

Charities SORP Committee Minutes

Date	02 May 2017	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charity Commission for England and Wales</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Pat Dennigan Noel Hyndman Simon Ling Sheila Nordon Carol Rudge Joe Saxton Jenny Simpson Darren Spivey	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Queen's University Belfast National Association of Almshouses Charities Institute Ireland Grant Thornton nfpSynergy Wylie + Bissett LLP Royal National Lifeboat Institution</i>
In attendance	Mei Ashelford John Tracey Tom Malone Easton Bilsborough Matthew Allen James Brooke Turner	<i>FRC Charity Commission Northern Ireland Charity Regulatory Authority CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee ACF Observer, The Nuffield Foundation</i>
Apologies	Pesh Framjee Mark Hill Kenneth McDowell Alison Scott Mark Spofforth	<i>Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Regeneris Limited Saffery Champness CIPFA, Secretariat to the SORP Committee Spofforths Chartered Accountants</i>

Action

1 Welcome, apologies for absences and declarations of interest

- 1.1 Nigel Davies (ND) welcomed members to the meeting.
- 1.2 Apologies for absences were received from Pesh Framjee, Mark Hill, Kenneth McDowell, Alison Scott and Mark Spofforth.
- 1.3 ND asked if there were any declaration of interest to be made. No declarations of interest were made by those at the meeting.

2 Approval of the minutes of the meeting of 14 March 2017 (Paper 1)

- 2.1 The draft minutes of the previous Committee meeting were approved, subject to a number of minor amendments.
- 2.2 ND followed up on two action points from the previous meeting:
- The [Annual Review 2016](#) of the SORP had been received by the FRC.
 - The [information sheet](#) (Implementation Issues) was now with the Charity Commission's publications team. It would be available on the SORP microsite in the coming weeks. ND expressed his thanks to the FRC for their review of the publication.
- 2.3 Richard Bray (RB) enquired as to the outcome of the suggestion that charities registered in Scotland could take advantage of the exemption from preparing a cash flow statement in the individual accounts of a qualifying entity. Laura Anderson (LA) explained that OSCR had looked at this area and found that the relevant section of legislation does offer scope for this exemption to be applied.

3 Update from the FRC

- 3.1 Mei Ashelford (MA) provided a verbal update on the development of UK accounting standards.
- 3.2 She confirmed that the 2016 Annual Review of the Charities SORP had been taken to the recent UK GAAP Technical Advisory Group (TAG) and Corporate Reporting Council (CRC) meetings where it was accepted without amendment. She noted that the SORP-making body may wish to take a summary of the findings from the research exercise to TAG once these have fully discussed by the Committee.
- 3.3 She explained that the Annual Review will now go the Codes & Standards Committee (CSC), together with the reviews from each of the other SORP-making bodies.
- 3.4 MA noted that FRED 67: *Triennial Review - Incremental improvements and clarifications* had been [released](#) by the FRC, and a response from the joint SORP-making body on the proposed changes to FRS 102 would be welcomed.
- 3.5 RB enquired as to the view of the FRC on the SORP being adopted by entities which do not exist as charities, but do make use of the framework's recommendations when preparing financial statements. He explained that organisations that operate akin to charities but do not have charitable status may look to apply the SORP, given that it offers a format which is appropriate to their activities and allows greater comparability with other voluntary sector organisations.
- 3.6 RB observed that the whilst Paragraph 8 of FRS 100 allows entities to use a SORP in those instances where they do not fall within its scope, the Charities SORP does not include any information on this provision. He asked if the FRC would take issue with a positive statement being included in the Charities SORP which explains that the SORP can be voluntarily applied by organisations which do not fall within its scope.
- 3.7 MA explained that the FRC would not have an issue with a statement to this effect.

4 Analysis of Research Exercise responses

- 4.1 ND set out the proposed approach of the discussion of the analysis of responses to the Research Exercise as set out in Paper 2.1. He explained that for each topic the tentative view of the chairs, as the joint SORP-making body, would be outlined prior to the secretariat reporting on the research findings. The

Committee would then be asked to discuss the issue and offer any advice on how the issue should be taken forward.

THEME A: Making a difference for public benefit

- 4.2 ND observed that the research had shown that there was support for greater emphasis on public benefit reporting. He explained that the chairs considered this as an idea worth exploring.
- 4.3 The Committee supported the proposal outlined by the chairs and offered comments on how the area could be taken forward.
- 4.4 Sheila Nordon (SN) supported greater integration between public benefit reporting and other areas of the trustees' annual report (TAR), as proposed within the research findings. She believed reporting on a charity's public benefit should be done as part of the TAR. She felt that if public benefit statements sat outside of the TAR, then they would risk becoming 'boilerplate' disclosures.
- 4.5 Noel Hyndman (NH) believed that the current requirement for charities to '*explain any wider benefits to society as a whole*' when reporting on their achievements and performance already meant that public benefit reporting was required by charities within the TAR, where practical for them to do so. He warned that the SORP would be in danger of discouraging creativity in this area of reporting if requirements were set out too precisely.
- 4.6 NH also noted the limitations of the research as it set out the views of mainly financial professionals, either as auditors or as finance staff within charities. He felt the increased focus on impact in the current SORP had resulted in greater reporting in this area. He considered this to be of great benefit from the perspective of donors and funders, as key stakeholders of charity accounts. He warned that considering the views of mainly financial professionals may result in changes which fail to address the information needs of the broader users of charity accounts.
- 4.7 Caron Bradshaw (CB) agreed changes to the reporting requirements had meant charities were now measuring and reporting on their impact in more detail. However, she believed any further changes in this area had to be balanced with the increasing volume of charity accounts, and charities use of other forms of communication and technology to demonstrate their impact. She agreed that any changes should not separate charity's financial reporting from the narrative information included in the TAR.
- 4.8 Darren Spivey (DS) felt those charities that are unable to measure public benefit, as identified in the findings should be considered when making changes. The interpretation of requirements in this area would need to be carefully considered to ensure the circumstances of these charities are acknowledged.
- 4.9 Joe Saxton (JS) felt that there was a need to establish what the Committee wanted charity reporting to look like in the longer term in order to determine what changes should be made in this area. By doing so, any changes to the requirements would be able to be viewed within the 'bigger picture' of charity reporting and be made in accordance with the planned direction of travel. He believed that greater reporting on public benefit was needed, and fitted into his longer term vision for charity accounts to become more user friendly and less predominantly focused on financial information.
- 4.10 Michael Brougham (MB) felt that a common approach to public benefit reporting across jurisdictions would be helpful, as detailed in the findings.
- 4.11 ND explained that differences in this area are a result of differences in the statutory reporting requirements for charities which are defined in legislation.

Differences arise where legislation which is particular to one jurisdiction requires information to be reported on a topic which is not replicated in other jurisdictions. The SORP is unable to remove these differences as these requirements are defined in law. He noted that in such instances there is a question as to whether the SORP should introduce requirements which means all charities are required to report similar information, or stay silent, with charities applying the relevant provisions within legislation specific to their jurisdiction.

- 4.12 ND felt that in light of the discussion there was a general consensus for greater guidance to be offered in this area, rather than prescriptive reporting requirements. He suggested that this could be done by signposting in the SORP to other sources of guidance and the model examples. NH noted that guidance in this area exists in the public sector reporting, which could be read across for the charity sector.
- 4.13 ND asked the Committee to consider the type of guidance and sources of good practice that can be found in this area of reporting which could be signposted within the SORP.

ALL

THEME F: Disclosure of key facts

- 4.14 ND observed that support for this proposal had differed between the views of attendees at consultation events and written responses received, where 84% of respondents disagreed with further consideration of the theme. Both ND and LA summarised the feedback from those events where they had been present, observing that the issue had generated a large level of interest amongst attendees. ND noted at those events where he had been able to make a presentation there was broad support for a 'Key Facts Summary' (KFS) as encouraged practice, but little appetite for the 'facts' within the summary to be mandated. LA summarised the feedback from those events where the Scottish regulator had been present. Attendee's views on the proposal were polarised. Those who strongly opposed the proposal considered the KFS to offer no meaningful basis for comparison of charities. However, there were also advocates of some form of summary statement being provided by charities, which was considered to be of value to users of the accounts.
- 4.15 ND offered the tentative view of the chairs, who believed that it would be worth considering the introduction of a KFS as a voluntary disclosure or 'should' requirement. He explained that the regulators were initially proposing to encourage charities to prepare a KFS and acknowledged the strong opposition amongst written respondents to having the KFS or its contents mandated.
- 4.16 NH noted that a number of respondents had picked up on the similarities between the KFS and the Summary Information Return (SIR), as introduced by the Charity Commission for England and Wales and required for charities with an annual income of £1m or more. He observed that the SIR had been introduced with different aims and under a different premise to that of the KFS. ND explained that the SIR was created by the Commission on the recommendation of the, then, Government's Strategy Unit. It was developed with the advice of a Reporting Advisory Group, which was established by the Commission, which sat independently from the SORP Committee.
- 4.17 RB questioned the need for best practice to be included in the SORP. He was concerned that the proposal would result in the statement being considered as mandatory, based on how preparers currently interpret 'should' requirements. He suggested the recommendation should be included as a 'may' requirement, emphasising that charities can adopt the requirement at their discretion

- 4.18 CB felt that whilst the sector's response may have been shaped negatively by their experience of the True and Fair foundation report on charitable spending she had serious reservations regarding the KFS because there are so many different types of charities and operating models. She believed that introducing requirements in this area required careful consideration.
- 4.19 Carol Rudge (CR) noted that if the requirement was included as best practice, it would make no change to the current freedom available to charities in this area. By leaving the contents of the summary at the discretion of the preparer, charities would only include the information which they wanted users to read. James Brooke Turner (JBT) added that there was also a danger of charities only including information which was collectable and measurable within the summary, rather than a range information which gives the user an overall impression of their performance.
- 4.20 JS felt that the contents of the KFS should be mandated. He believed that the summary was needed to satisfy the public's desire for more accessible information about charities. He considered it to be paradoxical that key information about a charity's performance can be easily found on the Charity Commission's website, but not within the charity's own annual accounts. He suggested that the information included on the Charity Commission's website is used as a starting point and a 'task group' is formed to propose what additional information would be required. This information could be both a mix of predefined data, and also narrative information.
- 4.21 DS questioned whether the introduction of a KFS would address the problems the summary appears to be attempting to address. He considered there to be two main issues: the comparability and the accessibility of the information which is currently provided by charities. He felt greater thought was needed on the best way to address these issues, rather than simply releasing suggested lists of information charities ought to separately disclose.
- 4.22 SN felt that it was not beyond the Committee to find an appropriate set of metrics, but believed charities should have some control over the information which is contained within the KFS. She considered public accessibility to be a longer-term issue for the sector.
- 4.23 Jenny Simpson felt that unless the information required in the KFS was tightly defined, it would not allow for greater comparison between charities. This would also be needed if the information was to be audited.
- 4.24 CB questioned what problem was trying to be solved by introducing a KFS. She considered it to be a combination of issues which centred on the provision of information to inform donors, allow greater comparability, achieve transparency and aid the public's understanding of charity accounts. She felt it was impossible to provide a solution to all these issues by introducing a KFS, and issues risked being perversely impacted.
- 4.25 Simon Ling observed that if the aim of the KFS was to provide information to help inform potential donors, those charities which do not undertake public fundraising would gain little from this additional disclosure.
- 4.26 In light of the strong views for and against the disclosure of key facts, ND asked the Committee to vote on the proposal for a KFS being explored in more detail in the future. The Committee voted to support this proposal and ND noted that this would be discussed at a future SORP Committee meeting and then taken forward by a smaller working group which would report back. ND explained that a similar approach had been used in developing the concept of the modular SORP. He noted that this would be looked at in the context of the other future changes which had come from the research findings, and also the timing of these changes.

THEME B: Risk management

Service disruption to the charity's beneficiaries

- 4.27 ND gave a brief overview of the background to the issue, which had been inspired by changes to the Charity Commission's guidance on reserves, CC19. He reported that the Chairs felt that the research had indicated that there was little support for additional disclosures in this area.
- 4.28 EB gave an overview of the findings, where only 13 respondents offered specific comments on this issue. The majority of respondents were not in favour of this issue being reviewed in the next SORP.
- 4.29 The Committee supported the conclusion that no additional disclosures are required in this area.

Internal financial controls

- 4.30 ND explained that this topic had been inspired by the disclosures about the assurance over internal controls, which was now required by several entities within the public sector. He reported that the Chairs felt the research had indicated there was mixed support for additional disclosures in this area, and the issue was worth further consideration.
- 4.31 EB gave an overview of the findings, where only 13 respondents offered specific comments on this issue. He noted that the main concern amongst respondents that did not support the issue was that any additional disclosures about the assurance over internal financial controls would be meaningless and 'boilerplate' in nature.
- 4.32 There was some consensus amongst the Committee about the limited benefits of further disclosure in this area.
- 4.33 Several members of the Committee supported the view that any additional information in this area would be better suited to the annual return. They felt this information was of interest to the regulators, rather than general users of charity accounts. Others felt that any additional disclosures should be included in a 'third tier' created for the largest charities.
- 4.34 ND explained that the SORP is not used as a regulatory tool by the joint SORP-making body, and is developed to provide information about a charities' financial performance and position to a wide range of stakeholders. This was echoed by LA, who emphasised the role of the SORP in promoting good financial and narrative reporting.
- 4.35 The Committee noted that a large proportion of financial professionals had offered views on this issue. NH felt that making decisions on the basis of these findings alone could result in the topic being made into a bigger issue than it was in practice.
- 4.36 Sarah Anderson (SA) observed that the recent changes to the reporting requirements in this area for academies had focused the mind of staff and trustees. She explained that the academy trust's accounting officer is now required to make a formal declaration on the effectiveness of the system of internal controls within the annual report.

Risk of fraud & Effective governance arrangements

- 4.37 ND reported that the chairs felt that the research had indicated the importance of the prevention of fraud and good governance within the sector, and believed both

of these areas are worth further consideration. He however acknowledged the low number of respondents who had offered views on these areas.

- 4.38 EB gave an overview of the findings for both areas, where only 11 respondents offered specific comments on each. The majority of respondents supported further consideration of these areas.
- 4.39 The Committee offered comments on both areas and the benefit of additional disclosures being included in the financial statements.
- 4.40 DS felt that any further requirements in either area would result in additional disclosures which would be of little value to users of the accounts. He believed adopting a prescriptive approach to reporting in these areas risked starting a trend whereby the SORP gradually adds to the narrative information required by charities, increasing the length of the annual report.
- 4.41 RB explained the secondary benefit of mandatory disclosure in particular areas. He believed that by requiring information within the trustees' annual report, the attention of the trustees is directed to and better focused on these particular issues.
- 4.42 CB challenged the wording of the proposed disclosure requiring charities to state whether fraud is an item on their corporate risk register. She felt the question pushed charities into adopting a 'tick-box' methodology to managing risk, which did not best reflect how trustees' should approach risk management.
- 4.43 SA felt that the value of some of the existing disclosures in the current SORP about a charity's governance and management structures should be revisited. She noted that charities often include 'boilerplate' statements in order to meet certain requirements, which offer little benefit to the users of the accounts. She felt there may be a better way to use this section of the trustees' report. She also noted that the SORP had improved charities risk reporting by requiring large charities to describe the risks they face together with the planned actions for mitigating against these. She felt that these requirements were adequate, but charities would benefit from further guidance on how to meet these requirements.
- 4.44 ND felt that in light of the discussion there was a general consensus for the current disclosure requirements around governance to be revisited. He also felt there was an opportunity for greater guidance to be offered in this area, and suggested that this could be done by signposting in the SORP to other publications and resources on these areas.

THEME C: Going concern

- 4.45 ND reported that the chairs felt the research had indicated that some of the ideas for additional disclosures around going concern were worth pursuing, however, generally, the SORP has gone far enough in this area.
- 4.46 EB gave an overview of the findings, where support for greater consideration of the theme was split. He explained that the analysis for each of the four specific issues suggested in the consultation document only included the responses of those who offered specific comments on these themes. He noted that the adequacy of the current requirements was the most common reason given by those who did not support further consideration of this theme. He also drew the Committee's attention to the views of respondents that believed there was a need for greater guidance in this area for auditors, rather than trustees or charities themselves.

- 4.47 The Committee then discussed the regulators proposal, and the practicalities of additional disclosures in this area.
- 4.48 RB felt that the SORP had an opportunity to encourage charities to assess and report on going concern in a more positive way by focusing on the organisation's financial sustainability. He considered the current requirements as flawed, as they meant charities looked at going concern from the same perspective as for-profit entities and only looked at their next 12 months of operation. He believed the SORP could encourage charities to look at going concern from a longer-term perspective, and prompt them to consider their financial sustainability in the context of their overall aims and objectives.
- 4.49 CR noted that requiring greater information from charities in this area may result in more extensive disclosures in the trustees' annual report. She warned that forthcoming changes to the scope of audit reports may result in additional work having to be undertaken by auditors on certain disclosures within this report, which could contribute to an increase in audit fees.
- 4.50 JS expressed doubts over charities choosing to voluntarily disclose more information when they are in a fragile financial position. He considered additional information about going concern to be of interest to current and potential funders. However, he believed including additional information for funders was unnecessary, given that they can request any specific information they need for their own purposes. He felt that attempting to satisfy funder's information needs through statutory reporting was an endless quest. This view was supported by other members of the Committee.
- 4.51 There was a consensus reached by the Committee that no further disclosures were needed in this area.

Theme D: Enhanced analysis of expenditure

- 4.52 ND introduced the theme which covered four issues suggested by the regulator. He noted that the first of these had been considered by the Committee at their previous meeting.
- 4.53 ND explained that the issues had been included in the research exercise to reflect topics which had generated a high level of public and/or media interest in recent years.

Identifying charitable expenditure outside of jurisdiction of main registration

- 4.54 ND noted that information about a charity's spending outside of their main jurisdiction was currently requested by some regulators, but was not required by the SORP. He observed that the results of research had indicated that there was no appetite for this information to be included in the SORP and explained that the chairs concluded that there was no support for this new requirement.
- 4.55 EB gave an overview of the research findings. He echoed the interpretation of the chairs, noting that there was limited support for the issue both within the results of the written feedback and at consultation events.
- 4.56 The Committee supported the chairs' conclusion that there was no support for further consideration of this issue.

Executive pay disclosures

- 4.57 ND noted that this area remained of considerable interest to the public and media. He gave a brief overview of the current SORP disclosure requirements for

executive pay, and noted that the disclosure of the post and pay of employees on an individual basis remains voluntary.

- 4.58 EB gave an overview of the research findings, where there was little support for increasing the requirements in this area. He noted that there was a strong level of discussion about this issue amongst attendees at consultation events, but a relatively low level of interest within written feedback.
- 4.59 ND outlined the previous SORP Committees' discussions in this area and consideration of the proposals made within the [NCVO Report of the Inquiry into Charity Senior Executive Pay](#). He explained that previous committee had concluded that an explanation of the arrangements and approach to setting key management personnel remuneration was more meaningful compared to pay being disclosed on an individual level. He noted that there was not sufficient support amongst the previous committee to proceed with the NCVO proposals for larger charities.
- 4.60 The regulators from each of the UK jurisdictions explained the level of interest in this issue within their own jurisdiction.
- 4.61 There was some consensus from the Committee about the suitability of the current SORP requirements. There was also a range of views on the public interest around the level of executive pay.
- 4.62 CB questioned what problem was trying to be solved. She believed that there was public curiosity in this area, rather than public interest. She felt that requiring charities to disclose the pay of senior staff on an individual level would result in salary levels in the sector being pushed up, as it would become easier for salaries of similar posts to be compared. She warned against such comparisons, given that they do not offer any scope for charities to explain the background and rationale for setting remuneration, which can involve a range of reasons specific to that organisation, individual or sector.
- 4.63 NH felt greater disclosure may provide an opportunity to 'bridge the gap' in the public's interest in this area, given that there appears to be an appetite for this level of detailed information about staff pay. He acknowledged that it was a difficult area where different approaches are taken by different sectors and countries.
- 4.64 JBT believed that chief executive pay was one of the most important issues in the sector within recent years. He urged the Committee to be careful around how changes to disclosures are navigated, given it is a sensitive topic which could have implications for individuals and how they are perceived - both within their own organisations and also externally.
- 4.65 JS noted that research undertaken by nfpSynergy has never found a strong amount of public interest in this particular area. Instead research has found that the public are interested in the broader trends of how charities are spending their money. He felt that more information in this area and specific figures would do little to satisfy public interest in charities.
- 4.66 PD explained how his own organisation deals with media requests in this area. He acknowledged that responding to media requests often results in more detailed information about senior staff pay being made available, which will go beyond the basic requirements of the SORP. He felt that there is often a pressure for large charities to disclose additional information out of a fear of appearing not fully transparent and in order to prevent negative press attention. However, he felt that imposing greater disclosure requirements for all charities in this area would feel forced.

- 4.67 TM felt that whilst many charities may not have a problem going on beyond what is currently required within the SORP, this will be specific to the organisation's circumstances. He believed it would be unfair to impose greater disclosures on all charities. He thought the current requirements remain about right as they 'nudge' charities to consider greater disclosure where appropriate.
- 4.68 Several members and observers to the Committee noted the large proportion of charity staff who did not support further disclosures in this area within the result of the written feedback. Many considered this as unsurprising and felt it showed natural level of self-interest amongst this group of respondents.

5 SORP-making body response to FRED 67

- 5.1 ND introduced the item, explaining the importance of any changes in FRS 102 given the need for the SORP to be kept under review with respect to compliance with UK-Irish GAAP. He then invited Mei Ashelford to give an overview of FRED 67.
- 5.2 MA explained where FRED 67 fitted in within the current triennial review of FRS 102. She noted that the five key changes identified in the Paper 3 had originated from implementation issues which had been identified from stakeholder feedback.
- 5.3 EB then gave an overview of the paper, which set out the most significant amendments which would be required to be made to the SORP as a result of the proposals included in FRED 67 and impact of these changes. He drew the Committee's attention to paragraph 4.5 which contained four amendments where the recommendations of the Committee were specifically sought.

Application of PBE paragraphs

- 5.4 EB explained that the insertion of the sentence in paragraph 2 of FRED 67 had been identified as potentially confusing. It was felt that preparers of charity accounts may find it confusing to interpret the sentence in the context of those areas where the SORP restricts the application of the PBE (Public Benefit Entity) requirements, for example the accounting for government and other grants. As a result, it was suggested that the sentence is amended to include a reference to the applicable SORP.
- 5.5 MA explained that it was not the FRC's intention to confuse users or remove the discretion of a SORP to specify an option or not permit an option set out in the standard. The amendment was proposed to avoid PBE's 'cherry-picking' those PBE paragraphs to apply. She noted that the SORP remains able to restrict charities from applying certain options included within FRS 102 where the SORP making-body considers this necessary.
- 5.6 The Committee discussed how the sentence may be interpreted by preparers of charity accounts. It was felt that a comment on the proposal should be included within the response of the SORP-making body. It was suggested that the response also welcomes the guidance provided within FRC 102 on issues specific to PBE, acknowledging the interplay between these principles/requirements and the SORP.

Net debt reconciliation

- 5.7 EB explained that a net debt reconciliation may be required by all entities required to prepare a cash flow statement. He drew the Committee's attention to the significant number of charities which would be potentially impacted by this change, given the current threshold for a cash flow statement in the SORP. He explained that the information contained in the statement could be considered of

little relevance to charities, and it may be appropriate to call for a call for an exemption for PBE.

- 5.8 MA explained that the introduction of a net debt reconciliation would only impact those entities which hold debt or enter into transactions which require disclosure as set out in FRED 67. Therefore charities would be under no obligation to include a net debt reconciliation if no such transactions exist.
- 5.9 The Committee felt this change did not require to be included in the response of the joint SORP-making body.

Removal of the 'undue cost or effort' exemption: Investment Property

- 5.10 EB explained the proposed removal of this exemption would impact charities that hold mixed-use investment properties. Charities would be required to measure the investment property component of these properties at fair value, as the exemption available to measure this component at cost would no longer exist. He noted that charities have previously identified the considerable costs associated with obtaining a fair value property valuation, and argued that these can often outweigh the benefit of providing this information and it's relevant to users of the accounts. He observed that this may be more relevant in relation to valuing mixed-use property, where the charity has limited intentions of selling the asset.
- 5.11 The Committee noted that the concept of materiality will remain relevant for charities when accounting for the investment property component.

Change to glossary definition: financial institution

- 5.12 EB explained the proposed change to the definition of a financial institution.
- 5.13 ND noted that certain charities offering micro-credit arrangements or trading subsidiaries which offer insurance or affinity schemes may be inadvertently caught by the proposed change. However, he observed that this would be dependent on the particular activities that the organisation is engaged in.
- 5.14 The Committee discussed other situations where charities may inadvertently be classified as financial institutions as a result of the proposed change. It was agreed that examples of such situations should be included in the response and sent to EB for inclusion within the response.
- 5.15 ND enquired if there were any other amendments identified within the paper which the Committee felt should be included within the response of the joint SORP-making body.
- 5.16 RB considered the clarification to the definition of a principal as having limited impact on the accounting treatment for income generated by charities from selling goods under the UK retail Gift Aid scheme. He felt that the proposed change would not impact how income generated from this scheme is currently accounted for. He observed that the treatment recommended by the SORP does however require to be revised to reflect recent changes to the methods by which charities can operate the scheme.
- 5.17 RB noted that the results of the research exercise had identified difficulties which were being encountered by charities in implementing specific requirements of FRS 102. He enquired if it would be worth including feedback on these requirements within the response, despite there being no changes proposed to them within FRED 67. MA confirmed that such implementation issues could be included.
- 5.18 ND explained that the disclosure requirements within paragraph 33.9 of FRS 102 had been clarified by the FRC, in the context of donations received from trustees.

The disclosure of the total amount of aggregate donations received without conditions is only necessary if the total is judged to be material in the context of the total income from donations and legacies. He thanked the FRC for offering discretion in this area and noted that this clarification was included in the forthcoming Information Sheet.

6 Next steps and issues for discussion at the next meeting

- 6.1 ND gave an overview of the items which would be included on the agenda at the next Committee meeting in June.
- 6.2 ND explained that the Committee would continue to consider the analysis of the Research Exercise, aiming to cover all remaining topics. The discussion on the role of the SORP (Item 6) would also be carried over from the current agenda.
- 6.3 ND noted that a discussion about the plans for updating the next version of the SORP would also be included on the agenda. It was agreed that CIPFA would prepare a paper which sets out the options for updating the SORP for this meeting. The paper will reflect the FRC's current thinking in relation to updating FRS 102, and provide an introduction to the Committee's discussion about the approach it would advise the SORP-making body takes.
- 6.4 He observed that depending on the timing of the next full SORP, the schedule of meetings planned for the remainder of the year may change.

EB/AS

7 Any other business and dates for next meetings

- 7.1 ND updated the Committee on work being undertaken to offer clarity around the accounting treatment of Gift Aid payments in the accounts of both a parent charity and trading subsidiary. ND explained that this issue had been raised at a recent FRC Technical Advisory Group meeting where it had been agreed that the FRC will consider offering guidance on this topic. ND explained that depending on the action taken by the FRC, the Committee and joint SORP-making body would then decide whether it would be appropriate to issue additional guidance.
- 7.2 There was a brief discussion of the significance of this issue for charities which hold trading subsidiaries. JS and JBT noted the difficulties encountered by charities which hold investments as permanent endowment and adopt a total return approach to the investment of those funds. As a result of Gift Aid payments now being accounted for as distributions, there was uncertainty as to whether this income would be able to be recognised as divided income.
- 7.3 ND asked for feedback on this particular issue to be sent to himself by 19 May, where it would be collated and shared with the FRC on a confidential basis as background information.
- 7.4 ND thanked RB and Pesh Framjee for the paper that they had prepared on this issue.
- 7.5 There was no other business and the meeting was closed.

ALL