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CCAB – LLP SORP
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26 October 2023

Ref: DT/CCAB
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Dear Sir / Madam

Accounting by Limited Liability Partnerships Statement of Recommended Practice (draft LLP SORP)

Ernst & Young LLP welcomes the opportunity to comment on the Consultative Committee of Accountancy Bodies' draft LLP SORP. We have set out our detailed responses to the consultation questions in the Appendix to this letter.

Overall, we consider the proposed changes to be appropriate. However, in our view there are certain areas where additional clarification or guidance would be helpful, as outlined in the Appendix.

We would be happy to discuss our letter and the draft proposals with you. If you have any matters arising concerning the content of our response, please contact me on 020 7951 4079.

Yours faithfully,

Ernst & Young LLP

Danny Trotman
Partner – UK Head of the Financial Reporting Group
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Appendix

Question 1: Climate-related financial disclosures.

Do you agree with the updates made to the SORP to reflect the new requirements for certain LLPs to provide climate-related financial disclosures in either the strategic report, if one is prepared, or in the energy and carbon report otherwise? The key relevant draft paragraph is 25D.

We broadly support the changes made to reflect the new requirements for certain LLPs to provide climate-related financial disclosures. However, given the specific wording within the Regulations, it would be more accurate if the final sentence of paragraph 25D read "LLPs within scope of the climate-related financial disclosure requirements, must report this information in the strategic report, if one is required to be prepared, or in the energy and carbon report otherwise."

It may also be useful to provide the reader with a link to the non-binding guidance issued by the Department for Business, Energy and Industrial Strategy (Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs (publishing.service.gov.uk)).

Question 2: Amounts payable to former members.

As part of this review, the Steering Group considered whether it might be helpful to provide some guidance on certain narrow scenarios in which section 26 of FRS 102 might apply. One particular example that has been identified is when a former member will become entitled to a proportionate share of disposal proceeds in the event that the business of the LLP is sold within a specified timeframe after the member has retired. It is proposed that paragraphs 87A – 87C be added to the SORP and that changes are made to paragraphs 76, 76A, 76B, 78, 79C, 80, 80A and 80D (formerly paragraph 80A). The change to the flowchart in paragraph 76B, to refer to section 26 of FRS 102, does not appear as a marked-up change.

Do you agree that guidance is needed in the SORP to address certain narrow scenarios when section 26 of FRS 102 might apply? Do you agree with the proposed changes?

We are supportive of guidance being added to the SORP to address certain narrow scenarios in which Section 26 of FRS 102 might apply. Furthermore, we do not have any comments on the drafting of the text in respect of these changes.

We acknowledge that it may be the case that such share base payments arrangements are most likely to arise in the specific circumstances described. However, we believe that there may be other scenarios in which section 26 could apply, including when a member is still providing services to the LLP. Therefore, we suggest that it would be appropriate to consider introducing paragraphs 87A-87C in a more generic context instead, or as well as, in the context of amounts payable to former members.

Question 3: Sharing of group profits – interests in subsidiaries.

The Steering Group identified the need for further guidance in cases where a parent LLP has a subsidiary that is also an LLP and that will therefore need to be consolidated into the parent's group accounts. Guidance is proposed on the appropriate treatment of members' debt and equity interests in the subsidiary LLP for the purpose of determining whether a non-controlling interest in the net assets of the group is recognised. It is proposed that paragraphs 119A – 119F be added to the SORP to address this matter.

Do you agree that guidance on the appropriate treatment of members' debt and equity interests in the subsidiary LLP for the purposes of determining whether a non-controlling interest in the net assets of the group is recognised is needed in the SORP? Do you agree with the proposed changes?

Yes, we believe this change provides useful LLP specific guidance and we agree with the drafting of the proposed changes.

Question 4: Automatic division of profits to members who do not provide any substantive services to the LLP.

An LLP may have two distinct types of members, all providing capital to it: those that provide services in return for a share of profits and those that do not provide any substantive services, but still receive a share of profits. The Steering Group concluded that it would be helpful to provide guidance in the SORP on the treatment of profits which are automatically divided to members who do not provide any substantive services to the LLP. It is proposed that paragraph 34D be added to the SORP together with Example 11 in Appendix 2. On adding this guidance, the Steering Group also concluded that the distinction between members that provide services to the LLP and those that do not provide any substantive services to the LLP could be made clearer throughout the SORP. Therefore, reference to when a member does not provide any substantives services to the LLP has been updated throughout the SORP for clarity and consistency.

Do you agree that guidance is needed for situations where there is an automatic division of profits to members who do not provide any substantive services to the LLP? Do you agree with the proposed changes?

Yes, we agree that the inclusion of guidance is useful, and we agree with the substance of the proposed changes. However, we would highlight that although the changes proposed to the SORP are consistent with the requirements of FRS 102 (which have not changed) we believe it is possible that this could result in a change in practice for some LLPs given the absence of explicit guidance in the SORP previously.

With regards to the specific drafting of these changes, we would suggest certain clarifications as explained below.

Example 11 states that for those LLPs that have taken the option to apply the recognition and measurement provisions of IFRS 9, the remeasurement of the liability to pay future profits will, "most likely, be accounted for by applying the guidance in IFRS 9.B5.4.6." However, for those applying amortised cost accounting under sections 11 and 12, the wording as drafted does not refer to FRS 102.11.20, the equivalent paragraph in FRS 102. We believe the drafting would be improved if Example 11 referenced FRS 102.11.20 explicitly. Furthermore, assuming it is the intention that entities using amortised cost accounting would not apply FRS 102.11.19 or IFRS 9.B5.4.5, we suggest the wording should state clearly that the committee does not consider it appropriate to apply those paragraphs by analogy and why that is the case.

In addition to the above, we believe it would be useful to make some additional edits in Appendix 1, Exhibits A and D, to link the proposed additional text included in these scenarios with the proposed new guidance in paragraph 34D and Example 11. The edits to Exhibits A and D as drafted explain that some LLPs may make automatic distributions to members on the basis of a profit figure that differs from profits reported in the statutory financial statements and that this may result in members' remuneration charged as an expense for a period exceeding the profits generated in that period. We believe it would be helpful to be explicit that a loss may also arise in examples such as Example 11, as a result of the need to remeasure the liability to automatically divide profits at each reporting date to reflect the latest estimates of future cash flows. This will make the implications of the need to recognise and remeasure the liability to automatically divide future profits much clearer.

Question 5: Effective date

Do you agree that the proposed changes outlined in this document should come into effect for periods commencing on or after 1 January 2024, with early adoption permitted? [Paragraph 133]?

Yes.

Question 6:

Do you have any other comments on the draft LLP SORP?

No.