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Your ref

Our ref SR/JG

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Dear Steering Group

Response to the Draft Statement of Recommended Practice, Accounting by Limited Liability Partnerships ('Draft SORP'), issued in August 2023

We welcome the opportunity to respond to the CCAB's request for comments on the proposed revisions to the SORP and wish to thank the Steering Committee for their work in updating the SORP.

Our comments in respect of each of the questions set out on Pages 5 and 6 of the Draft SORP are included in appendix 1 to this letter.

Please contact Jake Green (jake.green@kpmg.co.uk) or Sam Roberts (sam.roberts2@kpmg.co.uk) should you wish to discuss any of our comments further.

Yours faithfully

KPMG LLP

Appendix 1

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 agree with the proposals and have no specific further comments.

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 agree that it is helpful to give some additional guidance on when section 26 may be applicable to amounts payable to former members. However, we have some comments on the drafting. In the revised paragraph 76A, in the final bullet point, we note the sentence states “If a cash-settled share-based payment arrangement relates to services received, the liability...”. We question whether the phrase ‘relates to services received’ is required? We note that the definition of a cash settled share-based payment transaction refers to the entity acquiring goods or services. The inclusion of the phrase ‘relates to services’ received may suggest to the user that there could be circumstances where share-based payment arrangements may arise even if goods or services are not delivered. We suggest the Committee considers refining the wording to prevent any potential misunderstanding in this regard. We also note that there are now examples of similar specific share-based payment arrangements contained in multiple paragraphs (in the penultimate part of paragraph 76, in paragraph 87A, and in paragraph 87D). As

paragraph 87D already includes examples of each possible type of post-retirement benefit we believe this paragraph may be the most appropriate place for the inclusion of the share-based payment example.

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?

We agree with the proposals and have no specific further comments.

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 substantive 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?

We note that this clarification, may in some cases, result in potentially significant changes to existing practice. For example, an LLP may previously have been recognising its

liability to members each period as the service was being delivered, even though that service could potentially be seen as non-substantive. Under these proposals, if the service is judged to be non-substantive, the LLP will now recognise a liability for changes in the present value of all the expected future cash flows to these members. In some cases, this amount could be significantly greater than the liability previously recognised. We recommend that the SORP committee consider whether this change may result in wider consequences, such as regulatory capital implications for some LLPs. We suggest the CCAB brings this change to the SORP to the attention of the FCA so they can consider any potential regulatory capital implications to the extent that they have not already done so.

Additionally, we have some more detailed drafting points. Firstly, we recognise the determination of what constitutes 'substantive services' may be complex and subjective. However, in our view, where a member is only providing capital, this does not constitute a service and therefore it may provide helpful clarity if this statement is included, assuming the Steering Committee agree. The revised paragraph 34D may be an appropriate place in which to make this statement.

Secondly, where automatic rights to receive certain economic benefits, typically profits of the LLP, are held by members who are not providing a substantive service, the existing profit and loss account and financial statement disclosures do not require splitting out the 'Members remuneration charged as an expense' between those amounts that relate to interests associated with a service and those amounts that relate to interests that are not associated with any substantive service (those that are purely a return on capital). We believe the users of the financial statements may find this informative, especially if the proposed clarifications are finalised. We suggest the Steering Committee consider whether there is a need for additional disaggregation in the context of FRS 102.3.15 and 3.16. We note that paragraph 6, page 64, Example 11, may need to be amended in conjunction with this suggestion to ensure consistency within the body of the draft SORP.

Finally, we believe the guidance that refers to embedded derivatives, which is included in example 11 on page 64 could be usefully simplified. Paragraph 36(4) of Schedule 1 to the Regulations, states "financial instruments which under UK-adopted international accounting standards may be included in accounts at fair value, may be so included". As FRS 102 requires non-basic instruments to be measured at fair value, we interpret the law as meaning that if an instrument could be accounted for under IFRS at fair value, it must be accounted for at fair value under FRS 102. Accordingly, where the variability is dependent on profit, and the entity concludes that profit is a financial variable, we expect that the instrument would fall to be accounted for at fair value under FRS 102. A



statement to this effect, or an example that gives this conclusion, may provide greater clarity to users of the SORP.

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]

We agree with the proposals and have no further comments.

Question 6:

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

We have no further comments.