



# Grant Thornton

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Our Ref LLP SORP/MSH

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Dear Sharon

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## **Draft Statement of Recommended Practice: Accounting by Limited Liability Partnerships (the draft SORP)**

We believe that high quality financial reporting and the added consistency through SORPs enable users of financial statements to make informed decisions, which in turn leads to greater trust in markets and contributes to shaping a vibrant economy. As such we are pleased to respond to the consultation on the exposure draft of the SORP.

In short, we consider that the draft SORP appropriately incorporates the amendments to FRS 102 arising from the 2017 Triennial review, issued in December 2017 (the '2017 Triennial review amendments') and provides useful guidance to enable users of the draft SORP to navigate the issues.

Our responses to the questions are attached to this letter.

If you have any questions regarding this response, please contact Mandy Haslinger (t: 0151 224 0882; E: [Mandy.S.Haslinger@uk.gt.com](mailto:Mandy.S.Haslinger@uk.gt.com)) or Jake Green (t: 020 7728 2793; E: [Jake.Green@uk.gt.com](mailto:Jake.Green@uk.gt.com)).

Yours sincerely

Jake Green  
Partner

For Grant Thornton UK LLP

## **Responses to specific questions**

### **1. Question 1**

#### **Do you agree with the proposed amendments? If not, why not?**

Overall, we agree with the proposed amendments to the draft SORP in respect of the 2017 Triennial review amendments. However, we have set out below some detailed observations where we believe clarification or further guidance could be included.

#### **1.1 Amendment to paragraph 57A**

We welcome the guidance included in paragraph 57A of the draft SORP to assist small LLPs in applying the exemption available in respect of certain financing transactions as set out in paragraph 11.13A of FRS 102. Given that FRS 102 in respect of this exemption does not define 'a director' for the purposes of an LLP we agree the guidance included is required for small LLPs.

The objective of the exemption as explained in the Basis of Conclusion of the 2017 Triennial Review (paragraphs B11.32 to B11.32) was to give relief to small-owner managed businesses. It may be helpful to include reference to this to further assist small LLPs to determine who would be 'directors' for the purpose of taking the exemption.

#### **1.2 Inclusion of paragraphs 108A and 108B**

Our view is that unless the draft SORP is adding relevant guidance which is specific to LLPs, it would not be necessary to repeat the relevant requirements set out in FRS 102.

We believe that inclusion of paragraphs 108A and 108B are not necessarily required given that they do not appear to be adding guidance relevant to LLPs other than referencing the requirements in FRS 102. We believe that either the additional paragraphs 108A and 108B should not be included or the guidance should be expanded to provide more specific guidance for LLPs in respect of the scenarios envisioned.

Including elements of FRS 102 runs the risk that users of the SORP think it is a one-stop-shop and therefore they may not look to FRS 102 at all. Therefore, we believe the SORP should only include guidance on the application of FRS 102 where there are specific issues affecting LLPs.

#### **1.3 Amendment to Appendix 4**

We agree that the illustrative scenario in paragraph 5 of Appendix 4 of the draft SORP meets the revised definition of a group reconstruction in FRS 102 following the 2017 Triennial review. However, whilst we agree with the overall conclusion that it is a group reconstruction, we believe that the analysis provided does not accurately reflect the specific circumstances of the scenario.

In particular, the scenario in the draft SORP describes the situation when an entity A sets up an LLP, into which, it then transfers its trade and assets in exchange for an equity interest in the LLP. Therefore, this would imply that entity A retains an equity interest in the LLP.

The amendment to the draft SORP states

‘The transfer of a business to a new entity whose equity holders are the same as those of the entity transferring the business meets the definition of a group reconstruction in FRS 102’.

This derives from the inclusion of part (f) of the revised definition of a group reconstruction in FRS 102.

Given the scenario indicates that entity A sets up the LLP and remains the equity holder in the LLP and not the owners of A, we believe that the scenario would be akin to part (e) of the definition of a group reconstruction ie ‘the transfer of the business of one group entity to another’.

We believe that given in practice such a scenario is likely to involve the situation where a partnership transfers its trade and assets to an LLP but for which the partnership does not retain an interest in the LLP, we would suggest that the scenario be amended instead to

“The owners of an entity A (a partnership) set up a new LLP with the same owners (partners) on 1 April. The business of the partnership is then transferred to the new LLP on 1 July. The LLP has a 31 December year end and prepares entity-only accounts.”

Alternatively, if the scenario remains the same, we suggest that the analysis in the draft SORP be amended to the following:

‘The transfer of a business of one group entity to another meets the definition of a group reconstruction in FRS 102’.

## **2. Question 2**

**Are there any other areas of the SORP that you believe should be updated as a consequence of the 2017 Triennial review amendments?**

2.1 We do not believe there are any other areas of the SORP which require updating as a consequence of the 2017 Triennial review amendments.

## **3. Question 3**

**Are you aware of any other developments which might suggest that further guidance is needed in the SORP?**

- 3.1 We are not aware of any other developments which are specific to LLPs which might suggest further guidance is needed in the SORP.
- 3.2 That said, there remains inconsistency over the treatment applied to circumstances where members' agreements make provision for a full allocation of profit, legally dependent upon approval post the balance sheet date.

We understand a working party discussion has taken place on this previously and we understood there to be agreement that the presence of terms requiring post year end ratification of the full allocation (as opposed to the LLP genuinely having discretion over whether it had to allocate the profit) did not lead to profit being shown as available for discretionary division among members as the LLP could not avoid indefinitely the need to allocate profit.

There remains evidence in the market place of this agreed position not being applied consistently and our view remains that this is both incorrect in terms of the treatment being adopted, and unhelpful to LLPs and the users of the financial statements to have similar fact patterns being presented very differently.

We would like the matter to be revisited and guidance issued to clarify the required treatment so this can be addressed.

#### **4. Question 4**

##### **Are you aware of any issues specific to LLPs that have arisen as a result of applying Section 1A Small Entities of FRS 102 and which might suggest that further guidance is needed in the SORP?**

- 4.1 We are not aware of any issues specific to LLPs that have arisen as a result of applying Section 1A Small Entities of FRS 102 which would require further guidance in the SORP.

#### **5. Question 5**

##### **Do you have any other comments on the LLP SORP?**

- 5.1 We have no other comments on the LLP SORP. However, we note the following editorial observations:
- We note that paragraph 54 has been amended to replace 'employment contract' with 'contract to provide services to the LLP, which may be referred to as a contract of employment'. However, we note that in the table in paragraph 74A it continues to refer to 'remuneration that is paid under an employment contract'. We suggest that consideration should be given to the consistent use of such terminology in the draft SORP.
  - We note in BC1 whilst the years of revision of the SORP have been updated to include 2018 we note that the number of revisions should be updated from 'four' to 'five'.