



The Consultative Committee of Accountancy Bodies

PO Box 433
Chartered Accountants' Hall
Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8100
Facsimile: 020 7628 1874
Email: admin@ccab.org.uk
Website: <http://www.ccab.org.uk>

The Institute of Chartered Accountants in England and Wales
The Institute of Chartered Accountants of Scotland
The Institute of Chartered Accountants in Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Chartered Institute of Public Finance and Accountancy

For immediate release: Friday 31 March 2006

CCAB ISSUES REVISED STATEMENT OF RECOMMENDED PRACTICE FOR LIMITED LIABILITY PARTNERSHIPS

The Consultative Committee of Accountancy Bodies has today (Friday 31 March) published a revised Statement of Recommended Practice (SORP) on accounting by Limited Liability Partnerships (LLPs). The SORP provides guidance on the application of UK generally accepted accounting practice (GAAP) to LLPs incorporated in Great Britain.

The SORP will come into effect for periods ending on or after 31 March 2006 - although LLPs will need to take some of the relevant accounting standards on board in the earlier accounting period in which they come into force. As a result, LLPs will have to change the way they present information in their financial statements. In particular, this will arise as a result of the revised distinction between debt and equity and consequent implications for profit and loss accounts. Early application of the SORP is encouraged.

Significant changes in GAAP mean that the current SORP, published in 2002, no longer offers appropriate guidance that is compliant with accounting standards. Guidance in the new SORP, based on the applicable accounting standards, provides that:

- in many circumstances, members' interests that would previously have been regarded as capital will now be classified as debt due to members. This will be the case unless the LLP has the right to withhold repayment of the amount;

- similarly, in some cases, members' profit shares will be treated as an expense in the profit and loss account rather than as an equity appropriation;
- any liability for post-retirement payments to members (often referred to as annuities) will be accrued as the rights to the payments accrue. Such rights often arise during the period of a member's service to the LLP, but under current practice would not be recognised until the member's retirement.

Despite these changes, HM Revenue & Customs has confirmed that the general principle of treating an LLP in the same way as a partnership for tax purposes will continue, in particular:

- any balances due to members will continue to be treated as if they comprised an interest in a partnership; and
- members' profit shares from an LLP will continue to be treated in the same way as if they were partners.

It is also important to note that current accounting standards are in a period of transition, and the SORP provides guidance on the application of existing standards. The CCAB is aware that changes to standards are being considered, such as the International Accounting Standards Board's project on 'Instruments puttable at fair value', that may require further amendment to the SORP. However, even assuming the IASB's proposals are finalised, they will still need be adopted by the ASB before they can be incorporated into the SORP. The SORP cannot pre-empt new standards prior to their adoption.

Andrew Vials, Chairman of the Steering Committee that oversaw the development of the SORP, said:

“Changes in GAAP, and particularly the introduction of FRS 25 (IAS 32) *Financial instruments - Disclosure and presentation*, have forced us to readdress some fundamental issues in financial reporting by LLPs. We believe we have developed a robust and practical approach that will enable LLPs to continue to present useful financial information to their stakeholders, and we're pleased that the proposals in the exposure draft were generally

accepted by respondents.”

Peter Saunders, Chairman of the Working Party that dealt with the detailed technical issues in the SORP, said:

“FRS 25 is in force for accounting periods beginning on or after 1 January 2005, so LLPs are in urgent need of guidance. The SORP delivers practical and workable solutions to some complex accounting issues. We believe in particular that the presentation formats we have developed will be welcomed by LLPs and users of their accounts. The SORP’s guidance can be adopted right away and should be particularly helpful with the application of FRS 25 to LLPs.”

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Media enquiries:

Andrew Vials, Chairman, SORP Steering Committee	020 7694 8473
Peter Saunders, Chairman, SORP Working Party	020 7007 8016
Desmond Wright, CCAB	020 7920 8527

Notes for editors:

1. A copy of *Accounting by limited liability partnerships* is attached. It is also available online at:

<http://www.ccab.org.uk/documents.php>

<http://www.icaew.co.uk/llps>

<http://www.icas.org.uk/>

http://uk.accaglobal.com/news/uk/llp_sorp

2. The CCAB comprises the six major accountancy bodies in the United Kingdom and Ireland.

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

3. The CCAB provides a forum for co-ordinating views on a wide range of issues of interest to the accountancy profession as a whole.

4. The SORP has been developed by the CCAB as the appropriate SORP-making body recognised by the Accounting Standards Board. The process has been overseen by a Steering Committee, the membership of which is drawn from business sectors in which LLP status is common, including the accountancy and legal professions and the construction industry, and from amongst users of LLP accounts. The Working Party reports to the Steering Committee and deals with detailed technical issues.
5. The Preface to the SORP lists the members of the SORP Steering Committee and the SORP Working Party.
6. Limited Liability Partnerships (LLPs) were established in Great Britain by the Limited Liability Partnerships Act 2000. Registration as an LLP has been available from 6 April 2001. The detailed accounting requirements relating to LLPs are set out in the Limited Liability Partnerships Regulations 2001 (SI 2001/1090), as amended by The Limited Liability Partnerships (Amendment) Regulations 2005 (SI 2005/1989). The Regulations apply, with appropriate modifications, the accounts and audit provisions of the Companies Act 1985 to LLPs. The SORP does not specifically apply to overseas LLPs which trade in this country or to unincorporated partnerships.
7. The draft SORP requires members' participation rights in the assets of an LLP to be analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and UITF 39 *Members' shares in co-operative entities and similar instruments*. A member's participation right will result in a liability except to the extent that the right to any payment or repayment is discretionary on the part of the LLP.
8. The SORP also requires the treatment of members' remuneration in the profit and loss account to be based on the same principles as are used for determining debt and equity in the balance sheet: where the LLP has no discretion over the payment of a benefit to a member it should be charged as an expense in the profit and loss account.