Analysis, Company Law and Corporate Transparency Team
Department for Business, Energy and Industrial Strategy and Companies House

By email: transparencyandtrust@beis.gov.uk

3 February 2021

Dear Sir/Madam,

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

We are writing on behalf of the British Private Equity and Venture Capital Association ("BVCA"), which is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 700 firms, we represent the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers and investors. Between 2015 and 2019, BVCA members invested over £43bn into nearly 3,230 UK businesses, in sectors across the UK economy ranging from heavy infrastructure to emerging technology. Companies backed by private equity and venture capital currently employ 972,000 people in the UK and the majority of the businesses our members invest in are small and medium-sized businesses.

We are delighted to have had the opportunity to be involved in the Expert Panel in relation to Corporate Transparency and Register Reform and to respond to this Consultation. Our response focuses on proposals set out under three themes included in the consultation.

Consultation questions

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?

The current ease of access to information for the public via Companies House should be kept, however careful consideration needs to be made as to what information is public, and what is limited to only those regulatory bodies that require that specific information.

In our view a harmonised portal for reporting would be beneficial and provide efficiencies from the point of view of the company filing the information, provided that the information required is in line with what is currently requested by the various regulatory bodies. Most of the reporting can be harmonised, and data could be tagged in a way that determines who it is visible to once submitted.

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

The Annual Report and Accounts ("ARA") represent a statutory document that is public in its entirety, and that information can continue to be public. However, companies typically submit more detail in their HMRC submissions than is included in the statutory accounts, and such information should continue to be made available only to HMRC. As such any central filing system should allow for certain fields of information to be restricted by the company to certain users.

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

Filling once reduces the administrative burden on reporting companies to make multiple filings and reporting to a number of different government agencies which brings associated administrative and cost savings for the firms and their agents. This also ensures the consistency of information that is reported to different government agencies as well as reducing the possibility of errors or unintended differences by ensuring that each piece of information only needs to be uploaded once.

The government should also consider other regulatory bodies that companies may require to file information with, such as the FCA, PRA and any environmental agencies for example, and include their reporting within the unified filing system as well to maximise the efficiency benefits.

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

The changes proposed, would also require changes to the underlying tax and company legislation, as well as ensuring the technology supporting the filings is easy to use, supported by a wide range of devices, and facilitates filings from small and large companies.

There is a need to consider the timing of the filings, as typically currently, the tax filings are done at a different point in time to the statutory filings. Aligning these timings would create additional pressures on company management, as they would need to prepare all the required filing information at the same time and potentially increase the cost if additional resources are needed for companies to meet the revised timing of filings. As numbers filed for tax purposes and Companies House purposes are slightly different (e.g., certain types of income and expenditure appear in the statutory accounts, but are not allowable for tax purposes), a way of reconciling between these two sets of information is required, as well as the alignment of the definitions of any key metrics (e.g., revenue, cost of sales etc.)

Information submitted centrally may require dedicated resources to ensure that the filing and any subsequent requests to change a company's filings meet the requirements of all the agencies that receive the financial information.

A challenge is also presented by the process of review of the information once filed. As the information filed and the submission process is harmonised across government agencies, the review of the filed information should also be completed centrally, and a central point of contact should exist to deal with the filings on behalf of HMRC/Companies House/other agencies (ensuring that the filing and any subsequent requested changes to a company's filings, also meet the requirements of the other government agencies that the information has been filed with).

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?

In some cases, companies have continued filing on paper due to historic convention, and the lack of technology/systems that would allow for electronic filing – though increasingly rare. Some companies see wet signatures as more "secure", or as better proof of approval, and some may lack the electronic signature software, and so continue to evidence everything with wet signatures. Some companies may produce "glossy copies" of annual reports, which are available to shareholders/board, and then provide a black and white scan of this as a part of the regulatory filings.

Q6: What challenges will mandatory digital filing present?

The most prominent challenge will be for companies to ensure that they have technology and systems in place that support the production of the information in the required format, and possibly that internal systems are compatible with the systems used by the government, and this may require significant investment from a company, especially if they are accustomed to paper filings. This will necessitate a standardised format requirement such that all reporters would need to file using this standardised approach. Without a standardised format, there may be compatibility issues when receiving the data in digital form.

Consideration needs to be paid to the security of the digital filings, and whether this form of filing is more susceptible to fraud and manipulation. Cyber security and GDPR should be considered as well, and that the information filed is only available to those that it is intended for (and that the tagging of such information on the digital filing works as is intended). There may also be challenges around data retention and storage, whether it is a cloud-based solution, where the servers are hosted etc. Consideration should also be made to the compatibility of the digital format/system with a wide range of computers and other devices (e.g., phones), to ensure that the system can be accessed by the companies and people that need access.

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

Any digital systems that are implemented should be easy to implement and to use. The government should provide companies with adequate time to understand the data requirements for filing and to transition into being able to produce the relevant information, and implement any new hardware or software solutions that are required. We would also consider there to be adequate time for filing, to allow for a draft submission in the first year of digital filing, to allow companies to address any issues that may arise.

Section 3: Full i-XBRL tagging of financial information

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

There are likely to be additional costs to the business to change reporting to meet the tagging requirements of the new system. This is likely to be an increased cost in the first year, which will tail off once the internal systems and processes have been updated to meet the requirements of the digital filing for certain businesses. See response to question 10 below for further detail.

In addition, and as the consultation acknowledges in paragraph 39, it is possible to tag an item incorrectly in a myriad of ways, some of which if they go undetected could immediately affect an entity's credit rating. It is not inconceivable for a tagger to select and carry forward an incorrect dimension to the rest of the tags on a primary statement, which could render all of the entities activities as discontinued rather than just those that have been discontinued. Given that this information is expected to go immediately to lenders and credit reference agencies, changes in ratings could happen very quickly, and thus a simple error could have significant adverse impact very soon after filing.

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 suggest that, as a minimum, all statutory information required by Companies House and HMRC should be validated to ensure that it is tagged correctly.

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?

While the digital filing system, and other advancements in digital technology may make the filing itself more efficient, it would not reduce the effort and time required for companies to prepare the accounts and tax information required for the filing.

Further, many private equity and venture capital companies as well as the portfolio businesses they invest in, will be preparing a large number of individual sets of financial statements and accounts and as such to meet a shorter filing deadline will be a challenge. Companies that are part of a larger group are also likely to have deadlines for internal group reporting, which in turn creates added pressure on the management teams. This could also potentially lead to additional cost burden for reporters if additional resource are required (either through hiring additional staff or by making use of external service providers) which would not be an insignificant cost for certain firms if they have a large number of subsidiary businesses.

Whilst shorter reporting times would make the information more timely, it also increased the possibly that it is not as accurate given the challenges of meeting the shortened timeframe. Further, the shortening of time allowed to submit accounts to Companies House does not appear to reconcile with the drive for continuous improvements in corporate reporting and audit quality. We support the drive to increase Audit Quality and feel this is of paramount importance to the capital markets and the UK economy, with the benefits of early filling being minimal, but risking undermining the continual drive for high standards in UK financial reporting.

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?

As mentioned in the response to Q10, a challenge exists where many companies are required to produce a large number of financial statements, that all have the same reporting deadlines, as yearends are often aligned.

Further companies may have additional reporting responsibilities prior to the statutory deadlines that they are required to meet (e.g. investor reporting and group reporting deadlines), and any shorter filing deadlines is likely to place pressure and stretch the resources available. A large number of companies are also reliant on information provided by 3rd parties, such as outsourced service providers, or portfolio companies, to produce the full financial statements and other statutory filings, and a shortened filing deadline will have an impact not only on the companies producing the reports, but also the third parties who provide information to them, and could mean that the supporting information cannot be obtained within the allowed time. A shorter filing deadline would present significant challenges and potentially increased cost given the quantity of information that the companies need to prepare and have audited – additional time pressures are likely to result in poorer quality of processes and increased chance of error or misstatements in the filings.

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

The government should allow sufficient time for companies to prepare for the change, and for the internal processes, procedures and controls to be updated to meet the updated requirements. The companies will also need time to negotiate any updates to contracts with service providers (see Q11) to ensure that the reporting time frames are also reflected in their agreements.

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?

The challenges to submitting an additional declaration of filing eligibility would arise due to the complicated nature of the requirements that exist in company law. Whilst the headline thresholds outlined in the consultation paper are straightforward, there are a number of exemptions and other factors to consider (e.g., group considerations, ineligible group assessment, first year grace periods for small company reporting) which may make declaring eligibility complicated and challenging.

Further, we note that the metrics outlined in Part 15 of the Act (turnover, balance sheet and employees) are disclosed in the financial statements for most companies already and so an additional layer of eligibility decelerations may not be as effective to identify other more complex areas of company law.

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

As noted in the response to Q13, the information for eligibility criteria is outlined in the financial statements for most companies (except for micro-entities which do not have profit and loss 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?

As set out in our response to Q13, if a declaration of eligibility is introduced, Companies House should gather information about eligibility criteria in addition to the size of the individual entity to confirm it the company is not an ineligible company or part of an ineligible group. For confirmation of eligibility for audit exemption, whole group figures would be required as whole group limits are often overlooked.

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?

Clarifications on the defined terms would improve the compliance with the requirements. For example, the thresholds used could be simplified to help reporters identify situations where they are within scope and when they are not. The rules could be elaborated through the use of worked examples to help with the definitions of the thresholds, especially in circumstances where there could be some judgement in applying the thresholds. These would particularly be helpful for a number of situations, including;

- Determining the number of employees in light of revised practices in establishing workforce and more complex group arrangements,
- Outlining what is included as 'turnover' and what is excluded,

- Providing worked examples of the balance sheet threshold (e.g. gross or net considerations)
- Examples of how to assess the eligibility of a group in various circumstances (e.g., foreign parent, consolidation considerations etc.).

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

We have no particular views in this regard.

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 believe the level of financial information for a micro-company is sufficient as it currently stands given the size of these entities.

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

We have no particular views in this regard.

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?

HMRC typically requires a more detailed profit and loss account than is included in statutory accounts. We do not believe that the detailed profit and loss account prepared for HMRC should be included in the statutory accounts or made public and that the current level of reporting of a profit and loss statement in line with their financial reporting framework is appropriate. There may also be further commercial confidentiality considerations for reporting a more detailed profit and loss statement as part of the statutory filing.

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 a better measure of tackling economic crime would be to perform greater checks on the financial information being submitted through the measures outlined in other parts of this consultation with the digital submissions, electronic checking of key information etc.

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?

As set out in our response to Q20, we do not believe companies should be required to file publicly the most detailed set of accounts that are prepared; such a filing would need to include the detailed profit and loss account prepared for HMRC and could lead to commercial confidentiality issues.

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

If the most detailed information was required to be filed, company competitors would be able to see the turnover and key profit metrics for small companies and micro-entities, which some may consider to represent commercially sensitive information. There would also be additional time spent in arriving at this information, as currently the timeframes for HMRC filing and statutory account filing are not aligned.

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?

This is a welcome provision, on the assumption that appropriate checks can be made effectively and efficiently, and would cover the requirements of all of the bodies the filing is made to. We would further point to our response to Question 1 in the consultation for the Powers of the Registrar as additional considerations which we think are relevant here.

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 believe that Companies House should check eligibility for small company accounts simplifications and audit exemption through an assessment of the thresholds.

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 have no particular views in this regard.

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?

A company's key financial information such as turnover, gross profit and net profit over the last 5 years (where available) would be useful. Additional financial ratios can be considered (e.g. gross profit margin, expense ratios etc.) however these may be more applicable in certain industries than others therefore the usability of these metrics may be limited.

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

This could include employee numbers and names of current directors and, where relevant, other non-financial information such as key stakeholders, energy and carbon metrics and other non-financial key performance indicators identified by the company.

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

We do not have any additional comments on this proposal.

We would be very keen to discuss the contents of this letter with you and look forward to hearing from you in order to establish whether a meeting of this sort is possible.

Yours faithfully,

Amy Mahon
Chair, BVCA Legal & Accounting Committee