CHARITY COMMISSION
FOR ENGLAND AND WALES

OSCR
Scottish Charity Regulator

CIPFA

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Dear Mei,

FRED 67: Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

The Charity Commission for England and Wales and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for UK charities, and this response to the consultation is made in that capacity. Our detailed responses to the questions posed in the invitation to comment are set out in the attached annex.

The response to the consultation on the FRC's approach to changes in IFRS was considered by our SORP Committee at its last meeting. Our comments incorporate the views and advice we have received from this committee. The response also incorporates stakeholder feedback gathered from the 2016 SORP research exercise. The research exercise identified specific implementation issues in both FRS 102 and the Charities SORP (FRS 102) which have been fed into our assessment of the proposals within FRED 67 and the approach taken by the FRC in their review of UK GAAP.

We welcome this opportunity to offer feedback and are pleased to note the attention and consideration given by the FRC to stakeholder feedback, evident within the background to the changes proposed in FRED 67.

We anticipate that the changes will have a limited impact on the financial statements of charities reporting under FRS 102. However, our comments to the consultation questions report our concerns about the impact of some of the proposed changes for charities, and where our assessment of the proposals indicates potential unintended consequences specific to the charity sector.

We offer suggestions on how these could be revised or amended in order to remain appropriate to the charity sector and the information needs of users of charities reports and accounts. In several cases we have suggested that greater discretion should be given to SORP-making bodies to adapt or modify these requirements to enable them to deliver a solution which is suitable for their particular sector or industry, but which nonetheless still fits with the principles of the underlying standard.

We support the FRC’s assessment of the proposals and their aim of providing a more cost-effective version of the standard. However, we remain concerned about the impact of any changes on the reporting regime for those smaller charities which are within the scope of FRS 102. The wider impact of these changes and their associated transitional costs for these charities can be significant, and can have adverse consequences for those supporting these organisations on a voluntary basis. Therefore we look forward to working with the FRC on amending the current SORP to ensure these changes can be interpreted and applied by all charities efficiently and economically.

Yours sincerely,

Nigel Davies
Joint Chair of Charities SORP Committee
Head of Accountancy Services
Charity Commission for England and Wales

Laura Anderson
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Office of the Scottish Charity Regulator

Annex to Charities SORP-making body's response to FRED 67: Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

We have limited our response to the points on which we wish to place most emphasis, as well as those most relevant to the charity sector.

Question 1

Overall do you agree with the approach of FRED 67 being to focus, at this stage, on incremental improvements and clarifications to FRS 102? If not, why not?

We agree with the approach of FRED 67 that only incremental improvements and clarifications are required at this stage, given the relatively short period of time that charities have had to familiarise themselves with FRS 102.

The Charities SORP (FRS 102) was published in 2014, and is mandatory for all charities in England and Wales, Scotland and Northern Ireland preparing accruals accounts for reporting periods beginning on or after 1 January 2015 with a subsequent Update Bulletin effective from 1 January 2016. The new SORP introduced a number of significant changes to the accounting and reporting requirements for charities preparing accruals accounts. Users are still familiarising themselves with the changes to the terminology, accounting policies and disclosures introduced by FRS 102, whilst also getting to grips with the requirements of a new SORP.

We believe more time is needed for individuals to familiarise themselves with FRS 102 before more significant changes are made. Concentrating on improvements and clarifications at this stage reflects the FRC's principle of balancing improvement with stability in developing financial reporting.

The desire to minimise any changes is supported by the findings of the recent SORP research exercise[1], where there were criticisms of the pace of change in charity reporting and accounting. Respondents believed changes to the current accounting framework and other legal and regulatory requirements are contributing towards a more complex reporting framework. This is a particular cause of concern for smaller charities which do not have access to in-house accountants or to the technical departments of accountancy firms. Whilst we believe recent changes to UK-Irish GAAP and the new SORP resulted in greater transparency and have been beneficial to users of charity accounts, it is acknowledged that more time is needed before any significant changes are made to allow the current framework to 'bed in' and treasurers of smaller charities to better familiarise themselves with SORP (FRS 102).

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[1] The SORP research exercise was undertaken to reflect on the introduction of the SORP (FRS 102) and identify necessary changes for its future development. It was open for 31 weeks, from 4 May to 11 December 2016, and responses were invited from users of charity reports and accounts, practitioners, commentators and the accountancy profession. There were 172 written responses received, as well as feedback from attendees at the various consultation events held across the UK.

Question 2

FRED 67 proposes to amend the criteria for classifying a financial instrument as 'basic' or 'other'. This will mean that if a financial instrument does not meet the specific criteria in paragraph 11.9, it might still be classified as basic if it is consistent with the description in paragraph 11.9A.

Do you agree that this is a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments, which will allow more financial instruments to be measured at amortised cost, whilst maintaining the overall approach that the more relevant information about complex financial instruments is fair value? If not, why not?

We agree that the inclusion of a principles-based description offers a solution for those entities who hold some financial instruments which do not meet the current definition of 'basic'.

Paragraph 11.9A introduces a degree of judgement which moves away from the current 'rules-based' approach. This will now require preparers to apply judgement when classifying financial instruments. The advantage to preparers of having greater flexibility to classify a financial instrument in the context of the charity's circumstances, the business reason for it, and the cash-flows specific to that instrument but this may risk similar transactions being treated differently.

We believe that it may now be appropriate to introduce supplementary guidance in this area and so reduce the risk of inconsistent practice amongst entities which hold similar financial instruments specific particular to their sector. We note that guidance of this nature is currently provided in Staff Education Notes, as well as through other informal guidance issued by the FRC.

Therefore we encourage the FRC to continue to offer guidance on these transactions as and when they arise. We also encourage the FRC to support the various SORP making-bodies should they look to issue guidance to help preparers classify specific types of financial instruments in light of this new principles-based description. This may result in a preferred treatment being recommended by a SORP for specific financial instruments.

Question 3

FRED 67 proposes that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) can be accounted for at transaction price, rather than present value (see paragraph 11.13A). This practical solution will provide relief to small entities that receive non-interest-bearing loans from directors, by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value. Do you agree with this proposal? If not, why not?

No comment offered as there are no charity specific implications from these proposals concerning directors' loans.

Question 4

FRED 67 proposes to amend the definition of a financial institution (see the draft amendments to Appendix I: Glossary), which impacts on the disclosures about financial instruments made by such entities. As a result, fewer entities will be classified as financial institutions. However, all entities, including those no longer classified as financial institutions, are encouraged to consider whether additional disclosure is required when the risks arising from financial instruments are particularly significant to the business (see paragraph 11.42). Do you agree with this proposal? If not, why not?

We acknowledge that the proposal is intended to reduce the number of entities classified as a 'financial institution'. However, we believe that a number of charities may be inadvertently caught by the change.

The removal of the current reference to entities that use financial instruments to '*generate wealth*' and '*manage risk*' results in entities whose principal activity is similar to those listed in the definition, but which is carried out without the aim of generating profit, now being defined as a financial institution. We have in mind charities offering concessionary loans as a form at nil or nominal rate that would face significant additional disclosures being required of these entities in their individual and consolidated financial statements which smaller charities will be ill prepared to handle.

Our concern is that without a PBE specific reference that this may mean that charities which offer, for example, micro-credit arrangements will now meet the definition of a financial institution. These entities offer micro-credit loans to entrepreneurs and other start-up organisations that are unable to access finance in order to support enterprise in a particular geographic area or disadvantaged group in society. The loans are typically short-term, provided at low-interest rates or interest free, and have preferential terms of repayment.

This could also affect charities which provide insurance or affinity schemes to their beneficiaries which complement the primary purpose of the parent charity. Typically such products or services are provided by an insurer or financial service provider, with the charity acting as an intermediary. However, instances arise where the product or service is provided by the charity itself through a trading subsidiary.

The additional disclosures required by financial institutions enable users to evaluate the performance and risks associated with the financial instruments held. However, these are significant qualitative and quantitative disclosures which have been written with companies operating in the financial services sector in mind. They are of limited relevance when applied to not-for-profit entities which engage in activities of similar character to those companies meeting the existing definition of a financial institution but without having commercial profit in mind. These charities have a very different income generating and risk profile compared to companies which hold financial instruments and exist as financial institutions. Therefore requiring these charities to provide additional and less relevant information in this area appears unduly burdensome.

We would encourage the FRC to revisit the proposed change and impact on those charities which may be classified as a financial institutions.

One solution would be to reference '*income generation*' within paragraph (i) of the definition. This would create a distinction between those entities that engage in activities primarily to generate income and those similar to those listed but which do so on a non-market basis which would capture predominately public benefit entities.

Another solution would be to provide an exemption for public benefit entities which otherwise meets the definition of a financial institution. Consideration could then be given to whether the disclosures for such entities are more appropriately covered within the relevant SORP. In some instances existing requirements within the SORP may be

appropriate, for example, many entities providing micro-credit arrangements currently apply Module 21 of the Charities SORP (*Accounting for social investments*) and provide the additional disclosures required by charities that issue concessionary loans.

Question 5

FRED 67 proposes to remove the three instances of the 'undue cost or effort exemption' (see paragraphs 14.10, 15.15 and 16.4) that are currently within FRS 102, but, when relevant, to replace this with an accounting policy choice. The FRC does not intend to introduce any new undue cost or effort exemptions in the future, but will consider introducing either simpler accounting requirements or accounting policy choices if considered necessary to address cost and benefit considerations.

As a result, FRED 67 proposes:

- **a) an accounting policy choice for investment property rented to another group entity, so that they may be measured at cost (less depreciation and impairment) whilst all other investment property are measured at fair value (see paragraphs 16.4A and 16.4B); and**
- **b) revised requirements for separating intangible assets from the goodwill acquired in a business combination, which will require fewer intangible assets to be recognised separately. However, entities will have the option to separate more intangible assets if it is relevant to reporting the performance of their business (see paragraph 18.8 and disclosure requirements in paragraph 19.25B).**

Do you agree with these proposals? If not, why not?

We acknowledge the inherent problems applying the 'undue cost and effort' exemption given the ambiguity of whose cost, effort and benefit to which FRS 102 is referring. This difficulty is exacerbated in the context of charitable entities, where the resources, skills and information needs of both the preparers and users of charity accounts can vary widely. As a result the level of measurement and degree of consideration given by charities when assessing the availability of this exemption is varied.

Those stakeholders that responded to the SORP research exercise did not identify the process of having to determine what is 'undue cost or effort' as problematic. However, of the few respondents that offered comments on the exemption, calls were made for guidance to emphasise the availability of this exemption and how it should be interpreted in a not-for-profit context.

Investment property

(a) Accounting policy choice for investment property rented to another group entity

Paragraph 10.48 of the SORP does not permit charities from measuring investment properties using the amortised cost model. Therefore charities must measure investment properties rented to another group entity at fair value.

We have no objection to the proposal to allow entities the choice of measuring investment properties rented to another group entity at either cost or fair value.

Feedback from the SORP Committee and findings from our recent research exercise identified the costs of obtaining a fair value for investment properties in these circumstances as being difficult to justify. Often parent charities will have no intention of selling these properties as they are occupied by group entities carrying out work that contributes to the overall aim of the group. Therefore the usefulness of providing a fair value for the property is limited. As a result we anticipate consulting on extending this option to charities as we anticipate that many charities will elect to save costs by choosing to apply the cost method if the proposed accounting policy choice is available.

Additionally, several stakeholders considered that having properties accounted for as investments in the charity's individual financial statements, but tangible fixed assets in the consolidated financial statements was challenging to explain to trustees, funders and other users of charity accounts.

We acknowledge perceived complexity will not be removed should the proposed accounting policy choice be made available within FRS 102. However some of the confusion may be alleviated by allowing these properties to be valued consistently in both the individual and group accounts

(b) All other investment property are measured at fair value

As previously noted, the SORP requires all charities to measure investment property at fair value.

However the 'undue cost or effort exemption' is available for mixed use property within paragraph 10.47 of the SORP, which interprets paragraph 16.4 of FRS 102. The SORP allows charities to account for mixed use property as a tangible fixed asset where the 'fair value of the investment property component cannot be measured reliably without undue cost or effort'. The proposed amendment to paragraph 16.4 of FRS 102 means that entities are no longer permitted from using the cost model to measure mixed use property where they do not have reliable information or it is impracticable for the property to be split and the investment property component to be valued separately.

Therefore the proposed amendment will mean charities will have to account for the investment property component of a mixed use property at fair value. Whilst this is compliant with the principle of measuring investments at their fair value, difficulties still remain for charities that hold mixed use properties where there is no reliable fair value of the investment property component.

Often the nature, location and function of the properties held by charities can make obtaining a reliable fair value difficult (for examples historic buildings). This is often the case for mixed use properties, where obtaining a reliable estimate of the value of the investment property component on a stand-alone basis can be difficult. There can also be significant costs associated with obtaining an independent valuation at each reporting date. In the case of specialist properties, the valuation costs can be significant and so considered as outweighing the benefit of the information which is provided to the users of the accounts. In addition, mixed use property will often still be occupied and used by the charity for its own activities and therefore there will be no current intention of selling it. In some instances the portion being rented to another organisation will be done in order to further the charity's objectives. Therefore the usefulness of providing a fair value for this proportion of the property can be considered limited and of little relevance to users of charity accounts.

We would welcome having the flexibility for the SORP to permit either amortised cost or fair value as options for measuring the investment property component of mixed use property given the appropriateness and cost of obtaining fair value measurements. Notwithstanding, we acknowledge the FRC's proposal helps creates an approach which is consistent with international developments, and the benefits which fair value measurement provides users of the financial statements.

Business combinations:

(b) Separating intangible assets from the goodwill acquired in a business combination (Investment in an associates and jointly controlled entities)

We agree with the proposal.

By reverting back to the principles of FRS 10, charities will be required to recognise those intangible assets which are separable and arise from contractual or other legal rights. We support the assumption that if an intangible meets this criteria, then sufficient information should exist to obtain a fair value for the asset.

However we acknowledge this proposal will impact charities in a limited number of instances where they obtain an intangible asset as part of a business combination. Instances of such a transaction occurring would be where:

- A charity purchases a non-charitable subsidiary that holds intangible assets; or
- A trading subsidiary enters into a business combination with a third party that holds intangible assets.

The change will not impact charities where the combination meets the criteria for merger accounting. Given that it is common for combinations between charities and other entities to meet this criteria, the impact of this change is considered to be limited.

Question 6

Please provide details of any other comments on the proposed amendments, including the editorial amendments to FRS 102 and consequential amendments to the other FRSs.

There are three proposals that we recommend the FRC reconsider:

1. *Paragraph 1.2*

It is proposed to amend the paragraph 1.2 which explains the scope of FRS 102 and its applicability to public benefit entities. We understand that the additional sentence has been included to make it clear that those entities which meet the definition of a public benefit entity cannot selectively apply those paragraphs prefixed with 'PBE'. We support this intention.

However, as worded the new sentence is potentially confusing for users. It uses the term 'shall' and could be interpreted as requiring all public benefit entities to apply all PBE paragraphs within FRS 102. However, the FRC currently gives SORP making bodies the discretion to recommend the most appropriate option for a particular industry or sector where there are policy options in FRC standards. This can result in a SORP which prohibits the use of particular options within FRS 102. This can include those recommendations specific for public benefit entities.

An example can be found in the Charities SORP (FRS 102) over the recognition of income from grants. Paragraph 5.10 of the SORP does not permit charities from using the 'accrual model' option as offered in Section 24 of FRS 102 and recommended for public benefit entities per PBE34.64.

There is a risk that users may find it confusing to interpret the proposed sentence in such instances where the SORP appears to make restrictions in those areas covered by PBE paragraphs in FRS 102. There may be difficulties in understanding the precedence of the SORP recommendations when applying the PBE paragraphs.

We acknowledge the value of the PBE paragraphs in providing the principles for the main not-for-profit issues, reflecting the wide scope of the standard and differences between PBE and for-profit entities. However, we also note the role of the SORP in expanding on these principles, and reflecting them within guidance specific to the charity sector.

Therefore, we recommend that the proposed sentence includes a reference to the applicable SORP as follows:

> Public benefit entities shall apply all paragraphs prefixed with 'PBE'., to the extent the requirements are reflected in the applicable Statement of Recommended Practice (SORP) for those public benefit entities that are within the scope of a SORP.

This would acknowledge that the requirements applicable to PBE should be considered alongside the additional guidance offered in the SORP.

2. *Paragraph 7.22*

It is proposed to introduce a net debt reconciliation as a note to the statement of cash flows. We understand the note will provide an analysis which clearly shows the change in liabilities arising from financing activities.

The proposed disclosure enables investors to identify changes in debt financing and form an overall picture of an organisation's capital structure. This allows current and potential

shareholders to better assess the impact of net cash flows to net debt on future returns and equity value.

Whilst debt financing is used in the charity sector, there is no concept of equity finance and therefore equity interest. As a charity's funds are held on trust, they neither belong to the donor nor the charity or its trustees. Whilst the charity's beneficiaries do have entitlement to the funds (to the extent they benefit) their entitlement is determined by the decisions taken by the trustees on their behalf. Therefore beneficiaries are not equivalent to shareholders in this context. Similarly, the interests of donors or funders are not equivalent to the interest of providers of debt finance. Unlike providers of debt finance in a for-profit context, donors or funders do not seek a financial return from the charities they support.

However, the financing of the charity's activities will be of interest to users in terms of its implication on the organisation's liquidity and ongoing financial sustainability. Therefore we would recommend that disclosure is adapted to distinguish between debt being used to finance tangible fixed assets, and debt being used to finance the operating costs of the organisation in the period. We recommend that a PBE paragraph that permits the analysis to be adapted is inserted as follows:

> PBE 7.22A The statement may be adapted to provide a reconciliation of cash flows from debt financing to distinguish the timing of those cash-flows and purpose for which those cash flows were applied.

This would allow the analysis to be provided in a way that is appropriate to the operating purpose and context of public benefit entities. By permitting the statement to be adapted, the information provided within the net debt reconciliation will be better aligned with the information needs of users of PBE accounts.

3. *Paragraph 3.1B*

It is proposed to insert paragraph 3.1B which specifies that a statement of cash flows is not required by a small entity '*regardless of which regime it applies in the preparation of its financial statements*'. We understand that the proposed editorial amendment has been made to improve the usability of FRS 102, but not to change the overall requirements of the standard.

We are concerned that the paragraph will be interpreted as overriding the requirement in the SORP for all larger charities to prepare a statement of cash flows.

Currently all large charities are required to prepare a statement of cash flows. The definition of a large charity is defined within the Charities SORP (FRS 102) as those '*charities with a gross income exceeding £500,000 UK or 500,000 euros (Republic of Ireland) in the reporting period*'. This is different to the current requirements of FRS 102, where small entities are exempt from preparing a statement of cash flows. The definition of a small entity is defined in company law and is significantly higher compared to the threshold for a large charity as defined by the SORP.

Charitable companies can qualify as small companies under FRS 102 as the definition includes charities. However, as these entities are required to prepare accounts in accordance with the Charities SORP, they must provide a statement of cash flows if they meet the definition of a large charity.

The proposed insertion specifies that those entities which meet the definition of a small entity are not required to include a cash flow statement in their financial statements, '*regardless of which regime it applies*'. Preparers of charity accounts may interpret a 'regime' which is applied to prepare financial statement as including the Charities SORP. The sentence therefore potentially exempts a charitable company which meet the definition of a small entity from preparing a statement of cash flows. As FRS 102

requirements take precedence over the SORP, there is scope for the paragraph to be used by charitable companies for this purpose. This could potentially result in a statement of cash flows no longer being required to be prepared by the vast majority of charitable companies.

We believe the existing requirement for large charities to prepare the statement is appropriate for the charity sector. It ensures that the degree to which the charity's cash balances are rising or falling and its cash position are actively considered as part of the annual reporting process. The statement is also key in the trustees' assessment of going concern, and the stewardship exercised over the charity's assets. The preparation of the statement is also useful for funders in considering the underlying solvency of a charity at the reporting date and for enquiring about its solvency going forward. Finally, it helps emphasise that a performance statement is of limited value in evaluating the performance of a not for profit entity.

This requirement was recently consulted on by the Charities SORP-making body, when in 2015 it was found that there was strong support for the principle of requiring only larger charities to prepare a statement of cash flows amongst the sector. In considering changes to the requirement, the SORP Committee felt the statement of cash flows was a useful primary financial statement in its own right, and that its preparation should be encouraged as good practice regardless of a charity's size.

Therefore we strongly recommend that the requirement is retained for charitable companies by adding the phrase 'except where required by an applicable SORP'. We suggest that the FRC reviews the paragraph and how it interacts with the requirements of the Charities SORP. Consideration should be given to the interpretation of the paragraph by those entities within the scope of the SORP, and the consequences of the providing an exemption from preparing a statement of cash flows.

In addition to these three proposals, we believe two current FRS 102 requirements should be reviewed by the FRC. Whilst we note that there are no changes to these requirements proposed within FRED 67, our recent research exercise identified that they are causing concern for users of the Charities SORP.

4. *Paragraph 3.14*

The FRS 102 requirement for comparatives for all amounts presented in the current period is reflected within paragraph 4.2 of the SORP (FRS 102) for the Statement of Financial Activities (SoFA). The findings from our recent research exercise indicate that strict compliance with this requirement with reference to charity SORP specific requirements has substantially increased the length of charity financial statements and is resulting in disclosures which are considered to be of little benefit for users of the accounts. The requirement was the second most commonly suggested item for removal by respondents.

Stakeholder feedback shows that the impact of this requirement goes against the FRC's aim to reduce 'clutter' in annual reporting. Many figures in charity accounts are specific to the current reporting period, for example fund movements. When these comparative figures are provided they are of little value to users understanding the reporting period under review and may actually cause confusion in some cases.

We therefore suggest SORPs having discretion to limit the requirement for sector specific financial statements, reconciliations, or disclosures required by the SORP which are not taken from FRS 102. These SORP specific disclosures can then be tailored to the needs of sector specific users of the report and accounts.

5. *Section 33 - Related Party Disclosures*

The definition of related party transactions within FRS 102 includes incoming resources received by the reporting entity. Therefore the Charities SORP (FRS 102) includes donations received from charity trustees or other related parities as related party transactions. The SORP has always required the disclosure of those donations that come with conditions, however to accord with FRS 102 paragraph 9.18 of SORP now requires all charities to separately disclose the total amount of donations received without conditions from charity trustees or other related parties in aggregate.

The findings from our recent research exercise indicate that there can be considerable costs and time involved in tracing donations back to either trustees or their close family members. Respondents noted that charities which raise income through street collections or running charity shops find it difficult to collate reliable information for this disclosure. This includes churches that collect cash by means of open plate collections. The requirement was the most common requirement suggested for removal by respondents within our research. The information provided by the disclosure was considered to be of little benefit to users and was of limited value in helping them obtain an understanding of how the financial position of the charity was affected by donations made by trustees.

Stakeholder feedback shows that the requirement is onerous for preparers to comply with and is of limited relevance for users of charity accounts. Therefore the impact of the requirement appears to be a contradiction of the FRC's aim for cost-effective standards which are consistent with users' information needs.

Whilst we note the discretion regarding the materiality of this disclosure recently clarified by the FRC, complying with the requirement with respect to condition free donations by trustees remains a key concern for users of the SORP. We recommend the requirements within FRS 102 for the disclosure of incoming resources received from related parties are interpreted for public benefit entities with a PBE paragraph which acknowledges the difficulties and appropriateness of providing the equivalent level of detail for these transactions. We would welcome the flexibility not to require disclosure of gifts that have no conditions and which do not give rise to a private benefit to the donor or parties related to the donor. We believe this would offer a clearer scope for the Charities SORP to interpret the requirements in this area in a way that fits with the intention of the underlying standards, but remains appropriate to the sector.

Question 7

FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not?

Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.

We agree the logic and rationale of the proposed transitional provisions.

We also support the proposal for the changes to be available for early application given that they either simplify FRS 102 or make it more cost-effective to apply.

However, we note that entities will only be permitted to apply these changes providing they do not conflict with the current SORP with respect to permitted accounting options or legal requirements for the preparation of financial statements. A number of changes proposed in FRED 67 would provide options not currently permitted by the Charities SORP (FRS 102). As a result charities will be prevented from taking advantage of these simplifications until they are incorporated into the current framework by way of a new SORP or Update Bulletin.

We look forward to working with the FRC to ensure the necessary amendments are made that permit charities to applying the amendments to FRS 102 at the earliest opportunity. We hope this will allow charities to realise the benefits of a simpler and more cost-effective financial reporting framework as soon as is practical.

Question 8

Following a change in legislation the FRC is now required to complete a Business Impact Target assessment. A provisional assessment for these proposals is set out in the Consultation stage impact assessment within this FRED.

The overall impact of the proposals is expected to be a reduction in the costs of compliance. In relation to the Consultation stage impact assessment, do you have any comments on the costs or benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

We agree with the expected reduction in the costs of compliance as set out in the provisional assessment

We support the rationale that entities will be impacted differently by the amendments depending on their size and transactions they undertake, as set out in the assessment.

This concurs with our own assessment of FRED 67, where it was found that there will be little or no changes for certain charities based on their size, the type of assets they hold and common transactions they undertake. For example, it is likely that those charities which hold no investment properties and are not required to prepare a statement of cash flows will not have to make any changes to their financial reporting. However, we observe that these charities will still incur the costs of familiarising and understanding the changes and then having to determine whether the changes are relevant to them. In these cases, the transitional costs involved in doing so will outweigh any savings realised from a reduction in the costs of compliance. We believe there should be greater consideration of the wide impact of such costs on those smaller charities which make up the vast majority of the sector.

Many smaller charities who will be impacted by these changes will have no specialised accounting staff and rely on volunteers to prepare and examine their financial statements. These volunteers will also have to ensure that they understand and are familiar with these changes. This may involve attending training and also spending time reading relevant guidance material and the accounting standards themselves.

Findings from our recent research exercise identified that the quantity of and continual change to the reporting framework for charities may be deterring people from taking up the role of treasurers and independent examiners of small charities. Volunteer treasurers were described as struggling to '*get their head around one fixed set of rules'* and quoted as being '*depressed and deterred by the extent of the changes to regulations*'.

Whilst changes which make the framework simpler to use and cost effective to apply are welcome, these should be weighed against the considerable learning and training needs which they create, as well as the impact on those individuals supporting the large number of charities that rely on accounting expertise on a voluntary basis. Therefore we believe that the implications of the time and costs being borne by volunteers keeping up-to-date with these regulatory developments should be considered.

In addition, we welcome all entities which are required to prepare accounts under FRS 102 being included within the impact assessment and note the inclusion of registered charities within the 'Risks and assumptions' section (Page 133).

We observe that the figures for the total number of registered charities includes all entities registered with a UK charity regulator. Whilst it is acknowledged that these figures are included to provide an approximate figures for those entities applying UK and Ireland accounting standards, they do not take account of registered charities which prepare cash-based receipts and payments accounts or the significant number of charities 'excepted' from registration in England and Wales, a significant number of which prepare accruals accounts.

Currently receipts and payments accounts are, in general, an option for UK charities which are not charitable companies and have an income of less than £250k. The accounting recommendations of the SORP and therefore the requirements of FRS 102, do not apply to charities preparing receipts and payments accounts. Although trustees may choose to prepare their charity's accounts on an accruals basis, many eligible charities prepare simple receipts and payment accounts. Therefore, a large proportion of the 195,000 registered UK charities will not be applying FRS 102 and are not within the scope of those entities affected by the changes proposed by FRED 67.