



State Comptroller and Ombudsman  
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Ministry of Justice

# **Registrar of Companies Database - Quality and Dissemination of Information**

Abstract





# Registrar of Companies Database - Quality and Dissemination of Information

## Abstract

### Background

In accordance with the provision of the law, one of the functions of the Registrar of Companies in the Ministry of Justice is to manage a database of companies by receiving information, reports and documents concerning companies and making them available for public review. The responsibility for managing the database rests with the Registrar of Companies unit, under the management of the Registrar of Companies. The Registrar of Companies database is a computerized, reliable and up-to-date database that enables the public to obtain information on listed companies and serves as a fundamental, central tier of the business sector's activities in Israel and in commercial life in general. The database had about 593,000 companies listed in April 2019, about 60% of which were active, in the sense that they underwent no legal action of liquidation or write-off (active companies), and it included past and present information about them: their address, the directors who served there, shareholders and the proportion of their holdings in the company's shares, liens on the company's assets and other documents submitted by the companies to the Registrar of Companies over the years, including their articles of association.

### Key figures

**593,000**

Number of companies whose data are in the Registrar of Companies database

**226,418**

Inactive companies listed in the Registrar of Companies database

**171,760**

Active companies that are defined in the database as those who have failed to fulfill their obligations under the Companies Law

**1.5 million**

Requests for change of company details were submitted to the Registrar of Companies in 2016 - 2018

**60,860**

Companies are listed as active in the database and have never opened a portfolio in the Tax Authority

**98,075**

Companies active in the database, although they are not listed as active for Income Tax purposes

**NIS 264 million**

State revenues per year on average from collecting Registrar of Companies fees

**NIS 1.161 billion**

Debts of Companies to the Registrar of Companies as of December 2019

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## Audit Actions











From February to September 2019, the State Comptroller's Office examined aspects of the work of the Registrar of Companies. Among other things, the activities of the Registrar of Companies at the core fields of its activity were examined, including actions related to disseminating information from the database managed by it through the companies that won the 2019 franchise tender (the Franchisee Companies), as well as the reliability and quality of the information contained in this database and to what extent it was up to date. The Registrar of Companies protection of the information contained in the data of the said database was also examined. The examination was conducted at the offices of the Registrar of Companies Unit and at headquarter units in the Corporations Authority. Supplementary examinations were carried out in several units of the Ministry of Justice, as well as the Government Companies Authority, the Israel Securities Authority and the Israel Tax Authority. As part of the review, the audit conducted a public-sharing process with the banking and business sectors as well as with the Association of Insurance Companies and the Association of Life Insurance Companies, which are part of the institutional bodies in Israel (the Institutional Bodies).

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## The Situation Reflected in the Audit Findings



-  In the years 2005-2018, the Ministry of Justice extended its contractual engagement with franchisees that disseminated information for it from the Registrar of Companies database, using an exemption from public tender and without guaranteeing the receipt of the full payment due to the state in respect of the use they were making of the Registrar data.
-  The Ministry of Justice did not optimally manage its engagements with franchisee companies, did not maintain adequate control of their activities and did not work to enforce them to comply with the full terms of the agreements signed regarding the level of fees they charge from the public as well as compliance with the other provisions of the law regarding privacy protection.
-  The Ministry of Justice was not aware of the repeated use of the information produced through the direct, unique access to its databases, which was given to certain companies with which it engaged, and in any case did not assess the economic value inherent in such access.
-  As of December 2019, the companies' debts to the Registrar of Companies in respect of annual fees and financial sanctions amounted to approximately NIS 1.161 billion, of which approximately NIS 11.8 million were in respect of financial sanctions. Out of this amount, approximately NIS 730 million was transferred to the Fine Collection Center (and not yet collected).
-  The Ministry of Justice did not restrict the amount of commission a franchisee could collect for sale of a company extract. As a result, the franchisee companies charged a price between 170% to 350% above the fee level stipulated in the regulations.

-  There are several areas where there is a weakness in protecting the Registrar of Companies database from unreliable reporting; the scope of the information available for public review in a company extract and the "Reverse Search"<sup>1</sup> service provided by the Registrar of Companies is not optimal; it is necessary to improve the reliability and relevance of the information contained in the register, in view of its vital importance for the orderly operation of the banking sector, the business sector and the institutional bodies.
-  The regulation pertaining to submission by companies of their annual reports to the Registrar of Companies is not optimal, given the fact that more than 90% of the reports are submitted manually.
-  Since the beginning of the 2000s, including a new tender implemented from 2019, the database register in the Privacy Protection Authority of the Ministry of Justice and the Registrar of Companies have not made sure to enforce the provisions of the law - regarding dissemination of information originating in the Registrar of Companies database, which includes information protected by law - which were established to protect the right to privacy.




The Registrar of Companies has put in place an online system for conducting company registration and additional operations for updating company information, enabling improved service and alleviation of the bureaucratic burden, as well as increasing identification requirements for those executing operations within the database, which help maintain the reliability of the data obtained.

In the information dissemination tender, which was the basis for the contractual engagement commencing in January 2019, the Registrar of Companies made changes in two significant issues. Firstly, the entire database is not transferred every night, and secondly - there is immediate financial collection from the franchisee companies, which makes later controls in the matter unnecessary. The Registrar also clarified that during 2020, various aspects of the engagement agreement will be examined and further oversight of the franchisee companies carried out, based on lessons learned from the first year of engagement and the State Comptroller's Audit findings.

Prior to the conclusion of the audit, the franchisee companies carried out actions to promote the compliance of their activities with the provisions of the law and tender documents.

## Main Audit Recommendations

-  It is appropriate that the Ministry of Justice draw conclusions from the findings about the deficiencies in its engagement with the franchise companies that disseminate information for it from the Registrar of Companies database and from those arising from failure to conduct financial and other oversight of their activities.

<sup>1</sup> Reverse Search is an output of a search of information that originates in the Registrar of Companies database, which contains information about a person's holdings in companies and directorship positions in which they serve, throughout every company listed in the database.



The Ministry must insist that the franchisee companies fulfil their obligations in accordance with the agreements signed with them with regards to their use of the unique technological medium for obtaining information from the Registrar, for the transfer of all payments due to the Ministry and for the collection of the payments from the public in a legal manner.



In view of the importance of the database of Registrar of Companies, as stated, the Ministry of Justice must hold a discussion as to the findings of this report and as to the manner it is appropriate to make the database accessible to the public; the Ministry must ensure that the content of the database is optimal. In this framework, it is also proposed to consult with the main information consumers of the database, including the banking sector, the business sector and the relevant institutional bodies, to ensure that the benefits it brings to the business sector are maximized, while maintaining an appropriate balance between the business sector's needs and the right to privacy of the persons whose data is in the database.



The Ministry of Justice must enforce the law on privacy protection with regards to provision of information from the Registrar of Companies database to the public's and business entities' review.



In view of the government decision of August 2016, in which it was decided to adopt a policy of receiving information from the public only once, and in view of the fact that there are companies listed as active in the Registrar of Companies database but do not have an active portfolio at the Income Tax Authority - it is proposed to explore ways to reduce regulation and create a uniform reporting of companies to relevant authorities in the country.



The state revenues from the sale of company extracts to the public amount to about NIS 10 million per year on average, which is a few percent of the total collection of the Registrar of Companies every year. Therefore, it is proposed that the Ministry of Justice consider the need for collection in respect of a company extract given the existing structure of its revenue-producing services, and in light of the fact that in some other countries data on companies is made available to the public at no cost.

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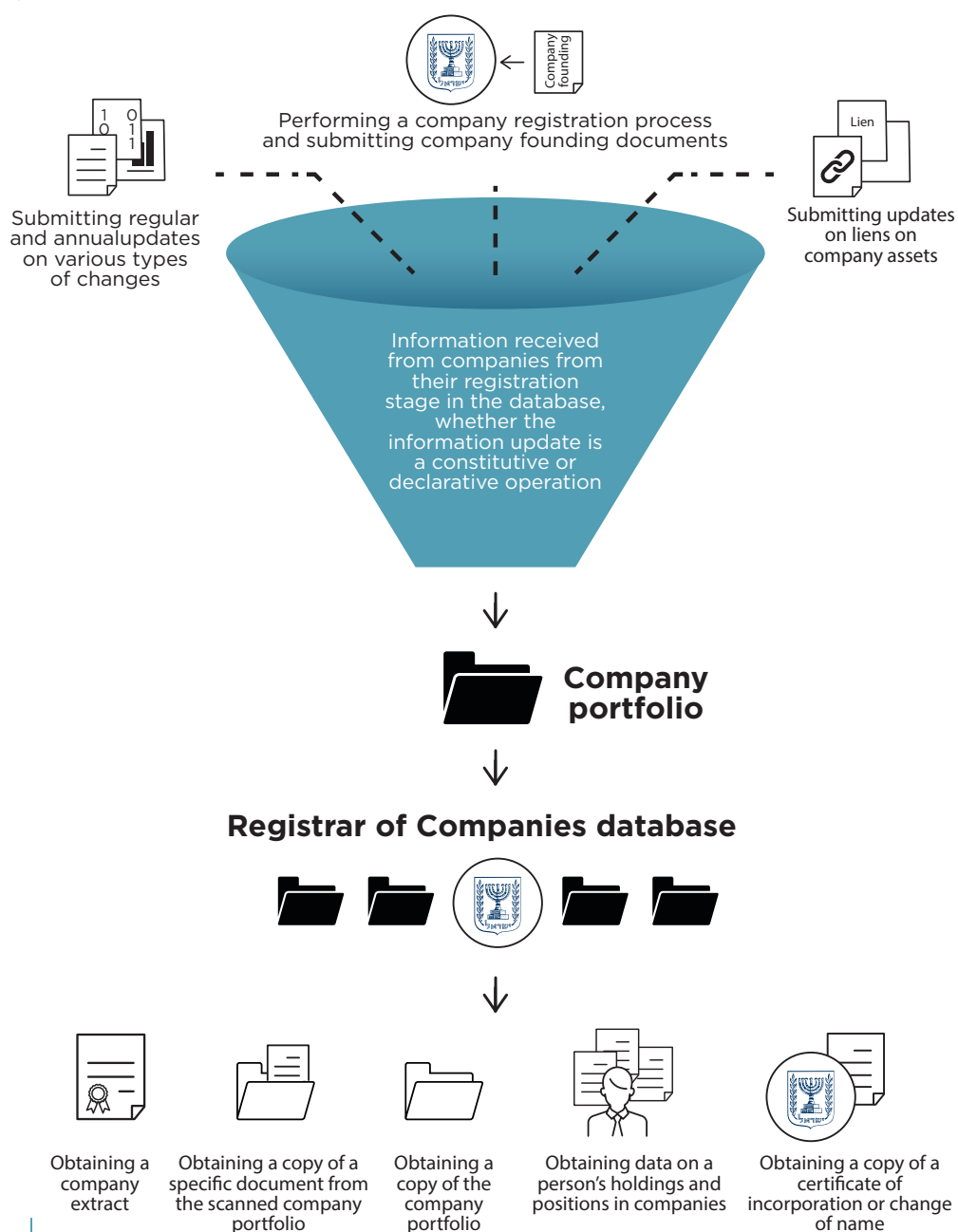
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## Summary

The Registrar of Companies, which is in charge of the Registrar of Companies database, plays a major role in disseminating up-to-date, high-quality, relevant information that supports processes in the banking sector, the business sector and institutional bodies.

Given the centrality of the Registrar of Companies database as a source of information supporting economic activity, it is recommended that the Registrar of Companies draw conclusions from this report and hold consultations also with the main information consumers of the database, including the banking sector, the business sector and the institutional bodies - to ensure that the benefits that the database can provide to the aforementioned sectors are maximized, while maintaining an appropriate balance between their needs and the right to privacy of the persons whose data is in the database.

## Company opening process, register update and disseminating the information to the public from the Registrar of Companies Database



Information provided by the Registrar for public review

According to the Registrar of Companies data, processed by the State Comptroller's Office

