| Title: **Limited Partnership Reform** | Impact Assessment (IA) |
|---|---|
| **IA No:** RPC-3325(1)-HMT | **Date:** 20/07/2016 |
| **Lead department or agency:** HM Treasury | **Stage:** Final |
| **Other departments or agencies:** BIS, Companies House | **Source of intervention:** Domestic |
| | **Type of measure:** Secondary legislation |
| | **Contact for enquiries:** 0207 270 5000 publicenquiries@hmtreasury.gsi.gov.uk |

## Summary: Intervention and Options

**RPC Opinion:** validated

| Cost of Preferred (or more likely) Option | | | | |
|---|---|---|---|---|
| **Total Net Present Value** | **Business Net Present Value** | **Net cost to business per year** (EANCB on 2009 prices) | **In scope of One-In, Two-Out?** | **Measure qualifies as** |
| £3.26 million | £3.26 million | - £0.35 million | Yes | OUT |

**What is the problem under consideration? Why is government intervention necessary?**

The UK limited partnership is the most commonly used structure for European private equity and venture capital funds, as well as various other types of private fund. The legislation which governs the limited partnership structure remains largely unchanged for much of the 20th century, and as a result, it has not been able to accommodate fully the needs of private equity and venture capital funds, a relatively modern international industry that developed in the latter half of the 20th century. Without changes to the legislation governing limited partnerships, the UK risks becoming a less attractive domicile for funds compared with other jurisdictions and losing business in the investment management sector.

**What are the policy objectives and the intended effects?**

The policy objective is to make a series of amendments to the Limited Partnership Act 1907 and Partnership Act 1890 to reduce the administrative and financial burden for investment funds structured as a limited partnership. The intended effect is to increase the UK's competitiveness as a location for fund domicile by bringing the structure in line with similar vehicles in other jurisdictions. This should minimise costs for investors and increase the attractiveness of the UK a location for fund domicile.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

The government has considered two options compared to the 'do nothing' option.

- Option 1 – targeted legislative reform to create a Private Fund Limited Partnership (PFLP) structure
- Option 2 –legislative reform for all limited partnerships

The government has concluded that Option 1 is the only effective way of delivering the policy intention. Not all the proposed changes are suitable for all limited partnerships and therefore a new category of limited partnerships is required.

**Will the policy be reviewed?** It will not be reviewed. **If applicable, set review date:** NA

| Does implementation go beyond minimum EU requirements? | | | N/A | | |
|---|---|---|---|---|---|
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | **Micro** No | **< 20** Yes | **Small** Yes | **Medium** Yes | **Large** Yes |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | | | **Traded:** N/A | **Non-traded:** N/A | |

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister: ______________ Date: 25 July 2016

## Summary: Analysis & Evidence

Policy Option 1

**Description:**

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2014 | PV Base Year 2017 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** £1.55 | **High:** £4.98 | **Best Estimate: £3.26** |

| **COSTS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Cost** (Present Value) |
|---|---|---|---|---|
| **Low** | 0.2 | | 0.0 | **0.2** |
| **High** | 1.5 | | 0.0 | **1.5** |
| **Best Estimate** | **£0.8** | | **£0.0** | **£0.9** |

**Description and scale of key monetised costs by 'main affected groups'**

**Firms**: This measure is expected to impact approximately 600 private equity and venture capital fund managers. The government does not expect significant material costs to firms to result from this deregulatory measure. The government only expects minimal familiarisation and set up costs for businesses.

**Companies House**: The main set up and ongoing costs of the measure will fall to Companies House, who will have to process applications by firms. Again, this is expected to be minimal as affected firms already deal with Companies House when setting up funds structured as limited partnerships.

**Other key non-monetised costs by 'main affected groups'**

The government does not expect other key non-monetised costs. If the measure is successful in attracting more private equity funds to domicile in the UK, there may be increased processing costs for Companies House in the long-term. However, it is not possible to anticipate the long-term impact of the measure on the private equity fund market so these potential costs have not been quantified.

| **BENEFITS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Benefit** (Present Value) |
|---|---|---|---|---|
| **Low** | 0.0 | | 0.4 | **3.1** |
| **High** | 0.0 | | 0.6 | **5.2** |
| **Best Estimate** | **£0.0** | | **£0.5** | **£4.1** |

**Description and scale of key monetised benefits by 'main affected groups'**

Private equity firms will experience the key monetised benefits of the measure. The increased clarity of the law should result in savings in terms of legal advice when setting up a private equity fund. The disapplication of unnecessary administrative procedures and anachronistic elements of the Limited Partnerships Act will reduce administrative burdens for firms.

**Other key non-monetised benefits by 'main affected groups'**

This measure should make it more attractive for collective investment schemes to structure as a PFLP. It should also result in more fund managers domiciling investment funds in the UK, increasing employment and growth in the UK.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

Costs are based on estimates of required system changes and other set up costs, including training. The estimate of the monetary benefit to firms is also uncertain, particularly as it is not possible to accurately predict the number of funds setting up as PFLPs in the UK. The amendments may result in more funds setting up using this vehicle, and therefore the benefits to industry and wider society may be underestimated.

**BUSINESS ASSESSMENT (Option 1)**

| Direct impact on business (Equivalent Annual) £m: | | | In scope of OITO? | Measure qualifies as |
|---|---|---|---|---|
| **Costs:** £0.1 | **Benefits:** £0.4 | **Net:** £0.4 | Yes | OUT |

# Evidence Base (for summary sheets)

## Introduction

At Budget 2013, the government launched the Investment Management Strategy, which included a package of measures to improve the UK's competitiveness in the global investment management industry. These measures included a commitment to consult on technical changes to limited partnerships legislation as it applied to funds, with a view to removing unnecessary legal complexity and administrative burdens.

While the UK remains Europe's leading centre for fund management, with around 37% of all assets managed in Europe managed from the UK, the UK share of fund domicile has fallen in the last decade. The investment management industry is a key part of the UK's financial sector. It is a significant provider of jobs and skills both within the industry itself and through consulting and outsourcing to other sectors based in the UK. The decline in fund domicile in particular has resulted in the loss of jobs and growth in many regions of the UK. By introducing the proposed Private Fund Limited Partnership structure (PFLP), the government hopes to bring more investment management business to the UK and to have a positive impact on the economy more widely.

There is a long history of demand for reform to the Limited Partnerships Act in order to alleviate administrative burden on businesses created by outdated provisions and to modernise the structure to bring it in line with practices in other jurisdictions. In 2003, the Law Commission published a report on partnership law[1] and, in 2008, the government announced its intention to implement the Law Commission's recommendations on limited partnerships specifically. The then Department for Business Enterprise and Regulatory Reform published a consultation on a Legislative Reform Order for limited partnership reform, but they were unable to continue with the comprehensive reform in light of stakeholder responses.

The government now intends to make targeted changes to the Limited Partnerships Act to address the concerns which impact on the investment funds sector. Any wider ranging proposals to reform the Limited Partnerships Act for other business models would require further consideration, including assessment of risks and impacts.

## The policy objective and the rationale for intervention

The limited partnership structure is governed principally by the Partnerships Act 1890, the Limited Partnerships Act 1907 and rules of equity and common law. These Acts have remained largely unchanged for much of the twentieth century. As a result, existing limited partnerships legislation has not been able to accommodate fully the needs of private equity and venture capital funds. The government objective for these reforms to the Limited Partnerships Act is to modernise the limited partnership structure to bring it in line with other jurisdictions, which either already have, or are in the process of introducing, laws to ensure that private fund sponsors have the flexibility to structure funds in the most efficient way and to avoid incurring unnecessary costs and administrative burdens.

[1] http://www.lawcom.gov.uk/wp-content/uploads/2015/03/cp159_Partnership_Law_Consultation.pdf

This policy is intended as a deregulatory measure that should reduce burden on investment funds, fitting within the government's wider Better Regulation initiative.

## Description of options considered

### *Option 0 – Do nothing*

This option would involve making no change to current policy. This option would continue to place the associated cost of ongoing administrative and financial burdens on investment funds due to the current legal position. As this cost is passed on to the investors, it also has long-term implications for investors, who would not continue to receive value for money on their investments. Critically, this option would not meet the government's objective of ensuring a competitive limited partnership structure for investment managers. In the longer term, this would highly likely result in a continued reduction in the number of investment funds domiciled in the UK and the loss of associated jobs across the UK.

### *Option 1 – Legislative Reform for Private Fund Limited Partnerships*

The government's lead option is to amend the Partnerships Act 1890 and the Limited Partnerships Act 1907 to introduce the new PFLP structure. Collective investment schemes as defined under the Financial Services and Markets Act (FSMA) 2000 will be able to apply for status as a PFLP and will be subject to a different set of requirements to the existing limited partnership structure.

The PFLP structure differs from the ordinary limited partnership structure in the following areas:

- Limited partners in a PFLP will not be required to contribute capital to the partnership. If they were to contribute capital, they would be allowed to withdraw it without being liable for debts and obligations to the amount withdrawn.

- Limited partners will be able to make a decision about whether to wind up the partnership where there are no general partners and to nominate a third party to wind up the partnership on their behalf.

- The partnership will not be required to advertise changes in the London, Edinburgh or Belfast Gazette, with the exception of the requirement to advertise in the case of changes to the status of the general partner.

- Limited partners will not be required to comply with statutory duties which are inappropriate to the role of a passive investor, which is the role a limited partner in a PFLP will take.

- The law will include a non-exhaustive list of activities which a limited partner may be allowed to undertake without taking part in management.

### *Option 2 – Legislative Reform for all limited partnerships*

The government also considered extending the proposed amendments in the legislative reform order to all limited partnerships, rather than creating two parallel systems for normal limited partnerships and private funds set up as limited partnerships.

The primary benefit of this approach would be the simplicity provided by one regime. While there was some appetite for this approach from respondents to the consultation, it was clear from the responses received that some of the proposed reforms were suitable for PFLPs but not for limited partnerships more widely. For example, the requirement to comply with statutory duties is an integral part of a business partnership which is formed for a business enterprise, and it would not be appropriate to remove this requirement for a limited partnership which was formed for this purpose.

Therefore, the government has decided it is necessary to have two regimes: one for limited partnerships and another for private fund limited partnerships respectively, reflecting the differing needs of funds and other limited partnerships. Further analysis is required to assess whether changes should be made to the regime for ordinary limited partnerships.

## Appraisal

### *Approach to analysis of costs and benefits*

The sections below look at the costs and benefits of the intended PFLP structure, as well as the impacts on investors and the public sector. Option 1 is the most feasible option that can deliver the government's objectives.

The monetised and non-monetised costs and benefits highlighted in this impact assessment have been derived through discussion with Companies House, industry experts as well as representatives of a number of individual firms that might be affected. This has been supported by internal analysis to estimate the changes that firms and investors may need to make.

In our assessment of costs and benefits for Option 1, the "do nothing" scenario has been taken to be the counterfactual.

### *Sources of evidence and assumptions*

The appraisal in this impact assessment has been carried out applying the guidance of the Green Book (HM Treasury 2003)[2] and the Better Regulation Framework manual, v2, February 2015)[3].

The government has actively engaged with the investment management sector, the British Private Equity & Venture Capital Association (BVCA), Companies House about the best way to secure these changes, minimising impacts on the industry and minimising public sector costs where possible.

The BVCA is the industry body and public policy advocate for the private equity and venture capital industry in the UK. It represents more than 500 firms, and therefore speaks for the majority of the industry affected by the proposed changes. The BVCA provided data on the costs to firms of setting up a fund as a limited partnership for the purpose of this impact assessment. Due to the commercially sensitive nature of these data, a detailed breakdown of how these costs and benefits were arrived at cannot published in this impact assessment but have been used to inform the assumptions used within.

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468831/bis-13-1038-Better-regulation-framework-manual.pdf

Companies House is an executive agency of the Department for Business Innovation and Skills. It registers limited partnerships, registers the information limited partnerships are legally required to supply, and makes that information available to the public. Companies House provided data and analysis of the costs to the public sector of introducing a PFLP structure.

The government has engaged in informal discussions with representatives of the investment management sector, Companies House and the BVCA about the best way to secure these changes, minimising impacts on the industry and minimising public sector costs where possible.

Wage and occupational data is taken from the Annual Survey of Hours and Earnings. The social rate of discount used is 3.5 per cent and the appraisal is conducted over a ten year period.

*Risks*

The main risk is the uncertainty in the estimates given the lack of data in some areas. The estimate of the business population affected is based on the sectors which already use the English limited partnership when setting up a fund, and may not fully reflect the number of companies which can benefit from the new PFLP structure. Further, the measure may result in new parts of the investment management industry using the PFLP structure in future funds, and could therefore result in a wider impact than that reflected by this impact assessment.

However, the estimates used in this impact assessment were agreed with Companies House and the BVCA as good reflections of the impact on businesses. Further, the measure is expected to be of net benefit to businesses overall, so there is minimal risk that the impact assessment does not fully reflect the costs to businesses.

Engagement with the sector and Companies House is ongoing and the expectation is to manage and control these risks.

## Expected level of business impact

This legislative measure is expected to have an impact on venture capital and private equity fund managers and their funds. Fund managers of venture capital and private equity funds currently use the limited partnership as the fund vehicle of choice when setting up a fund. There may be other types of investment fund which do not use the ordinary limited partnership as a fund vehicle but which may start to use the PFLP regime in the future. However, the changes are targeted at the venture capital and private equity industry only, so the government has assessed the impact only on venture capital and private equity funds and managers (and these are who the government therefore refers to below).

With respect to costs and savings accrued in relation to the measure, the impact could be measured at one of three levels: the level of the fund manager, the fund or the PFLP structure. Industry have provided the following estimates about the number of entities which will be affected at each level.

With respect to fund managers, industry estimate that there are currently approximately 250 venture capital and private equity fund managers based in the UK who will be affected by the new regime. Industry assume that this number will remain the same over the 10 year assessment period.

With respect to funds, there are two relevant populations, namely existing funds which may benefit from transferring into the new regime and new funds set up in the future.

In the case of existing funds, industry provided estimates of the number of existing firms which will be affected by the measure. Industry assessment is that there are 780 existing venture capital and private equity funds in the UK which could benefit from this measure.

The government discussed with industry a suitable estimate of existing funds which will transfer into the new PFLP regime. Industry noted that investors and creditors will have interacted with the partnership on the basis of the old regime and they may want to keep the various rights and obligations of the old regime in place. However, a proportion of existing funds may convert to PFLP status. Industry estimated that 20% of existing funds would convert to PFLP status. The government has assumed that these existing funds would convert to PFLP status during the first year of this measure, because the fund and its investors will want to make cost savings as soon as possible when the measure comes into force. Therefore, a total of 156 existing funds are assumed to be affected in year one of the measure.

In the case of funds set up in the future, industry provided an estimate that 20 to 30 new funds are set up each year. The government has assumed that all future funds will be set up using the PFLP structure in place of the ordinary limited partnership structure, on the basis that the fund will make additional savings by structuring as a PFLP instead of an ordinary limited partnership.

Finally, several PFLPs will be associated with each individual fund which is impacted by the measure. This is because venture capital and private equity funds are structured using a number of different companies and limited partnerships within the structure of one fund. The PFLPs in one investment fund could include the main fund vehicle, a parallel fund, a feeder fund, a co-investment vehicle, a general partner and a carried interest vehicle. This means that when a fund is set up, several PFLPs associated with the fund could be set up at the same time.

Industry provided an estimate that there would be 4 PFLPs per fund which is set up. The number of PFLPs which will be set up is laid out in the table below and is on the basis of these estimates.

The table below sets out the number of entities which will be affected by the regime, both existing which transfer into the regime, and annually for ten years from the measure being introduced.

*Table 1: Population of businesses affected by the new regime*

| Entities affected | | Existing | New annually | Total new over assessment period | Total over 10 year assessment period |
|---|---|---|---|---|---|
| Fund managers | Best | 250 | - | - | 250 |
| | High | - | - | - | - |
| | Low | - | - | - | - |
| Funds | Best | 156 | 25 | 250 | 406 |
| | High | - | 30 | 300 | 456 |
| | Low | - | 20 | 200 | 356 |
| PFLPs associated with a fund | Best | 624 | 100 | 1000 | 1624 |
| | High | - | 120 | 1200 | 1824 |
| | Low | - | 80 | 800 | 1424 |

## Monetised costs and benefits of option 1

Regarding the preferred approach, the main monetised costs and benefits to businesses will broadly fall into the categories taken in turn below: public sector costs, industry set-up costs, legal costs and benefits, and administrative costs and benefits.

*Public sector costs*

Companies House may incur set-up costs in year 1. Companies House staff may be required to read four pages of guidance on the changes proposed in order to understand details and rules around the new PFLP framework. Based on reading times for slow, average and good readers it is assumed that for a low, central and high estimate that 5, 10 and 15 minutes are required per page.

*Table 2: Reading times per page, assumptions for familiarisation times (in minutes)*[4]

| | Speed wpm | Comp | Time x 2 | Allowance | Total |
|---|---|---|---|---|---|
| High | (slow) 100 | 50% | 12 | 3 | 15 |
| Central | (average) 200 | 60% | 8 | 2 | 10 |
| Low | (good) 400 | 80% | 4 | 1 | 5 |

[4] See: http://www.readingsoft.com/ Estimates of reading speed are given in the Table and in all calculations the time was doubled (time in minutes) and readers (slow, average and good - average readers are 5 x slower than a good reader) may have to read about two pages of text (about 400 words) plus an allowance is made for those that English may not be their first language and those with dyslexia.

There are approximately 1,000 staff employed by Companies House, a proportion of whom will be required to familiarise themselves with the changes to their processes resulting from the amended legislation. As limited partnerships and the processes relating to these are a small portion of the work Companies House do, it is not expected that all staff will need to familiarise themselves with the new rules. The government has agreed with Companies House estimates for the volume of staff involved for a low, central and high scenario. These volumes are 100, 250, and 500 respectively. The relevant occupations are: Administrative Officer (Records) (SOC413) with a gross hourly median wage of £10.09, and Data Processor (SOC4217), which has a gross hourly median wage of £8.95[5].

The familiarisation costs are calculated as:

*time taken to read guidance x volume of staff x gross median hourly wage*

Therefore, the cost of familiarisation for Companies House is anticipated to be in a range of £80 to £1190 in year 1, with a best estimate of £635.

Companies House will not incur any material costs relating to the set-up of a new application procedure for PFLPs. It will amend existing forms or create new ones for PFLPs, which Companies House foresees to be an immaterial cost. In all other respects Companies House will use existing systems for processing applications.

*Public sector recovered costs*

Following set-up of the new processes, Companies House will incur administrative costs in the registration of new PFLPs.

The estimate for the administrative costs of registering a PFLP is based on the current cost of registering a limited partnership. This is the most comparable cost as Companies House expect the process to be very similar to the process for an ordinary limited partnership. The cost of registering a form LP5 is £20; the cost of registering a PFLP is expected to be the same.

Companies House will recover the annual costs of PFLP registration from businesses with a fee of £20 per registration, or £100 for same day registration. The government has assumed that all PFLPs will be registered using the standard £20 registration, as managers will minimise costs of registration by going with the standard registration process.

As per the "Expected level of business impact" section, the government estimated the number of PFLPs associated with existing and new funds which will transfer into the new regime. There will be 4 PFLP applications associated with each fund, and the measure will impact both existing funds in year 1 and new funds annually. Therefore, the formula used to calculate the cost of PFLP applications per fund is:

*number of funds affected x number of PFLPs per fund (4) x cost of registration (£20)*

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[5] http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-provisional-results/2013-provisional-table-14.zip

The government estimated the total costs for PFLP applications by existing limited partnerships as £12,480 in year 1, and estimated an annual cost for PFLP registration of between £1,600 and £2,400 for new funds.

*Table 3: Summary of costs to Companies House*

| Summary of costs | | Number of funds affected | Total |
|---|---|---|---|
| **Set-up costs** | | | |
| Familiarisation costs | | NA | £635 |
| **Recovered costs** | | | |
| Registration costs (per fund) | Best | 1 | £80 |
| Registration costs for new funds set up annually (cost per year) | Best | 25 | **£2,000** |
| | High | 30 | **£2,400** |
| | Low | 20 | **£1,600** |
| Registration costs for existing funds (year 1 only) | Best | 156 | **£12,480** |

The government has included registration costs in the Equivalent Annual Net Cost to Business (EANCB) calculation to account for the cost to businesses. Public sector set up costs will not be recovered from businesses.

Net costs to Companies House are expected to be approximately £635 for familiarisation.

*Industry set-up costs*

The government agreed estimates of familiarisation costs with industry. It is difficult to provide an estimate of familiarisation costs because it depends on the level of expertise in place. However, industry estimated that costs of £750 to £6,000 per fund manager could be required to cover training, checking existing documents, dealing with consents to changes in documentation that may be needed and other changes. The costs will vary considerably because some firms will require external counsel, which will increase the average hourly rate, while others can rely on in-house lawyers. Equally the degree of previous knowledge about the subject matter will vary from firm to firm.

As per the “Expected level of business impact” section, there are approximately 250 fund managers in the UK who will need to familiarise themselves with the new legislation. The government has assumed that all fund managers will familiarise themselves with the changes in year 1 of the measure coming into force, because managers will need to understand how the measure affects them and will want to profit from any cost savings from year 1.

*Table 4: Summary of costs in EANCB*

| Costs | | Costs by individual | Costs in year 1 only | Annual costs | Nominal Total |
|---|---|---|---|---|---|
| Familiarisation costs to fund manager | Best | £3,375 | £843,750 | - | **£843,750** |
| | High | £6,000 | £1,500,000 | - | **£1,500,000** |
| | Low | £750 | £187,500 | - | **£187,500** |
| Registration costs to existing funds | Best | £80 | £12,480 | - | **£12,480** |
| | High | - | £12,480 | - | **£12,480** |
| | Low | - | £12,480 | - | **£12,480** |
| Registration costs to new funds (20-30) | Best | - | - | £2,000 | **£20,000** |
| | High | - | - | £2,400 | **£24,000** |
| | Low | - | - | £1,600 | **£16,000** |

*Legal savings*

The government has discussed the legal costs and benefits associated with the PFLP structure with the industry, who provided the following estimates.

Cost savings will be primarily in relation to legal fees incurred when seeking counsel on the position of limited partners. The clarification provided by the addition of a white list, the exemptions from statutory duties under section 28 and section 30, and the amendments to the provisions on capital contributions will all contribute to reducing these costs.

Industry has provided an estimate that one firm will save 20 to 40 hours of legal counsel when drafting the limited partnership agreement and other formation material, educating investors and confirming that the limited liability status has not been jeopardised. This amounts to between £10,000 and £20,000 financial savings per fund.

Industry do not anticipate any material legal costs to arise from the new regime. See table 5 below for a summary of the savings.

*Administration savings*

Estimates of administrative costs and benefits, agreed through conversations with industry, are based on data provided by industry.

There will be administrative cost savings for the fund manager. One cost relates to the collection of capital contributions for de minimis amounts at the time of a partner's admission to a fund. This is an inefficient use of time as it will in practice occur multiple times where funds have more than one "closing" during a fund raising process. The inefficiencies of this process are amplified when there are a larger number of investors in a fund e.g. over 200.

Further administrative burdens will be relieved in relation to the registration of changes to the limited partnership. Under the current legal position, limited partnerships are required to submit notices to Companies House when changes are made to the partnership structure such changes to the term of the partnership.

Industry has provided an estimate of the total cost savings to firms. One fund manager will save 15 to 20 hours of administration as a result of the changes to the provisions on capital contributions and the requirements in relation to registration of changes to the limited partnership. This will result in £4,000 to £6,000 savings per fund, or a best estimate total annual saving of £130,000 for all new funds.

The proposed changes to requirements to advertise in the Gazette will result in cost savings for investment funds, as PFLPs will no longer be required to advertise in the Gazette in the case of the transfer of a limited partner's interest. The price of a notice in The Gazette for 2016 is £79.40 (excluding VAT), and industry estimates that it will take 1 hour of administration to publish this notice.

Based on figures provided by the BVCA, the government estimate that a limited partnership will issue between 10 and 20 Gazette notices over the life of the fund, meaning that an investment fund will make savings of between around £800 and £1,600 over its life, including administration costs. Applied to the BVCA's estimate of 20 to 30 new funds annually, the best estimate is £32,000 saved across new funds. These savings will also affect existing funds structured as limited partnerships, and savings will be added to the transitional benefits.

Aside from the administrative cost of PFLP registration discussed above, industry do not anticipate further administrative costs as a result of this measure. See table 5 below for a summary of these savings.

*Table 5: Total cost savings for Venture Capital and Private Equity Funds*

| Areas | Hours saved per fund | Costs saved per fund | | |
|---|---|---|---|---|
| Legal savings | 20 to 40 | £10,000 | to | £20,000 |
| Administrative savings | 15 to 20 | £4,000 | to | £6,000 |
| Gazette savings | 10 to 20 | £800 | to | £1,600 |
| | Total savings per fund | £14,800 | | £27,600 |

*Distribution of savings across the lifetime of a fund*

As savings will be accrued over the life of a fund, industry have provided estimates of the term of a fund and when the savings are likely to be accrued.

The typical term of a fund is 10 years, however this can be extended by two one year terms. In practice, terms often are extended, and given the time taken to wind down a fund, industry have assumed a 12 year period over which the cost savings should be accrued.

Industry estimate that 25% of the cost savings will accrue in the first year when the fund is established. Many of the amendments will save time and costs at this stage of the process, for example legal counsel on activities which limited partners can legally undertake without losing their limited liability. Industry estimate that a further 25% of the cost savings will accrue in the last year of the fund's life, when the fund is wound down.

The remaining 50% of savings are associated with administrative procedures such as capital calls, filings, consent from limited partners and so on. These savings will accrue evenly over the interim years of the fund's life.

Therefore, an individual fund is expected to make £5,300 savings in year 1, £5,300 savings in year 12 and annual savings of £1,060 for all other years.

*Distribution of savings for existing funds which transfer to the PFLP regime*

In addition to the new funds which will be set up annually, existing funds may choose to transfer into the PFLP regime. As explained in the "Expected level of business impact" section, industry provided estimates of the number of funds that currently exist under the ordinary limited partnership regime, and an estimate that 20% of these funds which will transfer into the new regime.

The 20% estimate provided by industry is based on the following assumptions. As the cost savings are accrued throughout the lifetime of the fund, a fund at an earlier stage in its term will make greater cost savings than a fund later in its term. Therefore, a fund which is early in its term is the most likely to transfer into the new regime. It was assumed therefore that all funds which transfer into the regime will have ten years remaining in the fund's term. It was also assumed that the funds will transfer into the new regime in the first year of the measure coming into force. This assumption has been made because the funds would want to transfer into the regime as early as possible to get the benefits of the PFLP structure.

Existing funds will not make the savings associated with setting up the fund, namely the 25% savings in year one. However, industry have assumed that aside from the initial savings associated with setting up the fund, other savings will be made by the funds in question, administration savings accrued annually, and savings associated with winding up the fund at the end of the life of the fund. An existing fund is expected to make annual savings of £1,060 per year, and savings of £5,300 in year 10 from the measure being introduced.

*Table 6: Distribution of cost savings over the lifetime of an investment fund*

| | | Total savings | Savings Y1 | Annual savings | Savings Y12 |
|---|---|---|---|---|---|
| By individual fund | Best | £21,200 | £5,300 | £1,060 | £5,300 |
| | High | £27,600 | £6,900 | £1,380 | £6,900 |
| | Low | £14,800 | £3,700 | £740 | £3,700 |
| New funds annually (20-30) | Best | £562,000 | £140,500 | £28,100 | £140,500 |
| | High | £828,000 | £207,000 | £41,400 | £207,000 |
| | Low | £296,000 | £74,000 | £14,800 | £74,000 |
| | | **Total savings** | | **Annual savings** | **Savings year 10** |
| For existing funds | Best | £2,480,400 | - | £165,360 | £826,800 |
| | High | £2,480,400 | - | £165,360 | £826,800 |
| | Low | £2,480,400 | - | £165,360 | £826,800 |

*Calculation of savings in the Equivalent Annual Net Cost to Business (EANCB)*

Using the estimates provided by industry of the level of savings and the distribution of when these savings will be accrued over the life of a fund, the government has calculated the full extent of the savings which will be made annually by all funds set up in the first 10 years of the measure being introduced. The government has assumed that 20 to 30 funds will be set up each year following the introduction of the measure, as per the "Expected level of business impact" section.

The nominal totals for savings are as follows. This is the sum of totals in table 7:

| Savings | | Nominal Total |
|---|---|---|
| Savings for new funds | Best | £2,669,500 |
| | High | £3,933,000 |
| | Low | £1,406,000 |
| Savings for existing funds | Best | £2,315,040 |
| | High | £2,315,040 |
| | Low | £2,315,040 |

*Table 7: Calculation of benefits for the EANCB*

| | | Savings by year from introduction of measure | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Year 1 funds | Best | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 2 funds | Best | 0 | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | 0 | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 3 funds | Best | 0 | 0 | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | 0 | 0 | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | 0 | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 4 funds | Best | 0 | 0 | 0 | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | 0 | 0 | 0 | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | 0 | 0 | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 5 funds | Best | 0 | 0 | 0 | 0 | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | 0 | 0 | 0 | 0 | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | 0 | 0 | 0 | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 6 funds | Best | 0 | 0 | 0 | 0 | 0 | £140,500 | £28,100 | £28,100 | £28,100 | £28,100 |
| | High | 0 | 0 | 0 | 0 | 0 | £207,000 | £41,400 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | 0 | 0 | 0 | 0 | £74,000 | £14,800 | £14,800 | £14,800 | £14,800 |
| Year 7 funds | Best | 0 | 0 | 0 | 0 | 0 | 0 | £140,500 | £28,100 | £28,100 | £28,100 |
| | High | 0 | 0 | 0 | 0 | 0 | 0 | £207,000 | £41,400 | £41,400 | £41,400 |
| | Low | 0 | 0 | 0 | 0 | 0 | 0 | £74,000 | £14,800 | £14,800 | £14,800 |
| Year 8 funds | Best | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £140,500 | £28,100 | £28,100 |
| | High | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £207,000 | £41,400 | £41,400 |
| | Low | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £74,000 | £14,800 | £14,800 |
| Year 9 funds | Best | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £140,500 | £28,100 |
| | High | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £207,000 | £41,400 |
| | Low | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £74,000 | £14,800 |
| Year 10 funds | Best | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £140,500 |
| | High | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £207,000 |
| | Low | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | £74,000 |
| **Total saving** | **Best** | **£140,500** | **£168,600** | **£196,700** | **£224,800** | **£252,900** | **£281,000** | **£309,100** | **£337,200** | **£365,300** | **£393,400** |
| | **High** | **£207,000** | **£248,400** | **£289,800** | **£331,200** | **£372,600** | **£414,000** | **£455,400** | **£496,800** | **£538,200** | **£579,600** |
| | **Low** | **£74,000** | **£88,800** | **£103,600** | **£118,400** | **£133,200** | **£148,000** | **£162,800** | **£177,600** | **£192,400** | **£207,200** |

Benefits for existing funds

| Year | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Existing funds | Best | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £826,800 |
| | High | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £826,800 |
| | Low | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £165,360 | £826,800 |

## Costs and Benefits: Summary Tables

*Table 8: Outline of costs and benefits*

| Outline Costs and Benefits | | |
|---|---|---|
| Option 1 | Costs | Benefits |
| | • One-off set-up costs for Companies House (not included in EANCB)<br>• Familiarisation costs for fund managers in year 1<br>• Cost of registering PFLPs with Companies House | • Administrative and legal savings for existing funds<br>• Administrative and legal savings for new funds |

*Table 9: Equivalent Annual Net Cost to Business (EANCB)*

| Summary of Costs and Benefits | Nominal Total | 10 yr impact - (£m) PV Best estimate |
|---|---|---|
| COSTS | | |
| **Transition costs** | | |
| Familiarisation costs for businesses | 0.84 | 0.84 |
| **Annual costs** | | |
| Registration costs for new funds | 0.02 | 0.02 |
| Registration costs for existing funds | 0.01 | 0.01 |
| **Total costs** | 0.87 | 0.87 |
| BENEFITS | | |
| Benefits to new funds | 2.67 | 2.23 |
| Benefits to existing funds | 2.32 | 1.91 |
| **Total Benefits** | 4.98 | 4.14 |
| NET BENEFIT (PV) (Benefits-Costs) | | 3.26 |

## Non-monetised costs and benefits of option 1

There will be many non-monetised benefits to option 1 which will make the limited partnership structure a more competitive choice for fund managers when choosing how to structure their investment fund.

Many of the benefits will be felt by investors, for whom the new PFLP structure will be simpler to understand. The new measures remove anachronistic processes which do not make sense to investors and can be burdensome to explain to them. This will enhance the image of the UK as a location of choice for fund domicile, and cannot be easily quantified in terms of financial gain.

The changes to the legislation will increase comparability of the UK system to equivalent structures in other jurisdictions. For example, the introduction of a white list of activities for limited partners brings the English limited partnership structure in line with practice in other jurisdictions. This will have a long-term positive impact on investors' perception of the UK structure and investment management sector, and may lead to long-term economic benefits to the UK through increased investment into the UK. Furthermore, there may be a long-term increase in the number of funds domiciled in the UK in preference to other jurisdictions.

This also applies to many of the other provisions which have been changed. For example, the removal of the requirement to advertise in the Gazette will simplify the process for a partner to transfer their interest to another person, and will avoid the complications of having to explain to investors why the change can only come into effect after a notice in the Gazette. Similarly, removing the requirement to contribute capital to the fund will provide limited partners with the flexibility to contribute their investment in the manner most suitable for their needs.

*Net Position*

The Net Present Value (NPV) of Option 1 is £3.26 million calculated as total benefits minus the total costs over the 10 year appraisal period.

## Wider impacts

The proposed measures will have a positive impact on investment funds which wish to use the limited partnership structure for their fund.

In the case of other businesses structured as limited partnerships, these businesses will continue to be required to comply with the provisions set out for ordinary limited partnerships. The government has kept the distinction between the two limited partnership structures in order to balance the needs of different business strategies.

The government does not expect the amendments to the Limited Partnerships Act to result in a negative impact on ordinary limited partnerships. The government does not expect that this will result in unequal treatment of competing businesses, because the government has tried to ensure all competing Collective Investment Schemes are caught by the new PFLP structure. In choosing the definition of a Collective Investment Scheme used for the investment funds which will be eligible to use the PFLP regime, the government has used the widest definition possible by excluding the exemptions under FSMA 2000 section 235 (5). This will ensure that competing businesses within the investment management sector will not be disadvantaged by the scheme which they fall under.

Conversely, businesses in other sectors structured as limited partnerships will not be competing with businesses which may fall into the PFLP net, ensuring minimal competition concerns arise from the existence of two parallel limited partnership structures.

The government does not expect there to be a significant impact on small and micro organisations within the investment management sector, as the overall costs to businesses are minimal and unlikely to have any measurable impact. The government does expect a positive financial impact on all investment funds, including small businesses, in the form of cost savings.

The government has not identified any other wider impacts resulting from this proposal, including on our responsibilities under the Equalities Act 2010.