Title: The Unlimited Companies and Partnerships (Accounts) Regulations 2012 **IA No:** VIS 0394 **Lead department or agency:** BIS **Other departments or agencies:** None	**Impact Assessment (IA)** **Date:** 17/10/2012 **Stage:** Final **Source of intervention:** EU **Type of measure:** Secondary legislation **Contact for enquiries**: Paul Smith, Audit and Accounting Policy, BIS Tel: 020 7215 4164 Email: pauld.smith@bis.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

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, One-Out?**	**Measure qualifies as**
£m -1,788.8	£m -1,788.8	£m 190.5	No	NA

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

Technical defects have come to light in the Partnerships (Accounts) Regulations 2008 ("the 2008 Regulations") in respect of the proper implementation of the 4th and 7th EU Company Law (Accounting) Directives ("the Directives"): There is no enforceable obligation under UK law on certain partnerships to prepare and publish, or on certain unlimited companies to publish, accounts in certain cases where the Directives require this. This may result in information asymmetries between companies and users of accounts. There is also no enforceable obligation on some partnerships to make their accounts available for inspection at their head office, where the Directives require this. There is also an instance of "gold-plating" and provisions which fail to reflect the limited role of limited partners.

What are the policy objectives and the intended effects?

To make sure certain partnerships and unlimited companies whose members are all limited companies prepare accounts in line with the Companies Act 2006 and make them available to the public in accordance with the Directives. To implement the Directive requirements in a way that is consistent with UK partnership law whilst being enforceable in line with the original intention. To remove specific instances of gold-plating in respect of these obligations where this arises and minimise other burdens on the sector affected (most of the limited partnerships affected are in the private equity, venture capital and real estate sectors).

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

It would not be possible to follow a "do nothing" option in relation to this issue. The problem of accounts not being prepared or published in line with the Directives would continue and we are legally obliged to correct defective implementation of the Directives. Option 1 (preferred option): Amend the 2008 Regulations and section 448 of the Companies Act 2006 to properly implement the requirements of the Directives. The timescale on which these changes have been finalised should allow many of those limited partnerships affected to take up the forthcoming options under professional accounting standards allowing for single line accounting for investment entities. While ensuring compliance with the Directives, this will mitigate the significant costs that would otherwise apply as it will allow limited partnership investment funds that are parent undertakings of subsidiaries held for investment purposes to account for those subsidiaries as a single line entry in the accounts rather than by consolidating the subsidiary accounts into the partnership accounts. However consolidation is likely to continue to be needed in a minority of cases.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 12/2020

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 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:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible SELECT SIGNATORY: Jo Swinson Date: 14 March 2013

Summary: Analysis & Evidence — Policy Option 1

Description: Amend the 2008 Regulations and section 448 of the Companies Act 2006 to properly implement the requirements of the Directives

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -3,704.4	**High:** -634.8	**Best Estimate:** -1,788.8

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	47.89		68.18	**634.8**
High	290.60		396.60	**3,704.4**
Best Estimate	135.87		192.03	**1,788.8**

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

These costs arise primarily from the preparation and audit of accounts for the limited partnership investment funds affected. They include transitional costs resulting from the need to revise the terms of limited partnership agreements on the form of the accounts; and translate the accounts of overseas subsidiaries into UK format in so far as necessary to enable either consolidation, or for their value to be entered on a single line of the accounts. Some other partnerships may be affected.

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

There is a potential competitive disadvantage of investment funds being required to publish detailed accounting information. There is a possible indirect wider negative impact on the UK economy of some limited partnership funds leaving the UK.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Best Estimate	£0		£0	**£0**

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

We do not think there are any benefits of these changes which it would be possible to monetise. In particular, we have not monetised the removal of gold-plating from the implementation of the Directives as this will not affect the burden of compliance per partnership overall, only the allocation of responsibility for preparing accounts between "members" of the partnership. Those "members" no longer affected are unlikely to have experienced this burden in the past anyway, as it has probably been carried by others.

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

The main general benefit that would be derived from these changes would be the public availability and comparability of these accounts with those of other business entities with limited liability. This improves transparency and addresses some of the asymmeties for creditors who bear part of the risk of the entity's failure. However, the benefits of these limited liability entities preparing accounts on a common basis would be of relatively low value if it were possible to monetise. Another intangible benefit arises from removing gold-plating. This will remove accounting obligations from members of certain kinds of partnership connected to a qualifying partnership by a common member. The changes will also clarify that limited partners do not have accounting obligations under the Regulations in line with UK limited partnership law.

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

Assumptions have had to be made as to the size of the population of partnerships affected as there is little available data at Companies House or elsewhere on limited partnerships, and general partnerships have no Companies House registration. Many of the costs estimates are based on likely costs suggested by auditors who also advise the British Venture Capital Association. These have been reviewed by the Institute for Chartered Accountants in England and Wales. We have also assumed that the changes being made to accounting standards allowing "single line accounting" for investment entities will be available for early adoption, and taken up by the large majority of limited partnerships affected, mitigating some of the more significant costs that would otherwise arise from these changes.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: 190.5	**Benefits:** 0.0	**Net:** -190.5	No	NA

Evidence Base (for summary sheets)

Introduction to the Partnerships (Accounts) Regulations 2008

1. It has been brought to the attention of the Department for Business, Innovation and Skills that there are technical defects in the Partnerships (Accounts) Regulations 2008 ("the 2008 Regulations"), which mean they do not properly implement the requirements of the 4th and 7th EU Company Law (Accounting) Directives ("the Directives"). Rectifying these defects would affect the venture capital, private equity and real estate sectors predominantly, as a specific membership structure used by limited partnership investment funds would be affected by the changes.

2. The 2008 Regulations require certain "qualifying partnerships", as defined in the Regulations, to prepare accounts in line with Part 15 of the Companies Act 2006 ("the 2006 Act"), as if these partnerships were companies. Having made provision on the preparation of accounts the Regulations go on to make provision on the publication of the accounts. Where the 2006 Act requires a company to appoint an external auditor of its accounts, the members of a qualifying partnership must also appoint an external auditor. Under Part 42 of the 2006 Act, the audit of that partnership's accounts must be conducted in accordance with the requirements of that Part.

3. The 2008 Regulations implement the requirements of the 4th and 7th Company Law Directives ("the Directives") as they apply to certain partnerships. Primarily, the Directives apply to limited companies, but they also apply to certain unlimited companies and partnerships where the membership structures of these entities meet certain criteria, which effectively cause each of these structures overall, to have limited liability. For the unlimited companies affected, the current implementation of the Directives is contained in the 2006 Act itself in the same way as for limited companies. But for the partnerships affected, the current implementation is contained in the 2008 Regulations, though these then apply Parts 15 and 16 of the 2006 Act, with modifications, with the intention of implementing the Directives for the partnerships affected.

Types of partnerships affected by the Directives

4. The requirements of the Directives can apply to any of the following four types of partnership, two of which are referred to collectively as "limited partnerships" (as opposed to "general partnerships") and two of which are referred to collectively as "scottish partnerships":

- general partnerships, which must have at least two members or "general partners", all of whom would have unlimited liability in respect of the debts and liabilities of the partnership;
- scottish general partnerships are the same as other general partnerships except they also have legal personality so that they can become members of companies and other partnerships in their own right);
- limited partnerships, which must have at least one member or "general partner" with unlimited liability in respect of the debts and liabilities of the partnership and at least one member or "limited partner" who has limited liability and must not take part in the management of the partnership);

- scottish limited partnerships are the same as other limited partnerships except they also have legal personality so that they can become members of companies and other partnerships in their own right.

5. However, the Directives only apply to partnerships with a membership structure, in which all those members of the partnership, having unlimited liability for the debts of the partnership, are themselves:

- limited companies;
- scottish general partnerships whose members are all limited companies;
- scottish limited partnerships whose general partners are all limited companies; or,
- unlimited companies whose members are all limited companies.

In each of these structures the Directives take the view that the memberships structure overall is one in which the partnership effectively has limited liability in respect of its liabilities. As a result the Directives take the view that the partnership ought to be made to account for its financial position in the same way as a limited company.

Features of the 2008 Regulations

6. To implement these requirements in UK law, the 2008 Regulations have to take account of certain features of UK partnership law:

- Under UK law, those members of a limited partnership who are limited partners should not carry out any management responsibilities in the partnership. A provision in the 2008 Regulations on how references to "members" should be interpreted seems at least partly intended to make sure this principle applies, so that any reference to the members of a qualifying partnership which is a limited partnership should be understood only to refer to the general partners.
- In the UK, partnerships do not generally have any form of registration at Companies House (though limited partnerships have a basic registration of certain particulars including their membership) and are not required to file accounts, so the provisions in the 2008 Regulations on the publication of accounts take advantage of two options contained in the 4th Directive allowing Member States to implement certain alternative requirements as to publication of accounts.

  Under the first option, instead of being required to file the qualifying partnership's accounts against any registration of the qualifying partnership itself, the limited company members of the qualifying partnership are required to append the partnership's accounts to the filed copy of their own accounts. Under the second option, if the limited company members of the partnership are all incorporated outside the UK, the partnership must make its accounts available at its head office, unless they are appended to accounts filed in another Member State by a limited company member incorporated in that State.

  To ensure the proper implementation of the first option, the 2008 regulations also adopt a drafting convention where obligations are not placed upon qualifying partnerships directly but upon their members. Where those members are themselves partnerships or unlimited companies, the regulations then go further than this by extending these obligations to the members of those partnerships and unlimited companies that are themselves part of the membership structure of the qualifying partnership (the "ultimate members"). This is done via a provision on how references to "members" should be interpreted in the regulations, which then has effect throughout the regulations.

BIS consultation on the defects in the 2008 Regulations

7. The defects in the 2008 Regulations centre around the definition of a "qualifying partnership", around various provisions on what is meant by references to "members"; and the application of those provisions in the definition of "qualifying partnerships" itself and elsewhere, particularly in provisions on the publication of accounts. We have concluded these defects are the cause of three instances where provisions of the 4th and 7th Company Law Directives have not been implemented properly. We have also identified one area where requirements of the Directive appear to have been gold-plated (ie where additional burdens have been imposed which are not intended by the Directive). Finally we have identified one area where provisions are inconsistent with UK law more widely (on the allocation of management responsibilities within limited partnerships).

8. Much of BIS's work to identify the extent of the defects in the 2008 Regulations, and to draft regulations to rectify these, has followed an informal consultation conducted by BIS in 2010. BIS officials wrote to the main interested groups, attaching draft amendments to the 2008 regulations on 13 April 2010, and published the letter and draft regulations on the BIS website for general comment by 6 July 2010[1]. At the time of the consultation BIS officials believed that only a limited clarification was needed to the definition of "qualifying partnership" in the 2008 Regulations. Responses to the consultation focussed on the impact that would be likely to result in the venture capital, private equity and real estate sectors. It was not possible to make the regulations in time to meet the common commencement date 6 April 2011 and during that year legal advisors to the sector contacted BIS to point out defects in the regulations that would not be addressed by the clarification suggested in the consultation. As BIS's own legal advisors concluded in early 2012 that further substantive changes were needed to the regulations, BIS officials began work on this Impact Assessment. This Impact Assessment relies heavily on data and information supplied to us by the British Venture Capital Association (BVCA) and the Institute for Chartered Accountants in England and Wales.(ICAEW).

- The British Private Equity & Venture Capital Association (BVCA) is the industry body for the private equity and venture capital industry in the UK. More than 500 firms make up the BVCA members, comprising over 230 private equity, midmarket and venture capital firms with an accumulated total of over £200 billion funds under management; as well as nearly 300 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers, and placement agents. The BVCA was founded over 25 years ago. Since then, the sector has grown considerably into part of the mainstream economy, making Britain one of the leading centres for private equity in the world.

- ICAEW is a professional membership organisation, supporting over 138,000 chartered accountants around the world. It aims to use technical knowledge, skills and expertise to provide insight and leadership to the global accountancy and finance profession. Members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. It develops and supports individual chartered accountants and the organisations with which they work.

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[1] The letter included draft amending regulations and is available at www.bis.gov.uk/assets/biscore/business-law/docs/10-972-partnerships-regulations-qualifying-partnership-definition-letter.pdf

The effect of the 4th and 7th Directives on limited partnerships in the UK private equity and venture capital sectors

9. The UK private equity and venture capital sectors widely use the limited partnership form as a business structure in the assembly of an investment fund. This business form has a number of advantages in both tax and business law. Based on registrations of limited partnerships at Companies House and evidence from the British Venture Capital Association (BVCA) and Institute of Chartered Accountants in England and Wales, we believe that around 65% of all limited partnerships incorporated in the last 10 years are investment funds in these sectors (see Risks and Assumptions below) and that the remaining 35% (approximately) are therefore unaffected by these changes. Furthermore, the established business model in these sectors appears, for a variety of reasons, almost consistently to be a form of limited partnership which is covered by the Directives, but which is not a "qualifying partnership" under the 2008 Regulations as currently drafted. This effect appears to be the result of some of the defects identified in the implementation of the Directives, though it is not clear whether the sector affected was aware of the Directives' intended effect.

10. The private equity and venture capital sector's established business model appears to provide an alternative framework for the preparation and publication of accounts to that which would apply under the 2008 regulations and the 2006 Act. This involves an accounting framework set out under a limited partnership agreement between the limited partnership members and the circulation of accounts only to those members and not more widely. As the funds involved both make and receive very large investments, these funds are audited, largely in accordance with the same standards as apply under the 2006 Act, but both the preparation and the audit of the accounts is simplified by the simplified form of accounts under the limited partnership agreement. Their publication is also more limited as they are not made available on any form of public registry.

The effects of the defects in the 2008 Regulations

11. The defects in the 2008 Regulations result in the following deficiencies in their operation:

- **The definition of a qualifying partnership** - There is no enforceable obligation, under UK law, on a partnership to prepare accounts in certain cases where the Directives require such accounts to be prepared, and for the UK companies which are members of such partnerships to file the partnership's accounts appended to their own company accounts. In all of these cases, the effect of rectifying defects in the definition of a qualifying partnership would be to extend the scope of application of the Regulations in line with the Directives and enable enforcement[2] of the requirement to prepare and file accounts, in conformity with the requirements of the 2006 Act, where this would not previously have been possible. The main examples of these cases are set out in the table below.

Main examples of scenarios illustrating insufficient	Illustration

[2] Enforcement would be via prosecution of the members of the qualifying partnership for the existing criminal offence in regulation 15 of the 2008 Regulations. Such a prosecution would generally be brought by the Department for Business, Innovation and Skills but may also be brought by any other prosecuting authority.

implementation of the Directives	
One or more of the limited partners in a limited partnership which would otherwise be a "qualifying partnership" is not a limited company.	A limited partnership has a general partner A ltd and a limited partner B esq. Under the Directives it must prepare accounts but under the 2008 Regulations, there is no enforceable obligation to do so.
One or more of the general partners of a partnership, which would otherwise be a "qualifying partnership", is a Scottish limited partnership whose general partners are all limited companies (or overseas equivalents), but one or more of whose limited partners are not.	An ordinary partnership A has two general partners B ltd and C LP. C LP is a Scottish limited partnership with a general partner D ltd and a limited partner E esq. Under the Directives, A should prepare accounts but under the 2008 Regulations there is no enforceable obligation to do so.
One or more of the general partners of a partnership, which would otherwise be a "qualifying partnership", is an overseas equivalent of a Scottish limited partnership whose general partners are all limited companies (or equivalent), but one or more of whose limited partners are not.	An ordinary partnership A has two general partners B ltd and C LP. C LP is a USA equivalent of a scottish limited partnership with a general partner D ltd and a limited partner E esq. Under the Directives, A should prepare accounts but under the 2008 Regulations, there is no obligation to do so.

- **The requirement in the Directives for some qualifying partnerships to make their accounts available for inspection at their head office** - There is no enforceable obligation under UK law on some partnerships covered by the Directives to make their accounts available for inspection at their head office, where the Directives require this. The requirement in the Directives only applies where all the ultimate members of the partnership, that are limited companies (disregarding any that are limited partners) are incorporated or formed outside the EU. There are technical defects with this obligation in the 2008 Regulations and the exceptions to it. Some of these are similar to those described above (where limited partnerships are involved) but other defects also arise including the example set out below. This means that some partnerships affected by the Directives, which are qualifying partnerships under the 2008 regulations, and must prepare accounts accordingly, are not required to make them available at their head office when the Directives require this. However the same defects also affect exemptions from this requirement where a limited company elsewhere in the EU, which is a member or ultimate member of the qualifying partnership, files the partnership accounts with its own accounts in that EU member state.

Main example of scenario illustrating insufficient implementation of the Directive	Illustration
One or more of the general partners in a qualifying partnership is either: - a UK Scottish partnership whose general partners are all limited companies incorporated outside the EU; or, - a UK unlimited company whose members are all limited companies incorporated outside the EU, …while the remaining members of the qualifying partnership are all limited companies incorporated outside the EU.	An ordinary partnership A has two members B ltd, incorporated in the USA, and C. C is a Scottish partnership with two general partners D ltd and E ltd, both incorporated in the USA. Under the Directives, A should make its accounts available for inspection at its head office but under the 2008 Regulations, there is no obligation to do so.

- **Management obligations placed on certain limited partners** - The Regulations inadvertently place management obligations on limited partners in certain cases relating to the accounts of qualifying partnerships. In general, the Regulations place obligations on the members of a qualifying partnership, for example the core obligation to prepare accounts for the partnership. Where the qualifying partnership is a limited partnership it is clear that obligations are not placed on the limited partners in that partnership, as is correct. But where the members of a qualifying partnership include a Scottish limited partnership (or foreign equivalent), obligations are placed on the limited partners in those limited partnerships. They are not intended to be and this is inconsistent with UK limited partnership law. The effect of rectifying this defect would be to ensure that they are not.

- **Management obligations placed on members of certain other partnerships unnecessarily** - Currently the 2008 Regulations seem to place accounting obligations on members of certain types of partnership connected to a qualifying partnership by a common member. It is unclear why this was intended. However it is not required by the Directive and seems unnecessary. It makes sense to remove this provision to further minimise "gold-plating" of the Directive requirements in these provisions.

- **Unlimited companies under section 448 of the 2006 Act -** There are technical defects in section 448 of the Companies Act 2006. Certain unlimited companies are still able to take advantage of an exemption from the obligation to file accounts, even where the Directives require accounts to be filed.

Main examples of scenarios illustrating insufficient implementation of the Directives	Illustration
One or more of the members of an unlimited company, which would otherwise be required to publish accounts under the 2006 Act, is a Scottish limited partnership (or overseas equivalent) whose general partners are all limited companies (or overseas equivalents), but one or more of whose limited partners are not.	A company A unlimited has two members B ltd and C LP. C LP is a limited partnership with a general partner D ltd and a limited partner F esq. Under the Directives, A unlimited should publish accounts under the 2006 Act, but in fact under the 2006 Act there is no obligation to do so.

Policy objective and rationale for intervention

12. The Government has very limited and specific reasons for intervening to remedy the current technical errors in the 2006 Act and the 2008 Regulations. These are to ensure the proper implementation of the Directives by ensuring that UK law clearly requires accounts to be prepared, and to be filed or otherwise published, where this is required by the Directives. This is intended to reflect the fact that the partnership's membership structure effectively gives the structure as a whole limited liability. As a result the Directives take the view that the partnership ought to be required to account for its financial position in the same way as a limited company. This addresses the information asymmetries that arise for creditors, potential creditors and investors.

13. The amendments to the 2006 Act and the 2008 Regulations are intended to make sure the Directives are implemented properly, while minimising gold-plating, in a way that is consistent with UK law more widely. Given the UK's clear obligation under EU law to address this issue,

we have taken the view in this Impact Assessment that we effectively only have the one option ie to amend the legislation accordingly. Not to do so would be likely eventually to lead to infraction proceedings from the European Commission. The option to “do nothing” and allow the existing problems with the implementation of the Directives to continue has not been available since these requirements were introduced into the Directives and became mandatory in the 1990s.

Effect on micro-sized businesses

14. It is necessary to rectify the UK’s implementation of the Directives irrespective of the sizes of the partnerships and unlimited companies affected. It is not therefore possible to provide a general exemption from the effects of the amendments to the 2008 Regulations and the 2006 Act for micro-sized partnerships and unlimited companies.

15. BIS plans to implement the specific accounting exemptions that have now been included as Member State options in the 4th Company Law Directive for micro-sized companies. Those accounting exemptions may be applied to other structures within the scope of the 4th and 7th Directives, including those partnerships and unlimited companies they cover (as correctly defined following the amendments to the 2008 Regulations).

16. In any case, it is unlikely that many micro-sized entities exist among the limited partnership investment funds that are mostly affected by these regulatory changes. We are advised by the British Venture Capital Association and the Institute for Chartered Accountants in England and Wales that very few funds will have a balance sheet total falling below the threshold in the Micros Directive (Euro 350,000). The funds do not usually have employees. Though there may, for some funds, be particular years when their turnover falls below the turnover threshold (Euro 700,000), and the fund would then qualify as a micro-sized entity for that year, it would be unlikely to be able to take up any exemption. Such a fund would most likely still be obliged to prepare accounts in the same format in that year by its limited partnership agreement.

17. The introduction of exemptions for micro-sized entities into the UK’s implementation of the Directives, with the implementation of the Micros Directive, will be the subject of a separate BIS Impact Assessment.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

18. As discussed above, remedying the defects in the 2008 Regulations will have an impact primarily on certain existing limited partnerships, which fall within the scope of the Directives, used as business structures in the private equity, venture capital, and real estate sectors. A small number of other partnerships affected may operate elsewhere in the economy. Discussions with stakeholders indicate there are many instances in these sectors of accounts not being prepared in accordance with the 2006 Act where the Directives do require this. For various reasons these impacts are very hard to measure. The practical problems associated with establishing the number of partnerships, limited partnerships and unlimited companies affected are discussed in the section on “risks and assumptions – the number of limited partnerships affected” below. Separately, there are difficulties in predicting the costs to limited

partnership investment funds of complying with the accounting requirements in the 2006 Act. There are several reasons for this:

- Only a very small number of these funds currently file accounts prepared in accordance with the 2006 Act by appending them to the accounts of their limited company members, as is required by the 2008 Regulations. Information as to the costs incurred by those that do is not publicly available, though we understand some information held by representatives of the private equity and venture capital sector has contributed to the projected costs they have provided (see below).

- There are also no comparable circumstances in countries outside of the UK for the introduction of changes of this kind. The private equity and venture capital market is an international market, where the leading nations, including the UK have established themselves because of specific, though differing features of their legal and taxation frameworks. In the UK the specific features of the limited partnership legal form have proved very attractive. This is not a result of EU regulation but of a longstanding UK framework under the Partnerships Act 1890, the Limited Partnerships Act 1907, as well as the tax treatment of partnerships in the UK. BIS has no current proposals to amend the Partnerships Act 1890 or the Limited Partnerships Act 1907.

- In general we have also disregarded other changes, which may also affect accounting in the sectors affected. The changes currently being made to the accounting standards (both UK Generally Accepted Accounting Practices and International Financial Reporting Standards) are an example of a related change affecting the sector. For the purposes of this impact assessment we have disregarded most other changes. However the extent of the connection between the changes covered by this Impact Assessment and one particular change that is being made to the accounting standards has prompted us to give the accounting standards particular consideration. Assumptions as to the effect of this change to the accounting standards are set out below.

Risks and assumptions – change planned to the accounting standards to allow single line accounting of investment entities

19. A particular change to the accounting standards (which is currently being made both to the UK Generally Accepted Accounting Practice (UK GAAP) and to International Financial Reporting Standards (IFRS)) is directly relevant to the costs associated with the amendments to the 2008 Regulations. The particular costs affected are the costs of consolidation of group accounts and other similar processes, which are usually required for the assembly of accounts under the 2006 Act where companies own significant shareholdings in other companies.

20. The main effect of the amendments to the 2008 regulations, requiring more limited partnership investment funds to produce accounts in line with the 2006 Act, will require many investment funds to produce consolidated accounts for the first time. Consolidated accounts combine the accounting data for all the entities in a “group” of “undertakings” into a single set of accounts in which the assets, income and expenditure of all the undertakings are combined, with deductions made to take account of payments and transfers between group members. A “group” consists of “subsidiary undertakings”, each of which are subject to the ownership or control of other group members (these are “parent undertakings”), and ultimately of the “ultimate parent” or, where it is a company, the “group holding company”. It is possible that a limited

partnership investment fund could be the ultimate parent in a group, as it may own controlling shares in several companies in which it has invested. As such, it would be required under the 2006 Act to produce consolidated accounts. In actual fact, even where a company owns a significant stake in another company but without owning a controlling share, it may still be necessary for that company to follow similar procedures of "proportionate consolidation" or "equity accounting".[3].

21. The production of consolidated accounts by the limited partnership would be the cause of significant additional increases in costs to the limited partnership fund, its members and the entities in which it invests. However the accounting standard setting bodies are currently taking forward a change to the accounting standards to allow "single line accounting for investment entities", which will mitigate significantly the costs that would otherwise arise from the amendments to the 2008 Regulations and the 2006 Act. These changes are being made separately, by the Financial Reporting Council (FRC – for the UK GAAP standards) and the International Accounting Standards Board (IASB – for the IFRS standards). The timescales for the two sets of changes are being determined separately, for the purposes of those projects. However, the timescale for changes to the UK GAAP coincides helpfully with the amendments to the 2008 Regulations and 2006 Act. The changes to IFRS will not be capable of early adoption until the relevant amended IFRS standards are adopted in the EU. However, we understand that at present the large majority of limited partnership funds in the private equity, venture capital and real estate sectors use UK GAAP.

22. The changes will allow "investment entities", including those that qualify as subsidiaries, to be accounted for in the accounts of a parent undertaking via the inclusion of a single line valuation on the parent undertaking's balance sheet. This is an economical alternative to the consolidation of the subsidiary's accounts into the consolidated group accounts, where the subsidiary meets criteria to qualify as an "investment entity". Costs would be reduced considerably in cases where all the entities whose accounts would otherwise have to be consolidated were accounted for in this way so that no consolidation was needed. Most qualifying limited partnerships should fall into this category so it should be possible for them to comply with the amended 2008 Regulations, the Directives and the relevant accounting standards, while avoiding the costs of producing consolidated accounts, by instead preparing accounts using this "single line accounting" approach for investment entities.

23. We have made several assumptions in relation to these changes:

- We understand from the British Venture Capital Association that the large majority of limited partnership funds prepare accounts under UK GAAP. We assume this will remain the case. This is significant because of the further assumption we have made below.

- We have assumed that the changes which the Financial Reporting Council plans to make to UK GAAP will be made on schedule, in time for early adoption for accounting years beginning on or after 1 January 2013. The timing of these changes is not in the Government's hands but is the subject of regular discussion between BIS and the FRC, which will issue the amended UK GAAP standards. As the revised accounting standards

[3] In this Impact Assessment, we have used the term "consolidate" in the same way that it is used in the 2008 Regulations. These state that ""dealt with on a consolidated basis" means dealt with by the method of full consolidation, the method of proportional consolidation or the equity method of accounting". Using this terminology we have then referred to those companies whose accounts are required to be consolidated into the consolidated accounts of an ultimate parent undertaking as "subsidiaries". In fact the term "subsidiary" might not apply to companies whose accounts are dealt with by the method of proportional consolidation or the equity method of accounting. However we think it helps to simplify the discussion of this technical subject to think of all these companies as "subsidiaries" and have set it out accordingly.

are nearing completion an eventual publication date in advance of 2013 appears to be a reasonable assumption.

- We understand that the new facilities being introduced into both UK GAAP and IFRS to allow for single line accounting for investment entities are not identical. However, the extent to which these differences may affect limited partnership funds is not clear at this stage. Neither standard has been finalised and their application to limited partnerships funds in particular has not been considered in detail. Given this situation, we have assumed that the two provisions should be treated as broadly equivalent. This assumption is only of limited impact on our conclusions as IFRS is rarely used by limited partnership funds (see above). We have made this assumption because we are unable to predict the extent (or even direction) of any transfers by funds between the two sets of accounting standards when the changes to UK GAAP are introduced, amendments are made to the 2008 Regulations, and changes to IFRS then eventually follow. We are also unable to ascribe any such changes to the "single line accounting" amendment as other changes are also being made to both sets of standards at the same time. In any case, the extent to which investment funds are unable to take up the single line accounting approach is the subject of sensitivity analysis in the quantitative discussions which follow.

- We have based assumptions as to the extent of take-up of the single line accounting facility on feedback we have received from contacts of the British Venture Capital Association and the Institute of Chartered Accountants in England and Wales. This feedback related primarily to the changes to IFRS (possibly because it drew on individual experience involving the use of those standards). It suggested that 10% to 15% of funds might still have to consolidate their accounts under those standards, even if single line accounting was made available as proposed. However it also stated that a large proportion of funds that still have to consolidate their accounts under IFRS may not have to do so under UK GAAP. With this in mind we have calculated the minimum and maximum costs based on a range of 5% to 15% of investment funds consolidating their accounts, with a best estimate of 10% of funds having to do so. We recognise that this feedback is based on a view that there are differences between the two "single line accounting" facilities. However we think that applying the assumptions above allows us to draw a simple quantitative conclusion from a situation that is otherwise potentially complex.

- Single line accounting would be available as an option in the remaining 85% to 95% of cases and a further assumption is that we would expect uptake to be almost universal. It is clear from our discussions with accountants advising the sector that this is their expectation given the costs of consolidation, combined with the limited value of the consolidated accounts that would result. In any case where a limited partnership fund chooses to consolidate accounts in spite of the availability of the single line accounting option we would not consider this to be a policy cost resulting from the regulatory changes.

Risks and assumptions – the number of limited partnerships affected

24. Below we explain the risks and assumptions surrounding the estimated population of companies affected by the proposed policy change. The central risk is that the estimated costs and benefits may misstate their true value. For each type of entity affected (partnerships, limited

partnerships and unlimited companies) there are limitations on our ability to establish how many entities are affected:

- The number of limited partnerships affected is very difficult to obtain. It may be possible to identify a limited partnership which is covered by the Directives by referring to the paper registration file listing its members at Companies House. However, this would involve individual inspection of each file for each of the 12,000 limited partnerships registered in the last 10 years. There is no searchable database of this information and Companies House keeps no electronic scanned images of the paper file contents, though it can supply these upon request. Experience of a much narrower exercise for unlimited companies discussed below suggests the costs of any exercise involving examination of these files would be prohibitively time consuming and expensive. Identification would be made more difficult where the partnership had one or more members outside the UK (this is relatively common as is also illustrated by the unlimited companies exercise discussed below) as it would be necessary to understand each member's legal form by referring to any registration information held on that entity in its home country.

- For unlimited companies, the problems with the implementation of the Directives are considerably narrower and more specific than for limited partnerships. However, the data available from Companies House is more comprehensive, and can be searched using the FAME database[4]. We have therefore been able to undertake a narrower, though somewhat comparable exercise to that which ideally we would have undertaken for limited partnerships. There are around 7,000 unlimited companies in existence in total. Of this population, we have found that 7 of them have a member which is a limited partnership. This is the first condition for identifying the membership structure which could potentially be affected by the planned changes. This condition does not apply in the case of limited partnerships discussed above. Only two of these 7 unlimited companies met the second condition, that the other members of the unlimited company are themselves all limited companies. These were identified via the examination of the membership list for each of the 7 unlimited companies, as would be required in the case of limited partnerships discussed above, and took just under an hour using a searchable electronic database. We then examined the paper file membership lists for these 2 limited partnerships, one of which was registered in the Isle of Man and took several days to obtain. We found that neither of them met the further conditions as to the membership of the limited partnerships. As a result there appear to be no unlimited companies with a membership structure that would cause them to be affected by the amendments to section 448 of the 2006 Act. Some unlimited companies may face the possibility of being affected in the future, for instance if they consider changing their membership structure. This effect, as with any indirect effect of this kind, is impossible to quantify. There is no established pattern of companies adopting a membership structure of this kind.

- The number of general partnerships affected is almost impossible to count, though it is likely to be small. Though they do not have a Companies House registration, VAT registration figures suggest there are around 500,000 general partnerships in the UK. As for unlimited companies, the problems with the implementation of the Directives for general partnerships are considerably narrower and more specific than for limited partnerships. Also, similar to unlimited companies, we are not aware of an established pattern of partnerships adopting a membership structure of the kind that would be involved. A similar proportion for general partnerships being affected as for unlimited

[4] The FAME database is a searchable database of comp[any records based upon Companies House data, companies' annual reports and stock market data..

companies would amount to fewer than 2 in every 7,000 partnerships (around 140), and quite possibly none at-all. We have discounted these as we cannot be clear as to whether any are affected.

25. The following text describes our assumptions around population and the evidential basis on which they are made. Based upon Companies House data, there are more than 20,000 limited partnerships registered in the UK, though not all of them are active. Only a subset of these fall within the scope of the Directives and we understand that standard practice in the sector is for them to remain active for around 10 years after incorporation. Just under 12,000 limited partnerships have been incorporated in the last 10 years. Previous estimates for the purposes of limited partnership law reform[5] have suggested that 65% of these, or around 7,800, are incorporated in the venture capital sector.

26. This estimate appears to be broadly right as an electronic search for typical keywords in the names of the whole population of LPs incorporated in the last 10 years suggests that just over 4,500 LPs have names very clearly indicating they are financial investment vehicles. While just under 2,500 others have names that suggest they are clearly not in the financial sector, a further 5,000 have names that do not indicate whether they are investment vehicles or general businesses. We propose to take the view that somewhere between a further 20% and 80% (50% +/- 30%) of these are investment funds so that the overall population of limited partnership funds is:

Minimum 4,500 + 20% of 5,000 = 5,500

Maximum 4,500 + 80% of 5,000 = 8,500

27. The British Venture Capital Association believes almost all of these will have a membership structure which will cause them to be affected by the regulatory changes and that their current accounting practices will not be sufficient to meet the requirements of the 2008 Regulations or the Directives. However they acknowledge there are instances of voluntary compliance with the Regulations. The BVCA and ICAEW think it reasonable to assume a voluntary compliance rate of around 5% to 10%. This estimate reflects the fact that levels of voluntary compliance do not seem sufficiently small to be discounted as insignificant. Officials at BIS have been contacted in the past by legal advisors to the sectors affected who already take the view that compliance is advisable. This gives a range for the number of limited partnerships that will be affected by the changes:

Minimum number of limited partnerships affected = Minimum total number of limited partnerships incorporated in last 10 years – Maximum number of partnerships already complying voluntarily = **5,500 – 10% of that number = 4,950** (which we have rounded to **5,000**)

Maximum number of limited partnerships affected = Maximum total number of limited partnerships incorporated in last 10 years – Minimum number of partnerships already complying voluntarily = **8,500 – 5% of that number = 8,075** (which we have rounded to **8,000**)

[5] See the impact assessment for the Legislative Reform (Limited Partnerships) Order 2009 (SI 1940 / 2009) at www.legislation.gov.uk/uksi/2009/1940/pdfs/uksiem_20091940_en.pdf

28. This seems to be the full extent of the available data on numbers of partnerships affected and current levels of compliance. We have also assumed **a mid-point best estimate for this number of 6,500**.

29. The BVCA and ICAEW are supportive of this approach. It is also very difficult to estimate the cost of the preparation of limited partnership accounts. The British Venture Capital Association has assembled data projecting the possible costs per limited partnership fund, which is set out in the section of this impact assessment on monetised and non-monetised costs and benefits of each option.

Description of options considered

30. The option to "do nothing" is not available in relation to this issue, because we are legally obliged to correct defective implementation of the Directives. The Government therefore effectively has only one option:

Option 1: Amend the 2008 Regulations and section 448 of the Companies Act 2006 to properly implement the requirements of the Directives

31. Since the problems of compliance with the 2008 Regulations were brought to BIS's attention in 2010, this has been the option which the Department has pursued to enable the UK to properly meet its EU obligations.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Option 1 (preferred option): Amend the 2008 Regulations and section 448 of the Companies Act 2006 to properly implement the requirements of the Directives

- **Monetised costs per limited partnership fund**

32. Figures provided to BIS by the British Venture Capital Association suggest that the following costs will arise from the additional Accounting and Audit requirements under the 2006 Act framework as compared to the framework currently followed by most of the partnerships affected. The tables set out the costs per limited partnership affected.

33. The most significant contribution to these figures is the cost of consolidation of the accounts of those entities in which the partnership has an investment (investment entities) which qualify as subsidiaries of the partnership into the partnership's accounts. However as changes are due to be made to UK GAAP and IFRS that will mean consolidation is not required for many limited partnership funds, these costs are only expected to arise for around 10% of the funds affected. These figures have all been discussed with the Institute for Chartered Accountants in England and Wales, who thought they represented a reasonable analysis.

34. The costs of compliance with the amended Regulations for an individual limited partnership fund are set out in the tables below. They set out compliance costs for two scenarios:

- Scenario 1 where the limited partnership fund is required to consolidate its accounts (ie for 5% to 15% of the population of funds); and,
- Scenario 2 where consolidation is not required because the limited partnership has taken full advantage of the provision for single line accounting for investment entities (ie for 85% to 95% of limited partnership funds).

Scenario 1 is then considered further under scenarios 1A (costs for a large limited partnership fund) and 1B (costs for a smaller limited partnership fund). This is intended to enable consideration of the range of costs that might arise.

Scenario 1 – consolidation of accounts

35. Figures provided to BIS by the British Venture Capital Association suggest that the following costs will arise from the additional accounting and audit requirements under the Companies Act 2006 framework as compared to the framework currently followed by most of the partnerships affected. The most significant contribution to these figures is the cost of consolidation of the accounts of those entities in which the partnership has an investment (investment entities) which qualify as subsidiaries of the partnership into the partnership's accounts.

36. These costs have been examined by the Institute for Chartered Accountants in England and Wales, who thought they represented a reasonable analysis. The BVCA provided the following explanations of these. They envisaged two scenarios representing limited partnership funds at opposite ends of the spectrum of typical fund arrangements in terms of the size and costs of the funds. Both scenarios envisaged 4 funds in operation at a time:

- Scenario 1A – Large funds

  "Private Equity Firm specialising in European buy-outs of mid market companies with an enterprise value of between €250m - €1,000m at acquisition. The firm has raised 4 Limited Partnership Funds in the last 10 years:

(i) in 2000 – $500m. Commitments are 95% drawn. There is one unrealised investment with a fair value of $25m and original cost of $75m.

(ii) in 2003 - $1,000m. Commitments are 90% drawn. There are 4 investments unrealised with a fair value of $175m and original cost $150m.

(iii) in 2006 - €1,500m. Commitments are 70% drawn. There are 10 investments unrealised with a fair value of €1,200m and original cost of €1,000m.

(iv) the most recent, in mid 2008 - €2,000m. There are 5 recent investments with a fair value of €400m which is the same as cost."

"This means that 4 separate sets of consolidated accounts would need to be produced. There are 20 investee entities that would need to be consolidated. 15 of the investee entities are based in Europe and held by overseas holding companies. The local accounts for these entities are produced in compliance with local GAAP (e.g. French or German GAAP) and financial information would need to be converted to UK GAAP. Additionally, 5 entities have non-coterminous year ends so additional work will be required to produce financial accounts with the same year end as the Funds."

- Scenario 1B – Small funds

  "Private Equity Firm specialising in UK buy-outs of companies valued between £20m and £200m at acquisition. The firm has raised 4 Limited Partnership Funds in the last 10 years:

(i) in 2000 - £150m. Commitments are 98% drawn. There is one unrealised investment with a fair value of £2m and original cost of £15m.

(ii) in 2003 - £300m. Commitments are 90% drawn. There are 2 investments unrealised with a fair value of £25m and original cost £50m.

(iii) in 2006 - £350m. Commitments are 75% drawn. There are 10 investments unrealised with a fair value of £400m and original cost of £250m.

(iv) the most recent, in late 2009 - £450m. There are 2 recent investments with a fair value of £90m which is the same as cost.

"As can be seen from the size of even these small funds they are not of a size to enable them to take advantage of audit exemption, as is reflected in the audit costs set out on the following pages."

"The Funds' year end is 31 December. This means that 4 separate sets of consolidated accounts would need to be produced. There are 15 investee entities that would need to be consolidated into the Fund accounts. All the investee entities are private limited companies and produce UK GAAP accounts. Additionally, 5 entities have non-coterminous year ends so additional work will be required to produce financial accounts with the same year end as the Funds."

Scenario 2 – no consolidation of accounts needed

37. Figures provided to BIS by the British Venture Capital Association suggest that following costs will arise from the additional Accounting and Audit requirements under the Companies Act 2006 framework as compared to the framework currently followed by most of the partnerships affected. The costs on the following page have been examined by the Institute for Chartered Accountants in England and Wales, who thought they represented a reasonable analysis.

Audit and related costs to limited partnerships and investee entities

38. BVCA provided the following explanation of the figures they provided on these:

> "These costs would be incurred because most, if not all, existing LP accounts would not currently be in Companies Act format; in addition in the year of change comparatives would need to be prepared and audited.
>
> "The issues to be addressed for Companies Act compliant accounts centre on compliance with Companies Act format/disclosures, debt/equity treatment, disclosure of related parties, treatment of carry interest as an expense and disclosure of amounts paid to the general partner as a member. There would be a "one-off" conversion exercise for the first set of compliant Companies Act accounts and thereafter, there would be additional (that is above the existing costs) on-going annual preparation and audit costs since the qualifying limited partnership accounts would be more complex and have more disclosures."

Audit and related costs to limited partnerships and investee entities and Additional Costs of QLP Regulations – Assuming Consolidation exemption available

39. BVCA have provided the following explanation of their assumptions: "when a QLP is required to prepare accounts under the proposed Regulations that the QLP can use either:

(i) The proposed exemption in IFRS 10 from applying consolidation accounting to investment entities/funds; or

(ii) The proposed New UK GAAP regime where there is a similar proposed exemption from applying consolidation accounting to investment entities/funds.

"Assumptions

a) The existing accounts are prepared by the General Partner (GP) in accordance with the Limited Partnership Agreement (LPA) as agreed with the Limited Partners and as a consequence would not comply with the Companies Act 2006 and recognised Generally Accepted Accounting Practice (either IFRS or UK GAAP).

b) Exemption from consolidation is available.

c) The range of existing audit fees for the annual audit of an existing Limited Partnership Fund is between £30,000 and £70,000 depending on the size and complexity of the Fund.

d) Year 1 transition costs will be incurred to address format and disclose the additional requirements of the Companies Act 2006 and the chosen GAAP regime. This is

estimated to increase the number of pages in the accounts by about 30%. As a result additional work will be required by the General Partner and by the Auditors.

e) Year 1 additional total costs will be in the range of 50% to 75% of existing audit costs. This includes the element of additional recurring ongoing costs resulting from the additional disclosures in the accounts

f) Year 2 additional total recurring ongoing costs will be in the range of 25% to 35% of existing audit costs.

No allowance has been made for professional rate increases in future years."

In-house costs to limited partnership fund managers

40. BVCA suggest: "There would also be additional time and therefore staff costs incurred by the general partner as the preparer of the Companies Act compliant accounts.

"Assumptions

- There will be additional total costs incurred by the General Partner both in Year 1 preparing and resolving the new format of the accounts (25% to 40% increase on current costs of £8,000 to £10,000) and also additional total recurring ongoing costs thereafter in preparing information for the larger set of accounts (10% to 25%).
- There may also be one-off costs incurred in relation to notifications to Limited Partners and potentially changes to the Limited Partnership Agreement."

<u>**Scenario 1 - Nature of costs arising for consolidation of accounts**</u>	**Cost to individual limited partnership fund**
<u>Audit and related costs to limited partnerships and investee entities</u> **Scenario 1A – Large limited partnership funds** **Scenario 1B – Small limited partnership funds**	**"One off" transitional costs per fund** spent mostly in the first accounting year beginning after the date of commencement: Scenario 1A: Advice on conversion to UK GAAP (15 entities * £10,000 for 4 funds = £37,500 per fund) Legal costs: new shareholder agreements for investee entities (£100,000 for 4 funds = £25,000 per fund) Consolidation advice (£30,000 for 4 funds = £7,500 per fund) **Total: £70,000 per fund** Scenario 1B: Legal costs: new shareholder agreements for investee entities (£75,000 for 4 funds = £18,750 per fund) Consolidation advice (£20,000 for 4 funds = £5,000 per fund) **Total: £23,750 per fund** **Range: £23,750 to £70,000 per fund**
	Ongoing costs per fund per year: **Scenario 1A:** Costs to Investee Entities: Preparation of group reporting packs (20 entities * £10k for 4 funds = £50,000 per fund) Costs to limited partnership funds: Additional audit costs at investee entity level (£100,000 for 4 funds = £25,000 per fund) Consolidation audit costs (£70,000 per fund) **Total: £145,000 per fund** **Scenario 1B:** Costs to Investee Entities: Preparation of group reporting packs (15 entities * £10k) Costs to limited partnership funds: Additional audit costs at investee entity level (£75,000) Consolidation audit costs (4 sets of accounts * £30,000) **Total: £86,250 per fund** **Range: £86,250 to £145,000 per fund per year**
<u>In-house costs to limited partnership fund managers</u>	"**One off" transitional costs** spent mostly in the first accounting year beginning after the date of commencement: Other direct costs to private equity firm (£10,000 to £20,000 for 4 funds) **£2,500 to £5,000 per fund**

	Ongoing costs per fund per year: **Scenario 1A:** Costs to Private Equity Firm: Consolidation accountant (salary, bonus, national insurance and other benefits - £20,000 per fund) Assistant accountant (salary, bonus, NI and other benefits - £12,500 per fund) **Scenario 1B:** Costs to Private Equity Firm: Consolidation accountant (salary, bonus, national insurance and other benefits - £17,500 per fund) Assistant accountant (salary, bonus, national insurance and other benefits - £11,250 per fund) **Range: £28,750 to 32,500 per fund per year**
Total	**"One off" transitional costs** spent mostly in the first accounting year beginning after the date of commencement: **£26,250 to £75,000** As a best estimate, we have taken the mid-point of this range: **Best estimate: £50,625 per limited partnership fund**
	Ongoing costs per year: **£115,000 to £177,500** As a best estimate, we have taken the mid-point of this range: **Best estimate: £146,250 per limited partnership fund**

Scenario 2 – Nature of cost arising where there is no consolidation of accounts	**Cost to individual limited partnership fund**
Audit and related costs to limited partnerships and investee entities and Additional Costs of QLP Regulations – Assuming Consolidation exemption available **Audit fees:** £30,000 to £70,000 (Best estimate: £50,000)	**“One off” transitional costs per fund** spent mostly in the first accounting year beginning after the date of commencement: **Minimum: 25% x £30,000 = £7,500** **Maximum: 40% x £70,000 = £28,000** **Best estimate: 32.5% x £50,000 = £16,250**
Year 1 total additional costs: 50% to 75% increase on original audit fee (Best estimate: 62.5%) Giving **Year 1 transitional cost increase:** Minimum: 50% - 25% (see ongoing costs below) = 25% Maxiumum: 75% - 35% (see ongoing costs below) = 40% (Best estimate: 62.5% - 30% (see ongoing costs below) = 32.5%) **Year 2 and ongoing additional costs:** 25% to 35% increase on original audit fee (Best estimate: 30%)	**Ongoing costs per fund per year:** **Minimum: 25% x £30,000 = £7,500** **Maximum: 35% x £70,000 = £24,500** **Best estimate: 30% x £50,000 = £15,000**
In-house costs to limited partnership fund managers **Original costs:** £8,000 to £10,000 (Best estimate: £9,000)	**“One off” transitional costs per fund** spent mostly in the first accounting year beginning after the date of commencement: **Minimum: 15% x £8,000 = £1,200** **Maximum: 15% x £10,000 = £1,500** **Best estimate: 15% x £9,000 = £1,350**
Year 1 total additional cost: 25% to 40% increase on original audit fee (Best estimate: 32.5%) Giving **Year 1 transitional costs increase:** Calculations of minimum, maximum and best estimate all give a	**Ongoing costs per fund per year:** **Minimum: 10% x £8,000 = £800** **Maximum: 25% x £10,000 = £2,500** **Best estimate: 17.5% x 9,000 = £1,575**

transitional increase of 15% of the original costs Maximum: 75% - 35% (see ongoing costs below) = 40% (Best estimate: 62.5% - 30% (see ongoing costs below) = 32.5%) **Year 2 and ongoing additional costs:** 10% to 25% increase on original audit fee (Best estimate: 17.5%)	
Total	"**One off" transitional costs** spent mostly in the first accounting year beginning after the date of commencement: **£8,700 to £29,500** **Best estimate £17,600 per limited partnership fund**
	Ongoing costs per year: **£8,300 to £27,000** **Best estimate: £16,575 per limited partnership fund**

- **Monetised costs for the population of limited partnership funds as a whole**

41. These costs for the population of limited partnership funds as a whole are calculated using the formula:

Total costs =

(Cost per fund consolidating accounts x Population of funds x % Population consolidating accounts)

+

(Cost per fund without consolidation x Population of funds x Corresponding % population where no consolidation)

42. We have conducted these calculations for maximum, minimum and best estimate costs per fund, as well as maximum, minimum and best estimate populations and percentages. These maxima, minima and best estimates are summarised in the table below with the resulting totals.

"One-off" transitional costs						
	Population of limited partnership funds	% consolidating accounts	Costs per fund consolidating accounts	Corresponding % not consolidating accounts	Costs per fund not consolidating accounts	**Total**
Minimum	5,000	5%	£26,250	95%	£8,700	**£47.89 million**
Best estimate	6,500	10%	£50,625	90%	£17,600	**£135.87 million**
Maximum	8,000	15%	£75,000	85%	£29,500	**£290.60 million**
Ongoing costs per year						
Minimum	5,000	5%	£115,000	95%	£8,300	**£68.18 million**
Best estimate	6,500	10%	£146,250	90%	£16,575	**£192.03 million**
Maximum	8,000	15%	£177,500	85%	£27,000	**£396.60 million**

- **Non-monetised costs**

43. The costs set out above are lower than they might have been because of the changes currently being made to accounting standards in the UK and internationally to introduce "single line accounting for investment entities.

44. A further additional cost to some limited partnership investment funds, which cannot be monetised, is the potential competitive disadvantage of being required to publish detailed accounting information. This may reveal investment strategies and valuations which would be of

potential advantage to other investment funds. The extent to which this will present costs to the sector as a whole is unclear as this information may also be of value in the market. Greater transparency as to investment strategies and valuations may encourage competitiveness and prompt exploration of the risks attached to such strategies and valuations. These changes will only serve to bring these investment fund accounts into line with other limited liability entities, in line with the UK's EU obligations. In any case, any costs or benefits of this kind would be very hard to assess in terms of a monetary value.

45. There is a possible wider negative impact on the UK economy of some limited partnerships dissolving in the UK and reforming outside the EU. This has been suggested as a possible response to the costs that would be involved in complying with the new requirements. The British Venture Capital Association has stated that it anticipates some limited partnership investment funds affected may dissolve their UK limited partnerships and to re-establish in another country with a more favourable regulatory environment, such as one of the UK's Crown Dependencies or Overseas Territories. As limited partnership funds have a limited life-span, there could also be an increasing trend towards new funds being established outside the EU instead of in the UK. There may then be effects on the UK economy of reduced expenditure on UK professional and business and other services to investment funds and fund management businesses. All such costs would be an *indirect* result of the changes to the 2008 Regulations. They arise more directly from an investment fund's decision in response to the potential costs and could in fact be prompted by a range of factors. These may include other regulatory changes and changing investment preferences. Discounting all such wider costs and effects, a limited partnership faced with costs of preparing and filing accounts might move off-shore if the costs of staying in the UK and complying with the amended 2008 regulations exceeded the costs of such a move. This only seems likely for those funds that will otherwise have to incur the additional costs of consolidating their accounts. The costs incurred by those funds in moving would be offset by the reduced cost of producing accounts that would result but there may be a wider impact on the UK economy resulting from the move as the fund's expenditure on UK services may be reduced.

46. We believe it would be disproportionate to monetise these wider indirect impacts, especially given that the changes to the 2008 Regulations are necessary for compliance with EU law. In some cases the limited partnership fund would continue to be managed from the UK with professional and business services provided here as it would be prohibitively expensive to move the entire fund management operation overseas. To the extent that this is the case, we would expect the wider impacts to be small. Establishing the likely behavioural response of funds would be very difficult.

- **Benefits**

47. The main benefit that would be derived from these changes would be the general availability of these accounts via the public register at Companies House and their comparability with those of other qualifying partnerships and unlimited companies, and other business entities with limited liability. This can have benefits for investors, potential investors, general creditors and potential creditors and the wider business community. It improves transparency as to the financial position of the partnership affected and reduces the asymmetries that exist in respect of availability of financial information on these partnerships.

48. However the limited partnership investment funds that will be affected have few, if any, general creditors. The bulk of investment they receive is from specialised business investors, who are used to assessing the performance of these funds based on the accounts they

currently produce and who have agreed to receive these accounts (in a simpler non-Companies Act UK GAAP format) as a member of the limited partnership fund. This is a feature of the membership agreement entered into at the time the limited partnership fund is established. Membership of these funds is not traded and generally does not change hands. The benefit to members of overarching statutory requirements as to the funds' accounts would therefore be of relatively low value if it were possible to monetise.

49. In any case the possible benefits of transparency raise the question of whether comparability as between funds could be achieved via alternative voluntary or non-regulatory means. As a result we have not tried to monetise these benefits.

50. Certain more specific (though probably equally intangible) benefits arise for limited partners in Scottish partnerships, that are members of qualifying partnerships under the 2008 Regulations. These limited partners ought not to have been treated as members of the relevant qualifying partnership and given responsibilities in respect of the preparation and filing of the qualifying partnership accounts. The allocation of responsibilities in respect of the management of the business of the Scottish limited partnership (as itself a member of the qualifying partnership) is inconsistent with the principle that limited partners should not participate in the management of the limited partnership.

51. Similarly under the amendments we have proposed, partners in other partnerships which have a member in common with a qualifying partnership will no longer have responsibilities in respect of the preparation and filing of that qualifying partnership's accounts. This is not required by the Directive and seems unnecessary. It makes sense to remove this provision to further minimise "gold-plating" of the Directive requirements in these provisions. We have relieved all the members of these "connected" partnerships of this unnecessary regulatory burden. However, this will not affect the burden of compliance per partnership overall, only the allocation of responsibility for preparing accounts between "members" of the partnership. Those "members" no longer affected are unlikely to have experienced this burden in the past in practice, as it has probably been carried by others. In any case we have no way of identifying how many "connected" partnership structures exist.

Direct costs and benefits to business calculations (following OIOO methodology)

52. All of the quantifiable costs associated with this proposal are costs to business. There are no quantifiable or monetised benefits associated with the changes. The changes are outside the scope of One-In One-Out as they implement EU Directives to comply with EU law.

53. All the figures in the tables above are non-discounted costs projected to arise per year. The costs are summarised below, as well as on the summary sheets at the front of this impact assessment:

Transitional costs:

£47.89 million to £290.60 million – Best estimate: £135.87 million (all constant prices)

Average annual costs:

£68.18 million to £396.60 million per year – Best estimate: £192.03 million per year (all constant prices)

Total costs:

£634.8 million to £3,704.4 million – Best estimate: £1,788.8 (present value)

54. For the purposes of assessing total costs etc all "one-off" transitional costs are projected to arise in the first year of operation of the regulatory changes. This is consistent with the list of transitional costs in the tables, all of which would be expected to arise in the first year.This gives an equivalent annual net cost to business of the proposal is £190.5 million.

Wider impacts

55. As explained in para 14 to 17 ("effect on micro-sized businesses") we anticipate only a marginal impact on limited partnership funds that qualify for accounting exemptions (because they are micro-sized). Equally we would expect funds qualifying for audit exemption (because they are small) to continue to undergo an audit in general, as this would be required by the limited partnership agreements applying to them. The numbers of micro-sized and small limited partnership funds are likely to be low though. The introduction of accounting exemptions for micro-sized entities will be the subject of a separate Impact Assessment.

56. The possibility that some limited partnership funds may relocate overseas could be viewed as a competition effect. As explained in paras 45 and 46 (under "non-monetised costs"), we view transfers of this kind as an indirect effect of these changes which in practice would be likely to be the result of a number of changes in the regulatory landscape.

Summary and preferred option with description of implementation plan

57. BIS plans to make regulations to amend the 2008 Regulations and the 2006 Act to properly implement the Directives for those partnerships and unlimited companies not currently required to prepare and publish accounts in UK where the Directives require this. It will be possible to make the amendments to the 2006 Act via secondary legislation using powers in section 468 of the 2006 Act. The amending regulations will need to be passed by affirmative resolution.

58. We plan to make the amendments on a timescale that will allow the partnerships affected (mostly limited partnership investment funds in the private equity and venture capital sectors) to take advantage of the option being made available under UK GAAP to allow single line accounting for investment entities. This will allow those limited partnership funds affected which would otherwise have to consolidate the accounts of certain companies in which they hold significant shareholdings with their own accounts instead to record those shareholdings on a single line of the partnership's balance sheet.

59. The regulatory changes are likely to be accompanied by other changes to the UK's accounting framework to take up options now available for micro-sized entities under the "micros Directive". The timing of the changes is currently scheduled for 6 April 2013. We would propose to take forward post-implementation reviews for the two sets of regulatory changes together in 2020.