

27 October 2023

CCAB – LLP SORP
Moorgate Place
London
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via email: executive.office@ccab.org.uk

Dear Sirs,

LLP SORP Consultation - October 2023

RSM is a leading provider of audit, tax and consulting services to middle market leaders, globally, with over 4,900 partners and staff operating from 31 locations throughout the UK.

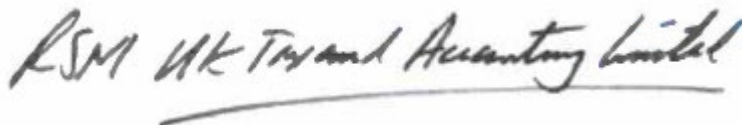
We welcome the opportunity to comment on the latest proposed amendments to the LLP SORP which should bring consistency and clarity to some of the challenging accounting issues facing LLPs.

We do however have significant concerns about the consequences of some of these changes and that certain LLPs may desire to make contractual changes to their members agreement to minimise the impact of them. As such we consider the effective date should be deferred to allow for this by aligning it with the periodic review of FRS 102.

Our responses to the questions in the consultation are set out in appendix 1.

Should you wish to discuss any matters included in this letter, please contact Danielle Stewart OBE, Head of Financial Reporting at DanielleStewartOBE@rsmuk.com.

Yours faithfully,



RSM UK Tax and Accounting Limited

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Appendix 1 – detailed responses

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 proposed SORP updates, however, we encourage additional cross referencing to the relevant BEIS guidance ([Climate-related financial disclosures for companies and limited liability partnerships \(LLPs\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps)) to help promote the connection of these Climate-related financial disclosures with the SECR disclosures. This would be consistent with the cross references added to paragraph 25A to the equivalent SECR guidance.

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 guidance should be provided in the SORP to address these LLP specific narrow scenarios.

However, we believe that the guidance could be improved to acknowledge the considerable business, accounting and valuation complexities, and more clearly explain the accounting under different scenarios, eg

1. when all members obtain this benefit immediately upon becoming a member;
2. when all members require to provide a specified period of service, eg upon 5 years or 10 years service;
3. when members only receive the benefit when invited to become a senior partner, eg with managing partner or board approval of the provision of the benefit; and
4. conditions specify the leaver must be a “good leaver” and/or be retiring rather than leaving for a competitor – clarifying whether such a condition provides a service condition and hence vesting period;

It would also be helpful if the reference in 87B to “remuneration expense” was more specific to address the classification of the expense, ie it would form part of members remuneration charged as an expense whilst a member, and similarly 87C should clarify where in profit or loss the remeasurement of the liability would be classified for both current and former members.

Further, it would be helpful if paragraph 87C clarified the classification of the liability element on the balance sheet, ie when it forms part of amounts due to members and when it forms part of current or non-current liabilities, and additional suggested disclosure of amounts due to members, to distinguish between amounts which may be drawn, and those relating to the share-based payment.

We also note the example provided in paragraph 76 of a disposal of the business of the LLP is different from the example provided in paragraph 87A which is an IPO. Whilst the use of different examples is useful, an IPO of an LLP is rare in our experience.

The final sentence of the 3rd part of paragraph 76 could be clearer if the following reordering were made:

For an LLP, an example of a share-based payment might be where a former member is entitled to a specified percentage of disposal proceeds if the business of an LLP is sold within a specified period following the member's retirement, to be paid by the LLP to the former member ~~within a specified period following the member's retirement~~.

We suggest that in paragraph 87B, the word distributed should be replaced with divided, to be consistent with the definitions of division and distribution in paragraph 31B, ie

In situations where all profits have already been divided ~~distributed~~, this would result in a loss being recognised.

We note the question says changes are made to “80A and 80D (formerly paragraph 80A)”, however we have read this as 80A and 87D (formerly 87D)” as 87A – 87C have been inserted, and there is no paragraph 80D.

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 Steering Group that additional guidance on this topic would be helpful, however we believe it would be more useful for users if the guidance was summarised into succinct tabulated guidance such as the following table:

Treatment of Non-controlling interests

Scenario	Parent is an LLP	
	Income statement	Statement of financial position
Profit sharing treatment:		
Profit of the subsidiary LLP automatically divided		
Profit of the subsidiary LLP available for discretionary distribution and profit allocation ratios predetermined or profits divided and allocated pre-year end		
Profit of the subsidiary LLP available for discretionary distribution without predetermined ratio and no decision to divide taken by year end.		

We have the following suggestions on paragraphs 119B, C, E and F:

119B - Add ‘whether capital classified as a liability or undistributed but divided profits’ after members debt interests in the first row, ie

119B. In the group accounts of the parent LLP, members’ debt interests whether capital classified as a liability or undistributed but divided profits in the subsidiary LLP will not give rise to non-controlling interests. Only members’ equity interests in the subsidiary LLP, not attributable directly or indirectly to the parent, are recognised as non-controlling interests.

119B - The paragraph could conclude by explaining that a statement of changes in members interests cannot be presented in place of a statement of changes in equity as the members of a parent LLP do not include the non-controlling members.

119C - Delete ‘shareholder’ from the final sentence.

119E - Delete ‘shareholder’ from the end of the first sentence.

119E - Delete the second sentence as we believe this is assuming why a group is structured in the manner the SORP has envisaged, whereas such reasons may be unique to each business; furthermore such group structuring may be tax sensitive, and not appropriate for the SORP.

119F - It is not clear when referring to ‘Such a conclusion...’ which conclusion is being referred to. The preceding paragraph is a long example which should draw to its own conclusion, however, closes with essentially a comment that “*it depends*”. Nevertheless, the final sentence of 119F shortcuts the steps of allocation and division. The allocation and division of the amounts in equity should result in a transfer to amounts due or from members. Payments would then be debited against amounts due to / from members.

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?

Example 11 sets out the financial reporting challenges faced by an LLP that has agreed to provide a fixed share of (typically uncertain) profits to investors who provide funding without also providing substantive services.

Whilst we do not disagree with the accounting analysis, we note it may have considerable impact on certain LLPs. For example, this is becoming increasingly common with private equity investment in professional services firms, and many LLPs also have corporate members.

However, members who provide funding may still partake in the strategic decisions – eg setting the parameters for what profile the investment portfolio should take. Certain strategic decisions may also require approval of a specified proportion of the members – it is therefore essential to provide guidance as to what ‘substantive services’ means, as this could be a significant judgement that results in divergence in practice.

Furthermore, such funding may appear to be an equity like return as it carries substantial risk, and provides a share of future profits with no guarantee of receiving a return on investment. It would therefore be helpful if example 11 explained why the puttables exception would not apply to such a situation and/or if the puttables exception should be considered.

Example 11, 4th paragraph, we consider it unnecessary to include the words ‘the embedded derivative, being’

Example 11, final sentence of 2nd paragraph: service should be services

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 understand the SORP Steering Group have considered the need to issue the changes due to divergence in practice as well as questions posed by respondents to earlier consultations. Where there is material divergence in practice on the points of clarification provided by the SORP, correcting this will also have material impact on some preparers, and potentially their investors.

Aligning to the methods described in the updated SORP may also have impacts beyond the financial statements, eg capital adequacy for investment firm LLPs, taxation of the members, and on the return payable to current and former members. Where profit shares are impacted, negotiations may be needed to confirm how profits will be allocated in an equitable manner. Furthermore, the adjustments themselves eg adjusting the carrying value of liabilities, as well as how the adjustments are processed may also have taxation implications, eg a change from one valid basis to another or correction of an error.

Given the material impact the adjustments may have, we believe it is necessary to provide a longer lead time (whilst allowing early adoption). As the need to potentially adjust comparatives, and that the closing date for responses is the end of October 2023, we believe applying the revised SORP to periods commencing on or after 1 January 2024 is simply too soon, as the comparative period has already begun and may well be closed by the time the SORP is published. Given the need to restate comparatives, and consider valuation movements in the comparative, 2025 would also be potentially impractical.

We therefore encourage the Steering Group to consider aligning the changes with the timetable for the periodic review of FRS 102.

It would be helpful to clarify if changes to align to the SORP would be expected to be accounted for as a change in accounting policy, or if it is a clarification of what FRS 102 has always required, and thus adoption will be correction of an error.

Question 6:

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

We have no other comments.