



Department of Trade and Industry

REMOVING THE 20 PARTNER LIMIT

SUMMARY OF RESPONSES

November 2001

CONSULTATION ON REMOVING THE 20 PARTNER LIMIT 4 APRIL 2001

CODE OF PRACTICE ON ACCESS TO GOVERNMENT INFORMATION RESULTS OF CONSULTATION

1.1 On 4 April 2001 the Department issued the consultation document "Removing the 20 Partner Limit"¹ which put forward the proposal to repeal sections 716 and 717 of the Companies Act 1985, and the reference to twenty persons in section 4(2) of the Limited Partnerships Act 1907. The Department invited comment on the overall proposition and on the following questions: -

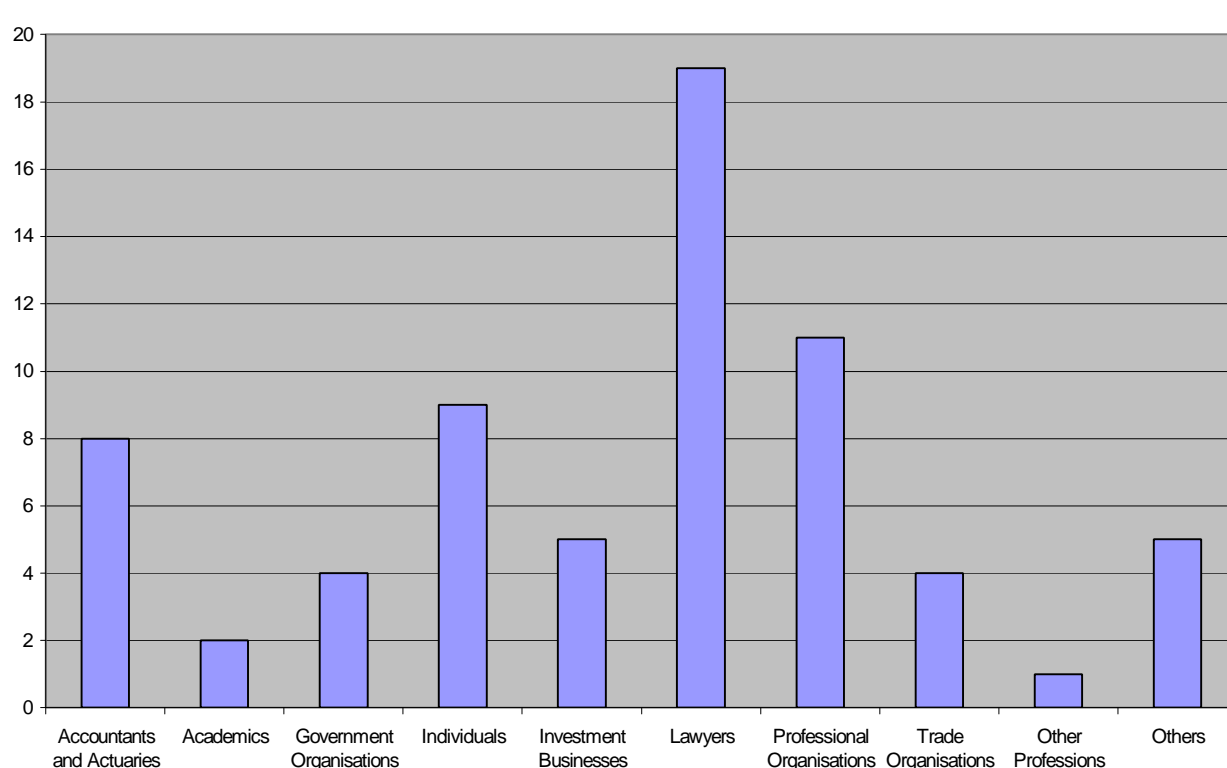
- **Does the 20 partner limit on partnerships, limited partnerships, unregistered companies and associations place a burden on business being carried on through these entities?**
- **Can you provide evidence of how the limit creates a burden?**
- **What use is it envisaged might be made of enlarged partnerships and limited partnerships?**
- **Would costs or savings accrue from removing the 20 partner limit as proposed? If so, please give an indication of what these costs or savings might be.**
- **Do you have any concerns that removal of the limit may also remove necessary protections? If so, please can you specify what these might be?**
- **Do you think that the specialist uses made of limited partnerships raise different issues of necessary protection?**
- **Do you agree that the proposal does not raise rights and freedoms issues?**

1.2 The Department consulted widely on this matter, distributing the consultation document to some 2,280 organisations, companies and individuals. In addition further copies were distributed in response to requests by telephone and the publication was made available on the Department's website.

1.3 68 organisations, companies and individuals responded to the consultation. We are grateful to them for their responses. The chart below shows a breakdown of the responses by business sector.

¹ URN 01/752

Analysis of responses by business sector

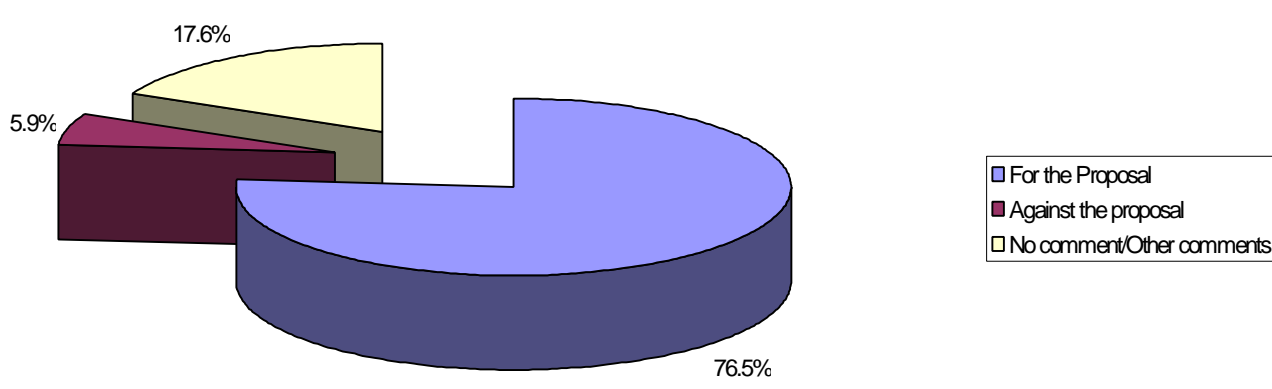


1.4 Summaries of the comments received are shown below. Copies of this document and the consultation document are available free of charge from:

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From the Departments website at:
www.dti.gov.uk/cld/condocs.htm

RESULTS OF CONSULTATION

2.1 The responses to the Department's consultation show that the majority of respondents (52) were in favour of the removal of the 20 partner limit. A further 4 respondents were against the removal of the limit and 12 respondents either had no comments or made other specific comments on the removal of the 20 partner limit.



2.2 Respondents in favour of removing the 20 partner limit argued that:

- It is outdated and unnecessary.
- It places an unnecessary burden on business by preventing the expansion of business by the introduction of new partners.
- Large partnerships are increasingly becoming multi-disciplinary and there would therefore be an increase in applications to the Secretary of State for exemption from the 20 partner limit.
- Its removal would provide greater flexibility for investors in the private equity sector.

- In the case of limited partnerships which are used as tax transparent vehicles, the 20 partner limit prevents the spreading of investment risk among more than 20 partners. Its removal would improve flexibility and facilitate wider ownership of property assets through limited partnerships.

2.3 Respondents in favour of retaining the 20 partner limit argued that:

- The raising of the limit would offer the opportunity for fraud on customers.
- Why change a limit which has lasted for so long?
- The Secretary of State could already grant exemptions from the limit.

2.4 The Department will now prepare a formal Explanatory Document, which would accompany any proposal for a Regulatory Reform Order under the Regulatory Reform Act 2001. This will address amongst other things detailed points raised by respondents.

2.5 The main points raised in response to the specific questions are recorded below.

SPECIFIC RESPONSES

Does the 20 partner limit on partnerships, limited partnerships, unregistered companies and associations place a burden on business being carried on through these entities?

3.1 Respondents give the following as burdens on business resulting from the limit on the number of partners:

- It prevents the expansion of business by restricting the introduction of new partners.
- It is burdensome to apply to the Secretary of State for specific exemptions from the 20 partner limit. The need for such applications would increase, as partnerships are becoming increasingly multi-disciplinary in response to developments in the market place and changes to the business environment.
- In particular in the case of limited partnerships, which are used as investment vehicles, it prevents the spreading of risk among more than 20 partners.
- Removal of the limit would facilitate wider ownership of property assets through limited partnerships.

Can you provide evidence of how the limit creates a burden?

4.1 20 respondents provided examples of how the 20 partner limit creates a burden on business:

- The need to set up parallel partnerships.
- The cost of administration of parallel partnerships.

- The need to move from a partnership to a different form of corporate vehicle when the 20 partner limit is reached.
- The barrier to the development of multi-disciplinary partnerships.

What use is it envisaged might be made of enlarged partnerships and limited partnerships?

5.1 17 respondents commented that partnerships and limited partnerships would continue to be used much as they are at present. However, specific references were made to the following if the 20 partner limit were removed:

- An increased use of partnerships and limited partnerships for investment business.
- Larger multidisciplinary professional partnerships may be formed.

Would costs or savings accrue from removing the 20 partner limit as proposed? If so, please give an indication of what these costs or savings might be.

6.1 20 respondents commented in respect of costs and savings. Many of them say that it is difficult to quantify detailed costs and savings but give the following as examples:

- The cost of legal advice regarding the creation of parallel partnerships and other structures in order to circumvent the 20 partner limit.
- The administrative costs of running parallel partnerships. It was suggested that these cost savings could be as high as £5,000 to £10,000 per annum per parallel partnership.

Do you have any concerns that the removal of the limit may also remove necessary protections? If so, please can you specify what these might be?

7.1 3 respondents said that the removal of the 20 partner limit may lead to potential abuses in the marketing of larger partnerships to the public.

Other respondents commented that the activities of investment partnerships would be better regulated by the relevant financial services regulations rather than by imposing an arbitrary restriction on their size.

Do you think that the specialist uses made of limited partnerships raise different issues of necessary protection?

8.1 The majority of those that commented on this issue are of the opinion that the specialist use made of limited partnerships does not raise different issues of necessary protection.

8.2 14 respondents commented that the specialist use of limited partnerships did not raise different issues of necessary protection. 2 respondents expressed the opinion

that the financial services legislation was more appropriate for the regulation of both partnerships and limited partnerships used as investment vehicles. Other specific comments were as follows:

- Investment activities of limited partnerships should be further regulated under financial legislation in order to become regulated schemes with rules for marketing, management and administration of such vehicles.
- Private equity investment limited partnerships are already regulated under the financial legislation which provides sufficient levels of protection to investors.

Do you agree that the proposal does not raise rights and freedoms issues?

9.1 No respondents suggested otherwise.

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