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Dear Sirs

Corporate Transparency and Register Reform: Consultation on improving the quality and value of financial information on the UK companies register

We welcome the opportunity to comment on the department's consultation on improving the quality and value of financial information on the UK companies register.

As you know, the Chartered Governance Institute is the professional body for governance. We have members in all sectors and our Royal Charter purpose is to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With more than 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance. The Institute is the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, which includes company secretaries. Company secretaries have a key role in companies' governance arrangements including corporate reporting. Our members are therefore well placed to understand the issues around Companies House filings and the practicalities of dealing with issues that arise.

In preparing our response we have consulted, amongst others, with members of the Chartered Governance Institute's Company Secretaries Forum, a group of company secretaries from more than 30 large UK listed companies from the FTSE 100 and FTSE 250. However, the views expressed in this response are not necessarily those of any individual members of any of this group, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below.



General comments

The consultation refers, explicitly, to improving the quality and value of financial information on the UK companies register. We believe that this lacks ambition. In our view, the consultation should focus on improving the quality and value of all information on the UK companies register. Financial information is, of course, very important, but it is not the only information that UK companies are required to file at Companies House. Some of that other information is increasingly important, for example, the elements of filing and reporting that relate to beneficial ownership or to the impact of climate change and sustainability, and government and society are placing increasing reliance on the accuracy of that information. Improving its quality and value is, therefore, essential.

Part A: How information is submitted to Companies House

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?

This question is difficult to answer in the abstract, but key considerations should be simplicity of filing by named individuals, with contact details for queries. Ideally, filing might be through a tagged, electronic format, but it will be important to retain a means of hard-copy filing for smaller entities.

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

We would see all information published in the annual report and accounts as, by definition, in the public domain. The information that should not be made public rests in individual filings – for example directors' personal addresses.

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

We would expect to see a reduction in cost and administration, but only once the system is wholly embedded.

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

The principal challenges are those noted in the consultation paper – the different formats and purposes of filing and reporting (and the difference between those two functions); the timing and content of the required reports and filings, etc. As the consultation document notes, this will require a significant update of reporting and filing requirements across all parts of government, necessitating “fundamental changes in tax and company legislation, the challenge of which should not be underestimated.”

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?

There are a variety of reasons why some companies continue to file on paper. In some cases, this is because they do not have the functionality, skills or experience to do otherwise; in others, it is because that is a requirement forced upon them by legislation and/or Companies House functionality.



We believe that the ideal solution would be for all filings and all reporting to be by electronic means. However, for some smaller organisations the relevant functionality, skills or experience are not available and some of those are not able or willing to employ someone to do it for them. It is, perhaps, an unintended consequence of the excellent work that has been done to make filing simpler that some people feel able to 'have a go'. That does not, however, always increase the quality of filings and we remain of the view that businesses of all sizes should be encouraged to have a professional file documents for them.

There are also some documents which cannot, currently, be filed electronically, although we are confident that Companies House are working towards that end. We are told that these include:

- Many companies have to prepare a special copy of their annual report for filing at Companies House which has had all photographs and graphics removed; this must be sent in hard-copy for Companies House to scan. It would be much more efficient all-round were companies able to file the electronic copy of the full annual report (with photographs) that they already have.
- Companies with complex capital structures are unable to file their SH01 Return of Allotments form electronically and have to revert to paper filing.
- Subsidiary companies claiming audit exemption by virtue of a parent company guarantee pursuant to s479A-479C of the Companies Act 2006 are required to submit a number of documents with their accounts when they file them at Companies House, namely a copy of the company accounts of the guaranteeing parent, consent to the audit exemption from all members of the company and a copy of the guarantee (Form AA06). Therefore such companies have no choice at present but to file their accounts in paper form.
- The requirement to file a separate paper copy of the accounts of the guaranteeing parent with each subsidiary company covered by the audit exemption is administratively burdensome (and a complete waste of paper, particularly as they will already have been filed against the guaranteeing company's own record.). Even when filing several subsidiary company accounts together, each one claiming the exemption must be accompanied by a separate copy of the parent company accounts.

Q6: What challenges will mandatory digital filing present?

As noted above, the principal challenges for mandatory digital filing will be twofold – that Companies House is able to accept all filings and reports in electronic form and that all organisations are able to file in electronic form.

Consequently, we believe that electronic means should be the default, rather than the only means of filing; there should be a fallback to paper delivery. There is no requirement that those running companies are IT literate, nor is there a requirement that they have reliable IT. Some very small companies, for example small businesses, or ones simply holding the freehold of a house split into flats, may not always be able to fulfil this requirement, so there needs to be a 'fall back' option of delivering in paper form.

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

As noted above, ensuring that Companies House can accept all filings electronically would address a part of this issue. The other would require that all companies that were unable to file electronically themselves used a service provider to do so. It would be helpful were there a clearer understanding as to why those companies which file electronically with HMRC but in paper with Companies House do so.



Section 3: Full i-XBRL tagging of financial information

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

From a corporate perspective, tagging accounts is an onerous and costly piece of administration which serves no discernible purpose. However, it is understood that it is beneficial for some users of accounts who prefer to analyse filings digitally and, consequently, companies understand the HMRC requirement that accounts be tagged.

To the extent that companies are already required to tag accounts submitted to HMRC, submitting accounts tagged in the same manner to Companies House should impose no additional burden. However, challenges will arise if, for whatever reason, those taxonomies are allowed to differ. The consultation document mentions (paragraph 33) that tagging in iXBRL “is currently mandatory in jurisdictions such as USA, Japan, China, India and will be in the EU from 2021” and this is also helpful where companies have to file in multiple jurisdictions. The Government should ensure that common standards apply as far as possible to reduce duplication of work.

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 machine users of financial information on the register and so will defer on this question to others who are.

However, if it is simple and inexpensive, as suggested in paragraph 31, for Companies House to check tags to ensure their presence and accuracy, we see no reason why as many as practicable should not be checked, especially if the Registrar’s new powers will enable incorrectly-tagged accounts to be returned to the filer for correction.

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 strongly disagree with proposals to shorten the time allowed to submit accounts to Companies House. We understand the desire for filings to be as up to date as possible, but are of the view that advancements in digital technology have little impact on the time within which accounts are ready for submission.

We regularly hear from members that the year-end process, preparing the report and accounts, is one of the busiest in the corporate calendar. There is an increasing focus on the quality of corporate reporting and requiring that this be squeezed into tighter and tighter deadlines whilst more and more information and, particularly, detailed description is required seems to us to be counter-intuitive. For public companies there is the additional challenge that they have to have lay their accounts before shareholders at a general meeting before the end of the period for filing the report and accounts in question¹. This means that the accounts have to be ready for publication with the notice of general meeting, which must be published at least twenty-one clear days before the meeting and good practice dictates that 20 business days are allowed, which is, in effect, more or less a full calendar month. Many companies, in the interests of their shareholders, prefer to provide longer notice.

¹ S437 Companies Act 2006



Before they can be circulated to shareholders – indeed before they can be approved by the board - the accounts must have been audited. There is, rightly, an increasing focus on audit quality at the moment – we are anticipating, at any moment, a detailed consultation from the Department on the future of audit in the UK. We have no expectation that the result of that consultation will be a faster and less comprehensive audit – indeed, it would be very wrong were that to be the outcome. So, we anticipate that audits will take longer than they do now.

Our members tell us that it is not just that audits will take longer because of rightly increased scrutiny and scepticism, there will also be an extended process of review by the audit committee, challenging the finance team and the auditor on the judgments inherent in the accounts – this is likely to stretch over two or more audit committee meetings with potential re-work in between, before they can go to the board for approval. It is also only at this stage that much of the rest of the accounts can be drawn together. For example, the report of the remuneration committee will be dependent on the results as, indeed, will much of the rest of the strategic section of the report, including any Chair and CEO letters.

The development of digital technology has, to date, had little real impact on any of these processes and it is difficult to see, at present, where it would have scope to do so.

Whilst it could be argued that there may be scope for the deadlines for private companies to be brought into line with those for public companies, this would only be practicable in some cases. For groups of companies, it is normal practice for work on the subsidiary accounts, both in terms of preparation and auditing, to run in parallel with the group accounts, but the group accounts take priority at the later stages of the process and, consequently, many subsidiary companies are not in a position to file accounts until after the parent accounts have been approved and filed. For many public companies this will be exacerbated by the need, once the group accounts have been filed, to focus on half-year results and we are told that, for December year end companies, the finalisation of subsidiary accounts is very often a Summer task.

Paragraph 42 of the consultation document states that “Responses to the first consultation from a range of professionals suggested that a reduction in filing deadlines should be explored. Suggestions to reduce the filing times for private companies ranged from three to six months from the end of the reporting year.” However, it is interesting that the Government response to the first consultation² does not mention this, with the possible exception of a passage in paragraph 199 relating specifically to the micro-entity regime.

We are not persuaded that the need or, indeed, the demand for shortening filing deadlines would justify the significantly increased costs to business or be in tune with what we expect the audit reforms will require. We would expect the Government to proceed with a detailed cost/benefit analysis before progressing this proposal.

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?

For the reasons set out in our response to the previous question, we simply don’t believe that these measures are practicable without significantly increasing the costs – not least in terms of additional staff – that it would cause to business. We are not persuaded by the assertion in paragraph 41 of the consultation document that “Receipt of accounts more promptly after the reporting year end will increase the value of the data and will help to boost

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/925059/corporate-transparency-register-reform-government-response.pdf



the UK economy” or in paragraph 42 that “Shortening the timescales will increase the value of the information and support commercial activity that relies on information on the register” and would be interested in the Government publishing the evidence to support these assertions.

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

For the reasons set out in our responses to the previous questions in this section, we do not believe that there are any measures – other than significant subsidy – which the government could introduce to ease a transition to shorter filing deadlines. It seems likely to us that the government has been misled by those who would like, for commercial reasons, to see shorter filing deadlines into a belief that this is rendered possible by the application of modern digital technology. It is our view that this is simply not the case.

Part B: What information should be filed at Companies House

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 believe that there would be any such challenges. In order to assess its eligibility for a reduced reporting regime, the company must have made these assessments so we see no difficulty with their making a declaration to that effect.

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

We see no reason why such a declaration should not be published on the public register alongside the short-form accounts.

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 believe that this is a question best addressed to the law enforcement agencies. We do not see ‘increasing the value of the information available on the register’ as part of the function of Companies House.

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 believe that the accountancy professional bodies would be better placed than ourselves to make suggestions for improving these definitions, but we do believe that consistent definitions would be enormously helpful to all account preparers and users.

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

We would see this as a matter of false accounting and sanctions should probably be in line with that offence.



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?

Other respondents will be better placed than ourselves to answer this question, but it does appear that, as indicated in paragraph 55 of the consultation document, “the very limited financial information now filed by small and micro-entity companies is of little value to users of the register” and we share your earlier respondents’ doubts that it is appropriate for a company to obtain the very significant benefit of “limited liability protection while providing such minimal financial information”.

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

We will defer to others with more relevant expertise on this question.

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 will defer to others with more relevant expertise on this question, but our instinctive view is that if they are providing a profit and loss account to HMRC, there is no reason why one should not also be filed at Companies House. This is a very basic record which all such companies can reasonably be expected to have. Indeed, as paragraph 58 of the consultation document notes, it may be of benefit to them in terms of obtaining finance.

Of course, not all companies have a profit and loss account and so make no filing to HMRC. The Companies House filing requirement should be aligned with HMRC’s and only require a profit and loss account where there is one.

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?

We believe that this question is better addressed to the law enforcement authorities.

Part C: What Companies House does with this information

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 will defer to others on this question but, intuitively, it seems appropriate that the most detailed set of accounts that have been prepared be placed in the public domain by those claiming exemption from filing a full set of accounts.

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

We do not believe that there would be any such disadvantages. If the more detailed accounts have been prepared for another purpose, we see no difficulty with the company filing a copy at Companies House.



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 will defer to the responses of others, but this seems reasonable if Companies House is able to do this simply and cost-effectively. It is our impression that this will require significant investment at Companies House.

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?

We will defer to others with more relevant expertise on this question.

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 know of no such examples. The law enforcement authorities will be better able to help on this question.

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?

We will defer to others with more relevant expertise on this question.

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

We will defer to others with more relevant expertise on this question but it seems that some reportable information, for example the number of employees, would be useful and there is also a case for some of the key non-financial metrics, such as gender pay gap, carbon emissions etc., if reported. If carried forward, this should be the subject of specific consultation.

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

None.

If you would like to discuss any of the above comments in further detail, please contact me.

Yours faithfully

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ICSA: The Chartered Governance Institute

