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FAO Sharon Grant
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Dear Sirs

Consultation on revisions to the SORP: accounting by limited liability partnerships

We are pleased to respond to your consultation on the revisions to the LLP SORP that have been necessitated by the change in the overall UK financial reporting framework, specifically to replace UK GAAP with a financial reporting framework based on a modified version of the IFRS for SMEs. We have responded to the specific questions in the consultation paper in turn below.

We would note that the majority of the changes affecting LLPs when adopting the new financial reporting framework will arise from differences between FRS 102 and current UK GAAP, rather than specifically as a result of changes to the SORP.

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?**

Yes, we agree that the guidance provided is, on the whole, helpful in applying the requirements of FRS 102 to limited liability partnerships.

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

Yes, we believe that the changes to UK GAAP have been reflected appropriately.

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?**

We believe that the guidance is reasonably clear, however we are concerned that the guidance in paragraph 107 (stating that where the purchase method is used, the profit share subsequently promised to new members should be assessed to determine if it is in substance consideration for the business acquired) could be read as a presumption rather than guidance, in the same way that there is a presumption in IFRS 3 (revised) that where consideration is contingent it is often in substance post acquisition remuneration. We believe it should be emphasised that the substance of the arrangement needs to be considered in all cases and it may or may not be the case that the

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profit share promised to new members is in substance consideration for the acquisition. This would avoid this section of the SORP being interpreted restrictively as has been the case with IFRS 3 (revised).

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 requirements? If not why not?**

The revised guidance is reasonably clear, although we would note that it refers to an accounting standard that does not yet exist (FRS 103) but presumably will by the time the revised SORP comes into effect.

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?**

We do not agree with the removal of the flowcharts. Whilst we would agree that the basic accounting remains unchanged, determining whether or not a puttable instrument should be classed as equity is often highly complex and in our view the flowcharts were a useful source of guidance which should be retained, as well as the examples included in Appendix 2.

We hope that our comments are useful to you. If you have any questions, then please contact Tessa Park.

Yours faithfully

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