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Sharon Grant
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Moorgate Place
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Our Ref: SJG/ajc

Dear Ms Grant

Draft Statement of Recommended Practice – Accounting by Limited Liability Partnerships

We welcome the opportunity to comment on the exposure draft of the Statement of Recommended Practice.

Please do not hesitate to contact me if I can provide any further information or explanations on the attached response.

Yours sincerely

Alan Churchard

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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?

In our opinion the guidance provided in the SORP is helpful in applying the requirements of FRS 102. However, there are two matters where we believe further guidance or clarification would be of benefit.

Paragraph 11.13 of FRS 102 sets out the requirements for initial measurement of a financial liability. This considers the measurement of a “financing transaction”. This will require a financial liability to be measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. We believe the SORP should provide guidance on the application of this requirement when members’ capital is required to be treated as a financial liability. In particular where the members’ capital does not bear interest (or bears interest below a market rate) application of this section would appear to require to be recognised at a discounted amount.

Paragraph 130 of the SORP discusses the requirement to disclose key management personnel compensation. This paragraph could be clarified by considering whether the designated members of an LLP should be included within the key management. It is noted that Paragraph 33.6 of FRS 102 clearly states all directors (whether executive or otherwise) of an entity are considered to be key management.

2. Do you agree that changes to current UK GAAP have been adequately reflected in this draft SORP?

In our opinion the key changes to UK GAAP relevant to Limited Liability Partnerships have been adequately addressed in the SORP.

We note that paragraphs 63 and 64 of the SORP has a continuing requirement to provide disclosures on how loans and debts due to members would rank in relation to other creditors in the event of a winding up and any restrictions on the ability of the members to reduce the “Members other interests”. We are not aware of any other financial statements requiring similar disclosures. The protection of capital is no longer such an issue; the changed Companies Act 2006 makes it easy for private companies to reduce the share capital without application to the court. The disclosure requirements therefore seem to be onerous and overly burdensome in comparison to other financial reporting. Where there are particular issues relating to providers of finance, the general requirement for disclosures of liquidity risks relating to financial instruments would appear to require disclosure of appropriate information.

3. 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?

In our opinion the revised guidance on business combinations and group accounts is clear.

4. 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?

The guidance on this area is complex and may be subject to misinterpretation. We think this could be improved by providing examples of applying this area in practice.

We note the SORP as published does not contain a paragraph 79 and it is unclear whether any content has been omitted. In addition Paragraph 80C states that LLPs will be permitted to continue previous policies although the obligation would fall within the scope of FRS 103. The section as worded would seem to suggest the SORP overrides the requirement to apply FRS 103. This would contradict the scope of the SORP as set out in paragraph 2, where it is clearly stated that accounting standards take precedence over the SORP.

5. 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?

In our opinion the guidance in this area has now been established practice for some time and has not changed significantly as a result of the introduction of FRS 102. We believe the revised guidance is clear. The flowcharts, although useful are not essential in forming an understanding in this area.

6 Other matters

We note that there have recently been considerable changes to the taxation of Limited Liability Partnerships. In particular these changes may affect the tax status of many partners and the taxation of profits allocated to corporate partners, where other partners also retain a beneficial interest in that corporate partner. These changes may give rise to issues in the recognition of tax liabilities in relation to partners "deemed employed" by the LLP and questions as to whether such remuneration should be charged to the income statement as remuneration or treated as an allocation of profit. In our opinion it would be beneficial for the SORP to provide guidance on the key factors to consider in evaluating these matters. This would appear to be best managed by expanding the guidance provided in Appendix 2.