



Department for Business, Innovation & Skills

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
x	Other (please describe) <i>While EY is an LLP, the response form has been answered in our capacity as an audit firm.</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.

We 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 for the reasons explained in our response to Q2. We also suggest, in our response to Q2, a small number of areas where we would ask BIS to consider maintaining differences between the accounting framework for LLPs and limited companies.

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.

Opportunities

Maintaining the reporting alignment between LLPs and limited companies will provide deregulatory benefits to LLPs comparable to those already available for limited companies, in particular the extension of the small size thresholds and the ability to use more flexible 'adapted formats'. It also provides more simplicity for preparers, who may have both LLPs and limited companies within groups, and auditors.

Detailed comments on the proposals

Abridged formats for micro-entity provisions for LLPs

In relation to the abridged formats, these should be based on the headings denoted with a capital letter in the Small LLP Regulations (SI 2008/1912). Consequently,

- the headings for Prepayments and accrued income, and Accruals and deferred income, have been excluded (although these are in the Small Companies Regulations (SI 2008/409))

If included, however, we consider that it should be clarified that prepayments and accrued income and accruals and deferred income may be shown under 'Current assets', 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling due after more than one year'.

- the heading 'Members capital not paid' is not relevant for an LLP and should be omitted.
- the headings 'Loans and other debts due to members' and 'Members' other interests' should be included.
- there is a typo in Format 2 –heading A in Liabilities should read 'Capital and reserves'.

In relation to the abridged profit and loss account, we would encourage BIS to align the headings with those required for companies applying the micro-entity provisions (so (v) should read 'Depreciation and other amounts written off assets'). However, in the context of an LLP it is also important to distinguish profit or loss for the financial year before members' remuneration and profit shares as well as profit or loss.

Other matters

While we support alignment of the accounting and audit regulatory frameworks, we would ask BIS to consider not replicating the requirements of 6 Sch 10 of the Regulations (SI 2008/410), as amended by SI 2015/980 for LLPs. These requirements, which implement the EU Accounting Directive, have the effect that certain group reconstructions, such as insertion of a new top holding company over an existing company or group, cannot be accounted for as a merger without use of a 'true and fair override'. This problem does not arise with the current wording in 3 Sch 10 of the LLP Regulations (SI 2008/1913) which only requires that 'where an LLP adopts the merger method of accounting it must comply with this paragraph and with generally accepted accounting principles or practice'. We would recommend that no changes are made to this paragraph and note that the conditions for LLPs when an acquisition may be accounted for as a merger already differ to those for companies prior to SI 2015/980.

In 7.6 of the Consultation, BIS highlight that the disclosure notes for small LLPs will include 'the amounts of advances and credits granted to members of the administrative, managerial and supervisory bodies (with supporting information)'. We note that the equivalent of section 413 of the Companies Act 2006 is not currently required for LLPs, although¹ Sch 46 to the Small LLP Regulations (SI

2008/1912) (and also the Regulations) require further disclosures of loans and other debts due to members. This different disclosure requirement likely reflects that there is no direct equivalent of the directors of a company for an LLP. We consider the disclosures required for small LLPs should be a subset of those required for LLPs applying the LLP Regulations

In 7.25 of the Consultation, BIS highlight that LLPs should, like companies, include information on subsidiaries (presumably the information required by Schedule 2 to the LLP Regulations) in full in the accounts. We understand that the equivalent change for companies included in SI 2015/980 derived more from forthcoming changes to annual returns rather than implementation of the EU Accounting Directive. However, in some cases this has necessitated voluminous disclosures of related undertakings in statutory accounts, including the details for dormant undertakings. This arguably adds clutter (and additional cost of preparation and audit) rather than meaningful information to the financial statements. If annual returns are to be retained for LLPs, we would encourage BIS to consider not making this change to align with the regime for companies.

While more an issue for the regime for companies, we note that the definition of an ineligible group (in section 384, SI 2008/1911) for the small companies regime includes a person (*other than a small company or a small LLP*) who has permission under Part IV of the Financial Services and Markets Act 2000 and refers to a *small company or small LLP* that is an authorised insurance company etc. The equivalent definition in section 384 for the small companies regime refers to a person (*other than a small company*) who has permission under Part IV of the Financial Services and Markets Act 2000 and a small company that is an authorised insurance company. In our view, the italicised part of the definition for the small companies regime should be aligned with the LLP Regulations.

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.

We strongly support an approach where the revised framework for LLPs and qualifying partnerships is made available for early adoption for financial years commencing on or after 1 January 2015 where these had not been agreed prior to the regulations coming into force.

This is particularly important because most entities will change to a new GAAP for financial years commencing on or after 1 January 2015. Many entities may wish to adopt the changes that are mandatory in 2016 early to avoid making changes to their financial statements two years in a row. For example, early adoption allows

LLPs and qualifying partnerships to take advantage of the disclosure reductions for small entities and the use of 'adapted formats'.

We note the regulations are likely to be finalised in Summer 2016. While filing deadlines for LLPs and qualifying partnerships with a December 2015 year end would generally be at the end of September 2016, entities need certainty over the rules that will apply and time to prepare their accounts under the amended requirements. We therefore encourage BIS to clearly highlight when the regulations are expected to be available, and make available detailed draft regulations well in advance.

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.

In principle, we consider that the accounting and audit regulatory frameworks for LLPs and limited companies should be aligned and that this should provide a simpler regime for the very smallest entities. We note that the Executive Summary in the BIS consultation comments that discussions with stakeholders indicate support for this proposal. If the consultation responses, particularly from LLPs, confirm this would be beneficial and do not highlight inadvertent consequences, we also support this proposal.

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.

See our response to question 4. The same considerations apply.

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.

We 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. This provides a simpler framework for entities to follow. A company that has transferable securities admitted to trading on a regulated market in an EEA State, is a public interest entity that is required to have an audit. While that audit requirement for companies derives from EU legislation, we consider it appropriate, by analogy, to extend this to LLPs with transferable securities admitted to trading on a regulated market.

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.

We have no comments on this.

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 no comments on this.

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.

We have no comments on this.

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.

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 have no comments on this.](#)

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.

[We have no comments on this.](#)

BIS/15/631/RF