

Evaluation of the Companies Act 2006 – Summary of main findings:

Provision	Estimated Cost (per annum)	Estimated Benefit (per annum)	ORC findings ¹	Other findings, including Companies House data
Access to company information including reduction in filing times	£0 – £4m	Difficult to quantify corporate governance benefits	(Public and Quoted only) <u>Filing times:</u> <ul style="list-style-type: none"> • 84% <u>aware</u> of changes • 73% had made <u>changes</u> in this area (although not all had yet filed accounts under the new regime). • Limited impact was reported from reduced filing times. • Limited evidence of impact from additional information made available by quoted companies. 	Companies House admin data: Late filing penalties: 2008/09 – 263,457 2009/10 – 229,008 Companies House SME survey²: - 73% aware of changes to filing times. - 75% aware of increase in penalties.
Facilitating e-communications	Small administrative cost	RIA ³ : Approximately £47m for FTSE companies, further cost-savings for rest of market for annual reports. AB ⁴ : £183m (all IOs) including £104m for quoted companies annual reports..	(Large private, public and quoted) <ul style="list-style-type: none"> • 69% <u>aware</u> of changes, 39% made <u>changes</u>. • 60% those making a <u>change</u> had sought s/holder approval. • o/w 13% had seen cost savings and 8% increased speed of communication. • <u>Case studies</u>: print run of annual report and review reduced by 75% but for public company initial savings invested in improving web design. Savings of £5m 	Registrars data: Data from three main registrars for annual reports of FTSE companies: <ul style="list-style-type: none"> - hard copy 10% - e-comms 12% - defaulted e-comms 77% With figures rising over time. Black Sun “Rethinking Reporting 100 2009” - many FTSE 100 companies now

¹ BIS survey of awareness and impact of Companies Act 2006 undertaken by ORC International March-June 2010. (Sample used varies by question and in some cases base sizes are relatively small. Percentages of those making changes are in most cases based on sub-sample of those aware of measure.)

² Companies House customer survey of SMEs May 2009

³ Regulatory Impact Assessment January 2007- <http://www.bis.gov.uk/files/file29937.pdf>

⁴ Admin Burden calculation undertaken by PWC 2005

			pa. recorded for FTSE 100 but hard copy requests increasing.	undertaking shorter print runs and extending on-line information available for defaulted shareholders. - increased number of companies providing links to e-comms sign-up page.
Business Review			(Large private, public and quoted) <ul style="list-style-type: none"> Limited evidence of costs or benefits following changes but seen as one of the least helpful areas of the act. 46% of those preparing business review are directors. <u>Case studies</u>: focused on difficulties of large multinational company. 	<u>Black Sun “Rethinking Reporting 100 2009”</u> - general improvement in FTSE 100 business reviews but still some weaknesses. - 76% reporting on environmental and 65% on social and community issues. - improved forward looking reporting information (55% giving a good indication)
Directors’ addresses The Act removed requirement for Directors’ residential addresses to be on the register	Minimal costs but concerns about loss of information.	RIA: £400k p.a. assuming cost of £500 for 4000 directors no longer having to seek order to preserve confidentiality.	(All companies) <ul style="list-style-type: none"> 85% of <u>awareness</u> of changes 54% of <u>respondents</u> had/likely to <u>change</u> service address on public record (approx. 37% had already done so) and 30% of those who had not made a change were likely to do so in future. <u>Concerns</u> registered that old records were not removed and 2 sets of records now needed. Older companies more likely to provide new service address and small companies less likely. 	<u>Companies House admin data: July 2010</u> - 9% of directors with service address different from residential address - 27% for those resigning appointments. <u>Companies House SME survey:</u> - 50% aware of service address. - 21% likely to change service address.
Enfranchising indirect investors The Act introduced	£3m - £8m	Enhanced shareholder engagement (difficult to monetise)	(Public and Quoted companies only) <ul style="list-style-type: none"> Stakeholder concerns that this measure would not be adopted 63% <u>awareness</u> of changes. 	

<p>new rights for indirect investors</p>			<ul style="list-style-type: none"> • 45% had implemented changes and all 8 companies interviewed in detail had amended their companies articles to facilitate this. 	
<p>Directors' duties</p> <p>The Act codified the duties on company directors</p>	<p>No obvious costs</p>	<p>RIA: £30m – £105m from 8-12% of companies saving £300 - £700 p.a. on legal advice</p>	<p>(All companies)</p> <ul style="list-style-type: none"> • 79% <u>awareness</u> of changes including relatively high levels of prompted awareness of specific changes. • 52% indicated <u>change</u> of behaviour in some respect including over 20% in relation to <u>statutory statement</u> (32% for small companies and 29% for quoted). • <u>s172 duty</u> – high awareness but minimal changes in behaviour • <u>Derivative claims</u> – high awareness but few concerns yet. • Of those who had not yet made a change 25% likely to take legal advice. • Limited cost savings to date and still early to assess impacts. 	
<p>Register of members / Annual Return</p> <p>The Act removed requirement to submit information on shareholder addresses for most companies. Public companies only provide names and addresses of those with significant shareholdings.</p>	<p>No obvious costs</p>	<p>RIA: £2m p.a. AB: £17m p.a. Reduced period for keeping old entries No long supply addresses on AR</p>	<p>(All companies)</p> <ul style="list-style-type: none"> • 42% <u>awareness</u> that period for keeping former s/holder details reduced. • 60%+ <u>awareness</u> could apply to courts to deny access to register and a minority thought this was a future possibility. • 52% made <u>changes</u> (?though changes mandatory on AR) • <20% thought changes to AR brought benefits. • Some concerns about lack of addresses for credit checks. 	<p><u>Companies House admin data:</u></p> <ul style="list-style-type: none"> - Northern Ireland electronic filing of annual returns 62%. - Notification of single alternative inspection location (SAIL) ; Oct 09 - June 10: 97,000. - change of location for company records to SAIL; Oct 09 – June 10: 68,500 <p><u>Companies House SME survey:</u></p> <ul style="list-style-type: none"> - 41% aware of changes to disclosure of shareholder addresses.

<p>Simpler Law including CH guidance and model articles</p>	<p>Small costs</p>	<p>RIA: Approximately £30m</p>	<p>(All except quoted)</p> <ul style="list-style-type: none"> • 62% <u>awareness</u> overall • <u>Changes</u> greatest for reduced <u>AGMs</u> (30-50%) and execution of documents by <u>sole director</u> (43%). • 6% amended <u>articles</u> and 4% adopted <u>model articles</u> (all amended) • 6% used <u>solvency statement</u> and 4% removed <u>company secretary</u> • Nearly 10% noted cost savings (unquantified) and 36% thought it was too early to tell. • 87% <u>aware</u> that memorandum now forms part of articles. • <u>Satisfaction</u> with CH website around 60% and helpfulness around 40-50% (lower for small and quoted) 	<p><u>Companies House data:</u> <u>Solvency Statements:</u> Previously 520 per year Oct 08 – Mar 09: 1115 April 09 – Mar 10: 3403 April 10 – June 10: 950</p> <p><u>Company Secretaries:</u> - see below.</p> <p><u>ASBS Survey 2007</u> <u>Company Secretaries</u> - see below</p> <p><u>AGMs</u> - see below.</p> <p><u>Model Articles</u> - 25% aware of change and 45% expected change to bring benefits.</p>
<p>Resolutions and meetings</p> <p>The Act introduced a number of changes to requirements for resolutions and meetings, including removing the need for private companies to hold</p>	<p>No obvious costs</p>	<p>RIA: £25m–£112m assumes 40-60% stop AGMS AB: £45m assumes 50% stop holding AGMs at cost of £50-£150 p.a.</p>	<p>(Private companies only)</p> <ul style="list-style-type: none"> • 77% <u>awareness</u> of changes • <u>AGMs</u> reduced by 30-50% on average but high level of current non-compliance amongst small companies and over 75% of those stopping AGMs had 1 shareholder. • 40% still holding AGMs to consider stopping in future. • <u>Written resolution</u> now used by 57% of companies with time saving seen as main benefit (further 8% to consider using in 	<p><u>ASBS Survey 2007</u> <u>Written Resolutions</u> - 36% aware of change and 43% expected change to bring benefits.</p> <p><u>AGMs</u> - 46% aware of change and 35% expected change to bring benefits.</p>

AGMs.			<p>future).</p> <ul style="list-style-type: none"> • Those not holding AGMs and not using written resolutions rely on verbal communication/mutual agreement to reach decisions. • <u>Case studies</u>: time savings and flexibility seen as main benefit of changes. AGMs previously added on to other meetings so limited cost savings. 	
<p>Company Secretaries</p> <p>The Act removed the requirement for private companies to have a company secretary.</p>	Negligible	<p>RIA: £3m – £6m Assumes 5% make change saving £50-100/year</p>	<p>(Private companies only)</p> <ul style="list-style-type: none"> • 81% <u>awareness</u> of change • 3-4% had removed Company Secretary and approx. further 15% likely to do so. 	<p><u>Companies House data:</u></p> <ul style="list-style-type: none"> - New incorporations without a secretary 72% (end June 2010). - in existing companies secretary resignations increased in 2010 to around 350k a year (net loss of 70k a year). - private companies with a company secretary as at July 2010 77%. <p><u>ASBS Survey 2007</u> <u>Company Secretaries</u></p> <ul style="list-style-type: none"> - 26% aware of change and 35% expected change to bring benefits.
<p>Capital maintenance and share provisions</p>	No obvious costs	<p>RIA: Approximately £20m abolishing prohibition on financial assistance. Difficult to monetise other benefits. AB: £68m for financial assistance Introduction of solvency statement ?</p>	<p>(Large private companies only)</p> <ul style="list-style-type: none"> • 57% large private companies <u>aware</u> of changes • 12% large private companies had made a <u>change</u> in this area. • Of 8 companies asked more detailed questions 6 agreed there had been cost savings from relaxation on <u>financial assistance</u> and 4 had used the <u>solvency statement</u> and found this an improvement 	<p><u>Companies House data:</u></p> <p><u>Solvency Statements:</u> Previously 520 per year Oct 08 – Mar 09: 1115 April 09 – Mar 10: 3403 April 10 – June 10: 950</p>

			<p>on the court route.</p> <ul style="list-style-type: none"> • <u>Case studies</u>: Confirmed solvency statement as much easier and less costly route to tidy up affairs of multiple property companies. 	
<p>Auditor Liability Limitation Agreements</p> <p>The provisions allow companies to enter into an agreement with an auditor, limiting the liability of that auditor in cases of professional negligence.</p>	No net costs anticipated	<p>Reduced audit fees for those signing agreements. Stronger audit market.</p>	<p>(Medium and large private, public and quoted)</p> <ul style="list-style-type: none"> • 66% <u>awareness</u> of this measure. • 19% had entered into an agreement or taken steps towards one (slightly higher for public companies). • No real cost savings identified to date though potential to avoid higher audit fees noted. Report suggests this conflicts with s.172 duty. • <u>Case study</u>: Limited debate at board level before introduction. Avoided increase in audit fees. 	<p>Independent research has found 17% of accountants have entered into LLAs⁵</p>
<p>Trading disclosures</p> <p>Provisions governing what details a company must include on signs, stationery, and websites.</p>	No obvious costs	<p>£4m – £12m assumes savings of £15/company for 800k companies. Main beneficiary new companies</p>	<p>(All companies)</p> <ul style="list-style-type: none"> • Relatively high levels of <u>awareness</u> of the law in this area (70%) • 50% of respondents had made <u>changes</u>. 	
Total	£10m– £20m	£160m – £340m		

⁵ <http://www.accountancyage.com/accountancyage/analysis/2243081/auditors-struggle-agree-4682540>

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