EXPLANATORY MEMORANDUM TO

THE LARGE AND MEDIUM-SIZED LIMITED LIABILITY PARTNERSHIPS (ACCOUNTS) REGULATIONS 2008

2008 No. [DRAFT]

1. This explanatory memorandum has been prepared by the Department for Business, Enterprise & Regulatory Reform and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008, which are to be made under sections 15 and 17 of the Limited Liability Partnerships Act 2000 ("the LLP Act"), set out the form and content of the accounts of large and medium-sized limited liability partnerships ("LLPs"). They apply to large and medium-sized LLPs, with modifications, provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008[1] made under Part 15 of the Companies Act 2006 ("the 2006 Act").

2.2 The Regulations will replace provisions contained in the accounting Schedules to Part 7 of the Companies Act 1985 ("the 1985 Act") and to Part 8 of the Companies (Northern Ireland) Order 1986 (S.I. 1986/1032(N.I.. 6)) ("the 1986 Order") as applied to LLPs by the Limited Liability Partnerships Regulations 2001 ("the 2001 Regulations")[2] and the Limited Liability Partnerships Regulations (Northern Ireland) 2004 ("the 2004 Regulations")[3].

3. Matters of special interest to the Joint Committee on Statutory Instruments

None.

4. Legislative Background

4.1 The LLP Act and its Northern Ireland equivalent [4]provided for the creation of a new corporate vehicle, the LLP. An LLP gives the benefits of limited liability, as for a company, but allows its members the flexibility of organising their internal structure as a traditional partnership. The LLP is a legal entity separate from its members, but unlike a company does not have shares or shareholders and is not therefore subject to the same provisions concerning the relationship between a company, its shareholders and its

[1] S.I. 2008/410.
[2] S.I. 2001/1090.
[3] SR (NI) 2004/307.
[4] The Limited Liability Partnerships Act (Northern Ireland) 2002 (c.12 (N.I.).

directors. It is however subject to similar accounting and auditing provisions to those for companies.

4.2 The LLP Act and its Northern Ireland equivalent set out the basic structure and formation provisions for LLPs. The 2001 Regulations made under the LLP Act (which came into force at the same time as the LLP Act), and the 2004 Regulations set out most of the detailed provisions for LLPs by applying large parts of the 1985 Act, the Insolvency Act 1986 and other enactments, and their Northern Ireland equivalent, to LLPs. Many of the provisions applied are modified to reflect the particular characteristics of an LLP. The same approach is taken in Northern Ireland.

4.3 In light of the changes made to company law by the 2006 Act, provisions of Parts 15 and 16 of the 2006 Act are applied to LLPs by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. Provisions specifying the form and content of company accounts previously contained in the accounting Schedules to the 1985 Act and 1986 Order are now set out in regulations made under Part 15 of the 2006 Act. These Regulations set out the requirements for the accounts of large and medium-sized LLPs for financial years beginning on or after 1st October 2008. The requirements for the accounts of small LLPs are contained in the Small Limited Liability Partnerships (Accounts) Regulations 2008.

4.4 The 2001 and 2004 Regulations apply large parts of the 1985 Act and 1986 Order with modifications of varying degrees made by textual amendment in the Schedules to those regulations. This creates a complex set of regulations that have to be read in conjunction with the 1985 Act or the 1986 Order. One of the key objectives of the 2006 Act was to ensure better regulation and to 'think small first'. Part 15 of the 2006 Act provides for detailed accounting and reporting requirements to be set out in regulations made by the Secretary of State rather than in Schedules to the Act. In line with this, the approach to drafting the LLP regulations was reviewed and consulted on. As a result, these Regulations apply provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under Part 15 of the 2006 Act to LLPs and set out those provisions in full, as modified to take account of the particular characteristics of LLPs.

4.5 In line with the position for companies, the Regulations make a small number of substantive changes to the accounting rules for large and medium-sized LLPs. These are outlined in section 7.5 below.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 The Parliamentary Under Secretary of State for Trade and Consumer Affairs, Gareth Thomas, has made the following statement regarding Human Rights:

In my view the provisions of the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 are compatible with the Convention rights.

7. Policy background

Policy

7.1 The 2006 Act seeks to ensure that British business operates within a legal and regulatory framework that promotes enterprise, growth, investment and employment. The Act has four key objectives:

- enhancing stakeholder engagement and a long term investment culture;
- ensuring better regulation and a "think small first" approach;
- making it easier to set up and run a company; and
- providing flexibility for the future.

7.2 By applying the 2006 Act to LLPs in the manner outlined above, the aim is for LLPs to be able to take advantage of the major benefits to business of modernising and simplifying company law, thereby ensuring that LLPs remain an attractive corporate vehicle for businesses, whilst retaining their distinctive characteristics. As with the 2006 Act, key to this approach is to ensure that the regulations for LLPs remain up to date and fit for purpose and 'to think small first'. The new approach to legislating for LLPs results in stand alone regulations.

7.3 In order to assess the potential impact for LLPs of changes made by the 2006 Act, detailed policy and legal analysis was undertaken to compare the provisions in the 1985 Act applied to LLPs to those in the 2006 Act. This identified:

- Amendments to the LLP Act consequential upon the 2006 Act;
- Provisions of the 2006 Act where there is a corresponding provision of the 1985 Act (or 1986 Order) which is currently applied to LLPs, or where a provision could be applied with no significant change to the current regime;
- Provisions of the 2006 Act that in principle could be applied, but where doing so would change the current policy or introduce a new area of law;
- Provisions of the 2006 Act that cannot be applied to LLPs, because of the fundamental difference between LLPs and companies, and/or to do so would be outside the powers available to make secondary legislation.

7.4 In the light of that analysis the decision was taken to apply to LLPs the provisions of the 2006 Act, as far as possible to replace those provisions of the 1985 Act or 1986 Order currently applied to LLPs.

7.5 These Regulations apply the provisions on the form and content of accounts of large and medium-sized companies to large and medium-sized LLPs. This results in a small number of substantive changes for LLPs, reflecting the changes made for companies:

- The exemption for medium-sized LLPs from disclosing turnover in abbreviated profit and loss accounts delivered to the registrar of companies has been removed , although there is still exemption from disclosing detailed particulars of turnover in the notes to such accounts (regulation 4);
- A number of technical amendments have been made to the provisions on consolidated accounts. These address the potential for differences in the context of UK accounting standards being converged with International Financial Reporting Standards by increasing flexibility (Schedule 3, paragraphs 9, 13 and 17);
- LLPs are given the option of including financial instruments in the accounts at a fair value in certain circumstances (Schedule 1, paragraph 36(4));
- There is a new requirement to make certain disclosures about transactions with related parties (Schedule 1, paragraph 70), although medium-sized LLPs are exempt from this requirement (regulation 4).

7.6 The Regulations are not politically or legally important.

Consultation

7.7 In February 2007, as part of the consultation on the implementation of the 2006 Act for companies, the Government consulted (in Chapter 5) on the general approach to be adopted in applying the 2006 Act to LLPs[5]. 34 respondents to the consultation specifically responded to the questions on LLPs. The majority supported the approach so far as possible of applying provisions of the 2006 Act so as to replace the provisions of the 1985 Act currently applied to LLPs and the proposed timetable for doing this. This included the proposal to apply the accounts and audit provisions of the 2006 Act to LLPs from 1st October 2008.

7.8 On 7 November 2007 the Government announced that the implementation of some of the provisions of the 2006 Act which were due to come into effect in October 2008 would be delayed until October 2009. On 10 November 2007 the Government published a consultation document inviting comments on the proposed application of the 2006 Act to LLPs. In line with the announcement for companies it was proposed in the consultation on LLPs that the implementation of most of the changes for LLPs would take place in October 2009, with the exception of applying the accounts and audit provisions (Parts 15 and 16) and Part 42 of the 2006 Act to LLPs, which would take place as proposed in the February 2007 consultation from 1st October 2008.

7.9 The consultation closed on the 6 February 2008. 25 written responses were received. The majority of responses supported the proposals made in the consultation document in relation to the timing of the application of the 2006 Act, the legislative approach and the provisions of the 2006 Act to be applied to LLPs.

[5] DTI/02/07/NP. URN 07/666.

7.10 There was broad support on the proposal to apply Parts 15 and 16 of the 2006 Act on accounts and audit to LLPs by taking the same approach as in the 2001 and 2004 regulations of applying the rules as they apply to a private company, with appropriate adaptation to take into account the different internal arrangements of an LLP.

7.11 Draft regulations on accounts and audit which reflected the comments made in response to the consultation were published for comment on the BERR website during May 2008, including a draft of the Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008.In addition, a Working Group of key interested parties was set up to review the draft regulations.

7.12 The Government response to the November 2007 consultation was published on 23rd May. Draft regulations on the remaining provisions, due to come into effect from 1st October 2009, will be published for comment.

Guidance

7.13 To accompany the regulations FAQs will be published on the Department's website. In addition, guidance booklets published by Companies House will be updated to reflect the changes from October 2008.

8. Impact

8.1 An Impact Assessment on the legislative approach taken and the application of the accounts and audit provisions is attached to this memorandum at Annex A.

9. Contact

Alicia Law at the Department for Business, Enterprise & Regulatory Reform, telephone: 020 7215 5387 or e-mail: Alicia.Law@berr.gsi.gov.uk can answer any queries regarding the instrument.

Department for Business, Enterprise and Regulatory Reform (BERR)	Impact Assessment of the application of the accounts and audit provisions of the Companies Act 2006 to Limited Liability Partnerships (LLPs)	
Stage Final	Version 2	Related Publications: 1. Consultation on the application of the 2006 Act to LLPs 2. Government Response to the consultation

Available to view or download at: http://www.berr.gov.uk/bbf/llp/page39897.html

Contact name for enquiries: **Alicia Law**

Email address: mailto:Alicia.law@berr.gsi.gov.uk

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

The Act and regulations under which limited liability partnerships (LLPs) form and operate will be out of step with modern company law if the material and relevant parts of the Companies Act 2006 (2006 Act) are not applied to LLPs by new regulations. Without new regulations LLPs will be operating under Companies Act 1985 provisions which have been repealed for companies and will not be able to take advantage of a range of deregulatory measures introduced by the 2006 Act.

For this set of draft regulations we are considering specifically the application of the accounts and audit provisions of the 2006 Act.

What are the policy objectives and the intended effects?

By applying the accounts and audit provisions of the 2006 Act to LLPs, we ensure that LLPs are entitled to the same benefits and savings as companies; remain an attractive corporate vehicle for businesses and retain their distinctive characteristics from companies and other types of partnership. To ensure that businesses in regulated and non-regulated professions continue operating as LLPs under UK law rather than seeking incorporation in other countries. Updating the content and structure of the LLP regulations will simplify them for the users of LLPs and their professional advisers, and reduce the need for them to consult a number of different legislative sources.

What policy options have been considered? Please justify any preferred option.

Option A: Do nothing, which means not applying the relevant and material parts of the Companies Act 2006 to LLPs.

Option B: Apply the relevant and material parts of the Companies Act 2006 to LLPs with textual modification where necessary.

Option C: Achieving Option B by means of a standalone set of regulations setting out in full the provisions as modified (the preferred option). This would make the LLP legislation more accessible for those directly affected and their professional advisers.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of

the desired effects?

This will be done as part of the wider evaluation of the impact of the Companies Act 2006.

Ministerial Sign-off:

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: Gareth Thomas

Date: 4th June 2008

SUMMARY: ANALYSIS & EVIDENCE

Policy Option : C

ANNUAL COSTS One off (Transitio 0 Yrs 10 **Average Annual Cost** (excluding one-off) 0.2 – 0.5 Million	None **Total cost** (PV) £1.7 - £4.2 million
Other **key non-monetised costs**	
ANNUAL BENEFITS One off 0 Yrs 10 **Average Annual Benefit** (excluding one-off) 4.5 – 8.8 Million	LLP legislation would be far more accessible for LLPs and professional advisers; reduce the time it takes to cross-reference the regulations with other companies legislation and lessen the complexity of the laws for LLPs. LLPs would have the opportunity to benefit from any cost savings arising from the application of the Companies Act 2006 as for companies. **Total Benefit** PV £37.4 - £73.2 million
Other **key non-monetised BENEFITS** We believe that LLPs will remain an attractive corporate vehicle for businesses and retain their distinctive characteristics from companies and other types of partnership. Businesses in regulated and non-regulated professions will continue operating as LLPs under UK law rather than seeking incorporation in other countries.	
KEY Assumption/Sensitivities Risks Assumes benefits constant over 10 years. Discount at 3.5% Assumes the NPV net benefit range of £35.7 - £69.0 million. The NPV Best estimate is calculated as £52.35 million, which is the mean of the net benefit range. PwC Admin Burden for LLPs was £8.7 million. We assume a 10% savings to be £0.9 million.	

Price Base Year 2005	Time Period Years 10	Net Benefit Range (NPV) £35.7 m -£69.0 m	**NET BENEFIT** (NPV Best Estimate) £52.35 million

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	October 2008 and 2009			
Which organisation(s) will enforce the policy?	Companies House, SoS, Financial Reporting Review Panel, FRC (POB & APB) and FSA			
What is the total annual cost of enforcement for these organisations?	Minimal. To be calculated - the cost is likely to be recovered from businesses and auditors			
Will implementation go beyond minimum EU requirements	No EU requirement			
What is the value of the proposed offsetting measure per year?	Not applicable			
What is the value of changes in green gas emissions?	Not applicable			
Will the proposal have a significant impact on competition?	Negligible			
Annual cost per organisation (excluding one-off)	Micro	Small	Med	Large

	0	0	0	0
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 prices)

Increase of	Decrease of	**Net Impact**
0	£0.9 m	£0.9 million

Evidence Base
for Summary Sheets

1. Introduction

This impact assessment accompanies the draft regulations applying the accounts and audit provisions of the Companies Act 2006 (2006 Act) to Limited Liability Partnerships (LLPs).

The costs and benefits associated with the application of the 2006 Act to LLPs are in part based on the costs and benefits estimated for companies provided by the Companies Act 2006 Regulatory Impact Assessment (RIA) in January 2007. To be consistent with the Companies Act 2006 RIA the costs and benefits estimated in this IA will be based on 2005 prices. In addition reference is made in this document to the impact assessments produced for the implementation of Directives 2006/43/EC on statutory audits and Directive 2006/46/EC on company reporting, where parallels can be drawn with the implementation of the accounts and audit provisions for companies. These can be found at:

http://www.berr.gov.uk/bbf/co-act-2006/made-or-before-parliament/page35232.html

It is important to stress at the outset that there is relatively little in the way of a research base of hard financial information on the costs to business of compliance with existing company law requirements. The quantification of costs and benefits that is available from the original RIA relies heavily on responses from consultees/stakeholders. It is also important to note that this evidence base in the overall RIA is still more substantive than that available for LLPs.

The figures for LLPs also differ because as with the application of the 1985 Act, not all of the 2006 Act provisions are being applied to LLPs. Where necessary, we have made suitable adjustments to the data analysis taking into account the differences between the numbers of LLPs and companies and their different sizes. The resulting figures are only indicative on the basis of the original Companies Act 2006 RIA. On the application of the accounts and audit provisions of the 2006 Act to LLPs it is difficult to quantity the cost and benefits; we therefore refer to the impact assessments on application of the provisions for companies.

In applying the 2006 Act we want to ensure that LLPs remain an attractive corporate vehicle for businesses and maintain an identity distinct from companies. To that extent, the analysis of options has been essentially concerned with the questions:

- What form should the LLP Regulations 2008 take?
- Which provisions of the Companies Act 2006 should be applicable to LLPs?

For the purpose of this Impact Assessment, the costs and benefits analysis covers the following areas:

- Option A: **Doing nothing;**
- Option B: **Regulations making textual amendments to the 2006 Act;**
- Option C: **A standalone set of regulations**; and
- The potential costs and benefits of applying the accounts and audit provisions of the 2006 Act LLPs

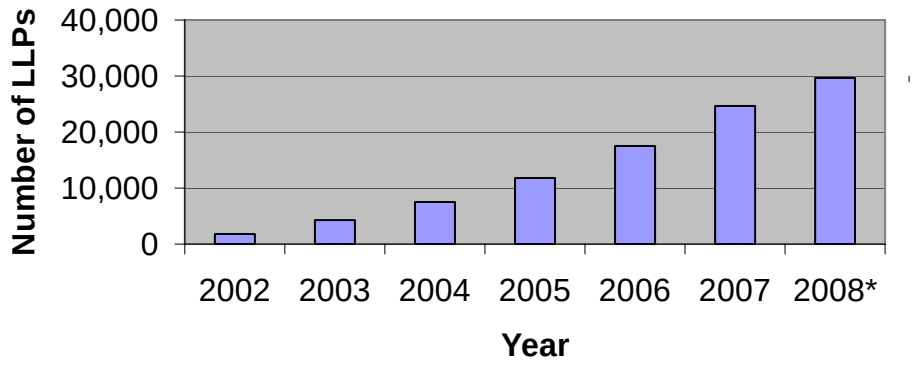
A further impact assessment will be produced with the draft regulations applying the remaining provisions of the 2006 Act to LLPs, which it is proposed will come into effect on 1st October 2009, in parallel with the implementation of the remaining provisions of the 2006 Act for companies.

Northern Ireland

In line with the approach taken in the 2006 Act, the LLP regime for Great Britain (GB) will be extended to LLPs in Northern Ireland (NI). We expect the benefits and costs of the Government's proposals on the application of the 2006 Act for NI LLPs to be comparable to those of GB LLPs.

2. Population of LLPs in the UK

Figure 1: Number of LLPs on Register on the 31 March in Great Britain from 2002 -2008



* The numbers of LLPs for 2008 are based on the number of LLPs on the 24/02/08.

The figure above shows that the number of registered LLPs is growing, from 1,936 LLPs in 2002 to 24, 555 in 2007. As at 24 February this year, the total number of LLPs on the register is 29,756.

All the top 4 accounting firms are now LLPs. The numbers of law firms opting to convert from traditional partnerships to LLPs continues to rise. Half of the top UK law firms are now LLPs. According to the ***Law Society Gazette***[6], since the LLP Act came into force in 2001, a total of 1,562 of the 8,926 law firms registered in England and Wales have opted to operate as LLPs. This represents 17.4% of all solicitors firms. The number of law firms registering as LLPs in 2006 were 456.

3. Distribution of LLPs

It is important to point out that we draw on the pre-6 April 2008 classification of companies framework in breaking down the number of LLPs into categories of small and medium-sized.[7] The breakdown is based on the total number of LLPs registered as of May 2007.

Table 1: Break down of LLPs into size categories as of May 2007

	Size
Large LLPs	177
Medium-sized LLPs	303
Small LLPs	8597
Not known[8]	16,142

[6] Law Society Gazette – 30 August 2007.

[7] The definition of a small company was one that met two out of three criteria relating to turnover, balance sheet total and number of employees in their first financial year, or in the case of a subsequent year, in that year and the preceding year: turnover not more than £5.6 million (£6.5m as of April 2008), balance sheet total not more than £2.8 million (£3.26m as of April 2008), number of employees not more than 50. The definition of a medium-sized company was one that met two out of three criteria relating to turnover, balance sheet total and number of employees: turnover not more than £22.8 million (£25.9m as of April 2008), balance sheet total not more than £11.4 million (£12.9m as of April 2008), number of employees not more than 250.

[8] We assume that most of these are small LLPs.

Total[9]	25,219

4. Options

The three options selected represent broad choices whilst permitting discussion on some of the detailed points.

Option A: Do Nothing

Do nothing would mean not applying the 2006 Act to LLPs and that LLPs would continue to operate under the provisions of the LLP Regulations 2001. These are largely based on the Companies Act 1985, which for companies will be in most parts repealed. By not amending the LLP regulations LLP law would be out of step with modern company law. It would also mean a twin-track approach under which the 2006 Act is applied to companies, but the 1985 Act continued for LLPs. This option would increase the complexity of business law, confusing business and their professional advisers and increase costs. In addition, it would deny LLPs the opportunities to take advantage of a range of deregulatory measures introduced by the 2006 Act.

The 2006 Act Impact Assessment prepared in January 2007 calculated that the total benefit of the company law reform measure for companies is in the region of £160 million to £340 million per annum. Estimating the actual benefits for LLPs is very difficult; however, implementing the 2006 Act could result in benefit of between £3.8 million to £8.1 million which will not be realised if this option is adopted. This is based upon a pro rata figure of dividing the total number of LLPs by the total number of private companies and then multiplying it by the estimated benefit, i.e. (29,756/1,245,000) X £160 million and (29,756/1,245,000) X £340 million. In relation to the application of the accounts and audit provisions of the 2006 Act to LLPs we estimate the benefit embedded in the overall benefit calculated above to be approximately £0.9 million. This is based upon a pro rata figure of dividing the number of LLPs by the total number of private companies and then multiplying it by

[9] Sources: Companies in 2005-2006 by the Companies House and the FAME software. FAME is known as Financial Analysis Made Easy software.

the estimated benefit in relation to the account and audit provisions of the 2006 Companies Act, i.e. (29,756/1,245,00) X £36.73 million. Any comparison of numbers of LLPs against the numbers of companies requires two caveats: not all aspects of the 2006 Act will apply to LLPs. Also the size distribution of companies is probably different from that of LLPs. The figures above are therefore a maximum figure and only indicative on the basis of the original 2006 Act Impact Assessment.

Option B: Amendment

This is the obvious, but not the preferred option. Doing this would mean applying the relevant provisions of the 2006 Act to LLPs with a series of general and specific modifications without setting out the modified legislation in full. This is currently the form which the LLP Regulations 2001 take. They are already a complex set of regulations for LLPs and their advisers to interpret. By producing a further set of amending regulations the position for LLPs would become even more complex.

The underlying assumption of this option, as in option C below, is that LLPs would have the opportunity to benefit from any cost savings arising from the application of the 2006 Act as for companies. From the calculated figure above the expected benefit is in the region of between £3.8 million to £8.1 million and in respect of the application of the accounts and audit provisions of the 2006 Act to LLPs could be £0.9 million.

The risk of option B over option C is that by only textually amending the provisions of the 2006 Act which are applied, the LLP regulations would be less user-friendly, and LLPs would run the risk of not benefiting from the comparable savings arising from reducing the complexity of the law.

It is important to stress that the 2006 Act was structured in order that the provisions that apply to small companies are much easier to understand. Where the law is hard to understand, there are significant costs, uncertainty and risks and compliance is reduced. SME representatives estimated that presenting the 2006 Act in an

accessible and user-friendly fashion resulted in savings in the region of £30 million per annum for companies. It is expected that some of this simplification benefit of the 2006 Act would be realised under this option. However, with this option, LLPs and their advisers are likely to spend more time establishing what the relevant legal provisions are, by consulting both company law and LLP law. The "cost" of this option is the continued uncertainty and legal costs of applying company law to LLPs rather than having stand-alone regulation. We do not have any figures on what this might be.

It was estimated that introducing the 2006 Act would cost companies in the order of £10 million to £20 million. Based on this simple calculation, the direct costs associated with the application of the 2006 Act to LLPs would be in the region of £0.2 million to £0.5 million. This estimate is based upon (29,756/1,245,000) X £10 million and (29,756/1,245,00) X £20 million. We believe it would therefore also follow that the direct costs of introducing the 2006 Act provisions on accounts and audit for LLPs would be £0.08 million. This estimate is based upon a pro rata figure of dividing the number of LLPs by the number of companies and then multiplying it by the estimated cost in relation to the account and audit provisions of the 2006 Companies Act i.e. (29,756/1,245,000) x £3.3 million.

Option C: Standalone

The option proposed is a standalone set of regulations restating provisions of the Companies Act 2006 as applied to LLPs with appropriate modifications, and two sets of accompanying accounts regulations, one set for small LLPs and one set for medium-sized and large LLPs. The assumption is that the LLP Regulations are structured in order that the provisions that apply to LLPs are much easier to understand. This would make the LLP legislation far more accessible for LLPs and professional advisers; reduce the time it takes to cross-reference the regulations with other companies legislation and lessen the complexity of the law for LLPs. This option is consistent with the Government's policy of simplification and "think small first" agenda.

As with option B above, under this option, LLPs would benefit from some of the cost savings that companies will enjoy as the 2006 Act comes into effect. We estimate that for LLPs, this will be in the region of £3.8 million to £8.1 million per annum. The benefit of Option C over Option B is that it would lessen the complexity of LLP law and will bring additional benefits in the region of £0.7 million per annum for LLPs. This 0.7 million additional benefit of option C is based on a pro rata figure of dividing the total number of LLPs by the total number of private companies and then multiplying it by the estimated benefit of having 2006 Act presented in an accessible

and user friendly manner i.e. (29,756 / 1,245,000) X 30 million. The expected total benefit of this option is in the range of £4.5 million to £8.8 million per annum.

Under this option, there could be some limited familiarisation costs. These are not expected to be significant.

Table A below is a summary of the options with top-down calculations.

Options	**Cost (per annum)**	**Benefit (per annum)**
Option A: Do Nothing	£3.8 million - £8.1 million	Not applicable
Option B: Amendment	£0.2 million - £0.5 million	£3.8 million - £8.1 million
Option C: Standalone	£0.2 million to £0.5 million	£4.5 million - £8.8 million
Total	**£0.2 million to £0.5 million**	**£4.5 million to £8.8million**

5. Costs and Benefits

We are doing top-down and bottom-up calculations but for summary use top-down numbers. The top-down approach focuses on each of the options, and the bottom-up approach estimates the costs and benefit of those provisions that are expected to have the biggest impact on LLPs.

Benefits

Estimating the direct savings is very difficult. It is relatively easy to establish that a particular regulatory requirement is essentially redundant and should be amended or removed, but it is more difficult to establish what the monetised impact of this action will be. As earlier noted, the 2006 Act Impact Assessment estimated that the total direct benefits of the company law reform measures could be of the region of £160 million to £340 million per year for companies. Currently there are approximately 29,756 LLPs on Companies House Register. The analysis has been re-adjusted to reflect the different characteristics of LLPs in relation to companies and re-calibrated to reflect the number of current LLPs. It indicates the total benefits of applying the 2006 Act to LLPs could be in the region of £4.5 million to £8.8 million per annum and £0.9 million per annum in respect of applying the accounts and audit provisions only.

Costs

Direct Costs
Against total benefits of between £4.5 million to £8.8 million per annum there are only a handful of areas where the 2006 Act introduces new or more burdensome regulatory requirements, of a sort that might in principle increase compliance costs. It has been shown above that introducing the Companies Act 2006 would cost

companies in the order of £10 million to £20 million. Based on this simple calculation, the direct costs associated with the application of the 2006 Act to LLPs would be in the region of £0.2 million to £0.5 million. This estimate is based upon (29,756/1,245,000) X £10 million and (29,756/1,245,000) X £20 million. Embedded in the total direct cost is the direct cost associated with the application of the accounts and audit provisions of the 2006 Act. This is calculated at £0.08 million.

6. Accounts and audit provisions of the 2006 Act applied by the draft regulations

Accounts and Auditors' Reports

The restatement of the accounts and auditors' report provisions in a more coherent way will make it clearer to users which provisions affect which category of LLP, whether small, medium-sized or large. Some limited familiarisation costs are likely, but these are not expected to be significant. It is important to stress that the monetised benefits of simplification of the accounts provisions are embedded in Option C above, which is estimated to bring additional benefits in the region of £0.7 million per annum for LLPs.

Following the policy of applying the 2006 Act to LLPs, where appropriate (with modification), we are applying to LLPs the increased financial thresholds for the determination of whether a company or group qualifies as small or medium-sized for the purposes of certain accounting and audit exemptions.

We are also applying to LLPs the option available to companies of including financial instruments in the accounts at a fair value, as provided for by Directive 2006/46/EEC. Similarly, disclosures in the notes to accounts of related party transactions and off-balance sheet arrangements will be applied to LLPs in the same way as for companies.

It is difficult to assess the costs and benefits of applying these provisions to LLPs, but we feel a parallel can be drawn with those covered in the impact assessment prepared for Directive 2006/46/EEC. This can be found at:

http://www.berr.gov.uk/bbf/co-act-2006/made-or-before-parliament/page35232.html

Auditors and Statutory Auditors

At this stage, it is difficult to monetise the costs and benefits of this proposal for LLPs in general. It is expected that associated benefits and costs should be similar to those of companies (with adjustment for numbers of LLPs). The impact assessment for Directive 2006/43/EEC gives an indication of the cost. This can be found at:

http://www.berr.gov.uk/bbf/co-act-2006/made-or-before-parliament/page35232.html

Implementation Costs
There will be some changes to the law governing the accounts and audit LLPs, and there will be some implementation cost. However, it is expected that these implementation costs would be minimal.

Familiarisation Costs
In addition to the direct costs associated with the proposed application of the accounts and audit provisions of the 2006 Act to LLPs, there will also be some familiarisation costs associated with any new legal requirement. These costs are not expected to be significant. Professional advisers will need to become familiar with the new law, but these professions have established programmes of continuous professional development that will in due course cover the changes to company and LLP law. Although the cost of all professional training is ultimately passed on to clients, we do not expect to see an increase in fees charged to LLPs as a result of the proposed legislative changes.

7. Specific Impact Tests

Competition Assessment
This proposal will have no significant adverse impact on markets. The application of the 2006 Act to LLPs will affect all LLPs. However, these costs and benefits do not appear to be sufficiently large to affect competition between LLPs of different sizes. The application of the 2006 Act to LLPs will not impose different costs on new and existing LLPs.

Small Firms Impact Test
The reforms to LLP law have been guided by “Think Small First” principles and have been formulated with small enterprises in mind. Proposals have been designed so that wherever possible regulation is proportional to firm size, existing regulation simplified and presented in a coherent and accessible form. We estimate using

FAME that one-third of those which could be classified were small and most of those unclassified were also likely to be small. The vast majority of these LLPs are also exempt from audit requirements. We estimate that there will be substantial benefits to all LLPs including small sized enterprises.

Legal Aid
There will be no impact on Legal Aid

Sustainable Development, Carbon Assessment, Other Environment
We do not believe that there will be any impacts on these areas.

Race Equality, Disability Equality and Gender Equality
We do not believe that there will be an impact on the equality strands as the proposals impact on LLPs not on individuals. We have, however, looked at each of the equality impact initial tests individually and are confident that there is no impact.

Human Rights
We do not believe that there will be an impact on Human Rights.

Rural Proofing
We have looked at the initial test on rural proofing and are confident that there is no impact on rural communities.

8. Enforcement, sanctions and monitoring

The proposed reforms will provide greater clarity to questions as to who is liable for a particular breach in a particular set of circumstances. It is expected that the new regime will lead to greater understanding by participants of the requirements they are under and, potentially, to better levels of compliance. However, the reforms are not expected to lead to changes in enforcement patterns, and overall prosecution levels are unlikely to be significantly affected. Enforcement will, as now, rely on a variety of means depending on the nature of the breach (for example, Companies House will be responsible for enforcing penalties for late filing of accounts and similar offences).

9. Implementation and delivery plan

The Regulations will be designed to be as facilitative as possible. After commencement individual LLPs will be able to take advantage of new optional provisions on a case-by-case basis in the manner best suited to their specific needs

Objective and Success Criteria

The Government's objective in its method of implementing the measures in the 2006 Act for LLPs will be to ensure that LLPs are well sighted on the deregulatory opportunities made available by the Act, so that they can make informed choices on how they best wish to operate and can take advantage of them. An important success criterion will be the extent to which feedback from LLPs confirms that the amending regulations are simpler and more flexible in their effect. The focus on stakeholder feedback for the RIA on the 2006 Act in part reflects the difficulty of making concrete monetised assessments of the impact of company law measures. However, company law is essentially facilitative and the intention behind the measures is often to give companies flexibility and choice, rather than to ensure that they necessarily operate in any one particular way. Responses to the consultation from stakeholders have been considered and as part of the post-consultation process

we have looked at the measures that can be monetised, to assess again the expected benefits and costs of the proposals. In line with the implementation of the 2006 Act, we will monitor and review the impact on LLPs.

Consultation and Compliance

It is important to recognise that there is generally speaking no "LLP police" for ensuring compliance with the requirements of company law. The registrar (Companies House) and BERR prosecutors have limited remits associated with some of the non-permissive provisions in the Act (for example provisions associated with the register of members and the preparation and filing of accounts). Notwithstanding some specific measures, the 2006 Act on balance reduces rather than adds to the number of strict requirements in the company law regime, and no particular compliance difficulties are anticipated.

Resource Requirements

There will be some set-up and implementation costs for Companies House in respect of certain measures in the Act, such as facilitating electronic filing. As a minimum there will be some one-off costs of training and familiarisation for staff, as well as systems costs in some areas. It is likely, as with companies, that these costs will be passed on to LLPs in the form of increased transactions costs. However, such increases should be more than compensated for by the cost-savings to LLPs of the new arrangements.

Communications

A simpler law, which "fits small business reality" better, will greatly increase business confidence in the overall regulatory environment and increase compliance. Companies House already provides extensive and well respected plain English guidance both in booklet form and increasingly through their website. In line with this there will be guidance available for LLPs.

Disproportionate Impact

As stated in the competition assessment (Section 7 above) analysis indicates that the proposed Act will not adversely affect competition between new and existing LLPs, or between LLPs of different sizes.

Commencement and Implementation

Companies House will play a major role in implementing the LLP Regulations as they are commenced. They will have to make changes to their processes and systems to ensure they are ready to provide the best service to their customers when the provisions of the Regulations come into force.

10. Summary

The Government believes that the proposals set out in this IA will improve the performance of LLPs across the economy as a whole, and reduce direct compliance costs for business. Although the majority of provisions are evolutionary rather than revolutionary in nature, taken together they represent a huge step forward in ensuring that LLP law and company law are up to date, flexible and accessible for all who use it. Overall, improvements will translate to a total net benefit in the region of £4.3.million - £8.3 million per annum, assuming minimal costs. A further draft impact assessment will be produced with the draft regulations applying the remaining provisions of the 2006 Act to LLPs, which are due to be published for comment over the summer.

Type of testing undertaken	***Results in Evidence Base? (Y/N)***	***Results annexed? (Y/N)***
Competition Assessment	*Y*	
Small Firms Impact Test	*Y*	
Legal Aid	*Y*	
Sustainable Development	*N/A*	
Carbon Assessment	*N/A*	
Other Environment	*N/A*	
Health	*N/A*	
Race Equality	*Y*	
Disability Equality	*Y*	
Gender Equality	*Y*	
Human Rights	*Y*	
Rural Proofing	*Y*	