

Incorporation with limited liability is a privilege. It...

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I wrote a version of this blog in 2012, but it's as relevant today, so I am republishing it with some edits. I made the points on Radio 4 this morning:

I've long argued for the contention in the title of this blog. I am convinced legal limited liability is a privilege — after all, if people sign a piece of paper to form a company they no longer have to accept full responsibility for their debts. That's an extraordinary state of affairs, and a massive privilege. But I think that, like all responsibilities, this one comes at a price. The price is to say who you are i.e. to disclose who really owns the company and who really runs it, as well as to say what you do i.e. to put true and fair accounts on public record.

For a long time this argument has been resisted, so it's especially welcome to [note the Economist](#) saying this week:

Limited liability—a commercial venture that protects its shareholders from personal bankruptcy—is one of the greatest wealth-creating inventions of all time.

I agree. And it then follows up saying:

But limited liability is a concession—something granted by society because it has a clear purpose. It is unclear why in parts of the world anonymity became part of the deal. Efforts to withdraw that unjustified perk deserve to succeed.

And as they add:

In dozens of jurisdictions, from the British Virgin Islands to Delaware, it is possible to register a company while hiding or disguising the ultimate beneficial owner. This is of great use to wrongdoers, and a huge headache for those who pursue them (see [article](#)). Anonymously owned companies can buy property, make deals (and renege on them), launch intimidating lawsuits, manipulate tenders—and disappear when the going gets tough. Those who seek redress run into baffling bureaucracy and a legal morass. Seeking real names and addresses means dealing with lawyers and accountants who see it as their job to shield their clients from nosy outsiders.

And as they continue:

It does not seem unreasonable to ask who are the main recipients of this benefit [of limited liability] (with, say, stakes above 5%). Legitimate concerns for owners' safety, such as biotech firms hunted by animal-rights activists, are rare. In many more cases, such as Caribbean holding companies controlled by well-connected Russians, greater transparency is on the side of democracy and freedom. If the owners of an enterprise really want to preserve their anonymity, they can still opt for an unlimited option—but that will be their risk.

That last point is well made: limited liability is a choice. As they conclude:

Reform ought to be simple. Anyone registering a limited company should have to declare the names of the real people who ultimately own it, wherever they are, and report any changes. Lying about this should be a crime. Some dodgy places will try to hold out. But anti-money-laundering rules show international co-operation can work. You can no longer open an account at a respectable bank merely with a suitcase of cash. Let the same apply to starting a limited company.

It's great to see support for our call for reform from a paper like the Economist.

I would that, of course matters have changed since 2012: the UK is supposedly going to have a register of beneficial ownership now, [although as I noted today, this is a hollow gesture.](#)

If The Economist could see the reason for real reform in this area several years ago it is time for the government to stop offering gestures and really invest in change. Nothing less will do. [What's required is explained here.](#)