7 January 2014

Dear Sirs

Response to Draft Statement of Recommended Practice: Accounting by Limited Liability Partnerships

We are grateful for the opportunity to comment on the Draft Statement of Recommended Practice: Accounting by Limited Liability Partnerships. We have responded to the specific questions in appendix 1 and set out certain other comments in appendix 2.

If you wish to discuss any of the points raised, please contact Lynn Pearcy on 020 7694 8075.

Yours faithfully

KPMG LLP

Enclosures:
Appendix 1: Responses to specific questions raised in the draft SORP
Appendix 2: Other comments on the draft SORP
Appendix 1

Responses to specific questions raised in the draft SORP

Question 1:
Do you agree that the guidance provided in this draft SORP is helpful in applying the requirements in FRS 102? If not, how do you think it could be improved?

We are generally happy with the draft SORP and, subject to both our responses to the questions below and our other comments in Appendix 2, agree that it is helpful in applying the requirements in FRS 102.

Question 2:
Do you agree that changes to current UK GAAP have been adequately reflected in this draft SORP?

Yes.

Question 3:
The guidance on business combinations and group accounts in paragraphs 102-119 has been updated to reflect the fact that FRS 102 only allows merger accounting to be used for group reconstructions. Is the revised guidance clear? Does it adequately reflect FRS 102’s new requirements? If not, why not?

FRS 102 requires all business combinations to be accounted for using the purchase method except in two circumstances. The first exception is a group reconstruction which “may” be accounted for using merger accounting. For this aspect we believe that paragraphs 102 to 119 of the draft SORP adequately reflect FRS 102 and are clear.

However, under FRS 102 paragraph 19.6 there is a second exception that “public benefit entity combinations that are in substance a gift or that are a merger […] shall be accounted for in accordance with Section 34” of FRS 102.

Although it is likely to be rare for a LLP to be a public benefit entity, as defined in FRS 102, this would not be impossible. Whilst we would not expect the updated SORP to contain any detailed guidance on public benefit entities, we believe that some acknowledgement of the second exception should be made, such as appropriate footnotes to paragraphs 105 and 106 making clear that the second exception exists, and that it could be relevant (and would be available) if a LLP was a public benefit entity as defined in FRS 102.
Question 4:
The guidance on contractual or constructive obligations (paragraph 76) and annuities (paragraph 80) has been updated to reflect the fact that FRS 102’s requirements relating to financial liabilities differ from current UK GAAP requirements. Is the revised guidance clear? Does it adequately reflect FRS 102’s new requirements? If not, why not?

We believe that there is one aspect of the guidance on contractual or constructive obligations (paragraph 76) and annuities (paragraph 80) in which it is not clear whether it adequately reflect FRS 102’s new requirements.

This is in respect of paragraph 80C. That paragraph notes that in practice, obligations to make post-retirement payments to members will often reflect significant mortality risk and that, where this is the case, it is likely that the LLP will historically have accounted for the obligations as provisions within the scope of FRS 12. On adoption of FRS 102, the obligations will now fall within the scope of FRS 103. The last sentence then states that, on transition to FRS 102, the LLP will be permitted to continue its previous accounting policies.

We presume that that is the CCAB’s conclusion drawn from paragraphs 2.2 and 2.3 of the draft FRS 103 but believe that the basis for this conclusion should be set out clearly so that LLPs may be sure of the rationale for this approach.

Question 5:
Although it does not relate to the introduction of FRS 102, it was felt appropriate to update the guidance on analysing puttable instruments to reflect the fact that many of the issues associated with the introduction of FRS 25 and the subsequent ‘puttables amendment’ are now behind us. The basic accounting remains unchanged. As part of this process, the flowcharts in appendix 3 of the SORP have been removed. Is the revised guidance clear? Do you agree with the removal of the flowcharts? If not, why not?

We believe that the guidance is clear and that it was appropriate at this stage to remove the flowcharts that previously appeared in appendix 3.
Appendix 2

Other comments on the draft SORP

1. Footnote 3 to paragraph 1 of the draft SORP refers to FRS 101. It summarises that LLPs adopting FRS 101 Reduced Disclosure Framework will apply the recognition and measurement requirements of IFRS but with reduced disclosures. Their financial statements are nonetheless considered to be UK GAAP financial statements as applying the disclosure exemptions prevents them from complying fully with IFRS. This is perhaps an over-simplification of FRS 101 since FRS 101 entities must apply modified recognition and measurement requirements of IFRS.

2. Paragraph 26 of the draft SORP states that the “financial statements, as defined by the LLP Regulations and accounting standards, should, subject to the exemptions for small and medium-sized entities, comprise: ...” Whilst there are some exemptions for small entities, we are not aware of any exemptions from the items listed in paragraph 26 for medium-sized entities. Hence we would suggest that “and medium” be deleted from this paragraph.

3. As in the existing SORP, paragraph 25 of the draft SORP requires LLPs to include a Members’ Report as part of their annual report, with paragraphs 30 and 69 setting out the detailed disclosure requirements for this report. This report is not mandated by the LLP Regulations and is therefore “gold-plating” of the law. Whilst such a report is clearly helpful and should be encouraged we do not believe that a separate Members’ Report is actually required and therefore LLPs should have some flexibility in deciding where to include these disclosures.

4. Paragraph 76A of the draft SORP states in (a) and (b) that section 11 of FRS 102 requires liabilities within its scope to be measured at amortised cost using the effective interest method and that section 12 of FRS 102 requires liabilities within its scope to be measured at fair value. This paragraph of the SORP appears to be somewhat incomplete, since both sections permit entities alternatively to apply the recognition and measurement provisions of either IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) or IFRS 9 Financial Instruments. These choices should be referred to in a footnote.

5. Footnote 12 to paragraph 76A(a) of the draft SORP states that “This approach is broadly similar to that previously required by FRS 4 Capital Instruments, though there are some differences; e.g. issue costs are expensed at the outset instead of forming part of the effective interest expense”. We are unclear of the basis for this statement since FRS 102 11.13 and 11.18 require transaction costs to be included in the initial measurement and then included as part of the effective interest rate (other than for instruments carried at FVTPL).

6. Paragraph 76A of the draft SORP refers in (d) to the requirements of FRS 103. See our response to question 4 in Appendix 1.

7. The draft SORP has no paragraph 79.
8. Paragraph 118 of the draft SORP refers to the fact that the disclosures required by SI 2008 No 1913/1912 will need to be given. It would be more helpful if the specific paragraphs of the SIs it is referring to were stated.

9. Footnote 19 to paragraph 124 of the draft SORP refers to paragraph 11.2 of FRS 102. Reference here should also be made to paragraph 12.2 of FRS 102.

10. It is not clear to us, nor is it being explained in the Basis for Conclusions, why the statement in paragraph 130 of the existing SORP that designated members are likely to be related parties of a LLP and the reference in paragraph 131 concerning members acting in concert have been removed.

11. Since the requirements of FRS 3 paragraph 20 (c) for separate presentation of the profit or loss on disposal of fixed assets no longer exists under FRS 102, it is not clear why in Exhibits C to F in Appendix 1 profit or loss on disposal of fixed assets continues to be shown separately below the sub-total for operating profit.