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CCAB PUBLISHES NEW ACCOUNTING RULES FOR LIMITED LIABILITY PARTNERSHIPS

The Consultative Committee of Accountancy Bodies (CCAB) has today (31 March 2010) published a revised Statement of Recommended Practice (SORP) on Accounting by Limited Liability Partnerships (LLPs). The SORP applies UK Generally Accepted Accounting Practice (GAAP) to LLPs incorporated in Great Britain.

The SORP was last revised in 2006. Since then, FRS 25 (IAS 32) *Financial Instruments: Presentation* has been amended to require certain amounts that would otherwise have been presented as liabilities to be reclassified, in limited circumstances, as equity. Proposed revisions to the SORP examining these new requirements and providing guidance on how they may affect LLPs was published in July 2009, for comment by 3 November 2009.

The amendments to FRS 25 affect the treatment of 'puttable instruments' and obligations arising on liquidation. Broadly, their purpose is to identify, for an entity that would otherwise have no equity, whether the most residual interests in that entity are sufficiently 'like equity' to be reclassified from liabilities to equity. The impact of these complex requirements on LLP financial reporting requires detailed analysis, and the CCAB spent considerable time debating the issues and considering the comments received on the draft.

The outcome is that it is likely that for many - perhaps most - LLPs, especially where members provide services to the LLP, will continue to present their capital as a liability and may as a result have no 'equity' financial instruments. However, it is possible that some LLPs, including perhaps certain investment vehicle entities, will reclassify elements of capital or members' interests from a liability to equity.

The CCAB also took the opportunity to update the SORP to reflect the impact of the Companies Act 2006 and related regulations.

Andrew Vials, Chairman of the CCAB Steering Committee that oversaw the revision of the SORP, said: "The 'puttables amendment' to FRS 25 involves new accounting requirements that are complex and detailed, and determining their impact on LLPs has been challenging. The revised SORP has been updated to explain the potential effect of the new rules, using illustrative examples and guidance on the circumstances in which the various criteria for reclassification will or will not be met. In practice, fewer LLPs are likely to need to change their accounting than may have been expected at the exposure draft stage".

The CCAB notes that the IASB is shortly expecting to release an exposure draft on the topic of debt: equity classification and that it is possible that further changes may eventually arise in this area.

The revised SORP is applicable for accounting periods commencing on or after 1 January 2010 and is available for download [here](#).

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Notes to Editors:

1. CCAB comprises the six major accountancy bodies in the UK and Ireland:

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

2. CCAB provides a forum for co-ordinating views on a wide range of issues of interest to the accountancy profession in the UK and Ireland as a whole.
3. The revision of the SORP was undertaken by the CCAB's LLP SORP Working Party, chaired by Peter Saunders, overseen by the LLP SORP Steering Group.