

## Reform of limited partnership law

<b>Lead department</b>	Department for Business, Energy and Industrial Strategy
<b>Summary of proposal</b>	A package of measures aimed at enhancing regulation and oversight of limited partnerships (LPs), limiting their misuse and aligning them more closely with transparency requirements for companies.
<b>Submission type</b>	Impact assessment (IA) – 30 March 2022
<b>Legislation type</b>	Primary legislation
<b>Implementation date</b>	2023
<b>Policy stage</b>	Final
<b>RPC reference</b>	RPC-BEIS-4250(2)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	6 May 2022

## RPC opinion

<b>Rating<sup>1</sup></b>	<b>RPC opinion</b>
<b>Fit for purpose</b>	The IA provides a proportionate assessment of the direct impacts on business, including small businesses. There are areas identified where this assessment, and the wider IA, could be strengthened.

## Business impact target assessment

	<b>Department assessment</b>	<b>RPC validated</b>
<b>Classification</b>	Non-qualifying regulatory provision ( <i>de minimis</i> )	Qualifying regulatory provision (IN)
<b>Equivalent annual net direct cost to business (EANDCB)</b>	£2.2 million	£2.2 million
<b>Business impact target (BIT) score</b>	N/A	£11.0 million (as part of the combined impact of measures under a proposed further economic crime bill)
<b>Business net present value</b>	-£21.5 million	
<b>Overall net present value</b>	-£21.5 million	

<sup>1</sup> The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

## RPC summary

Category	Quality <sup>2</sup>	RPC comments
EANDCB	<b>Green</b>	The IA provides a sufficient assessment of the direct impacts on business. Although the EANDCB figure is below the <i>de minimis</i> threshold, the proposal is classified as qualifying against the business impact target on the basis that it is part of a wider bill, which has an estimated impact above £5 million EANDCB.
Small and micro business assessment (SaMBA)	<b>Green</b>	The IA provides a reasonable description of the sizes of affected businesses and includes a clear justification for not exempting small and micro businesses (SMBs) from the proposals. The SaMBA would benefit from providing further description of impacts on SMBs and, where impacts are disproportionate, consideration of mitigation options.
Rationale and options	<b>Satisfactory</b>	The IA provides evidence of issues arising under the current legislative framework and discusses market failure rationales for government intervention, although this could be strengthened. The IA would benefit from providing additional information on the alternative options considered.
Cost-benefit analysis	<b>Weak</b>	The IA uses a broadly proportionate level and quality of evidence and data but the analysis could be strengthened significantly in some areas, notably by further consideration of risks and quantification of potential benefits, including exploration of break-even analysis.
Wider impacts	<b>Weak</b>	The IA would benefit significantly from providing more discussion of potential competition and innovation impacts and from a proportionate discussion of potential impacts on trade and cross-border investment.
Monitoring and evaluation plan	<b>Weak</b>	The IA outlines what would be covered in a post-implementation review but would benefit significantly from indicating the questions that will be addressed, providing information on data gathering and discussing success criteria.

<sup>2</sup> The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be found [here](#).

## Summary of proposal

The IA sets out that the law surrounding LPs has not been changed substantially for over 100 years, and provides evidence that, while they remain useful vehicles, they are also used to facilitate a range of criminal behaviour. The IA covers a package of measures aimed at enhancing regulation and oversight of LPs, increasing transparency to align with the rules governing limited companies, and reducing criminal misuse while minimising burdens on legitimate users and uses of LPs. The preferred option comprises four strands:

- Ensuring that only trust or company service providers (TCSP) are able to present new applications for LPs.
- Noting that anonymity and lack of Companies House' verification of information provided under the existing arrangements makes law enforcement more difficult, requesting information about an LP's connection to the UK, both on application for registration and on an ongoing basis.
- Requiring confirmation statements and update statements from LPs and for these to be presented by a TCSP.
- Granting the Registrar powers to deregister LPs that are dissolved and those where a court orders (for example) that it is in the public interest that an LP should be wound up and deregistered.

## EANDCB

The Department appears to have provided reasonably-robust estimates of the direct impacts on business, based upon proportionate evidence and data (see comments below under 'cost benefit analysis'). The Department classified the proposal as non-qualifying against the business impact target (BIT) on the basis that the impacts are *de minimis* (under £5 million in EANDCB terms). However, as the proposal is part of a proposed wider economic crime bill, which has an estimated impact above *de minimis*, the RPC finds that the proposal should be counted towards the BIT.

The IA notes that policy changes might be reflected in related secondary legislation. It suggests, and the RPC expects, that if such changes materially affect the estimated direct impacts on business, the RPC will see an IA for validation of a revised EANDCB figure.

## SaMBA

The IA provides a reasonable description of the sizes of affected businesses and explains the limitations of SMB definitions and available data in this area. Some of this limitation appears to be a result of the lack of transparency surrounding LPs. The IA includes a clear justification for not exempting SMBs from the proposals. The SaMBA would benefit significantly from providing further description of impacts on SMBs and, where these impacts are disproportionate, consideration of mitigation options. The IA would benefit, in particular, from an analysis of the different types of SMBs in relation to the proportionality of the proposed requirements and the likelihood of abuse. This could then be linked to discussion of targeted mitigations or

exemptions for suitable classes (e.g. LPs made up primarily, or wholly, of specific types of SMB). The SaMBA is judged to be sufficient on proportionality grounds (if the proposals were not part of a wider bill, they would be *de minimis* and a SAMBA would not be required) but would benefit from being strengthened.

## Rationale and options

The IA provides evidence of issues with the current legislative framework, including examples of misuse of LPs, and discusses market failure rationales for government intervention, including information asymmetries. The IA's consideration of rationale for intervention could be improved in some areas. On regulatory failures, discussion of which avenues criminals make use for their financial gains are reduced and the ability of enforcement to oversee diverted activities. On information asymmetries, a more-specific discussion that also considers the possibility of symmetry of information inhibiting efficient risk allocation and questioning whether registration can really be seen as a 'transaction' between LPs and law enforcement. On negative externalities, in the context of "erosion of trust in LPs", discussion of the differential transparency or advantages of specific forms of LPs (including the reputational incentives of LPs and presenters to invest in transparency, due diligence etc.) can be "crowded out" and become dependent on the efficacy of enforcement as much as the behaviour of the entities involved.

The Department has initially considered a range of options, including discussing those that are non-regulatory, although only two are carried forward for full analysis. This was set out in more detail in the consultation stage IA and the present IA would benefit from providing additional detail, and from addressing some of the comments made informally by the RPC at that stage. The IA would benefit, in particular, from discussing a hybrid or co-regulatory option, for example providing a legal base for TCSPs to compete on the basis of diligence and transparency, or for secondary markets in LP risk to operate.

## Cost-benefit analysis

### Evidence and data

A key data source used in the IA is the post-implementation review of the *People with Significant Control* regime, which included a quantitative telephone survey of 500 businesses. The IA explains why this information is appropriate to use in estimating the costs of these present proposals. The IA also draws upon information provided by Companies House and other stakeholders, and from previous IAs. Overall, the IA provides a reasonable explanation for why it considers the evidence and data used for the analysis to be proportionate. The IA would benefit from explaining more clearly the availability of outturn data from Scotland. Following comments by the RPC at the consultation stage, the IA now usefully includes some information on other countries that have vehicles similar to LPs. The IA could usefully explore international comparisons further.

### Risks and non-monetised impacts

The IA usefully discusses risks, including that legitimate activity could move overseas. The likelihood of a large reduction in LPs, as was seen in Scotland, changing types of LPs and its potential impact could be discussed further.

The IA notes that it is not possible to monetise the benefits of the proposal. The IA would benefit significantly from a quantitative assessment, if only indicative, of benefits and/or further explanation of why this is not possible. For example, the IA could usefully explore potential indicative break-even analysis, perhaps drawing upon any information on societal costs associated with the case studies of misuse of LPs provided.

The analysis would benefit from examining in more detail the correlation of extra freedoms enjoyed by LPs (e.g. owning property, holding rights etc.) with uses of LP vehicles that a) reflect changing conditions in legitimate markets or b) facilitate specific types of criminal behaviour. This would seem to demonstrate that changes in the rules have substantial impacts on the behaviour of entities and that, therefore, indirect impacts may be substantial. The articulation between this and other parts of the proposed economic crime bill could be strengthened, drawing on a common set of scenarios to assess joint and indirect impacts.

The IA discusses the potential displacement of criminal activity to different corporate vehicles. The IA would benefit significantly from discussing further, the resulting risk to attaining the policy objectives and how this risk will be mitigated. In doing so, the IA would benefit significantly from discussing further the interactions and inter-dependencies with related requirements and proposals in this area, notably the Companies House register reform proposal in a proposed economic crime bill.

## **Wider impacts**

The IA would benefit significantly from providing more discussion of potential competition and innovation impacts, particularly in relation to LPs being a “*very flexible business vehicle*” (paragraph 7). The IA discusses costs to Companies House and acknowledges the difficulty in attributing impacts to these particular proposals. The IA would, nevertheless, benefit from discussing further impacts on the public sector. Given the demand for LP status from overseas, and risk that legitimate activity could move overseas, the IA would benefit from a proportionate discussion of potential impacts on trade and cross-border investment. The assessment would also benefit from a quantitative assessment of the risk that legitimate activity could move overseas and/or provide further explanation if this is not possible.

## Monitoring and evaluation plan

The IA commits to monitoring and evaluating the proposals and outlines what would be covered in a post-implementation review. The plan would benefit significantly from providing much more detail. This could include indicate the questions that will be addressed, providing information on data gathering, discussing indirect and wider impacts and success criteria. Difficulties around evaluating whether risks were well-managed and the success of the policy in improving transparency or stamping out abuse, and how this will be addressed should be discussed. The plan should also address how evaluation will take into consideration, and be coordinated across, the different measures likely to interact in this area.

### Regulatory Policy Committee

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