

Companies House is failing the UK and the business comm..

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A consultation on the future of Companies House procedures closes this morning. [It says the consultation](#) is about a series of reforms to limit the risk of misuse:

- * knowing who is setting up, managing and controlling companies
- * improving the accuracy and usability of data on the companies register
- * protecting personal information on the register
- * ensuring compliance, sharing intelligence and other measures to deter abuse of corporate entities

I would describe that as deeply disappointing. Bluntly, a consultation should not have been required to work out that:

- * money laundering rules should apply to Companies House
- * it should check the data it publishes
- * it should stop abuse.

I, then, consider this consultation little more than a sham to distract from the real issues that Companies House would rather not talk about, and which [my research has revealed](#). My submission, sent last week, made that clear. This is the cover letter:

I have noted your request for comments and in an appendix to this letter addressed some of the issues that you raise. My primary concern is, however, that your consultation fundamentally misses many of the key issues that need to be addressed with regard to Companies House. Those key issues are:

- * *The excessive ease with which companies can be incorporated;*
- * *The lack of verification of almost any data held by Companies House (which you do, only in part, address);*

- * *The almost meaningless data filed in lieu of proper accounts by the vast majority of companies in the UK which provide no useful information to any of the stakeholders of a company who are dependent upon that data to appraise the risk that they face in engaging with any company;*
- * *The ease with which dissolution of a company can take place;*
- * *The failure to collect information from UK banks under automatic information exchange arrangements that could easily be put in place if only political will existed, which would then verify much of the data Companies House holds;*
- * *The absence of any agency required to enforce UK company law.*

I address each of these issues in turn as follows:

**** The excessive ease with which companies can be incorporated***

The UK has made ease of incorporation an apparent virtue. This is a deeply mistaken objective. Incorporation is a privilege granted by society which imposes costs upon it, and which must, as a consequence, be made available selectively to those who can prove that they have the ability to use it responsibly. Making it available at low cost and with considerable speed does, then, represent a fundamental error of judgement.

Incorporation of the company in the United Kingdom should not be possible until such time as all shareholders owning more than 10% of the equity in the enterprise, whether directly or indirectly, and all directors and secretaries have had their identities proved, and their past track record of company engagement appraised to ensure that there is no risk arising from the current incorporation.

**** The lack of verification of almost any data held by Companies House***

At present almost none of the data held by Companies House is verified with any third party source. This means that any claim made that the UK has an effective register of companies is not true: holding very large quantities of unverified data does not constitute information on which those who are dependent upon it for the appraisal of risk can rely.

As a matter of fact a wide range of stakeholders do rely upon information filed at Companies House. These stakeholders can be summarised as being in the following groups:

- * ***Suppliers of capital to a company;***
- * ***Trading partners of a company;***
- * ***A company's actual and potential employees;***

- * **Regulators;**
- * **Tax authorities;**
- * **Civil society in all its forms. So check so you give them your bank details I**

Many of these stakeholders are utterly dependent upon Companies House data to appraise risk: the absence of verified data at Companies House means that they face inappropriate financial stress from their dealings with many limited companies that could easily be alleviated if Companies House was required to verify the data that it holds. The means to do this are noted in this letter.

- * **The almost meaningless data filed in lieu of proper accounts by the vast majority of companies in the UK**

Most companies in the UK are defined as small, and the vast majority of these take advantage of exemptions made available to them in law to file what are described as 'abbreviated accounts'. These are not accounts at all because they do not include sufficient information to be described as such.

To be considered complete a set of accounts should be:

- * **Prepared in accordance with a verifiable accounting framework;**
- * **Include sufficient narrative information to explain:**
 - * **the nature of the company's business;**
 - * **what has happened in the business during the course of the period;**
 - * **who manages the business;**
 - * **the expectation that the business has with regard to future trading;**
- * **A profit and loss account;**
- * **A cash flow statement;**
- * **A balance sheet;**
- * **An explanation of all movements on reserves;**
- * **Sufficient notes to explain the above items and:**
 - * **the company's dealings with employees;**
 - * **the companies dealings with its trading partners, including actual trading terms;**
 - * **taxation due and paid;**

- * **sectoral analysis of appropriate;**
- * **country-by-country reporting if the entity trades in more than one location, prepared on a consolidated basis by location;**
- * **a full list of all subsidiary and associated entities, listed by location, indicating activity and the proportion of the entity held, whether directly or indirectly, and how;**
- * **a full list of related party transactions, including those arising within a group as well as externally.**

Whilst this information is not made available on public record there is no prospect of Companies House meeting the reasonable needs of its users. Urgent reform to accounting disclosure requirements is necessary to deliver this information, which should be enacted irrespective of the future relationship between the United Kingdom and the European Union.

- * **The ease with which dissolution of a company can take place;**

Far too many companies are dissolved in the UK without any enquiry being made by any authority. The 'striking off' process, that can be initiated by any company on payment of a modest fee, and which is almost invariably only challenged by HM Revenue & Customs, and then only if the company has ever bothered to register with it (which it may well not have done), is in effect a fraudsters' charter. When coupled with the extraordinary ease of incorporation available in the United Kingdom this process of dissolution permits almost any fraudster to form a company without question being asked, and to dissolve it without any enquiry arising, whilst having in between those two events traded it without any regulation or taxation obligation being complied with. The consequence is that the activities of honest small businesses in the UK are persistently undermined because of the failure of Companies House to maintain any effective control the process of incorporation in the UK.

- * **The failure to collect information from UK banks under automatic information exchange arrangements that could easily be put in place if only political will existed which would then verify much of the data Companies House holds**

Automatic information exchange for taxation purposes is now a well-established procedure around the world.

The UK now undertakes automatic information exchange with a great many countries annually, and likewise receives information from a multitude of

countries, including many tax havens. The information exchanged permits HM Revenue & Customs to identify those UK resident persons who have stakes in bank accounts, companies, trusts and other incorporated entities in foreign jurisdictions and lets them identify as a consequence the scale of the activities of the undertakings that they control and the potential that those persons might have to make declaration of taxation liabilities arising in the United Kingdom as a result of activity undertaken in other jurisdictions.

To ensure that this information can be shared by the United Kingdom with other countries every single bank account in the UK has to be subject to verification procedures to ensure that this information is available: it is not possible for those procedures to be undertaken in isolation only for those accounts in which foreign resident persons have an interest.

As such, UK banks hold this information with regard to every single UK entity to which they provide banking services, including every company that is registered with the United Kingdom's Companies House to whom they provide banking facilities.

Accordingly, it is entirely possible for automatic information exchange arrangement procedures to be put in place between all UK banks and both HM Revenue & Customs and Companies House to ensure the data is supplied to them that provides a risk warning with regard to the supply of false data by entities to those regulatory authorities.

As a minimum it could be required that every UK bank that does provide services to a UK incorporated entity should supply the following data:

- * The confirmed identity of those persons who the bank in question believes owns more than 10% of that entity;***
- * The confirmed identity of all the officers of the company;***
- * The total sum deposited annually within the bank accounts that the company maintains with the UK banking question.***

The provision of this data would:

- * Verify the identities of shareholders and officers of the company using the data of agencies that have a legal duty to undertake money laundering checks on a regular basis;***
- * Provide an indication of the likely turnover of the entity;***
- * In turn indicate the likely type of accounts that the entity must file with the Registrar;***

*** Indicate that trading is taking place, and therefore that dormant accounts cannot be filed.**

This process would, in consequence, provide verified data on Companies House records (with information matching being undertaken automatically, as it is the taxation purposes) and will provide the clearest indication possible as to whether unreported trading is taking place, meaning that accounts must be filed. The law should be changed so that no company could ever be struck from the Register of Companies until accounts covering all its trading had been put on public record.

This simple process would transform the quality of the data held at Companies House, and all the necessary arrangements to provide this information from UK banks do already have to exist, so that no additional cost will be involved by undertaking this activity. The additional cost at Companies House could be passed on to registered companies, who will willingly pay to know that fraudsters are being identified and eliminated from trading within the UK economy.

*** The absence of any agency required to enforce UK company law.**

It is absurd that Companies House can claim that they are not a regulator, but are a mere depository of information within the United Kingdom. As a consequence there is actually no agency that accepts responsibility for enforcing UK company law, and as a result it is regularly abused at cost to the honest trading community and the people of the UK at large. Companies House has to become a regulator in its own right, with the obligation to ensure that company law is enforced in each and every case where incorporation takes place in United Kingdom.

Unless the above issues are dealt with we regret that your efforts will very largely be in vain for reason of addressing the wrong issues, if they address the issues at all, and then in the wrong way.

I shall be happy to provide any further evidence that you require.