?**

As in our answer to the previous two questions, we anticipate that this would involve a greater or lesser degree of change for companies which do not currently produce fully-tagged accounts which may include the necessity to change technology and/or internal processes. This could be supported in the same ways as noted in our previous answers.

**Q9: As a user of financial information on the register, what information in a company's accounts is critical for you and should be checked (validated) to ensure it is tagged correctly?**

We are not routine users of financial information on the register as such, but would anticipate that this would include at least details of assets, liabilities and creditors. There should also be consistency of format across years going forward, allowing for meaningful comparisons and monitoring of financial performance.

**Section 4: Reducing the timescales for delivering financial information**

**Q10: With continual advancements in digital technology, what are your views on shortening the time allowed to submit accounts to Companies House?**

We are broadly in favour of reducing the time allowed to submit accounts in order to improve the currency of information available to users. It would be helpful if the timescale for submission was aligned with HMRC to facilitate the filing once agenda.

**Q11: What would be the impact if filing deadlines were shortened to three months for public and six months for private companies from the end of the reporting year?**

**Q12: What measures could the government implement to ease the transition to shorter filing deadlines?**

Clearly, companies (and their professional advisers) would need to act more quickly in preparing their accounts for filing and this may involve changes to technology and/or internal processes. If the move is combined with digital submission, however, the use of electronic systems introduced to support such a move should allow the process to be speeded up in any event. We consider that the same sorts of steps mentioned above in our previous answers would assist with the transition.

**Section 5: Maximising the value and integrity of accounts information**

**Q13: What will be the challenges for companies submitting a declaration of filing eligibility with accounts?**

We do not foresee any particular challenges beyond perhaps some changes to internal processes.

**Q14: Under what circumstances, if any, should the eligibility information collected with the declaration not be published on the public register?**

We consider that the information should not be made public if it is commercially sensitive and there should be a process for determining this if it is claimed. The fact that a company is eligible for a particular regime will be obvious, however.

**Q15: What other information should Companies House collect that would be useful for:**

- **Combating economic crime;**
- **Increasing the value of the information available on the register?**

We have no additional suggestions to make here.

**Q16: As the directors' declaration will need to include information in respect of turnover, balance sheet total and number of employees, what changes, if any, would you make to these definitions in Part 15 of the Companies Act to make the definitions clearer?**

We are not aware that these are unclear at the moment.

**Q17: What would be an appropriate sanction for making a false declaration of eligibility?**

On balance, we consider that a civil penalty would be appropriate, although criminal penalties might be considered for repeat offences/where fraudulent intent was established. A false declaration would also be relevant for the purposes of director disqualification. We wonder whether it would be appropriate to include an express defence of relying on appropriate professional advice.

## **Section 6: Review of small company accounts filing options**

**Q18: What is the minimum level of financial information that a micro-company should disclose on the public register?**

We have no strong views on this, but would agree with the suggestion that it should include a profit and loss account. If a once only filing approach is adopted, there might be some merit in simply requiring disclosure of what is submitted for that purpose.

**Q19: Are there any existing filing requirements under the small or micro-entity regimes that could be discarded?**

It would appear from the information provided that removing the option for abridged accounts is sensible.

**Q20: What would be the impact on small companies if the Companies House filing requirement was aligned with HMRC's to require a profit and loss account?**

We would anticipate that there would be no impact, except perhaps some changes to internal technology/processes, as the information is being provided to HMRC anyway.

**Q21: How do you think the current small company filing options could be amended to help combat economic crime whilst maintaining a simple filing system for small entities?**

It appears to us that reducing the number of options available and aligning what requires to be produced would be sensible.

## **Section 7: Changing and clarifying filing requirements**

**Q22: What would be the benefits of requiring companies to file the most detailed set of accounts that have been prepared?**

We consider that this could increase the amount of information available to users of the register, would not increase the burden on companies as the accounts are being produced anyway, and could help combat fraud/economic crime.

**Q23: What would be the disadvantages of requiring companies to file the most detailed set of accounts that have been prepared?**

It may be argued that users of the register are not necessarily entitled to see all of the additional information which might then be available on the register. There could, however, be provision for removal of commercially sensitive information as suggested previously. An alternative might be to provide for a minimum level of detail and companies which produce more detailed accounts could produce less detailed accounts which still meet the minimum if they wished.

## **Section 8: Greater checks on financial information**

**Q24: What are your views about the general premise that checks should be conducted on all accounts prior to them being accepted as fit for filing on the public register?**

We agree with this proposal, while noting the potential resource implications.

**Q25: Additional checks will be limited. Bearing in mind resource and expertise constraints, can you provide examples of what information Companies House should check as a priority and how it can be checked?**

Subject to appropriate information-sharing provision being in place, it might be useful to focus on information which could be checked with other public sources such as HMRC, the land registry etc. Random cross-checks could also be made with websites and other sources of information.

**Q26: Examples of suspicious activity in a company's accounts may be incomplete, inconsistent or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?**

We do not feel competent to answer this in any detail, but unexplained major discrepancies from previous accounts, for example unexplained loss of assets or different treatment of assets or liabilities, could be suspicious, as could discrepancies between the company's apparent business and its assets, liabilities or activities.

## **Section 9: Displaying key information on the register**

**Q27: Which elements of financial information would be most useful to see on the company overview page?**

**Q28: What non-financial information would you like to see on the company overview page?**

**Q29: Do you have any additional comments about this proposal?**

As we are not regular users of the register, we do not have any suggestions to offer here other than to note that there is a balance to be struck between the level of information that can be made available and the resource required to make it available.