



## **De-regulatory changes for Limited Liability Partnerships (LLPs) and Qualifying Partnerships**

ICAEW welcomes the opportunity to comment on *De-regulatory changes for Limited Liability Partnerships (LLPs) and Qualifying Partnerships* published by the Department for Business Innovation and Skills (BIS) on 20 November 2015, a copy of which is available from this [link](#).

This response of 21 December 2015 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2015  
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact [frfac@icaew.com](mailto:frfac@icaew.com)

[icaew.com](http://icaew.com)

## MAJOR POINTS

### Support for consistency

1. Overall, ICAEW agrees that the Government should amend the accounting and audit regulatory framework for LLPs to mirror the recent changes to the framework for limited companies ie, the introduction of the micro-entities regime and amendments arising from the implementation of the new EU Accounting Directive. In our view, having different rules for LLPs and companies represents an additional burden on business and is most unwelcome.

### Monitoring the long term implications

2. Notwithstanding our support for this course of action, ICAEW continues to have concerns over the long term implications of the micro-entities regime and the revised regime for small companies. In particular, the impact of (a) the reduced information included in micro-entity accounts, or indeed abridged accounts under the revised small companies regime, on the ability of businesses to access finance, and (b) the limited disclosure requirements under the revised small companies regime in the context of the responsibility of directors to ensure that accounts show a true and fair view.
3. Therefore, although we believe that there are important benefits to aligning the framework for LLPs with the recent changes for limited companies (see paragraph 17), we continue to urge BIS to monitor the effects of the revised regime over time, particularly in terms of the quality of financial statements produced by small and micro entities. Any findings in this regard will be important when the impact of the Accounting Directive is in due course reviewed by the European Commission.

### Audit exemption

4. We understand that BIS is still considering whether or not the audit exemption thresholds for small companies should, for accounting periods beginning on or after 1 January 2016, remain aligned with the accounting thresholds for small companies. However, when finalised, we agree that the audit exemption threshold for small LLPs should be aligned with the agreed audit exemption threshold for small companies.

### Timing

5. We welcome the publication of this consultation paper and the commitment to amend the regulations in 2016. It is unfortunate, though, that the process for updating the LLP regulations has, to date, been subject to significant delay. This has made it difficult for LLPs to plan ahead, resulting in costs and uncertainty for business that could, in our view, have been avoided. It is also likely to have an impact on the proposed option for early adoption of the revised regulations (see paragraphs 10 - 11). It is important for BIS to now ensure that the LLP regulations are updated without any further undue delay in order to avoid uncertainty and costs for business.

## RESPONSES TO SPECIFIC QUESTIONS

### Question 1:

**Do you agree that the Government should maintain the alignment between the accounting and audit regulatory frameworks for LLPs and limited companies as implemented by the 2015 Regulations?**

**Yes, No**

**Please provide information in support of your answer.**

6. Yes, we agree that the Government should maintain the alignment between the accounting and audit regulatory frameworks for LLPs and limited companies as implemented by the 2015 Regulations. Indeed, in our response (140/14) to the 2014 BIS consultation *UK Implementation of the EU Accounting Directive* we suggested that the UK Government should make a clear commitment that any changes in the company accounting framework should also be extended

to the separate LLP Regulations. In our view, having different rules for LLPs and companies, even temporarily, would represent an additional burden on businesses and be most unwelcome.

7. However, we are aware of one area where alignment of the LLP regulations with the recent changes to UK company law would not be particularly helpful – merger accounting. Currently, the LLP regulations permit merger accounting to be adopted provided it accords with generally accepted accounting practice. This requirement in law is well understood and works well in practice. Therefore, we recommend that the LLP regulations remained unchanged in this one respect to avoid adding unnecessary complexity and confusion.

**Question 2:**

**What opportunities or challenges do you feel maintaining the reporting alignment between LLPs and limited companies will present for preparers and users of accounts? For example, you may wish to comment on any line items that should be retained if small LLPs have the choice of preparing an abridged balance sheet and profit and loss account where this has been agreed by all members of the LLP.**

**Please provide information in support of your answer.**

8. As noted above, ICAEW continues to have concerns over the preparation of abridged accounts. However, we acknowledge that the option to prepare abridged accounts is now established in law for small companies and that it can only be applied if agreed by all members. Therefore, on balance, we agree that it should also be made available to small LLPs as an optional regime that must also be agreed by all members.
9. The consultation document does not make it clear what line items the Government is proposing for LLP abridged accounts. We believe it will be very important for an abridged LLP balance sheet to make clear how the net assets of the LLP are attributable to members ie, to provide a clear distinction between debt and equity.

**Question 3:**

**It is anticipated that the regulations will come into force in the summer of 2016. Would LLPs and Qualifying Partnerships find it helpful if the regulations permitted early adoption of the revised framework for financial years commencing on or after 1 January 2015 where these had not been agreed prior to the regulations coming into force?**

**Yes, No**

**Please provide information in support of your answer.**

10. Yes, we believe that early adoption of the revised LLP regulations should be available for financial years commencing on or after 1 January 2015. In particular, early adoption is likely to be attractive for groups that include both companies and LLPs, where companies within the group are choosing to early adopt the changes to UK company law, to take advantage, for example, of the revised small company thresholds and revised small companies regime.
11. However, we note that in order for early adoption to work in practice (particularly for LLPs with a 31 December 2015 year-end) it is crucial that the LLP Regulations are updated as soon as possible and certainly by say April 2016, with no further delays. In our view, updated regulations issued as late as August/September 2016 would make it very difficult for LLPs to plan properly for preparation of December 2015 accounts, particularly as it may take time for accounts preparation software and accounting guidance (ie, the LLP Statement of Recommended Accounting Practice) to be updated in time for the changes to legislation.

**Question 4:**

**Do you agree that the Government should introduce a micro-entity regime for LLPs which will allow LLPs that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than the small LLPs?**

**Yes, No**

**Please provide information in support of your answer.**

12. Yes, we agree that the Government should introduce a micro-entity regime for LLPs. However, as discussed above, we continue to encourage BIS to monitor the impact of the micro-entities regime over time in order to assess the effect on those entities adopting the regime, for example in relation to access to credit.
13. We note that Annex 1 of the consultation document refers to micro-entity accounts as 'micro-entity abridged balance sheet and profit and loss accounts.' The use of 'abridged' in this context is unhelpful and may create confusion. In addition, it is not clear why the proposed micro-entity balance sheet format does not include line items for 'prepayments and accrued income' and 'accruals and deferred income', both of which appear as line items in the micro-entity balance sheet formats for limited companies.
14. Similarly, the proposed micro-entity profit and loss account format refers to 'value adjustments', whereas this is referred to as 'depreciation and other amounts written off assets' in the micro-entity profit and loss account format for limited companies.

**Question 5:**

**Do you agree that the Government should introduce a micro-entity regime for Qualifying Partnerships which will allow Qualifying Partnerships that meet the eligibility criteria to access a less burdensome regulatory and administrative regime than small Qualifying Partnerships?**

**Yes, No**

**Please provide information in support of your answer.**

15. Yes, following the logic of our response to question 4, we agree that the micro-entities regime should now be extended to Qualifying Partnerships.

**Question 6:**

**Do you agree that all LLPs that have transferable securities admitted to trading on a regulated market in an EEA State should be required to file an audit report in respect of their accounts?**

**Yes, No**

**Please provide information in support of your answer.**

16. Yes, we agree that LLPs that have transferable securities admitted to trading on a regulated market in an EEA State should be required to file an audit report in respect of their accounts.

**Question 7:**

**What one-off or recurring costs and benefits to LLPs, do you see arising from updating the reporting regime for LLPs? Please describe and if possible provide evidence of the scale of the identified costs and benefits.**

17. As with any change, there will be associated costs. These are likely to include, for example the cost of updating internal systems and processes, updating accounts preparation software, and training costs. However, in our view, the costs of having different accounting frameworks, even temporarily, for companies and LLPs are far more significant. For example, the ongoing cost of training and alerting preparers, practitioners, and users of the differences between the two frameworks. Aligning the accounting framework for LLPs and companies will, in our view, reduce training costs over the long run.
18. We would also like to take this opportunity to recommend that when future changes to the accounting framework for companies are under consideration, BIS considers updating the LLPs regulation at the same time. As noted above, there are important benefits to keeping the frameworks for companies and LLPs aligned as far possible. Furthermore, we believe that addressing changes as part of the same consultation process would be more effective and efficient for both business and BIS.

**Question 8:**

**How will your organisation familiarise itself with the update of the LLP reporting regime and the introduction of a micro- entity regime for LLPs and Qualifying Partnerships? Please provide details of who will be involved, how long you expect this task will take them and data on pay levels of those involved (if possible).**

- 19.** ICAEW will be monitoring developments with the updated LLP reporting regime and providing guidance to its members in due course. Guidance such as this is produced internally by ICAEW staff with input from a wide range of expert volunteers working pro bono in the public interest.

**Question 9:**

**What impact do you believe the reduction in the number of mandatory notes for small LLPs will have on your organisation? Please describe and (if possible) provide evidence of the size of this impact.**

- 20.** Notwithstanding our concerns outlined above, we believe that the LLP Regulations should be updated to include the reduction in mandatory notes for small LLPs. However, we continue to urge BIS to monitor the effects of the revised regime, particularly in terms of the quality of financial statements produced by small entities. Changes at a future date to the Accounting Directive might be necessary if the new regime is judged to have had negative financial reporting or wider economic impacts.

**Question 10:**

**If you are an LLP, do you believe your organisation would be likely to take advantage of the flexibility to prepare an abridged balance sheet and an abridged profit and loss account?**

**Yes, No, Not sure, Not applicable**

**Please provide information in support of your answer.**

- 21.** Not applicable.

**Question 11:**

**What one-off or recurring costs and benefits do you see arising from a micro-entity accounting regime for LLPs and Qualifying Partnerships? Please describe the costs and benefits to these entities and others, and if possible provide evidence of the size of the identified costs and benefits.**

- 22.** Please see our response to question 7 for our views on the costs and benefits of aligning the accounting frameworks for companies and LLPs.
- 23.** In addition, as noted in our response to question 4, we encourage BIS to monitor the micro-entities regime over time to assess the effect (and potential costs) on those entities adopting the regime, for example in relation to access to credit.

**Question 12:**

**What proportion of eligible LLPs and Qualifying Partnerships would you expect to take advantage of the micro-entity regime? Please provide supporting evidence for your view.**

- 24.** Although we are unable to comment in detail on the proportion of eligible LLPs and Qualifying Partnerships expected to take advantage of the micro-entity regime, we have reflected on the uptake, to date, by eligible companies. In this respect, we understand that since the regime was introduced, the number of micro-entity accounts filed at Companies House has, and continues to, increase month-by-month. It may be that a similar trend emerges for LLPs and Qualifying Partnerships.
- 25.** In addition, it may be that under the revised accounting framework for small and micro-entities, effective for accounting periods beginning on or after 1 January 2016, the micro-

entities regime and the related new accounting standard FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, becomes a more attractive option when compared to the more complex accounting requirements under FRS 102 *The Financial Reporting Standard applicable to the UK and Republic of Ireland*.