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Our ref: 2312/NCP/LLP

Dear Mrs Grant

Draft Statement of Recommended Practice - Accounting by Limited Liability Partnerships

We welcome the opportunity to comment on the above draft Statement of Recommended Practice ("SORP"). We support the work carried out by the CCAB to provide guidance on the introduction of FRS 102 to Limited Liability Partnerships.

We set out below our general comments on the draft and also our responses to your specific questions.

1 GENERAL COMMENTS

Our overall view is that previous versions of the SORP have provided relevant and effective guidance on the accounting by Limited Liability Partnerships. This revision is helpful in updating the SORP for the requirements of FRS 102.

We suggest that a caveat is included in the final SORP saying that it has been issued on [ISSUE DATE] and, given that FRS 102 will be revised over time, users should be wary of any significant changes to the FRS that could impact LLPs after the SORP's issue date. At the same time, we would encourage the CCAB to keep the SORP under review to ensure appropriate timely amendments are made as and when FRS 102 is revised and as interpretations of the FRS inevitably evolve over time as preparers of accounts become more familiar with the nuances of the standard.

2 SPECIFIC QUESTIONS

2.1. Do you agree that the guidance provided in this draft SORP is helpful in applying the requirements in FRS 102? If not, how do you think it could be improved?

We agree that this guidance is helpful in applying the requirements in FRS 102.

However, we note that given the volume of amendments with several new paragraphs being inserted and others deleted, it would have been helpful if a red-lined version of the draft statement had been provided to assist users identify the actual amendments that had been made.

We also question the need to include the comment in paragraph 68 that says that amounts should be “reviewed for recoverability”. Such a comment seems unnecessary as it is not specifically relevant to LLPs but common to assets of all entities.

2.2. *The guidance on business combinations and group accounts in paragraphs 102-119 has been updated to reflect the fact that FRS 102 only allows merger accounting to be used for group reconstructions. Is the revised guidance clear? Does it adequately reflect FRS 102’s new requirements? If not, why not?*

We agree there is a need to update the SORP to reflect the new requirements of FRS 102. We believe the guidance provided, when read in conjunction with FRS 102, adequately reflects many situations where business combinations are undertaken by LLPs.

However, given the nature of a number of business combinations involving LLPs, whereby trade and certain assets and liabilities are received by the larger entity in return for capital granted in the larger entity, we believe that greater clarity should be provided in paragraph 105A. The wording in the second sentence of this paragraph currently implies that there are circumstances where it is envisaged that the granting of membership to one or more individuals could be construed as a business combination. This is surprising as a change in status of an existing employee should not be seen to be a business combination. Therefore, we would expect this paragraph to be clarified and for some guidance to be given on the point at which the granting of membership to one or more individuals might become a business combination. Currently paragraphs 19.3-19.5 of FRS 102 would indicate that all new members joining from outside the LLP would have the potential to be accounted for as business combinations but, as implied above, paragraph 105A is unclear as to whether reference is also being made to the granting of membership to existing employees (ie promotions to membership within the LLP). We therefore believe that a clear distinction between internal promotions and externally hired members should be included in paragraph 105A and that some further guidance or examples would be of benefit.

We also believe that greater clarity should be provided surrounding the definition of ‘normal remuneration levels’ in paragraph 107. Given many LLPs provide professional services, and there are a variety of profit sharing mechanisms in place, profit shares may well be expected to fluctuate from one year to the next especially in the year of an acquisition or merger. Identifying “normal remuneration” levels may not be easy especially as figures from comparable LLPs would not usually be available. We would expect that a sale and purchase agreement would often include a reference to the calculation of any additional payments made on such a transaction and this should be the most useful guide as to what constitutes consideration and remuneration.

Whilst not directly related to section 19 of FRS 102, we also feel that it would be helpful to users for the SORP to include a reference to the fact that intangible assets might be generated as a result of a business combination (in accordance with paragraph 18.8 of FRS 102).

2.3. *The guidance on contractual or constructive obligations (paragraph 76) and annuities (paragraph 80) has been updated to reflect the fact that FRS 102’s requirements relating to financial liabilities differ from current UK GAAP*

requirements. Is the revised guidance clear? Does it adequately reflect FRS 102's new requirements? If not, why not?

Paragraph 76

Paragraphs 76 and 76A of the SORP correctly identify that FRS 102 requires financial instruments to be identified, classified and measured between 'basic' financial instruments (which are held at amortised cost) and 'other' financial instruments (which are recognised at fair value through the profit and loss account) and refers to the relevant section of FRS102 for further guidance.

However, given that the appropriate classification and subsequent measurement of a financial instrument, particularly those that require fair value through the profit and loss account, may result in a significant change to current accounting, we recommend that the SORP includes specific guidance or practical examples to help with the understanding of this significant change in accounting.

We further recommend that paragraph 76A is deleted with its contents being incorporated within paragraph 76 to avoid unnecessary duplication.

Paragraph 80

We welcome the additional guidance in paragraphs 80 and 80A-C on the treatment of annuities including the assessment of the appropriate treatment under FRS102 or FRS103 which we believe is clear and concise.

2.4. Although it does not relate to the introduction of FRS 102, it was felt appropriate to update the guidance on analysing puttable instruments to reflect the fact that many of the issues associated with the introduction of FRS 25 and the subsequent 'puttables amendment' are now behind us. The basic accounting remains unchanged. As part of this process, the flowcharts in appendix 3 of the SORP have been removed. Is the revised guidance clear? Do you agree with the removal of the flowcharts? If not, why not?

We agree with the deletion of the flowcharts.

We would be very happy to discuss our response to this consultation with you should you require. Please contact Nick Carter-Pegg (on 020 7893 2552 or at nick.carter-pegg@bdo.co.uk) should this be the case.

Yours faithfully

BDO LLP

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