Limited Partnership Reform

HM Treasury

RPC rating: validated

Description of proposal

To reduce the administrative and financial burden for collective investment schemes structured as limited partnerships, HM Treasury proposes to create a new Private Fund Limited Partnership (PFLP) structure. The PFLP structure will differ from the ordinary limited partnership structure in the following ways:

- Limited partners in a PFLP will not be required to contribute capital to the partnership, and have greater freedoms for withdrawing capital if they choose to invest;
- Where there are no general partners, limited partners will be able to decide whether to wind up the partnership, rather than having to apply to a Court;
- The partnership will not be required to advertise changes in the Gazette; and
- Limited partners will not be required to comply with statutory duties that are inappropriate to the role of a passive investor, which is a role a limited partner in a PFLP will take.

Introducing this new structure is expected to increase the attractiveness of the UK as a location for investors.

Impacts of proposal

HM Treasury expects 156 existing limited partnerships to convert to PFLP status in the first year of implementation and estimates that 20 to 30 new funds will be set up each year thereafter using PFLPs. Based on estimates from industry HM Treasury expects an average of 4 PFLPs to be associated with each of these individual funds. This is because one investment fund could include PFLPs, for example a main fund vehicle, a parallel fund, a co-investment vehicle, a general partner and a carried interest vehicle.

<u>Costs</u>

HM Treasury explains that Companies House will recover the costs of PFLP registration from business through a one-off fee of £20 per registration. HM Treasury estimates that business will incur total registration costs of £12,480 in the first year of implementation and total annual registration costs of £2,000 in each subsequent year.

Based on evidence from industry, HM Treasury estimates that 250 fund managers will need to familiarise themselves with the proposals. The cost of familiarisation is expected to be between £750 and £6000 per fund. This considerable variation arises due to factors including whether firms require external counsel or can rely on in-house lawyers. This is expected to impose a total one-off cost to business of £843,750.

Benefits

HM Treasury expects the changes to result in ongoing administrative savings. In particular, based on industry evidence, fund managers are expected to save 15 to 20 hours of administration time as a result of the changes to the provisions on capital contributions and the requirements in relation to the registration of changes to the limited partnership. Additionally, the IA explains that firms will save an additional hour of time and about £80 per notice from no longer being required to advertise in the Gazette in the event of the 10 to 20 Gazette notices over the life of the fund.

20 to 30 new funds are expected to set up as PFLPs each year and will save 20 to 40 hours of legal counsel's time when drafting their limited partnership agreement. This amounts to one-off savings of between £10,000 and £20,000 of financial savings per fund.

The typical term of a fund is ten years. Based on discussions with industry, HM Treasury expects new funds to make 25% of these savings in the first year of implementation and the last year of the appraisal period, generating savings of £5,300 in both these years and £1,060 for all other years. Existing funds choosing to convert will make the additional savings in year one in setting up the partnership. Industry, therefore, expects existing funds to make 25% of these savings in the last year winding up the partnership, £5,300, and £1,060 in all other years.

Limited partners in a PFLP will not be required to contribute capital to the partnership, and have greater freedoms for withdrawing capital if they choose to invest. The potential benefits associated with this additional flexibility have not been monetised.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of -£0.4 million. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

Regulatory Policy Committee

HM Treasury previously received a red-rated opinion. The present IA now adequately responds to the following points raised:

- HM Treasury has explained that the assumptions used throughout the analysis have been verified as reasonable by Companies House, the BVCA and other representatives of industry respectively as appropriate;
- the costs and benefits of the proposal have been clearly presented in the IA, and correctly inputted in the IA calculator; and
- familiarisation costs have been discussed and included in the EANDCB.

Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	-£0.8 million (initial estimate) -£0.4 million (final estimate)
Business net present value	£3.3 million
Societal net present value	£3.3 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated[1]	-£0.4 million
Business Impact Target (BIT) Score[1]	-£2.0 million
Small and micro business assessment	Not required (deregulatory)

Michael Gibbons CBE, Chairman

[1] For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.