



Department  
for Business  
Innovation & Skills

**GOVERNMENT RESPONSE TO THE  
CONSULTATION ON DE-  
REGULATORY CHANGES FOR  
LIMITED LIABILITY PARTNERSHIP  
(LLPS) AND QUALIFYING  
PARTNERSHIPS**

Simplification of the financial  
reporting requirements for LLPs

Introduction of a new micro-  
entity accounting regime for  
LLPs and Qualifying  
Partnerships

FEBRUARY 2016

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# 1. Introduction

The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses. In December 2015, the Government consulted on a proposal to introduce changes to the regulatory accounting framework for Limited Liability Partnerships (LLPs) and to introduce a new micro-entity regime for LLPs and Qualifying Partnerships. This proposal reflects changes introduced for companies by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015, the Companies, Partnerships and Groups (Accounts and Reports) (No.2) Regulations 2015 (the 2015 Regulations) and the Small Companies (Micro-Entities' Accounts) Regulations 2013. The overall aim is to maintain alignment between the financial reporting frameworks for companies and that for LLPs; and to reduce administrative burdens for the smallest LLPs and Qualifying Partnerships. In total 13 written responses<sup>1</sup> were received, all of which broadly supported our proposal. The responses are now available on the Government's website and can be viewed at: [www.gov.uk/government/consultations/limited-liability-partnerships-llps-and-qualifying-partnerships-deregulatory-changes](http://www.gov.uk/government/consultations/limited-liability-partnerships-llps-and-qualifying-partnerships-deregulatory-changes).

In addition to the written responses, the policy and its supporting analysis has been informed by discussions with an expert working group, which includes senior representatives from the accountancy and audit sector.

In summary, there was unanimous support from respondents for maintaining the consistency between the frameworks. Whilst some respondents highlighted particular issues and costs that might result from this policy, most agreed that in the long run the benefits of the changes will outweigh the costs. Almost all of the stakeholders encouraged the Government to introduce the revised framework as soon as possible. One respondent even expressed the view that any future changes to the companies' framework should be automatically reflected in the LLPs' regulations in parallel. Section 3 of this document provides an analysis of the consultation responses.

A number of respondents also commented on financial reporting issues not directly related to this consultation. Whilst we have noted these points for further consideration, they have not been captured in this response.

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<sup>1</sup> BIS received 12 responses within the deadline of the consultation and one after the official closing date of the consultation.

## 2. Responses received

A total of 13 responses were received from various organisations. A list of all organisations who responded is provided below.

### **Chartered Accountancy Bodies (2)**

- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute for Chartered Accountants of Scotland (ICAS)

### **Accounting Firms (7)**

- BDO
- Crow Clark Whitehill
- Deloitte
- Ernst & Young LLP
- Grant Thornton
- PwC
- RSM UK Tax and Accounting Limited

### **Representatives and Other Bodies (4)**

- Association of Accounting Technicians (AAT)
- British Venture Capital Association (BVCA)
- Kreeston Reeves
- Parkhurst- Hill

## 3. Analysis

This section provides a summary of the responses received against each question in the Discussion Document. The intention is to provide interested parties with a basic understanding of what the responses showed.

### The Government's approach to implementation (Q 1-3)

**Q1: 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?**

*13 responses were received to this question.*

Response	Number
Yes	13
No	0
No opinion/not sure	0

All of the respondents supported the Government's proposal to maintain the alignment between the accounting and audit regulatory framework for LLPs and limited companies. Respondents commented that if this consistency is broken it will result in additional costs and complexity for businesses, especially those in mixed groups containing both LLPs and limited companies. Maintaining consistency will reduce the burden on businesses (especially small businesses) and will avoid confusion on part of both preparers and users of financial statements.

#### Government's position:

The Government will bring forward legislation to maintain the alignment between the two regimes.

**Q2: What opportunities or challenges do you feel maintaining the reporting alignment between LLPs and limited companies will present for preparers and users of accounts?**

*12 responses were received to this question.*

Three respondents expressed concerns over the preparation of abridged accounts and said that the information included might not be sufficient to show a "true and fair view" of an LLP's financial position. However, noting that the option to produce abridged accounts is already available to companies, the respondents supported the proposal for this option to become available to LLPs as well.

Six respondents expressed views on the line items they consider important in an LLP's accounts. This included suggestions to legislate for new items such as debts due from members; and items which will automatically be retained such as loans and other debts due to members (as this is preceded by capital letter).

According to three stakeholders, the format of financial statements is best addressed by sector-specific accounting standards such as the LLP SORP rather than Regulations. For example, the SORP recommends that non-discretionary amounts due to members in respect of participating rights in the profits of the LLP should be presented as an expense in a separate item.

Finally, two stakeholders commented that there are some differences between the regimes of LLPs and limited companies which reflect their differing characteristics and advocated for those to be retained.

#### **Government's position:**

We will not introduce new requirements beyond those required to maintain consistency with changes introduced for companies.

**Q3: 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?**

*In total 12 responses were received to this question.*

<b>Response</b>	<b>Number</b>
Yes	10
No	1
No opinion/not sure	1

There was a general agreement among the stakeholders that the regulations should permit early adoption of the revised framework for LLPs and Qualifying Partnerships who still have not agreed and filed their 2015 accounts prior to the regulations coming into force. However, almost all of the respondents expressed concerns over the suggested timing of introducing the regulations. They consider that LLPs will not be able to plan ahead and update their systems to reflect certain aspects of the regulations if regulations only came into force in the summer. According to six respondents, this uncertainty may deter many LLPs from taking advantage of this option. One stakeholder rejected the option of early adoption stating that unless the timing of introducing the regulations is brought forward, this option will only cause confusion in the sector. All respondents agreed that the regulations should be introduced as soon as possible to give LLPs the same early adoption opportunities made available to limited companies. Three stakeholders said that for this to happen, the regulations should come into force no later than April 2016.

**Government's position:**

the Government will provide for the early adoption of the revised framework for LLPs, Qualifying Partnerships and groups who still have not agreed and filed their 2015 accounts prior to the regulations coming into force in 2016.

**The Proposals (Q 4-5)**

**Q4 and Q5: Do you agree that the Government should introduce a micro-entity regime for LLPs and Qualifying Partnerships which will allow LLPs and Qualifying Partnerships that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than the small LLPs?**

*12 responses were received to each of these questions.*

<b>Response</b>	<b>Number</b>
Yes	11
No	0
No opinion/not sure	1

The majority of respondents agreed that the micro-entity regime should be available to the smallest LLPs and Qualifying Partnerships. They commented that the introduction of such regime will help businesses to avoid complexity and reduce compliance costs and will fully align the regulatory regimes of LLPs and Qualifying Partnerships with that for companies. Four respondents raised concerns over the level of information required in the micro-entities' accounts, expressing the opinion that this may not be sufficient to provide "true and fair view". They encouraged the Government to monitor the effects of the micro-entity regime on LLPs and Qualifying Partnerships, in particular on their access to credit.

**Government's position:**

A micro-entity regime for LLPs and Qualifying Partnerships will be introduced.

## Implications for the UK's Approach to Statutory Audit (Q 6)

**Q6: 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?**

*12 responses were received to this question.*

Response	Number
Yes	11
No	0
No opinion/not sure	1

The majority of respondents agreed that all LLPs that have transferable securities admitted to trading on a regulated market in an EEA State should file an audit report. In addition, one respondent stated that LLPs, which are part of a group where one of its members has transferable securities admitted to trading on a regulated market in an EEA state, should also be required to file audit reports. This is consistent with the requirement currently in place for companies.

### **Government's position:**

LLPs that have or are part of a group where one of its members has transferable securities admitted to trading on a regulated market in an EEA state will continue to be required to file audit reports.



## Costs and Benefits of the proposed reforms (Q 7-12)

### **Q7: What one-off or recurring costs and benefits to LLPs, do you see arising from updating the reporting regime for LLPs?**

*11 responses were received to this question.*

Some respondents stated that they expect the costs and benefits for LLPs and Qualifying Partnerships to be the same as those for limited companies. The biggest benefits are expected:

- in groups that include both LLPs and companies, which will be able to reduce their reporting and training costs;
- for small LLPs, which will be able to take advantage of raising the accounting thresholds, the option to produce abridged accounts and, in some cases, the audit exemption; and
- for preparers and users of accounts who will not get confused by two different sets of standards.

However, others expressed the opinion that the opportunities for costs and time savings are limited, arguing that it is not the presentation of the accounts that takes time and money but rather the aggregation and preparation of the information following generally accepted accounting practice.

The costs for businesses associated with updating the regulations will include costs of updating the internal system and processes and training their staff. However, there might be potential indirect costs in relation to reduction in the quality or availability of information which might result from the reduced reporting requirements under the revised regulations. Nonetheless, whilst it was recognised that the scale of identified costs and benefits will differ between LLPs, several respondents observed that the short term costs will be outweighed by the long term benefits arising from implementing the new framework.

### **Q8: 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?**

*9 responses were received to this question.*

Some respondents stated that they will produce guidance materials to help their members familiarise themselves with the new regime; others that staff members are expected to keep up to date with any changes through reading relevant materials and attending courses and seminars.

The people most likely to be involved in the update of the reporting regime are the Financial Partner, the Head of Audit and Assurance, the Director of Financial Reporting and relevant technical experts.

However two respondents felt that no familiarisation process would be required in their organisations because the changes to the LLPs' framework are similar to those already introduced for companies.

**Q9: What impact do you believe the reduction in the number of mandatory notes for small LLPs will have on your organisation?**

*9 responses were received to this question although 4 of the respondents highlighted that this change will not impact directly on their organisations.*

In line with responses to questions 4 and 5, three respondents commented that the alignment between the regulations may result in possible loss of relevant information in LLPs' accounts and urged the Government to monitor the effects of these changes on LLPs. One stakeholder commented that the reduced number of mandatory notes will give LLPs the chance to eliminate some of their regulatory burden. However, this point was criticised by another respondent who said that this proposal will neither result in substantial cost saving nor burden reduction on firms of professional accountants. It is expected that there will be some incremental costs in the first year, which will include explaining the changes to clients and buying and testing the software, but these are not expected to be significant.

**Q10: 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?**

*11 responses were received to this question.*

Response	Number
Yes	0
No	4
Not applicable	6
No opinion/not sure	1

Most of the respondents stated that the option to prepare abridged accounts will not be applicable to their organisations due to their size. One stakeholder argued that even if it was applicable, the costs in preparing such accounts will exceed the benefits. Similarly, two other stakeholders said that they do not anticipate that many LLPs would take advantage of this option. The main deterrents for not taking up the option are expected to be the added burden of obtaining all members' approval every year and the requirement for the accounts to give "true and fair view", which they consider almost certainly will require the disclosure of more information.

**Q11: What one-off or recurring costs and benefits do you see arising from a micro-entity accounting regime for LLPs and Qualifying Partnerships?**

*10 responses were received to this question.*

The main benefits of a new micro-entity category were identified as consistency between the regimes of LLPs and limited companies and the reduced burden for LLPs and Qualifying Partnerships, if they decide to take advantage of that regime. As with Q7, the respondents outlined the following as the main costs resulting from shifting to a new regime:

- changes and updating to accounting systems and processes;
- changes to templates for statutory reporting; and
- training costs.

**Q12: What proportion of eligible LLPs and Qualifying Partnerships would you expect to take advantage of the micro-entity regime?**

*9 responses were received to this question.*

Most respondents do not have data to draw on to answer this question and did not comment further. According to one respondent, whether an LLP or Qualifying Partnership will take advantage of the micro-entity regime, will depend on the “*nature of activities of the partnership, the funding of the partnership and the reporting needs of the partners (for example how profits are determined)*”. Three respondents do not expect many LLPs and Qualifying Partnerships to take advantage of this option. While some respondents expect that LLPs will be content to continue to comply with the small regime; others noted the month-by-month increase in take up of the micro-entity regime by companies and thought LLPs could follow a similar pattern. Four stakeholders anticipate that the micro-entity regime will be an attractive option for the LLPs and Qualifying Partnerships because it will give them the opportunity to move away from the more complex FRS 102 and access the less burdensome FRS 105.



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