EXPLANATORY MEMORANDUM TO

THE LIMITED LIABILITY PARTNERSHIPS (APPLICATION AND MODIFICATION OF COMPANY LAW) REGULATIONS 2025

2025 No. [XXXX]

1 Introduction

1.1 This explanatory memorandum has been prepared by the Department for Business and Trade and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2 Declaration

2.1 Justin Madders, Minister for Employment Rights, Competition and Markets at the Department for Business and Trade, confirms that this Explanatory Memorandum meets the required standard.

2.2 Nis Bandara, Deputy Director for Company Law and Transparency at the Department for Business and Trade, confirms that this Explanatory Memorandum meets the required standard.

3 Contact

3.1 Andrew Pinnell at the Department for Business and Trade, Telephone: 07742767785 or email: andrew.pinnell@businessandtrade.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4 Overview of the Instrument

What does the legislation do?

4.1 This instrument will ensure that the relevant reforms to company law made by the Economic Crime and Corporate Transparency Act 2023 (c. 56, "the 2023 Act") also apply to the law governing limited liability partnerships ("LLPs"), including: identity verification requirements for LLP members and People with Significant Control (PSCs) of LLPs; prohibitions on the appointment of disqualified directors to LLPs and the removal of the requirement to keep "local" registers of information relating to LLP members and PSCs.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the whole of the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the whole of the United Kingdom.

5 Policy Context

What is being done and why?

5.1 The 2023 Act is designed to prevent the misuse of all corporate structures in the United Kingdom. While the Act itself makes substantial amendments to company law, it is the intention to apply these changes to the law governing LLPs. This will mean that the law applies coherently and without arbitrary differences between companies and LLPs.

5.2 Under the Companies Act 2006, as amended by the 2023 Act, directors and PSCs of UK companies are required to verify their identity. This requirement is designed with a view to increasing corporate transparency and reducing the potential for economic crime, such as money laundering and fraud, through UK corporate structures.

5.3 This statutory instrument extends new requirements introduced by the 2023 Act to LLPs.

5.4 An LLP is a form of business entity with limited liability for the members. The main difference between an LLP and a limited company is that an LLP has the organisational flexibility of a partnership and is taxed as a partnership. In other respects they are very similar to a private company and many aspects of the legal framework underpinning the two entities are similar.

5.5 This instrument applies company law provisions to LLPs, relating to identity verification requirements for LLP members and PSCs of LLPs; prohibitions on the appointment of disqualified directors to LLPs, and removal of the requirement for LLP's to keep "local" registers of information relating to LLP members and PSCs, instead requiring them to deliver that information to Companies House, which will hold a central register.

5.6 On incorporation, an LLP will be required to confirm that proposed members are identity verified and are not disqualified under director disqualification legislation. They must also confirm that proposed PSCs are not disqualified and have the option to confirm that the PSCs are identity verified. If this option is not exercised, the PSC must confirm their identity is verified later on.

5.7 Post-incorporation, on appointment of a new member, LLPs must confirm the individual is identity verified and not disqualified under director disqualification legislation. LLPs may also confirm that a new PSC is identity verified, but if this option is not exercised the PSC must confirm their identity is verified later on.

5.8 For existing members of LLPs already incorporated, the LLP must confirm their members are identity verified at the same time they deliver their annual confirmation statement. PSCs of LLPs will be required to confirm their identity is verified within 14 days of a day appointed in further regulations.

5.9 To enforce these new requirements, this instrument also applies offences to LLPs in relation to failure to comply with identity verification obligations. An individual will commit an offence if they act as an LLP member without being identity verified, and the LLP will commit an offence if they fail to ensure the individual does not act as a member without being identity verified.

5.10 PSCs will also commit an offence if they fail to verify.

5.11 Under the 23 Act, requirements for companies to keep "local" registers of their directors and PSCs will be abolished. In line with those changes, this instrument

abolishes the requirements for LLPs to keep "local" registers of their members and PSCs.

What was the previous policy, how is this different?

5.12 Currently, members and PSCs of LLPs are not required to verify their identity, and LLPs are required to keep certain "local" registers. Following reforms to the Companies Act 2006 by the 2023 Act, directors and PSCs of companies will have to be identity verified, and local registers will be abolished. To ensure consistency with companies, this instrument applies those reforms to LLPs, as well as other reforms relating to prohibitions on disqualified directors becoming members or PSCs of LLPs. These amendments to LLP legislation will commence at the same time as the corresponding reforms to company law.

6 Legislative and Legal Context

How has the law changed?

6.1 This instrument is part of a series of Statutory Instruments to be made following the 2023 Act, implementing the reforms within it.

6.2 Part 2 makes changes to the Limited Liability Partnerships Act 2000.

6.3 Part 3 makes changes to the Limited Liability Partnerships (Application of Companies Act 2006) Regulations 2009.

6.4 Part 4 makes changes to the Limited Liability Partnerships (Register of People with Significant Control) Regulations 2016.

6.5 Part 5 makes transitional and savings provisions.

Why was this approach taken to change the law?

6.6 This approach provides the simplest and most appropriate method of making the necessary changes.

7 Consultation

Summary of consultation outcome and methodology

7.1 In 2019, the Government consulted on a range of options to enhance the role of Companies House and increase the transparency of companies and other legal entities. The consultation received 1,320 responses, and respondents broadly supported the proposals. The proposed measures to introduce identity verification were strongly supported. A copy of the consultation and Government response can be found here: https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform.

7.2 The initial consultation was followed by three further consultations. These focused on the powers of the Registrar, improving the quality and value of financial information on the UK companies register, and implementing the ban on corporate directors. These three consultations opened in December 2020 and closed in February 2021. Respondents were broadly supportive of all the measures proposed.

7.3 A copy of the latter three consultations, a summary of the responses, and an overview of the policy can be found in the Corporate Transparency and Register Reform White Paper: https://assets.publishing.service.gov.uk/media/62306c79e90e070edd0ea216/corporate-transparency-white-paper.pdf.

7.4 The Government has also engaged with Devolved Governments on matters which fall within areas of devolved competence. All devolved issues have been settled. Legislative consent has been obtained from Welsh and Scottish Governments. As legislative consent from Northern Ireland could not be obtained at the time of passage of the 2023 Act because an Executive had not yet been formed, the Government legislated without consent. There is an agreement between the Department for Business and Trade and the Northern Irish Department for the Economy that the Westminster Government will legislate on behalf of Northern Ireland on matters pertaining to company law, with both parties maintaining engagement.

8 Applicable Guidance

8.1 Companies House will produce guidance to explain identity verification requirements.

Part Two: Impact and the Better Regulation Framework

9 Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the measures within this instrument – namely, identity verification requirements - were assessed within the impact assessment produced for The Registrar (Identity Verification and Authorised Corporate Service Providers) Regulations 2025) and the 2023 Act - https://www.legislation.gov.uk/uksi/2025/50/impacts.

9.2 The net direct cost to business (which includes LLPs) per year of identity verification requirements has been assessed as £19.5m and the business net present value as -£167.5m.

Impact on businesses, charities and voluntary bodies

9.3 The impact on business, charities or voluntary bodies is that they will have to comply with identity verification requirements if they are corporate structures (which many businesses, charities and voluntary bodies are). On an individual level, the Impact Assessment estimates that the *time* cost for the average officer will be £10.50 to verify their identity, and £2.10 to confirm verification for each appointment held.

9.4 The legislation does impact small or micro businesses. However, introducing exemptions based on company size would undermine the objectives of this policy.

9.5 For these reasons no specific action is proposed to minimise the regulatory burden on small and micro businesses.

9.6 The impact on the public sector is outlined within the Impact Assessment published at the introduction of the 2023 Act. Given the close linkages between Companies House transformation and the suite of reform measures, it is impossible to allocate transformation costs individually and they are therefore treated as indivisible. For more information on the impact on Companies House to deliver the full register reform package, please see the Impact Assessment for the primary legislation.

10 Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The Department for Business and Trade and Companies House will monitor all the reforms to Companies House enabled through the 2023 Act and will periodically publish research on their impact, including the impact of identity verification requirements. A statutory review clause is included in the Registrar (Identity

Verification and Authorised Corporate Service Providers) Regulations 2024 for this purpose.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 Justin Madders, Parliamentary Under-Secretary of State for Employment Rights, Competition and Markets at the Department for Business and Trade, has made the following statement:

"A statutory review clause is not included in the instrument since the additional requirements are not extensive and are considered to meet the Government's 'de minimis' regulatory impact criteria, meaning no impact assessment is required."

Part Three: Statements and Matters of Particular Interest to Parliament

11 Matters of special interest to Parliament

11.1 This instrument relates to the following statutory instruments which are being laid at the same time:

- The Economic Crime and Corporate Transparency Act 2023 (Consequential, Incidental and Miscellaneous Provisions) Regulations 2025
- The Register of People with Significant Control (Amendment) Regulations 2025
- The Companies Authorised to Register, Unregistered Companies and Overseas Companies (Application of Company Law) Regulations 2025

11.2 These instruments all make amendments which relate to or are consequential on the abolition of local registers, introduced by the 2023 Act.

12 European Convention on Human Rights

12.1 The Minister for Employment Rights, Competition and Markets has made the following statement regarding Human Rights:

"In my view the provisions of the Limited Liability Partnerships (Application and Modification of Company Law) Regulations 2025 are compatible with the Convention rights."

13 The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").