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FAO: Sharon Grant

23 September 2021

Dear Madam

We are pleased to respond to your invitation to comment as part of the consultation on the draft January 2022 LLP SORP on behalf of PricewaterhouseCoopers LLP. We have considered each of the questions raised in the consultation and our specific responses to each question posed are contained within the Appendix to this letter.

Overall, we welcome the additional clarifications and guidance provided in the draft SORP which should lead to greater consistency in interpretation of the guidance. In particular, we are supportive of the working party's efforts to align the use of defined terms and the additional guidance on the determining whether or not an LLP has an unconditional right to avoid delivering cash or other assets to members. However, in some instances we feel the draft SORP could provide clearer guidance on these points and we have raised specific comments and suggestions on the language used as part of our response to the questions in the Appendix to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Peter Hogarth on peter.hogarth@pwc.com or **07770 917593**.

Yours faithfully
PricewaterhouseCoopers

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Appendix

Question 1: *Do you agree with the changes made to the definitions outlined in the SORP? In particular, the terms: division of profits, divided profits, discretionary division of profits and automatic division of profits. [Paragraphs 8 - 24]*

We agree with the principles proposed in these changes but note that the current definitions in paragraphs **11A** and **11B**, and subsequently throughout the SORP, include the term ‘debt due to members’, which may be misleading. For example, a division of profits could offset any drawings made on account rather than lead to separate recognition of a debt (i.e. liability) to members. However, we do agree that this is the point in time that crystallises that amount to the members. We would suggest references to ‘debt due to members’ in this context clarifies that this may reduce balances owed by the members.

Paragraph **12** provides a definition of ‘drawings’ for which the first sentence reads ‘*the payment in cash (or kind) of amounts to members*’. This sentence suggests that all payments of cash to members are drawings, however the last sentence differentiates a distribution of profits as not being drawings. It is therefore not clear if a ‘distribution of profits’ would be considered a ‘drawing’ and fall to be accounted for in accordance with the guidance provided in paragraphs 50H and 50I. There are two types of payments identified; it would be helpful to define each separately. A possible definition for drawings could be:

“Drawings are payments (in cash or kind) on account of profits that have not yet been divided and that do not represent a distribution of profits. Drawings may consist of regular monthly payments or ad hoc payments, for example, in respect of current year’s and/or prior years’ remuneration (as defined).”

In addition to having two distinct definitions, relevant sections of the SORP should be updated to clearly distinguish the two concepts, such as:

- paragraph **60** (illustrative reconciliation of members’ interests, where these are currently shown in one line); and
- paragraph **74A** (cash flow classification).

Question 2: *Do you agree with the proposed guidance to help determine when an LLP has an unconditional right to avoid delivering cash or other assets to members? [Paragraphs 31B – 31D 45C - 45D, 48A, 49E - 49F, 50A-50F]*

We agree with these changes but provide the following observations where there could be further clarification.

In paragraphs **31A-E**, the SORP refers to the process for allocating, dividing and distributing profits. The inference from the guidance is that an allocation does not, of itself, lead to an accounting consequence (which would occur when the profit is divided), but this should be clarified in the guidance.

The guidance in paragraph **31C** gives no indication of the typical process by which a division might occur and how this might be distinguished from an allocation, which might be beneficial to a user applying the SORP. In addition, we would suggest separating the guidance contained in the last sentence on post balance sheet events given this is not applicable to the paragraph as a whole and could be misinterpreted. In respect of paragraphs **50G** and **50H**, we would suggest the guidance provides the alternative treatment given for both scenarios. The second sentence in paragraph **50H** suggests that a members’



loan asset might be repaid or written off *in accordance with a members' agreement*. A user may interpret this to mean that writing off a loan asset from members needs to be considered in the members' agreement when in practice this could occur in a variety of ways (for example, when the LLP goes into liquidation, a partner retires or similar to the writing off of any other third party debtor). We would therefore suggest this qualification is removed.

Question 3: *Do you agree with the proposal to refer to the requirement for large LLPs and groups to produce an energy and carbon report? [Paragraphs 25A – 25C]*

We agree with the proposed guidance in respect of the requirement for large LLPs and groups to produce an Energy and Carbon Report.

Question 4: *Do you agree with the proposed changes to the guidance on cash flow statement presentation in paragraph 74A?*

We agree with the addition of further guidance in respect of the cash flow presentation in paragraph 74A as this aligns to guidance provided in FRS 102.

However, we disagree with the use of the terms 'share of profits' (which may not represent a cash flow) and 'automatic or discretionary distributions of profit' (which is not defined in the draft SORP). We would suggest the wording be aligned to terms used elsewhere in the SORP, and specifically cover drawings and distributions (as noted in our comments on question 1). In addition, we believe the new paragraph would benefit from additional guidance on what factors might differentiate or otherwise influence the determination of the appropriate presentation.

Question 5: *Do you agree that the proposed changes outlined in this document should come into effect for periods commencing on or after 1 January 2022, with early adoption permitted? [Paragraph 133]*

We agree that the proposed changes should come into effect for periods commencing on or after 1 January 2022, with early adoption permitted, given the draft amendments reinforce the existing guidance and should not lead to a change in the historic accounting applied by entities reporting under the SORP.

Question 6: *Are you aware of any other developments which might suggest that further guidance is needed in the SORP? In particular, where LLPs have wholly owned subsidiaries and prepare both group and solus accounts, the Steering Group is interested to hear views on whether there is a need for specific guidance in the SORP on how members' remuneration charged as an expense is measured in those accounts where members' agreements require group profits to be automatically divided and where members' agreements require only the LLP's own profits to be automatically divided.*

We are not aware of any other developments in respect of which further guidance should be included in the SORP, and do not believe there is a need for specific guidance on situations where the members' agreement provides for the automatic division of group profits given we are not aware of any examples of this in practice.

Question 7: *Do you have any other comments on the draft LLP SORP?*

We have no further comments on the draft SORP.