



## **De-regulatory changes for Limited Liability Partnerships (LLPs) and Qualifying Partnerships – response form**

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is 21 December 2015.

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Please return completed forms to:

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Please indicate which of the following best represents the group you or the organisation you represent belongs to:

	Business representative organisation/trade body
	Limited Liability Partnership
	Qualifying Partnership
	Central government
	Charity or social enterprise
	Individual
	Large company (over 250 staff)
	Legal representative
	Local Government
	Medium company (50 to 250 staff)
	Small company (10 to 49 staff)
	Micro company (up to 9 staff)
	Trade union or staff association
<b>X</b>	Other (please describe)  <i>Independent firm of chartered accountants and business advisers.</i>

If you are an LLP or Qualifying Partnership, are you an individual entity, part of a group or the parent of a group of entities?

	Individual entity
	Part of a group but not a parent
	Parent of a group
	Not sure

If you are an LLP or Qualifying Partnership in the latest year of accounts you have available, what is your:

- a. Number of employees;
- b. Annual turnover; and
- c. Balance sheet total

If you are an LLP or Qualifying Partnership, do you currently prepare your own accounts or use an external accountant or book-keeper to prepare them?

	Accounts prepared internally
	Use an external accountant
	Use a bookkeeper
	Not sure

## The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the alignment between the accounting and audit regulatory frameworks for LLPs and limited companies as implemented by the 2015 Regulations?

☒ Yes                      ☐ No                      ☐ Not sure

Please provide information in support of your answer.

Yes.

*We believe that the Government should maintain the alignment of accounting and audit frameworks for LLPs and limited companies for the following reasons:*

- a. although LLPs are a specific concept they are nevertheless bodies corporate;*
- b. furthermore many are used within hybrid structures containing both limited companies and LLPs and so consistency of reporting requirements allows users the best possible opportunity to understand the accounting concepts and principles underlying the amounts presented in the accounts;*
- c. with one accounting and audit framework, preparers and users as well as the audit and accounting profession will continue to obtain the benefits of the minimal differences and so training, preparation and audit costs will be more consistent between LLPs and limited companies;*
- d. with consistency of framework, the accounts of LLP and limited companies ought to be comparable, which will assist users, such as lenders and suppliers, in understanding the accounts of different entities that may be seeking funding; and*
- e. finally, the current alignment is well understood and while there are some presentation and disclosure differences because of the legal nature of LLPs, which necessarily adds complications for users, preparers and auditors involved in LLP accounts, the frameworks should allow as much consistency and comparability as possible so that the choice of incorporation entity should not materially impact the accounting outcomes of transactions.*

Question 2: What opportunities or challenges do you feel maintaining the reporting alignment between LLPs and limited companies will present for preparers and users of accounts? For example, you may wish to comment on any line items that should be retained if small LLPs have the choice of preparing an abridged balance sheet and profit and loss account where this has been agreed by all members of the LLP.

Please provide information in support of your answer.

*As outlined in our response to question 1, consistency of reporting is a clear advantage and the new regime should allow preparers and users to benefit from*

*the same opportunities that preparing abridged accounts, and abolishing the requirement to prepare and file abbreviated accounts is expected to afford to small companies.*

*The line items in the formats that, in our opinion, are important to LLPs are preceded by letters and roman numerals rather than numbers and would not be affected by the abridged accounts regime if applied in the same way as for small companies. However this is subject to the analysis of loans and other debts due to members still being required. In the Regulations it is preceded by letter J in format 1 and letter A in format 2 but then further information is required in the notes – this requirement ought to be retained for abridged accounts as this is often the most important information in understanding the capital structure of an LLP, and hence the protection and ranking of debts suppliers have been afforded by the LLP.*

*In relation to applying the revised small entity regime, with its 13 mandatory disclosures, to LLPs we believe that the requirement in the LLP SORP for a reconciliation of members' interests note should also be required, although we appreciate that it may be challenging for the Government to set this out in the legislation.*

*Whilst advances and credits granted to members is a required disclosure, any amendment to the LLP SORP should set out that for smaller entities a reconciliation of the opening and closing members' interests will achieve this objective.*

*Additionally, the Regulations do not include a heading for amounts due from members, however whilst we would expect the LLP SORP would continue to require this, we consider it is of such importance that the Regulations should specifically require it, rather than losing this information within 'other debtors'.*

*Another area where the minimum disclosures may be a challenge for LLPs is in relation to '(Limited) related party transactions' which, as with small companies and section 1A of FRS 102, requires consideration as to whether such transactions are at market rate or not.*

*We believe that the most sensible way to achieve the requirement for the related party transactions and the advances and credits disclosures in relation to members of LLP is for the reconciliation of members' interests note currently required by the LLP SORP, and recommended as a replacement for the statement of changes in equity, to be mandated in the Regulations for small LLPs.*

*If it is not possible for the legislation to require the disclosure of the reconciliation of members' interests, we would encourage the FRC to work with the SORP making body to maintain this disclosure for small LLPs in the updated LLP SORP in the interests of presenting a true and fair view, if the FRC shares our concerns that it is necessary, regardless of size, because of the nature of LLPs and their arrangements with members and the roles that members play. A similar position*

*has been taken with respect to the Charities FRS 102 SORP regarding transactions with related parties.*

*Whilst it is possible to assert that LLPs are simply a different form of corporate body and so shouldn't have additional mandatory disclosures with respect to transactions with owners, we believe that on balance disclosure of transactions with members in the form of a reconciliation of members' interests note will usually be required to show a true and fair view because of the nature of LLPs – they are able to govern themselves in a much more flexible way and with members receiving a profit share rather than 'remuneration' in the corporate sense .*

Question 3: It is anticipated that the regulations will come into force in the summer of 2016. Would LLPs and Qualifying Partnerships find it helpful if the regulations permitted early adoption of the revised framework for financial years commencing on or after 1 January 2015 where these had not been agreed prior to the regulations coming into force?

☒ Yes                      ☐ No                      ☐ Not sure

Please provide information in support of your answer.

Yes.

*Many LLPs are members of corporate groups that contain limited companies, and so it is preferable for such entities to be able to prepare their accounts on a consistent basis across the group. The parent's separate accounts and the consolidated accounts may well be required to be prepared under FRS 102, and whilst smaller subsidiary LLPs and limited companies will have the option of continuing with old UK GAAP and FRSSE for another year, it may be preferable for the entire group to prepare their accounts consistently on the basis of the recognition and measurement principles of FRS 102.*

*By allowing early adoption, this will permit such subsidiary LLPs to comply with group accounting policies under FRS 102 and still be able to avoid lodging their individual entity profit and loss account.*

*Therefore, whilst the publication of the legislation in the summer may come too late for those LLPs with December 2015 or January 2016 year ends that may already have prepared their statutory accounts, many more LLPs have March and April year ends, and so they should enjoy the same early adoption possibilities, including the enlarged size limits, as limited companies.*

*If those preparing the accounts of LLPs with March and April year ends know legislation is going to be issued the option of early adoption will allow them to prepare their transition balance sheet and comparative figures under FRS 102 in anticipation of adopting the new legislation when it is issued, and so we encourage the Government to issue draft and final legislation as soon as possible.*

*In addition we urge BIS to use social media and the press to publicise the fact that legislation will be changing to allow LLPs with the earliest possible year ends to file their accounts under the new regime, and thus get as near to an 'even playing field' as possible.*

### **The Proposals:**

Question 4: Do you agree that the Government should introduce a micro-entity regime for LLPs which will allow LLPs that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than the small LLPs?

☒ Yes                      ☐ No                      ☐ Not sure

Please provide information in support of your answer.

Yes.

*As outlined in our response to question 1 we support comparable legislation between LLPs and limited companies.*

*Due to the nature of the type of businesses that utilise LLPs (and for that matter Qualifying Partnerships) there are occasions where adopting Micro entity reporting may not be in the best interests of users. We would expect preparers of say, an investment entity, with large asset values but low turnover and low employee numbers, to think very carefully before adopting the micro-entity regime.*

*However, having said that, we do not believe that such a requirement to think about the users' needs before preparing accounts is a reason to prevent very small LLPs from enjoying the same reduced compliance costs as comparable limited company businesses are expected to enjoy.*

Question 5: Do you agree that the Government should introduce a micro-entity regime for Qualifying Partnerships which will allow Qualifying Partnerships that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than small Qualifying Partnerships?

☒ Yes                      ☐ No                      ☐ Not sure

Please provide information in support of your answer.

Yes.

*For the reasons set out in question 1 in relation to LLPs, ie consistency of reporting framework, Qualifying Partnerships that are required to prepare 'like' accounts under Company Law, should have access to the same reporting and auditing frameworks as limited companies.*

*Similarly, and perhaps to a greater extent than LLPs, entities that are Qualifying Partnerships are often used as investment vehicles (eg limited partnerships) and as a result can have minimal turnover and employees, but large asset values. There is therefore an onus on the preparer of qualifying partnership accounts to create a document that is decision useful for users, such as the investors. Whilst it is unlikely that the very limited formats and notes to micro-entity accounts will provide such decision useful information, it is for the preparer and investors to agree amongst themselves, and thus shouldn't specifically influence the accounting requirements for LLPs and Qualifying Partnerships as set out in legislation.*

*We therefore believe that legislation should permit this option for Qualifying Partnerships.*

### **Implications for the UK's Approach to Statutory Audit:**

Question 6: Do you agree that all LLPs that have transferable securities admitted to trading on a regulated market in an EEA State should be required to file an audit report in respect of their accounts?

☒ Yes                      ☐ No                      ☐ Not sure

Please provide information in support of your answer.

Yes.

*We believe that the accounting and audit frameworks of LLPs and limited companies should be aligned. Therefore, whilst LLPs with transferable securities are currently extremely rare, we support the requirement for an audit due to having tradeable securities on a regulated market as this would be consistent with the position for companies.*

### **Section 9. Costs and Benefits of the proposed reforms:**

Question 7: What one-off or recurring costs and benefits to LLPs, do you see arising from updating the reporting regime for LLPs? Please describe and if possible provide evidence of the scale of the identified costs and benefits.

*Clearly there would be software update costs for those software companies and their customers that utilise accounts' production software, and accounts' disclosure checklist software, however these ought to be one-off. Once the framework is aligned with the small companies regime we would not expect any significantly different costs or benefits compared to the existing regime.*

*There would also be one-off costs involved in management obtaining an understanding of the changes and the choices available to the LLP, and for those small LLPs subject to audit, there will be additional audit costs tied into transitioning from one GAAP to another. However, if the changes are set out at*



*the same time as the implementation of New UK GAAP for LLPs this should minimise the additional costs over and above the New UK GAAP transition costs.*

*There would also be training costs on the new requirements. Given the proposed consistency with the limited companies requirements, which is a clear benefit as outlined in our response to question 1, that have already been released, these would form part of the ongoing CPD requirements for professional staff in practice and industry.*

Question 8: How will your organisation familiarise itself with the update of the LLP reporting regime and the introduction of a micro-entity regime for LLPs and Qualifying Partnerships? Please provide details of who will be involved, how long you expect this task will take them and data on pay levels of those involved (if possible).

*We have chosen not to answer this question.*

Question 9: What impact do you believe the reduction in the number of mandatory notes for small LLPs will have on your organisation? Please describe and (if possible) provide evidence of the size of this impact.

*From our experience of the new small regime for limited companies, (as set out in section 1A of FRS 102), we do not believe there is likely to be either a substantial cost saving or burden on firms of professional accountants. There will be some incremental costs in the first year explaining the changes to clients, as well as buying and testing software, but we would not expect this to be significant. We do however note that the accounts under the new small entity regime are not significantly shorter than what was there before. In fact they now require some additional disclosure, such as employee numbers, together with an added complication of preparers (and auditor) needing to consider whether related party transactions were conducted under non-market conditions in order to decide upon disclosure, which weren't previously required.*

Question 10: If you are an LLP, do you believe your organisation would be likely to take advantage of the flexibility to prepare an abridged balance sheet and an abridged profit and loss account?

☐ Yes                      ☐ No                      ☐ Not sure                      ☒ Not applicable

Please provide information in support of your answer.

*This question is not applicable.*

Question 11: What one-off or recurring costs and benefits do you see arising from a micro-entity accounting regime for LLPs and Qualifying Partnerships? Please describe the costs and benefits to these entities and others, and if possible provide evidence of the size of the identified costs and benefits.

*We would expect these to be in line with the costs and benefits that limited companies have experienced through a similar process.*

Question 12: What proportion of eligible LLPs and Qualifying Partnerships would you expect to take advantage of the micro-entity regime? Please provide supporting evidence for your view.

*In our experience, the micro entity regime for companies has been relatively slow to take off, partly because it is a change from the status quo. Most small companies are quite happy with the FRSSE and the ability to lodge abbreviated accounts which give away very little to their competitors.*

*However with the imminent arrival of New UK GAAP and thus the need for all small companies and LLPs to move away from old UK GAAP and the FRSSE, we believe this will be a catalyst to increased adoption of the micro entity regime across eligible companies and LLPs as there will be more incentive for some of the smallest companies and LLPs to adopt the very simplified accounts formats under a micro entity regime. Therefore only now with a mandatory change away from FRSSE will the potential of the micro entity regime be realised as such entities can save on the cost of transition to FRS 102 by now preparing Micro entity accounts, especially for those with no outside stakeholders.*

*Furthermore, we believe that it would be in the best interests of unincorporated businesses if the Government set out an unequivocal statement that the micro entity regime is an acceptable basis of preparation for all micro unincorporated businesses and other micro entities, not precluded from applying the regime. This would cover all micro sized sole traders, partnerships and trusts when preparing accounts in accordance with GAAP for their stakeholders and as a basis for their accounting and taxable profits.*