

Need to know

Amended accounting rules for Qualifying Partnerships

In a nutshell

- The Partnerships (Accounts) Regulations 2008 have been amended to bring UK law into line with the underlying European legislation. The changes are set out in the Companies and Partnerships (Accounts and Audit) Regulations 2013.
- UK limited partnerships where all of the general partners are limited companies are now to be treated as "Qualifying Partnerships". This may trigger a requirement to prepare and make public statutory financial statements which comply with IFRS as adopted in the EU or UK GAAP, unless they are included within a consolidated set of financial statements prepared for an EEA Group.
- Qualifying partnerships (whether newly treated as such or otherwise) which are large or medium-sized will also need to prepare a Strategic Report instead of the Business Review in their existing Partners' or Members' Report.
- These changes apply for financial years commencing on or after 1 October 2013.

Changes to the definition of a Qualifying Partnership

In 2010, the Department for Business, Innovation & Skills ("BIS") announced its intention to amend the Partnerships (Accounts) Regulations 2008 to bring UK law into line with the underlying EU legislation. Under the current version of the Partnerships (Accounts) Regulations 2008, it is unclear whether UK limited partnerships fall into the definition of a "Qualifying Partnership" or not. Many UK partnerships took the view that as long as any partner (limited or general) was not regarded as a body corporate under UK law then it did not fall within the definition of a Qualifying Partnership. The law has now been amended to make clear that for periods beginning on or after 1 October 2013, it is only the status of the general partners in a limited partnership that matters.

In addition to maintaining a degree of confidentiality, preparing accounts in accordance with appropriate accounting principles clearly set out in the partnership agreement, rather than complying in all respects with a financial reporting framework (i.e. IFRS as adopted in the EU or UK GAAP), has also meant that the requirement to consolidate a partnership's controlling interest in an entity did not apply.



Private equity funds, in particular, often have investors who are more interested in the fair value of investments than their underlying trading and assets.

The new definition states that a Qualifying Partnership is a partnership formed under UK law, each of whose members, or in the case of a limited partnership, each of whose general partners is:

- A limited company (or comparable undertaking in a foreign jurisdiction);
- An unlimited company each of whose members is a limited company (or comparable undertaking in a foreign jurisdiction);
- A Scottish unlimited partnership (or comparable undertaking formed under local law) each of whose members is a limited company; or
- A Scottish limited partnership (or comparable undertaking formed under local law) each of whose general partners is a limited company.

For example, where a fund structured as a UK limited partnership has only one general partner, which is itself a Scottish limited partnership with only a single limited company as its own general partner, the UK limited partnership will be considered to be a Qualifying Partnership.

Consequences of being a Qualifying Partnership

A Qualifying Partnership must, unless exempt:

- within nine months of its year end, prepare financial statements, a members' or general partners' report and, unless small, a strategic report in accordance with the requirements of the Companies Act 2006;
- have their financial statements audited (unless they meet the Companies Act exemption criteria on grounds of being small, dormant, or a guaranteed subsidiary); and
- make public those financial statements and report(s) (see below).

The only exemption from these requirements is where a Qualifying Partnership has been dealt with on a consolidated basis in the audited financial statements of a parent undertaking incorporated in an EEA member state. Those consolidated parent financial statements must disclose that advantage has been taken of this exemption.

Publication requirements

The law on the publication of financial statements of Qualifying Partnerships has changed for both existing Qualifying Partnerships and those caught by the revised definition.

If a Qualifying Partnership prepares statutory financial statements and report(s), those financial statements and report(s) must be appended to the financial statements of each "member (or general partner, for a limited partnership)" that is a UK company and filed with Companies House. If none of its "members (or general partner, for a limited partnership)" are UK companies, or companies incorporated in another EEA state which have filed the Qualifying Partnership's financial statements with their equivalent of Companies House, then the accounts must be made available:

- at any UK principal place of business of the Qualifying Partnership;
- if there is no UK principal place of business, at the principal place of business or head office of any member (or general partner, if a UK limited partnership) in the UK; or
- if neither the Qualifying Partnership nor any of its members (or general partners, for a limited partnership) has a place of business or head office in the UK, at a UK address nominated by the members (or general partners).

More information

The amendments described above are made by regulation 4 of the Companies and Partnerships (Accounts and Audit) Regulations 2013, which can be found [here](#). They amend the original Partnerships (Accounts) Regulations 2008 which can be found [here](#).

As with limited companies, the business review within the members' report will be replaced by a strategic report. More details can be found in our guide for unlisted companies' strategic reports, available [here](#).

This will be a change for existing non-exempt UK Qualifying Partnerships that only have offshore partners.

Things to consider

- Partnerships which may now be Qualifying Partnerships may wish to explore options to restructure so that they do not meet the revised definition. For example, for a fund it may be possible to add a UK Limited Liability Partnership (LLP) as a second general partner of the fund or, where the fund's general partner is in turn a limited partnership, as a second general partner in that partnership – which would address the definition at both levels. For partnerships with December year ends, any restructuring would need to be completed before 31 December 2014 to preserve a partnership's position as a non-Qualifying Partnership.
- The standard VAT model for private equity limited partnerships revolves around a limited partnership with a single general partner; limited partnerships with more than one general partner are not covered by existing HMRC VAT guidance. Whilst we would not expect the introduction of a largely passive second general partner to impact the VAT position of the fund (whether onshore or offshore), the VAT implications will need to be reviewed.
- Where a limited partnership is newly treated as a Qualifying Partnership, but wishes to take advantage of the exemption on grounds of being dealt with on a consolidated basis in a parent's consolidated financial statements, the general partner will wish to check that the relevant disclosures will be made in notes to those consolidated financial statements.
- For fund partnerships that have previously prepared non-GAAP accounts that do not consolidate subsidiaries, it may be worth exploring use of the investment entities exemption in IFRS 10 or, for UK GAAP, a move to FRS 102 which also contains an investment entity exemption. The exemption criteria are different in each case. This may mitigate some of the more significant costs likely to be incurred if group accounts were otherwise required to consolidate a fund partnership's controlling interest in entities.
- Funds which are also Alternative Investment Funds which will be newly regulated within the EU will want to consider whether the accounts required by the Partnerships (Accounts) Regulations 2008 (as amended) meet the requirements of section 3.3 of the FCA's new FUND sourcebook.

Further information

Further information on the new legislation for qualifying partnerships as well as other UK accounting, reporting and corporate governance news can be found at www.ukaccountingplus.co.uk

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