



ECONOMIC IMPACT OF CORONAVIRUS

Issued 23 March 2020

ICAEW welcomes the opportunity to submit written evidence to the **Economic impact of coronavirus inquiry**, opened by the Treasury Committee on 20 March 2020. We welcome government's urgent action to gather feedback while it is still designing its emergency support package. This response reflects the limitations of only having one working day to make representations. We have received a range of feedback from our members, reflected in this evidence and we will subsequently be undertaking detailed consultation with our committees.

Our evidence reflects feedback from ICAEW members and is intended to help the Committee assess the adequacy of the government's financial response. In particular, we hear:

- Better support is needed for the five million self-employed. Many will not qualify for universal credit.
- Clarity is crucial for the job retention scheme. Employers need certainty their claims are valid. Excluding employees on reduced hours reduces employers' flexibility.
- Government will need to ensure lenders provide easy access the Business Interruption Loan Scheme. Debt finance is not a panacea and will not be advisable/available for many.
- Business failure is triggered when technical tests in insolvency law or finance agreements are breached. Delaying these triggers could save otherwise viable businesses.

ICAEW's Technical Policy set out in this response has been informed by ICAEW's faculties; recognised internationally as a source of expertise on specialist issues in their areas.

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1. We are responding to the Treasury Committee's call for evidence on the UK Government's coronavirus financial package. We understand the committee is assessing whether the response to the coronavirus is sufficient, and asking for areas where more support is needed.
2. The comments in this written evidence focus primarily on individual citizens, the self-employed and small and medium sized businesses. We cannot comment on any issues relating to particular businesses or sectors. For the largest businesses, issues around financing, reporting and governance are more complex. We are conscious the FRC, the FCA and the PRA are working on important measures to underpin market stability and that these are dependent on decisions government makes about the targeting and structure of relief. With the information we currently have we cannot comment on these measures. Nevertheless, to assist the inquiry we provide some comments on accounting and reporting, which will be relevant here.
3. Our points on areas where government policy might go further are stated as of 17.00 on 23 March 2020, but we are aware that many of them are under active consideration by government and might be acted upon in the near future. ICAEW is a body whose members (1) are accountable under a code of ethics at a time when the unprincipled will take advantage of present circumstances and policy responses; and (2) have unequalled access to all sizes of UK businesses and organisations. In that context we have been seeking to play and want to play a constructive role in supporting government and would be willing to provide assistance in understanding any of the issues raised in this response.

KEY POINTS

4. We appreciate the necessary focus of the inquiry is on identifying areas where more support is needed. We concentrate on this in the first section of this response and in the appendix we summarise feedback we've received from our members. We also think that in designing how measures are delivered government needs to minimise administrative burdens and try to provide certainty to business. Thought should be given now to how future enquiries and uncertainty can be minimised to businesses doing the right thing now. It is the role of government to decide where to target relief in the economy. Clearly, measures already announced are of unprecedented scale. The comments below are intended to help government make those decisions equitably and effectively.

AREAS WHERE FURTHER SUPPORT COULD BE TARGETED

5. Self-employed: The financial support announced to date has been less generous for the self-employed. Payment holidays for self-assessment and mortgage and rent payments will help with cash flow, particularly for the most vulnerable. However, these missed payments will need to be settled from future income. Many self-employed have experienced significant or total loss of income and may have no income for months to come. Unlike some employees, who may have redundancy payments and accrued holiday to come after employment ends – cash flow may already have ceased for many of the self-employed and they may not get paid for work they've already done. When work returns, they face not only having to meet regular expenditure, but having to make up for payments missed.
6. As a primary objective of the support package must be to encourage people to stop working as soon as they show symptoms of the virus, we believe that the Government needs to provide better support to the five million self-employed. Extending eligibility for statutory sick pay will be welcome. However, many self-employed will have modest savings which they

need to settle tax and work related expenses - and this may exclude them from universal credit and other benefits. This will need to be fixed.

7. Business rates: Business rates were a good place to start in providing reliefs, partly because many businesses struggle under the current system and in some sectors rates are a substantial fixed cost. However, businesses not benefiting from the cash grants or holidays announced have been quick to point out the unfairness of the targeting. The working assumption appears to be that businesses with premises or multiple premises will higher regular payments to cover fixed costs. However, this may not necessarily be the case. For example, for a mobile business, van lease rentals would be a regular fixed cost.
8. Equally, most businesses outside of the retail, leisure and hospitality sectors, even if they can stay open, will be suffering from a lack of customers, low activity and the effects of self-isolation. One example is dentists, who are not on the list for the extended retail guarantee, although opticians are included. Experience based businesses, a successful recent growth story, seem to be another example. Nightclubs seem to be excluded unless they play live music. Professional services firms are also excluded even though they should also be social distancing.
9. Ineligible employees: The government was right to act swiftly with measures on employment. Many viable businesses that should be able to return to health may have been forced to make large scale redundancies if employment contracts did not allow for lay-offs on reduced or 'guarantee' pay. Although often controversial, zero hours contracts may have been very helpful in maintaining continuity of employment, and the Government may wish to examine their role in the flexibility of our labour market. However, the long shut-downs we now face will lead to widespread hardship and employees and businesses will greatly welcome the payments now announced.
10. Nevertheless, while further details are urgently needed on the Coronavirus Job Retention Scheme, many people facing reduced earnings will not benefit from it. It does not seem to take account of those working reduced hours, and would disincentivise this, which seems an odd outcome. Voluntary reductions in hours were widely used in the financial crisis. Many of those having to reduce hours will be doing so because of school closures. The list of key workers offered continuity child-care appears restrictive given the number of jobs critical to the functioning of the economy that are not included, although medical guidance on school closures and social distancing clearly has to take precedence.
11. The nature of the limitation to 'employees who would otherwise have been laid off' has yet to be clarified, but this could be a significant limiting factor, depending on how it is defined.

FACTORS LIMITING BUSINESSES' SURVIVAL CHANCES

12. We believe the inquiry should consider not only the deployment of government funds, but also the triggers in law and business practice that can result in business failure. Legislative action here to temporarily adjust some of these areas could give businesses greater flexibility without using taxpayer money. However, this clearly has to be balanced with the substantial risk of unintended consequences and so action should be on an emergency basis.
13. Tax: The VAT and self-assessment holidays announced will be very welcome by many businesses. Beyond this there are a number of steps that HMRC could take to assist businesses at the current time. We wrote to Rt Hon Jessie Norman MP on 19 March 2020 outlining some potential measures and a copy of that letter is appended.
14. Insolvency law: We suggest that the impact of insolvency law on business during the emergency should be considered by government and we (with the insolvency trade body R3) are in contact with the Insolvency Service on this. In particular, while the package of measures already announced may help to reduce the number of insolvencies that might

otherwise arise, it is possible that insolvency law may lead to companies being put into administration or being liquidated in cases where this might best be avoided. In addition to short term consequences (eg, job losses), this could make it harder for business to grow again as the emergency recedes. In particular, personal liability under the law on wrongful trading (s214 of the Insolvency Act) can lead directors cease trading where the solvency of a company is in question.

15. The Finance Act 2020 contains legislation under which HMRC will be a preferential creditor on insolvency in relation to certain taxes. We thought this was a regressive move when it was proposed (see our representation [53/19](#)) because it disadvantages other creditors, such as suppliers to an insolvent business and is likely to discourage lending to business. These risks are even more manifest in the current climate and we urge government to suspend implementation (currently planned for 1 December 2020) immediately.
16. Finance: The COVID-19 Business Interruption Loan Scheme, operated by the British Business Bank (BBB) will be welcomed by many businesses, as will its extended scope and more favourable terms. It is not a panacea – the fact that businesses retain 100% liability will limit the circumstances in which businesses can reasonably take the risk of deploying these funds. The further announcements made by the Chancellor on 20 March are therefore a welcome supplement. Furthermore, government will need to work with the banks to ensure funds are being released into the economy on a reasonable and timely basis. Nevertheless, proper due diligence is necessary and given the scale of the current situation, there could be capacity constraints, to which the government may need to react quickly. We welcome the steps the BBB has taken to extend its partner institutions, which will help with this. ICAEW has worked with the BBB to produce an update to its popular Business Finance Guide and that will be launched this week.
17. For larger businesses we have not yet had feedback on the effectiveness of the COVID Corporate Finance Facility, operated by the Bank of England and full details of this have not been released. The press release suggested that businesses had to have an investment grade credit rating, or equivalent. That would suggest only a relatively small group of entities meeting the criteria and government will need to consider where it intends to target this support. Moreover, taking on incremental debt will increase a business' leverage, which has implications for other creditors and these considerations will limit the extent to which it can be used.
18. Reporting: For businesses with external financing, annual and interim financial accounts are very important. Creditors will make decisions about advancing and extending credit and about risk pricing based on metrics like leverage, profitability and cash-flow. Bank covenants and credit ratings will use this information. Accounts determine dividend capacity and the financial position of a business will be reflected in its share price.
19. In the coming weeks and months, those responsible for reporting and audit face exceptional challenges. The directors' assessment of going concern is an especially acute issue. Valuation and impairment measures will also need to reflect current abnormal conditions. This is a particular issue for the banking sector, where IFRS 9 requires expected losses to be estimated for loan books – assessments that reflect current and expected economic conditions. As whole business sectors are being affected by the current situation, accounting provisions could rise significantly if banks increase them collectively. Extension by the PRA of transitional reliefs for capital adequacy purposes could help.
20. Private companies will welcome the extension of filing deadlines that has been announced by Companies House. The FCA has not announced any extension to the four-month year-end accounting deadline in the Disclosure and Transparency rules for listed companies, although it has been urging companies to use the full four months available rather than

reporting early, as is common practice. For companies with December 2019 year-ends, accounts are due at the end of April. Filing delays or extensions will need to be considered very carefully, as there could be downsides, particularly while the length of the economic shutdown is uncertain. But this matter and the need for further action needs to remain under close review.

DESIGNING THE FINANCIAL PACKAGE

21. It is very important that in businesses doing the right thing, preserving services to customers and employment, are not subsequently penalised because of flaws in the design of the support package or changing government attitudes. It would be regrettable for businesses and the self-employed to be mired in uncertainty and administrative cost in defending reliefs accessed under significant pressure. The business rates measures announced are laudable as administration is automatic and eligibility largely unambiguous, the job retention scheme less so. Further measures targeted at the self-employed would benefit from simplicity and certainty. Established trusted intermediaries, such as Chartered Accountants can help make sure reliefs get to where they're needed in the economy and that citizens can access them with confidence and peace of mind.
22. Regrettably, it is certain that some of the support measures intended for hard-working employees and businesses will be exploited by criminals. Government will need to be mindful of this. Regulated entities, like Chartered Accountants play an important role in the economy in ensuring that things are done properly and unacceptable behaviour is called out. But we need the support of law enforcement. There are measures that could be taken, to reduce the scope for economic criminals to operate. We strongly support BEIS' proposals to reform Companies House, as the company registers are regrettably too easy for criminals to exploit. In the inevitable budget scrutiny to come, funds to complete this work should be protected.

REBUILDING THE ECONOMY

23. The focus of government at this time rightly has to be in getting support in place and making sure it's working. However, some parts of the economic system have been under strain for a long time and can be seen to have failed in the current crisis. While political will to tackle these areas has been lacking we hope that more constructive solutions will now be possible. We note those areas here as there may be an opportunity in the committee's report to lay down a marker for further investigation and future action.
24. Employment status: The gaps in support from the current package between employed and self-employed highlight a major shortcoming in our tax system, which has been exacerbated by the recent growth in self-employment. The current ambiguity between employed and self-employed status, differences between tax and employment law rules and the tax differential between employed and self-employed cause many complications and difficulties. While the government's off-payroll working measures aim to address some of the symptoms of these issues, it is a sticking plaster for an issue that government has hitherto been unwilling to engage with. In our view the tax, NIC and legal status of work should be the same, it should be certain, and the consequences should be comprehensible to the engager and worker.
25. Reform business rates: It is widely accepted that fundamental reform of business rates is overdue and it is therefore no surprise that the business rates system can be seen to have broken down rapidly under the pressure of the current crisis. For many years now business rates have been precipitating failure and disincentivising investment in major sectors of the economy. We have previously warned that the current system could cause widespread hardship in a downturn. As government rebuilds the economy we need a business property tax that is fit for purpose.

26. A tax system that works for citizens: As government rebuilds its fiscal position we can anticipate many years of higher taxes and greater focus on collection. At this time it will be crucial that individual citizens are protected both from uncertainty and undue administration. While the government's Making Tax Digital programme has an important role in enhancing and updating the tax system, government's data capabilities and expectations on citizens have to develop in way that protect taxpayer rights and do not place undue burdens on recovering businesses. Longer term, the time may come where there is political focus on a fundamental reform of the tax system. There is much that could be improved and we stand ready to help government in this.

APPENDIX 1 – ICAEW MEMBER FEEDBACK

We used our daily emails to our members to ask for feedback. We have received over 260 submissions from members, from all over the UK and all parts of the economy. This is a summary of the feedback received

- **Clarity on support for the self-employed or those working through Personal Service Companies**

Businesses in this area feel they have “slipped through the net” when it comes to the measures being put in place. ICAEW members have been raising this issue in their droves since Friday, and it is now the most common enquiry. They want support “with wages not benefits” and crave a package that “is just as generous as that for the self-employed”. One ICAEW member in particular says “If the self-employed worker has been responsible and saved up a year's salary they will probably not even qualify for Universal Credit (£16k savings cap). This can't possibly be fair so I hope it can be clearly raised with the Government so that the disparity can be addressed.”. They also want clarity on how Directors of limited companies, drawing dividends as their remuneration, are going to be supported. They currently don't feel that if they operate their business from home they are not eligible for any support.

- **Clarity on employee support**

This again has been a rising issue since the announcement on Friday. Greater flexibility in the scheme is being requested. One member posed a specific question- “If a business has someone working a 5 day week but needs to reduce their hours to a 3 day week, will the business receive the 80% support from the government for the two days that the employee will no longer work?” which has been echoed by numerous others. There are also concerns about furloughing part of the work force: “keeping some working and others furloughed will lead to resentment between colleagues at similar levels - 80% doing nothing v 200% working under unprecedented conditions and pressure”. We are discussing our questions with HM Treasury.

Clarity on what 80% of a zero-hours contract would be is also requested- an average of the past 3 or 12 months? At a more basic level, members “need to understand how to make a claim for grant of support up to 80% of salaries” and the “definition of the word ‘furlough’”. Particular concern was raised for the social care sector, as they will be seeing an increasing dependency on agency staff which will exacerbate cash flow issues. A specific example was raised for those that have to work e.g. to look after animals, but their employer cannot afford to pay them- for these situations, does the support only apply to those who are not working?

- **Clarity on grants and loans**

Cash flow remains the biggest issue facing businesses. Member insight in to the area of business grants and loans is clear- these need to be quick, simple and clear. One member said “Grants need to be quick and easy to obtain or it will be too late ... cash flow will kill us.”. There have already been instances of businesses being told they will not be eligible, and the process being far less simple than people realise. Members are hearing from their clients that unless they offered a personal guarantee the bank wouldn't consider talking to them. Another member has asked that “The loan guarantee scheme should be 100% guaranteed. We cannot provide security to the bank for the other 20% as we do not own our premises.”

Gaps are also being highlighted- “The CBIS scheme limit of £41m revenue leaves businesses larger than that, but not large enough to access the commercial paper support direct from BoE without any support. The cap, which has not changed in the transition from EFG needs to change in order to help those mid-sized businesses.”

There are members who worry loans are not the answer - as one member said, “the government backed loans are not enough. They are saddling companies with debt they cannot service. Workforces are being decimated. There will not be jobs for them to come back to. Companies need measures to protect jobs. Permanent solutions not loans”.

- **Late payments are getting worse, and non-payment is growing**
Our members are reporting that late and non-payment is rising as clients go out of business or are strapped for cash- “clients are having problems collecting debts/cash; Hence, clients are having problems paying creditors”. One member suggests Government should “impose a requirement (legislate) that ALL businesses MUST settle their bills within 30 days unless a proven dispute.”
- **Clarity and comparability across devolved nations**
Members across the UK are asking for clarity and comparability of the support given by the devolved nations. One member has said that the Rates Grant criteria differs from England and Wales, whilst another seeks clarity on how the nationally broadcast support is different for businesses in Scotland.
- **Other anecdotes**
There are a number of personal anecdotes, which shows the severity of the situation but also the relief felt by many that Government Is taking action. Whilst we feel it would be improper to share these personal anecdotes, our members are cognizant on the fact these things take time and mostly appreciate the announcements made so far despite the quite horrifying situations they are finding themselves in. Above all, they want clarity.

APPENDIX 2 – ICAEW TAX FACULTY LETTER TO FINANCIAL SECRETARY TO THE
TREASURY, RT HON JESSE NORMAN MP

19 March 2020

Rt Hon Jesse Norman MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Jesse

COVID-19 – SUPPORTING BUSINESSES

The challenge to the UK economy posed by COVID-19 is profound and will affect businesses and individuals right across our country. I am writing on behalf of ICAEW's Tax Faculty to bring to your attention policies that, if implemented by HMRC, we believe would make a substantive difference to the UK economy during this period.

HMRC has a strategic role in supporting businesses and individuals, and I recognise that there will be incredible pressures on the organisation's resources, and more importantly the staff. As such, **I want to give you my commitment that ICAEW's Tax Faculty is ready to support HMRC in ensuring that all critical messaging gets out to our members across the UK.**

From a policy perspective, there are a number of areas which we believe HMRC should consider exploring to support businesses – these are outlined in the attached annex.

We would welcome the opportunity for a phone call to discuss our suggestions with you and your officials in more detail. We are also receiving from our members a range of other specific problem areas and issues which we would like to discuss with your officials to see how they can be addressed.

We appreciate of course that HMRC staff are also likely to be working on similar issues and we are very keen to work in partnership to help us navigate the crisis we all face and reiterate our desire to help work with you and HMRC on developing messaging. We hope this can be arranged at the earliest opportunity.

Yours sincerely

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Enc.

ICAEW POLICY SUGGESTIONS

1. Defer and review the proposed introduction of preference for tax debts

ICAEW and many others have expressed concern about the measures now in Clauses 95/96 of the Finance Bill 2020 that will give HMRC priority over certain tax debts where a company goes into insolvency.

We appreciate that the start date has been deferred from 6 April 2020 to 1 December 2020 but, given the current crisis, we think that as a minimum the start date for this measure should be suspended and that there should be a further review about whether the Government should proceed with this measure given its potential harmful impact on the economy.

2. Defer non-critical changes to the tax system

ICAEW Tax Faculty welcome the announcement that the introduction of off-payroll working changes in the private sector is to be deferred to 2021. We agree that it is right and proper that HMRC, businesses and individuals across the UK focus their resources on meeting the challenges of COVID-19 rather than on compliance with this legislation.

We do believe there is an opportunity for HMRC to go further and defer additional policy changes which will add to the work of HMRC and businesses, some of which are due to come into effect from 6 April 2020:

- **30 day reporting for CGT on sales of UK property:** We believe there has been little publicity around this change, and many taxpayers remain unaware of it. Further, HMRC's new CGT reporting system for dealing with it is still at an early stage of development, and the trial which has operated so far has only involved a small number of participants.
- **Digital Links:** The requirement to adopt digital links as part of MTD for VAT is requiring many businesses to re-engineer their systems. This is proving expensive in terms of time and costs and, in the current environment, we think that the requirement should be deferred for a year.
- **Extension of MTD in 2021:** We welcome the announcement in the Budget of a review of MTD for VAT which we see has been published today. We note that HMRC's development and testing for the other forms of MTD systems is still at an early stage of development and it has been announced that work on further development of pre-population APIs for self-assessment has been halted. We think HMRC should announce that there will be no further extension of MTD in 2021 but, in the meantime, we will continue to work with HMRC on MTD development and to ensure that the services are easy to use, both for taxpayers and any agent they have appointed.

We believe that making these announcements would ensure HMRC, businesses and individuals can all commit all their efforts to the current challenges that we now face.

3. Leverage employers' NICs to keep people in work

One of the priorities during the current crisis is to keep as many individuals in work as possible. Not only does this prevent the UK economy from losing skilled workers, but it also reduces the pressures on the UK welfare system through fewer individuals claiming the jobseekers allowance element of Universal Credit, as well as other benefits.

ICAEW Tax Faculty recommend that the Government explores providing further support to businesses to **keep employees on the payroll** during this time of crisis through the use of employment grants, or reliefs around employers' NICs. Possible options include:

- **Employment grants:** HMRC could provide grants to businesses in specific sectors at an amount linked to the jobseekers allowance element of Universal Credit. This could be heavily targeted towards the most at-risk businesses and individuals, would be directly linked to businesses keeping workers on payroll, and would prevent associated increases in the amount of Universal Credit paid.
- **Increase employers' NICs threshold:** HMRC could temporarily increase the Primary Threshold for businesses start to pay employers' NICs from £9,500 to, for example, £12,500. Businesses could still collect employees NICs from the £9,500 threshold, and this measure could be targeted to specific sectors through other rate changes elsewhere.
- **Employers' NICs holiday:** the Government could implement an employers' NICs holiday for all businesses for the 2020/21 financial year. We recognise that this would be expensive, given that employers' NICs accounts for over half of the total NIC receipts and also that it may not be properly targeted at those employers in the greatest need of support, but we are facing an exceptional crisis which requires exceptional measures. Other, less expensive, alternatives that could be considered include a reduction in the current employers' NICs rate of 13.8% and/or a further increase in the employment allowance.

While any of these measures would have an impact on the Exchequer's revenue, they would reduce the number of workers laid off and ensure the UK economy retains the skills that will be vital for the economic recovery. These measures would help those in employment but the self-employed will also need help. We would welcome discussions with your officials about what more can be done to help this important sector of the UK economy.

4. Reintroduce extended loss relief carry back

The current crisis means that a large number of businesses will be looking at incurring a loss in their current financial year and possibly the following year. We recommend the reintroduction of the temporary extension of the carry back of losses rules to the previous year as was provided after the 2008 financial crash. The relevant legislation was set out in Section 23 and Schedule 6 of the Finance Act 2009 and provides a suitable model to follow.

In addition, with many businesses facing little or no revenue it will be clear pretty quickly the extent of any losses available for carry back and they should not have to wait until the tax return is filed to get a tax refund. In the last financial crisis HMRC accepted provisional loss carry back claims and we think it should do the same again and ensure it is widely publicised.

Consideration would need to be given to whether a cap is imposed: the 2009 legislation provided for a cap of £50,000 for each of the two years 2008/09 and 2009/10 and we think if such a relief is reintroduced the cap should be higher – for example if the 2009 cap is increased by RPI since March 2009 the cap would be set at £70,000 today.

5. Extend time to pay and time limits

We support the Government's proposals in respect of time to pay, the establishment of a dedicated helpline and waiving of interest and penalties. With the crisis likely to get worse, we think that it may need to be extended further, not least as this may be one method of providing immediate relief for the self-employed.

Possible options range from increasing the current £10,000 limit for making online time to pay applications (and making it available to the taxpayers' agents) through to and an immediate suspension of debt enforcement activity (as the Irish Revenue has announced this week). As part of this, we recommend that HMRC should immediately announce that any written requirements for taxpayers to respond to HMRC letters etc will be extended from 30 days to 90 days.

6. Review the 5MLD measures

In the current crisis the UK must do all it can to remain competitive while remaining fully compliant with the UK's money laundering obligations. Our members are, however, concerned that the current proposals for trust registration are damaging the UK's competitiveness as a place in which to locate the trust administration. Clients are deciding not to use UK trustees for their affairs due to concerns that, for example, data about potential beneficiaries of a trust may not be protected from disclosure and could become publicly available.

We would welcome discussions with your officials about how the UK can ensure that the 5MLD rules are framed so as to prevent money laundering but do not damage the UK's ability to provide trust services to international clients who would otherwise comply with all the necessary UK anti-money laundering requirements and client take-on procedures.