

# Why every company should have its accounts on public re..

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*There has been a lot of comment this week from the Crown Dependencies on why they should not be required to have a register of the beneficial owners of companies formed in those places on public record. [My comments have fuelled that debate](#), including in some of those places.*

*Many of the comments have been rude, or abusive. I will ignore those.*

*Others claim 'you do not need to know because these companies are no concern of yours'. I have answered such comments piecemeal to date but on a round trip to Brussels yesterday had time to write a little more on the subject. This, for the record, is why I think we need the accounts of all companies on public record:*

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The history of the limited company is complex, and yet the idea is simple. One or more people sign documents that confirm that they agree to be a company and thereafter they are not personally responsible for the debts that they incur. Instead their personal obligation is limited to the amount of capital that they have agreed to commit to the company that they own part of.

This is an extraordinary idea: in effect every company does potentially abuse the rights of others from the moment it is created. All those who interact with it are at potential risk of it not settling its obligations as they fall due. The risk that innocent parties will lose from the engagement is real, whatever the company might say.

The parties who might lose are numerous, and the ways that they suffer vary. They include:

\* **All those who provide capital to the company**, including the shareholders. This group might include those who those shareholders who do not manage the company who might lose their capital, as well as those others who provide loan capital; banks; hire purchase, factoring and leasing companies and those who provide credit card facilities.

- \* **Those who trade with the company.** Most obviously this includes those who sell to the company who are at risk that they may not be paid if, as is commonplace, the goods are supplied on trade credit terms with payment required after delivery. The group does, however, also include customers. They too can be creditors of the company, either because of deposits paid or because of guarantees offered which the company has an obligation to fulfil.
- \* **Employees of the company.** Very obviously employees are at risk for unpaid wages as very few employees are paid in advance. As a result this affects almost every employee of these entities. There are also other risks. Some pay is deferred, for example. Bonuses fall into this category. And there are also pension obligations to consider.
- \* **Regulators** can lose heavily from the existence of limited companies. Some companies may be formed so that those setting them up can avoid their obligations to society as imposed by regulators, knowing that they will have no, or limited, personal risk arising as a result. And regulators are also at risk because when they find fault because the chance exists that any penalties can be evaded by limited companies by reason of them simply ceasing to trade. In this way regulators suffer an even greater loss, which is to their overall credibility as enforcers of the law.
- \* **Tax authorities** are at risk from the existence of all companies. Some of this might be mitigated if the tax rates due by companies were the same as those owing by individuals undertaking similar transactions, but that is rarely the case, with the bias being in favour of companies. In addition, the ability of companies to cease trading leaving tax liabilities owing without any possibility of recourse to the owners of the company, who may have gained from this outcome, means that limited liability companies are always a threat to the revenues of tax authorities. And that is before the ability of some to manipulate limited companies to mitigate their tax liabilities e.g. by relocating profit to locations where little or no profit is payable is taken into account.
- \* **Civil society**, in all its many forms, may suffer a loss from the existence of a company. That company may pollute the atmosphere. It may corrupt the political environment. It could disrupt communities by its divisive activities. It may discriminate. It could promote activities that undermine communities. It may sell harmful products. And it might not disclose any of these activities when they occur, leaving a legacy that persists long after it has ceased to exist, with its owners taking their profits long before the consequences of the actions that gave rise to them were appreciated. These are very real, and to the company, unaccountable costs.

No one is, of course, saying that all companies abuse all their stakeholders. They do not, of course. Many are run with wholly good and honourable intent. But that does not mean that stakeholders can still not lose out: companies can fail despite the very best intentions of those who own and run them. The cost they impose on others in that case remains very real.

Likewise, no one is suggesting that companies do not deliver benefits for society. They have survived precisely because they do. They can and do encourage trade that is of benefit to society at large. And they can and do aggregate capital so that activities can be undertaken that would be beyond the reach of individuals, or even small groups of them.

But it also has to be acknowledged that some companies are created with the intention of avoiding and evading the obligations that those who run them might have to society at large.

The problem we face is a simple one. It is that we have no way of knowing which company may be a threat to us, and others, in each of the various ways in which it might interact with us without knowing certain basic information about it. This data includes:

- \* Who owns the company;
- \* Who manages the company;
- \* What rules govern its operations;
- \* Where it is incorporated;
- \* What law applies to it;
- \* Where it trades;
- \* What it does in sufficient detail to be sure as to the consequences of that activity;
- \* The scale of its operation, profits and taxes paid;
- \* How it treats those it trades with, employs and is regulated by;
- \* Whether it is financially vulnerable, or not;
- \* How it manages the externalities arising from its operations;
- \* What its future intentions might be.

And because we cannot know any of this for any company, or rely upon its assurance that we do not need to know it, without first having the data to ensure that the assurance that they give is itself reliable, the consequence is that we must know this data for every company.

This is true:

- \* Wherever the company is;
- \* Whoever it is that owns or manages it;
- \* Whatever the company does;

\* Whatever it might think about the risks it creates might be, since that risk is for those others who might suffer that risk to appraise.

As a result there is a need for the accounts of all limited liability entities, wherever they might have been formed, to be available on public record both in that place of incorporation and, if different, in each place in which they operate.

And in each of those places we will want to know:

- \* Who owns the company;
- \* Who manages the company;
- \* What rules govern its operations;
- \* Where it is incorporated;
- \* What law applies to it;
- \* Where it trades;
- \* What it does in sufficient detail to be sure as to the consequences of that activity;
- \* The scale of its operation, profits and taxes paid;
- \* How it treats those it trades with, employs and is regulated by;
- \* Whether it is financially vulnerable, or not;
- \* How it manages the externalities arising from its operations;
- \* What its future intentions might be.

In other words, nothing less than full disclosure of this data, including a full set of accounts, must be available on public record, everywhere a company operates.

Unless that happens:

- \* All stakeholders of each company will always face unknown risk;
- \* Regulators will be unable to fulfil their duties on behalf of society;
- \* Taxes may go unpaid;
- \* People, and other companies, will face risk that was entirely avoidable;
- \* The effective functioning of markets will be undermined;
- \* Or, in summary, unnecessary cost will be imposed on society for the benefit of a few who unreasonably profit as a consequence.