



Department
for Business
Innovation & Skills

**De-regulatory changes for Limited
Liability Partnerships (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

NOVEMBER 2015

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1. Executive Summary

1.1 The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses. Recently, the Government introduced the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (the 2015 Regulations¹), which implemented the provisions of the EU Accounting Directive² in the UK. This made changes to the regulatory framework and reduced the administrative burdens associated with the preparation and publication of statutory accounts for limited companies.

1.2 The Government proposes to introduce similar changes to the Limited Liability Partnerships' (LLPs) regulatory framework, including creating a new micro-entity regime for LLPs. This will allow LLPs, particularly small LLPs, to benefit from a less burdensome regulatory regime and will ensure that the legislative requirements for LLPs remain aligned with those for limited companies. It will also mean that groups which include LLPs within their structure will be able to apply the same reporting requirements across the group. This will help in the preparation of group accounts.

1.3 Discussions with stakeholders indicate support for this proposal. During the consultation exercise on the implementation of the Accounting Directive³, a number of respondents commented that any changes to the companies' accounting framework should be extended to LLPs noting that having different rules for LLPs and companies could represent an additional burden on businesses and create confusion for users.

1.4 We also propose to introduce a micro-entity regime for Qualifying Partnerships. This would be available to those general partnerships and limited partnerships that are Qualifying Partnerships under the Partnerships (Accounts) Regulations 2008 (SI 2008/569) as amended by the Companies and Partnerships (Accounts and Audit) Regulations 2013 (SI 2013/2005) and which meet the eligibility criteria.

¹ The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 are available on: <http://www.legislation.gov.uk/ukSI/2015/980/contents/made>

² The Directive is available on: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

³ 29 August 2014 - 24 October 2014

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This consultation is relevant to:

- all LLPs registered in the UK in accordance with the provisions of the Limited Liability Partnerships Act 2000;
- general partnerships and limited partnerships that are Qualifying Partnerships under the Partnerships (Accounts) Regulations 2008 (SI 2008/569) as amended by the Companies and Partnerships (Accounts and Audit) Regulations 2013 (SI 2013/2005); and
- other interested parties (e.g. preparers of financial statements, professional bodies and users of financial information, etc.)

2. How to respond

2.1 When responding, please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation form and, where applicable, how the views of members were assembled.

2.2 Responses can be submitted by email or by letter to:

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2.3 A list of those organisations and individuals consulted directly is in Annex 3. We would welcome suggestions of others who may wish to be involved in this consultation process.

2.4 You may make printed copies of this document without seeking permission.

2.5 Other versions of the document in Braille, other languages or audio-cassette are available on request.

3. Confidentiality & Data Protection

3.1 Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004. If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

3.2 In view of this, it would be helpful if you could explain to us why you regard the information, you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

4. Help with queries

Questions about the policy issues raised in the document can be addressed to:

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The consultation principles are in Annex 2.

5. Timetable for implementation

5.1 Subject to the agreement of Parliament, the new framework will apply to financial years commencing on or after 1 January 2016. We anticipate that the regulations will be made by the summer of 2016.

6. The Government's approach to introducing the new requirements for LLPs

6.1 The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses. Recently, the Government introduced the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (the 2015 Regulations⁴), which implemented the provisions of the EU Accounting Directive⁵ in the UK. This made changes to the regulatory framework and reduced the administrative burdens associated with the preparation and publication of statutory accounts for limited companies.

6.2 The Government proposes to introduce similar changes to the Limited Liability Partnerships' (LLPs) regulatory framework, including creating a new micro-entity regime for LLPs. This will allow LLPs, particularly small LLPs, to benefit from a less burdensome regulatory regime and will ensure that the legislative requirements for LLPs remain aligned with those for limited companies. It will also mean that groups, which include LLPs within their structure, will be able to apply the same reporting requirements across the group. This will help in the preparation of group accounts.

⁴ The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 are available on: <http://www.legislation.gov.uk/ukSI/2015/980/contents/made>

⁵ The Directive is available on: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

6.3 Discussions with stakeholders indicate support for this proposal. During the consultation on the implementation of the Accounting Directive⁶, a number of respondents commented that any changes to the companies' accounting framework should be extended to LLPs noting that having different rules for LLPs and companies could represent an additional burden on businesses and create confusion for users.

6.4 We also propose to introduce a micro-entity regime for Qualifying Partnerships. This would be available to those general partnerships and limited partnerships that are Qualifying Partnerships under the Partnerships (Accounts) Regulations 2008 (SI 2008/569) as amended by the Companies and Partnerships (Accounts and Audit) Regulations 2013 (SI 2013/2005) who meet the eligibility criteria.

6.5 In line with the changes made to the regulatory framework for companies, the main changes to the accounting and audit requirements for LLPs proposed are to:

- increase thresholds used to determine the size of LLPs. This will enable around 195 medium-sized LLPs to be re-categorised as small and access the less burdensome small LLPs' regime. Similarly, around 86 large LLPs will be re-classified as medium-sized and will be able to access a reduced reporting regime;
- limit the number of mandatory notes required of small LLPs;
- provide LLPs with the opportunity to use alternative layouts when preparing their profit and loss account and balance sheet, provided that the information given is at least equivalent to the information otherwise required by the standard formats⁷;
- allow small LLPs to prepare an abridged balance sheet and profit and loss account if approved by all members of an LLP;
- permit the use of the "equity method" in individual LLP statements⁸.

6.6 Subject to the agreement of Parliament, it is the Government's intention that the new requirements for LLPs and Qualifying Partnerships will apply to financial years commencing on or after 1 January 2016. We anticipate that the regulations will be made by the summer of 2016.

6.7 You are welcome to comment on all aspects of the proposed regime. However, the Government is particularly interested in your views on whether LLPs and Qualifying Partnerships should be allowed to have an access to a micro-entity regime and what would be the benefits (see pages 14-16).

⁶ 29 August 2014 - 24 October 2014

⁷ This is particularly useful for LLPs who are subsidiaries in a group which uses international accounting standards for consolidation purposes.

⁸ Subject to provisions in the Accounting Standards

6.8 This consultation begins on 20 November 2015 and will be open until 21 December 2015. The following section provides more information on the proposals.

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

Please provide information in support of your answer.

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.

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

Please provide information in support of your answer.

7. The Proposals

a. Size Categories

7.1 From 1 January 2016, the thresholds for small, medium and large LLPs will change. To be categorised in a particular size category, an LLP needs not to exceed the limits of at least two of the three criteria of that category.

7.2 Table 1 sets out the **revised** thresholds:

Table 1

| | Balance sheet, £ | Net turnover, £ | Average no. of employees |
|---|---------------------|--------------------|-----------------------------|
| <i>For individual LLP accounts:</i> | | | |
| Small LLP | ≤ 5,100,000 | ≤ 10,200,000 | ≤ 50 |
| Medium-sized LLP | ≤ 18,000,000 | ≤ 36,000,000 | ≤ 250 |
| Large LLP | ≥ 18,000,000 | ≥ 36,000,000 | ≥ 250 |
| <i>For group/consolidated accounts:</i> | | | |

| | | Balance sheet, £ | Net turnover, £ | Average no. of employees |
|------------------------------------|-------|---------------------|--------------------|-----------------------------|
| Small group | Net | ≤ 5,100,000 | ≤ 10,200,000 | ≤ 50 |
| | Gross | ≤ 6,100,000 | ≤ 12,200,000 | |
| Medium-sized group ⁹ | Net | ≤ 18,000,000 | ≤ 36,000,000 | ≤ 250 |
| | Gross | ≤ 21,600,000 | ≤ 43,200,000 | |
| Large group ¹⁰ | Net | ≥ 18,000,000 | ≥ 36,000,000 | ≥ 250 |
| | Gross | ≥ 21,600,000 | ≥ 43,200,000 | |

7.3 Applying these revised thresholds for LLPs should result in opportunities for cost savings for some LLPs, which are going to be categorised in a lower size category under the new regulations than they are currently in. This would reduce the amount of mandatory information required to be disclosed in an LLP's financial statements (annual accounts). However, in considering the revised thresholds, LLPs should also consider if the reduced information requirements of the small and medium-sized LLP regimes would be sufficient to meet their business needs.

b. Revisions to the small LLP regime

7.4 The Government is committed to reducing administrative burden on businesses. As part of this de-regulatory strategy, the Government proposes to introduce a revised small LLP regime, which will give them the opportunity to prepare profit and loss accounts, balance sheets and notes to their accounts that are more proportionate to their size and to the information needs of the users of their financial statements. In addition, raising the threshold criteria is expected to allow around 195 LLPs, currently classified as medium-sized, access to the small LLP regime.

Notes to the Accounts

7.5 As part of the new financial reporting requirements for LLPs, the Government is reducing the number of mandatory notes required of small LLPs. However, **a small LLP will still be required to consider if its financial statements ("annual accounts") provide a true and fair view of its financial position and would be obliged to disclose additional notes if the mandatory notes are insufficient for this purpose.**

⁹ The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 provides two values in relation to the turnover and balance sheet thresholds when calculating medium-sized groups (section 466). These are expressed as the "net" and "gross" values for those thresholds (as defined in those sections) – the gross figure is 20% greater than the net figure and is used in relation to balance sheet and turnover figures which do not include set-offs and other adjustments made to eliminate group transactions.

¹⁰ Large LLPs (or groups) are those, which on their balance sheet date exceed at least two of the three criteria for medium-sized LLPs (or groups).

7.6 Small LLPs will be required to provide the following 13 disclosure notes. This requirement will be set out in regulation:

- Accounting policies adopted
- Fixed assets revaluation table
- Fair valuation note
- Financial commitments, guarantees or contingencies not included in the balance sheet
- The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies (with supporting information)
- Exceptional items
- Amounts due or payable after more than 5 years and entire debts covered by valuable security
- Average number of employees during the financial year
- Fixed asset note (in addition to the mandatory revaluation table)
- Name and registered office of the undertaking drawing up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part
- Nature and business purpose of arrangements not included in the balance sheet
- Nature and effect of post balance sheet events
- (Limited) related party transactions

Preparation of an abridged balance sheet and profit and loss account

7.7 Small LLPs are already permitted to *publish* abbreviated accounts and may choose only to publish an abbreviated balance sheet if they wish. The Government believes that small LLPs should have a choice about the level of detail included in their accounts having regard to the size and nature of their business, and proposes to further reduce the regulatory burden and to allow small LLPs to *prepare* an abridged balance sheet and an abridged profit and loss account¹¹ if this is agreed by all members of the LLP.

Small Groups exempt from the requirement to produce consolidated accounts

7.8 Small groups with an LLP parent will be exempt from consolidation, unless a member of the small group:

- has its securities admitted to trading on a regulated market in an EEA State;
- is an authorised insurance company, a banking LLP, an e-money issuer, a MiFID (i.e. Markets in Financial Instruments Directive) investment firm or a UCITS (i.e.

¹¹ Abridged accounts are where a small LLP prepares and files accounts, which do not provide the same level of disaggregation as full accounts. For example, an LLP may draw up an abridged balance sheet showing only those items of the balance sheet formats, which are preceded by letters and roman numerals. Moreover, an abridged profit and loss account may combine a few items under one item called “Gross profit or loss”.

Undertaking for Collective Instruments in Transferable Securities) management company;

- carries on insurance market activity.

Exclusions from the Small LLP regime

7.9 Under the provisions of the existing regulations, any LLP which falls into one of the categories listed in the bullet-points above is automatically excluded from access to the small LLP regime and will continue to be excluded under the revised regulations as well. Therefore, such LLPs need to be reporting as large LLPs regardless of their size.

7.10 Currently, we also exclude from the small LLP regime¹² those LLPs (which come within the small LLP thresholds) that are in the same group as a public company. Groups containing public companies are one type of “ineligible group¹³”. However, the Government proposes to permit LLPs that are members of a group, which is ineligible because it includes a public company (where that company does not have securities traded on a regulated market), to access the small LLP accounting regime.

c. Exclusion from the Medium-sized and Dormant LLP accounting regimes

Exclusions from the medium-sized LLP accounting regime

7.11 Currently, LLPs are excluded¹⁴ from provisions relating to the medium-sized LLP regime if:

- their securities are admitted to trading on a regulated market in an EEA State;
- they have permission under Part 4 of the Financial Services and Markets Act 2000¹⁵ to carry on a regulated activity;
- they carry on insurance market activity; and

¹² The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

¹³ A group is ineligible if any of its members is: a public company; a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; a person (other than a small company or small LLP) who has permission under Part IV of the Financial Services and Markets Act 2000 to carry on a regulated activity; a small company or small LLP that is an authorised insurance company, a banking company or banking LLP, an e-money issuer a MiFID investment firm or a UCITS management company; a person who carries on insurance market activity. (The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (S 384).)

¹⁴ The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

¹⁵ Part 4 of the Financial Services and Markets is available on <http://www.legislation.gov.uk/ukpga/2000/8/part/IV>

- they are a member of an “ineligible group”.

7.12 The Government does not propose any other changes to these exclusions; except in the case there is a public company within the group. Therefore, under the revised regulations, a public company (which does not have its securities traded on a regulated market) would not make a group “ineligible” and LLPs that are also members of such a group would be able to access the medium-sized LLP regime if they meet the threshold requirements.

Exclusions from the dormant LLP accounting regime

7.13 The exemptions from preparing and filing accounts for dormant subsidiaries (where the subsidiary has a parent guarantee) does not exclude LLPs that have issued securities from being able to take up the exemption. The Government proposes to amend these exemptions so that they exclude all LLPs with securities traded on a regulated market. This would be consistent with the Companies Act 2006, which was amended as part of the implementation of the Accounting Directive.

d. Access to Micro-entity regime for LLPs

7.14 Currently, one of the main distinctions between the regulations for companies and LLPs is that companies¹⁶ can access a micro-entity regime, which is currently not available to LLPs. The Government proposes to introduce such a regime for LLPs, which will enable the smallest LLPs in the UK to access a much less burdensome administrative regime, whilst still meeting their business needs and the needs of their members and other stakeholders.

7.15 The thresholds for micro-entity LLPs, as proposed by the Government, are outlined in table 2. These are aligned with the thresholds for micro-entity companies.

Table 2

| | Balance sheet, £ | Net turnover, £ | Average no. of employees |
|-------------------------------------|---------------------|--------------------|--------------------------------|
| <i>For individual LLP accounts:</i> | | | |
| Micro-entity LLP | ≤ 316,000 | ≤ 632,000 | ≤ 10 |

7.16 Micro-entity LLPs will be allowed to:

- publish annual accounts provided that the financial information contained in the balance sheet items is filed with Companies House;

¹⁶ This excludes charitable companies, which need to follow particular financial reporting requirements that are applied to them through the application of charity law and the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP). This is because charities operate for public benefit and enjoy particular tax exemptions.

- prepare simpler and abridged balance sheet and profit and loss accounts (for more information please refer to Annex 1);
- will not be required to produce the usual notes to the accounts provided that certain information is disclosed at the foot of the abridged balance sheet as follows:
 - all commitments by way of guarantees of any kind; and
 - advances and credits to members including guarantees and commitments entered into on their behalf;

7.17 Accounts that are drawn up in accordance with the requirements applicable to micro-entity LLPs will be presumed to give a true and fair view of the undertaking's financial position. However, micro-entity LLPs' accounts must still be prepared in accordance with generally accepted accounting practice in respect of recognition and measurement.

7.18 The micro-entity LLPs' provisions will not apply for LLPs that are excluded from the small LLP regime and in relation to an LLP's accounts for a financial year if:

- the LLP is a parent LLP, which prepares group accounts for that year as permitted by section 398 of the Companies Act 2006, or
- the LLP is not a parent LLP but its accounts are included in consolidated group accounts that year.

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

Please provide information in support of your answer.

e. Access to Micro-entity regime for Qualifying Partnerships

7.19 The Government also proposes to introduce a micro-entity regime, as described above, for Qualifying Partnerships. This would be available to those general partnerships and limited partnerships that are Qualifying Partnerships under the Partnerships (Accounts) Regulations 2008 (SI 2008/569) as amended by the Companies and Partnerships (Accounts and Audit) Regulations 2013 (SI 2013/2005) and who meet the eligibility criteria.

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

Please provide information in support of your answer.

f. Greater flexibility within layouts

7.20 It is proposed to increase the flexibility in relation to the customisation of layouts of profit and loss accounts and balance sheets, allowing for sector-specific layouts.

7.21 There will also be increased flexibility in the presentation of the profit and loss account and balance sheet of LLPs. The Financial Reporting Council may provide guidance on the use of this flexibility through its financial reporting standards.

g. Individual Accounts - Accounting for participating interests using the equity method

7.22 The Government proposes to permit participating interests to be accounted for using the equity method in an investor's individual financial statements. The Government also intends to enable the proportion of the profit or loss attributable to the participating interest be recognised in the investor's profit and loss account only to the extent of the amount corresponding to dividends already received or the payment of which can be claimed. We consider that this provides greater flexibility in the preparation of financial statements and may assist some LLPs in providing financial statements which better represent their financial performance.

7.23 Currently, LLP law and UK accounting standards do not permit use of the equity method when preparing Companies Act individual LLP accounts; only cost-based and fair value measurement methods are available. However, use of the equity method is required when preparing consolidated financial statements. In addition to the new flexibilities, the Government has also noted that international accounting standards now also permit the use of the equity method as an accounting policy choice for accounting for participating interests in individual LLP financial statements. Again, this is in addition to usually requiring the equity method in consolidated financial statements.

h. Changes in value adjustments including goodwill

7.24 The Government proposes to introduce a change in approach in relation to writing off goodwill and development costs of LLPs where the useful life of those items cannot be reliably estimated. In such circumstances, the Government will require that the goodwill is written off over no more than 10 years, which will allow maximum flexibility. In addition, the value of goodwill which was previously impaired may no longer be reinstated.

i. Information on subsidiaries included within the consolidated financial statements

7.25 The UK currently permits LLPs alternatively to provide this information when submitting their annual returns to Companies House. Whilst this is a useful flexibility, it does mean that the consolidated financial statements are not as informative as might otherwise be the case; and there are delays in making this information publicly available. Therefore, the Government will require that the notes to the consolidated financial statements of LLPs include information in relation to the subsidiaries included within the consolidation.

8. Implications for the UK's Approach to Statutory Audit

8.1 In addition to retaining the link between the accounting regulatory requirements for LLPs and limited companies, the Government also proposes to continue to align the audit provisions for LLPs with those for companies.

a. Audit Exemption

8.2 In relation to financial years beginning on or after 1 January 2016, all small LLPs will be exempt from statutory audit, except in cases where an LLP:

- has its securities admitted to trading on a regulated market in an EEA State; is an authorised insurance company, a banking LLP, an e-money issuer, a MiFID investment firm or a UCITS management company;
- carries on insurance market activity;
- is an employers' association as defined in section 122 of the Trade Union and Labour Relations (Consolidation) Act 1992 or Article 4 of the Industrial Relations (Northern Ireland) Order 1992;
- is a parent LLP or subsidiary undertaking (unless dormant for the period during which it was a subsidiary undertaking) except where:
 - the group also qualifies as a small group (treating all the bodies corporate in the group, including non-UK bodies corporate as if they were LLPs or companies) and was not at any time in the year an ineligible group.

8.3 The Government proposes to set the audit exemption thresholds for the small LLPs in line with the thresholds applicable to small companies. An announcement of the Government's conclusions following consideration of responses to its Discussion Document on "Auditor Regulation" published in December 2014 will be made in due course.

8.4 Retaining the link between LLPs' regulations with the framework for companies will require some amendments to the exclusions from the small LLPs' accounting regime. We have considered the effect on the small LLPs' audit exemption framework. These are reflected in the explanation above and explained further below.

8.5 Small LLPs are excluded from the small LLPs' audit exemption in several cases where they are part of a group. The first case is where the group is not a small group (reference to table 2). We have decided not to change this provision though the definition of a small group will change for audit exemption purposes in line with that for the purposes of the small LLPs' accounting regime.

8.6 A second type of group whose members may not take up the small LLPs' audit exemption is an "ineligible group"¹⁷. The Government has decided to make amendments to that framework with the same effect as for companies and to narrow the definition of an "ineligible group". Therefore, under the new regulations the presence of a public company (which is not a company

¹⁷ A group is ineligible if any of its members is: a public company; a body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA State; a person (other than a small company or small LLP) who has permission under Part IV of the Financial Services and Markets Act 2000 to carry on a regulated activity; a small company or small LLP that is an authorised insurance company, a banking company or banking LLP, an e-money issuer a MiFID investment firm or a UCITS management company; a person who carries on insurance market activity.

whose securities are traded on a regulated market) in a group would no longer make that group “ineligible”.

8.7 Currently, the subsidiaries audit exemption (where the subsidiary has a parent guarantee)¹⁸ does not exclude any LLPs that have issued securities from being able to take up the exemption. The Government proposes to amend the exemption so that it excludes all LLPs with securities traded on a regulated market in an EEA State. This would be consistent with the Companies Act, which had to be amended as part of the implementation of the Accounting Directive so that this exclusion applied to the equivalent exemption.

8.8 Finally, the dormant LLPs audit exemption is currently available to LLPs whose securities are traded on a regulated market. Given the changes, we have decided to make to the small LLPs’ audit exemption and to bring the dormant LLPs’ audit exemption more closely into line with that for small LLPs, the Government has decided to exclude all LLPs with securities admitted to trading on a regulated market.

b. Audit Report

8.9 The changes made by the Government to the Audit report for companies as part of the implementation of the Accounting Directive related to the auditor’s report on the company’s “narrative report”. They affected the audit report on the strategic report and directors’ report under section 496 of the Companies Act; and the audit report on the corporate governance statement under section 498. As there is no comparable framework to this applied to LLPs we do not intend to make any changes on the audit report at this stage.

c. Reporting of Fees paid for Non-Audit Services

8.10 The Government concluded, following the consultation on the implementation of the Accounting Directive, that it would postpone changes to this framework so that they will be made as part of the implementation of the new Audit Directive and Regulation. These changes are therefore due in June 2016 and are discussed in the Government’s consultation on the implementation of the new Audit Directive and providing for the application of the Audit Regulation. The changes discussed in that consultation will affect both companies and LLPs as the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008 / 489) applies to LLPs in addition to companies.

d. Special auditor’s report on abbreviated accounts

8.11 Though these changes were not discussed in the Government’s consultation on the implementation of the new Accounting Directive for companies, the final implementation effectively removed the requirement for a special auditor’s report on the abbreviated accounts provided for in section 449 of the Companies Act. This followed informal consultation with stakeholder representatives. In place of the special auditors report, a company filing abbreviated accounts that have been audited must include with the filed accounts certain details of the auditor’s report. We are proposing to make comparable changes for LLPs to remove the requirement for filing a special auditor’s report.

¹⁸ This exemption is at sections 479A, 479B and 479C of the Companies Act 2006 as applied to LLPs.

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

Please provide information in support of your answer.

9. Costs and benefits of the proposed reforms

9.1 These proposals are largely de-regulatory. Under the Government's Fast Track Impact Assessment Process BIS is not required to produce an impact assessment at this stage. However, BIS officials are preparing a Validation Stage Impact Assessment, which will analyse the costs and benefits of the options set out in this consultation. The consultation questions below seek to gather evidence to inform this analysis.

9.2 BIS' Validation Stage Impact Assessment will be the subject of independent scrutiny by the Regulatory Policy Committee and will be published on www.legislation.gov.uk.¹⁹ The estimated costs and benefits of the implementing the Accounting Directive²⁰, and introducing micro-entity accounting regime²¹, for companies have previously been outlined by BIS in published Impact Assessments.

Applying the 2015 Regulations to LLPs

9.3 BIS anticipates that the size and nature of the savings arising from the proposed changes to the regulatory framework for LLPs will be broadly similar to those for companies (adjusted for the comparatively fewer number of LLPs than companies). However, we would like to gather LLP-specific evidence to help inform estimates of the savings in the forthcoming Validation Stage Impact Assessment.

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.

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).

¹⁹ See here for further details -

<http://www.legislation.gov.uk/ukia?department=Department%20for%20Business%2C%20Innovation%20and%20Skills>

²⁰ For further details see - <http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227>

²¹ For further details see - http://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia_20130243_en.pdf

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.

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.

Micro-entity regime for LLPs and Qualifying Partnerships

9.4 Similarly, we would like to gather evidence to help inform estimates of the savings in the forthcoming Validation Stage Impact Assessment arising from the creation of a micro-entity regime for LLPs and Qualifying Partnerships who meet the eligibility criteria.

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.

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.

10. Summary of Consultation Questions

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

Please provide information in support of your answer.

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.

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

Please provide information in support of your answer.

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

Please provide information in support of your answer.

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

Please provide information in support of your answer.

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

Please provide information in support of your answer.

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.

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).

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.

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.

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.

11. What happens next?

11.1 This consultation is open for one month. Responses are requested by 21 December 2015.

11.2 Please do not hesitate to get in touch if you have considerations you would like to discuss before providing a response.

11.3 The comments we receive will inform our approach to the implementation of these de-regulatory changes. All comments, whether in full or in part, will be considered. We will also consider views heard during the planning process and any information gathered by other means.

11.4 We may also continue to seek views and clarification of issues after the consultation has closed. This will assist us in resolving any outstanding and help inform the drafting of the regulations.

11.5 The Government's response to the consultation and a proposed timetable for the laying of the regulations will be published within 12 weeks of the closing date. These will be published on the BIS website. Paper copies of the Government response and summary of responses will be made available on request.

Annex 1: Micro-entity abridged balance sheet and profit and loss accounts

The micro- entity exemption will permit micro-entity LLPs to use an abridged balance sheet, and profit and loss account.

There would be a choice of balance sheet formats. For example, the abridged balance sheet must consist of at least the following items:

| | |
|--|---|
| <p>Format 1</p> <p>A. [Members capital] not paid</p> <p>B. Fixed assets</p> <p>C. Current assets</p> <p>D. Creditors: amounts falling due within one year</p> <p>E. Net current assets (liabilities)</p> <p>F. Total assets less current liabilities</p> <p>G. Creditors: amounts falling due after more than one year</p> <p>H. Provisions for liabilities</p> <p>I. Capital and reserves</p> | <p>Format 2</p> <p>Assets</p> <p>A. [Members capital] not paid</p> <p>B. Fixed assets</p> <p>C. Current assets</p> <p>Liabilities</p> <p>A. Capital reserves</p> <p>B. Provisions for liabilities</p> <p>C. Creditors</p> |
|--|---|

The practical effect of these changes is a shorter, less detailed balance sheet, which focuses on high-level financial information relating to the undertaking's financial position.

Similarly, the abridged profit and loss account is greatly shortened to present high-level financial data. The abridged profit and loss account will show separately at least the following items, where applicable:

- (i) net turnover
- (ii) other income
- (iii) cost of raw materials and consumables
- (iv) staff costs
- (v) value adjustments
- (vi) other charges
- (vii) tax
- (viii) profit or loss

Accounts prepared in accordance with the requirements for micro-sized LLPs will be presumed to give a true and fair view of an LLP's financial position.

Annex 2: Consultation principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

If you wish to comment on the **conduct** of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Angela Rabess
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone Angela on 020 7215 1661
or e-mail to: angela.rabess@bis.gsi.gov.uk

However if you wish to comment on the specific policy proposals you should contact the policy lead (see section 4).

Annex 3: List of Individuals/Organisations consulted

Regulatory Bodies

Financial Conduct Authority (FCA)
Financial Reporting Council (FRC)
Prudential Regulatory Authority (PRA)

Chartered Accountancy Bodies

Association of Chartered Certified Accountants (ACCA)
Chartered Institute of Management Accountants (CIMA)
Chartered Institute of Public Finance and Accountancy (CIPFA)
Institute of Chartered Accountants in England and Wales (ICAEW)
Institute of Chartered Accountants of Scotland (ICAS)

Representative and Other Bodies

Association of Accounting Technicians (AAT)
British Chambers of Commerce (BCC)
Confederation of British Industry (CBI)
Federation of Small Business (FSB)
Forum for Private Business
Institute of Certified Bookkeepers (ICB)
Institute of Directors (IoD)

Accounting Firms

BDO
Deloitte
Ernst & Young
Grant Thornton
KPMG
PWC
RSM UK

Annex 4: Simplification of the financial reporting requirements for LLPs and Qualifying Partnerships

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

Name:

Organisation (if applicable):

Address:

Please return completed forms to:

John Conway
 Department for Business, Innovation and Skills
 3rd Floor, Spur 2
 1 Victoria Street
 London SW1H 0ET
 Tel: 020 7215 6402
 E-mail: john.conway@bis.gsi.gov.uk

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 |
| | Other (please describe) |

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 |

SECTION 6. 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.

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.

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.

SECTION 7. 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.

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.

SECTION 8. 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.

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.

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).

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.

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.

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.

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