

Charities SORP Committee Minutes

Date	8 May 2018	
Venue	Conference Call	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charity Commission for England and Wales</i>
Members present	Sarah Anderson Caron Bradshaw Michael Brougham Tom Connaughton Pat Dennigan Kenneth McDowell Carol Rudge Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG ACIE The Rehab Group Focus Ireland Saffery Champness Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution Kreston Reeves LLP</i>
In attendance	Mei Ashelford Easton Bilsborough Fiona Muldoon	<i>FRC CIPFA, Secretariat to the SORP Committee The Charity Commission for Northern Ireland</i>
Apologies	Richard Bray James Brooke Turner Pesh Framjee Mark Hill Noel Hyndman Simon Ling Tom Malone Sheila Nordon	<i>Cancer Research UK ACF Observer, The Nuffield Foundation Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Regeneris Limited Queen's University Belfast National Association of Almshouses Charity Regulatory Authority Charities Institute Ireland</i>

Action

- 1 Welcome, apologies for absences, confirmation of participants and declarations of interest**
 - 1.1 The Chair welcomed members and observers to the call.
 - 1.2 Those apologies for absence received were noted and the members present on the call were confirmed.
 - 1.3 The Chair informed the group of James Brooke Turner's decision to stand down as the Association of Charitable Foundation's observer to the committee. The committee noted their thanks for his contribution over the past 18 months.
 - 1.4 The Chair asked if there were any declarations of interest to be made. No declarations of interest were noted.
- 2 Approval of the minutes of the meeting of 12 March 2018 (Paper 1)**
 - 2.1 The draft minutes of the previous Committee meeting were approved subject to a number of minor amendments.

3 Update from the FRC

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She reported that [revised versions](#) of those standards amended by the 2017 triennial review were issued by the FRC in March 2018.
- 3.3 She reported that work was being undertaken to scope out those topics and areas which may be covered by supplementary educational materials, which would be issued later in the year.
- 3.4 The Chair enquired about the Government's recent [announcement](#) of an independent review of the FRC's operations. The FRC representative noted that the terms of reference were publicly available and the review was expected to be completed by the end of 2018.

4 Analysis of responses to Update Bulletin 2 (Papers 2 & 3)

- 4.1 CIPFA Secretariat gave an overview of Paper 2. He briefly outlined the main categories of respondents and noted the large proportion of responses received from auditors and audit firms. He acknowledged that the comparatively low number of 29 responses should be considered in light of the technical focus of the consultation, as well as the shortened period of consultation of six weeks.
- 4.2 The Committee noted the narrow profile of respondents, which was made up of mainly auditors and practitioners who might be viewed as providing a 'technicians' viewpoint. This developed into a discussion around the approach taken when consulting on issues of technical nature. The discussion included the following observations and suggestions:
- Whether any lessons could be learnt about how future consultations could be better publicised amongst those stakeholder groups that did not engage with the recent consultation, i.e. were the right channels being used to reach charity trustees and funders?
 - How could stakeholders could be prompted to consider the key questions which sit alongside the more technical issues in charity reporting, and whether these questions could be more clearly articulated in order to engage a wider group?
 - Although the response rate was comparatively low, the responses received were considered to be very useful as they covered a substantial number of issues in a high level of detail.
 - The profile of respondents was not surprising given the rather technical focus of the consultation. Whilst readers/users could be considered as interested in those topics raised in the consultation (e.g. presentation of gift aid payments), it should not be assumed that they will be interested in the corresponding accounting treatment.
- 4.3 The Chair observed that the Committee's discussion raised key issues around what more could be done to ensure that future consultations speak to a wider audience. It was agreed to consider this in greater detail as part of future consultations issued by the SORP-making body.
- 4.4 CIPFA Secretariat gave a brief summary of the analysis of responses to questions 1 and 2, contained in Section 2 of Paper 2. He explained that respondents to question 1 were in general agreement about how the amendments to FRS 102 had been reflected in the draft Update Bulletin, however, this view was qualified on the basis of those amendments detailed in the second part of their response to this question. He noted that of those suggested amendments to the SORP offered by respondents in answering question 2, only one suggestion was based on the

recent amendments to FRS 102 made as part of the 2017 triennial review (as specified in the question).

- 4.5 The Chair then set out the approach to the discussion of the analysis of the comments received for each proposed amendment set out in the remainder of the paper. They explained that for each amendment, the Secretariat would give a summary of the findings, prior to the proposed change to the amendment being outlined by the Chair (as detailed in Paper 3). The Committee would then be asked to discuss the findings and proposals, and offer any advice on the changes which should be made to the draft Update Bulletin in advance of it being submitted to the FRC for sign-off review.
- 4.6 The Chair emphasised that the proposals in Paper 3 represented the tentative thinking of the Committee Chairs, as the joint SORP-making body. They explained that they were given to prompt views and guide the Committee's discussion.

Clarifying the requirement to provide comparative information (Paragraph 3.49)

- 4.7 CIPFA Secretariat noted that the proposal amendment attracted the highest level of interest within the written feedback. He explained that the vast majority of respondents considered the consequences of the amendment as negative for both charities and users of the accounts. Respondents also warned against the amendment contributing towards an increase in the time and cost of preparing accounts, and highlighted the potential behavioural impacts of the amendment. He observed that few respondents offered reasons as to why comparative information was irrelevant to readers.
- 4.8 The Chair provided a background to the reflection of this requirement in the SORP and set out the tentative thinking of the Committee Chairs. They explained that it was proposed to raise this issue with the FRC and ask them to reconsider their position on the requirement for comparative information to be provided for disclosures required by the SORP. An exemption would be sought for those disclosures considered as being akin to a reconciliation, in view of the requirements of FRS 102 where prior year information is not required for reconciliations.
- 4.9 The Committee agreed with the concerns raised by respondents and the proposal as set out by the Chairs.
- 4.10 Members enquired about the likelihood of the FRC reverting on their previous decision on this issue. The FRC representative noted that the issue was discussed with the FRC's Corporate Reporting Council (CRC) in 2017. She observed that the CRC did not believe there was compelling evidence which supported the need for an exemption for charities from the requirement to provide comparative information. It was believed that where information is useful in the current reporting year, then it should be useful for the prior year, and therefore comparative information should be provided for all amounts in the current financial statements. She noted that the issue was not being discussed by the other PBE SORP-making bodies.
- 4.11 This led on to a discussion of the change which should be called for by the joint SORP-making body and the focus of the evidence which should be presented to the FRC. The Committee felt an exemption was required given the specific type of information that the SORP requires charities to disclose, which was considered as being unique compared to other entities that fall within the scope of FRS 102. It was felt the exemption represented a 'tailoring' of the FRC's overriding requirement for comparative information, which was necessary to accommodate the different information needs of users of charity accounts.

Payments by subsidiaries to their charitable parents that qualify for gift aid
(Paragraph 13.5)

- 4.12 CIPFA Secretariat explained that the vast majority of respondents called for greater guidance to assist preparers implement the clarification and corresponding change to the accounting treatment for this transaction. Respondents detailed those additional aspects relevant to the change where greater guidance was needed. These included:
- The presentation of the change in the subsidiary's financial statements;
 - Examples of the types of situations which could create a 'legal obligation'; and
 - The recognition of gift aid payments by charitable parents.
- 4.13 The Chair observed that the clarification issued by the FRC covered the accounting treatment of a transaction which is specific to non-charitable subsidiaries and therefore does not strictly fall within the remit of the SORP. They however acknowledged that the responses indicate a need for guidance and explained that in the absence of another body, it was proposed that an information sheet offering suggestions could be developed. This could be done by a working group drawn of members and observer members from the SORP Committee.
- 4.14 The Chair explained that the information sheet would offer an opinion on the application issues associated with the change in order to assist preparers. The advice would be taken to a SORP Committee meeting for discussion and would be included as a help-sheet on the SORP Microsite. They emphasised that the advice would not form part of the SORP and would be advisory in nature.
- 4.15 The Committee welcomed the proposal as set out by the Chair. It was recommended that the proposed advice should be assured from a legal perspective so the working group should draw on the input of a lawyer. It was also observed that the advice may have to avoid being too prescriptive, given the variety legal entities who would apply it.
- 4.16 The Committee were asked to notify CIPFA Secretariat if they wished to volunteer to be part of the working group, and give suggestions of any additional support which they felt would be needed in order to develop advice on this subject. **ALL**

Date from when the amendments in the draft Update Bulletin would be effective
(Paragraph 18A)

- 4.17 CIPFA Secretariat gave an overview of the responses, where respondents called for greater clarity about how 'apply immediately' should be interpreted and when the amendments contained in Section 3 of the draft Update Bulletin should be applied.
- 4.18 The Chair explained that it was proposed to seek agreement with the FRC regarding the effective date of those amendments contained in Section 3 of the draft Update Bulletin. They noted that as the draft Update Bulletin has no formal status until approved by the FRC, it would be recommended that charities should apply the amendments set out in Section 3 for accounting periods beginning on or after the date of publication. The Chair also observed that the application of the Update Bulletin will differ depending on the legal position of the SORP and the Update Bulletin's status in the charity's jurisdiction.
- 4.19 The Committee supported the proposal and the effective date suggested by the Chair.

The proposed second edition of the SORP (Invitation to Comment, Paragraph 1.25)

- 4.20 CIPFA Secretariat gave an overview of the analysis of responses, which indicated support amongst respondents for the proposed second edition of the SORP. He observed that respondents believed a version the SORP which consolidates both Update Bulletins 1 and 2 and other legislative changes would positively impact charities compliance with the current reporting framework. These respondents emphasised the current challenge of referring to multiple publications when preparing their accounts and reports.
- 4.21 The Chair noted the support for the second edition of the SORP, which would be published in due course.

Changes to the definition of a financial institution (Paragraph 20)

- 4.22 CIPFA Secretariat explained that respondents focused on the potential inclusion of charities which hold mixed motive investments and/or provide concessionary rate finance within the revised FRS 102 definition of a financial institution. Respondents considered these charities as being dissimilar to financial institutions, citing the entities motives in engaging in these activities as a means to further their charitable purpose. He noted that a number of respondents considered the wider impact of the change. These respondents believed that the additional disclosures required by section 34 of FRS 102 could act as a deterrent against charities making mixed motive investments.
- 4.23 The Chair provided a background to the reflection of this change in paragraph 20 the SORP. They observed that the SORP had been amended to include guidance for those charities that provide concessionary rate finance in the form of programme related investments. They explained that it was proposed to raise the application of the change by charities which hold mixed motive investments with the FRC. In doing this it was proposed to ask them to consider an exemption for charities which hold these types of investments, unless such investing is the charity's principal or sole charitable activity.
- 4.24 The Committee supported the proposal. Members discussed the spectrum of social investment activities that charities can engage in, observing the difficulties in distinguishing between mixed motive investment and programme related investments.

Requirement to prepare a reconciliation of net debt as a note to the statement of cash flows (Paragraphs 14.17A, 14.17B & Table 10A)

- 4.25 CIPFA Secretariat explained that the majority of respondents' comments focused on Table 10A, which provides an illustration of the layout of the net debt reconciliation. Respondents offered suggestions for amendments to the table in order to make clearer, less complicated and more relevant for the majority of entities which apply the SORP. He observed that a number of respondents' comments discussed the suitability of the current threshold for the preparation of a statement of cash flows for charities.
- 4.26 The Chair explained that Table 10A had been developed to cover the majority of situations which may be encountered by charities. He noted that as the table was illustrative, it could be adapted as necessary by charities for their own reporting purposes. He observed that as the threshold for the preparation of a statement of cash flows was consulted on by the joint SORP-making body in 2015, it was not proposed to revisit this topic until the development of the new version of the SORP.

Depreciation for assets which comprise of two or more major components which have substantially different useful economic lives (Paragraph 10.31)

- 4.27 CIPFA Secretariat gave an overview of the analysis of responses, which indicated concerns about the potential impact of this change. Respondents outlined the challenges and costs of compliance which would be faced by charities implementing component accounting for fixed assets.
- 4.28 The Chair provided a background to the amendment. They observed that the previous SORP required charities to apply component accounting when depreciating tangible fixed assets. They noted that the proposed amendment removes the 'undue cost or effort' exemption provided in the current SORP to align the requirement with the existing text of FRS 102. This appears to have alerted charities to a requirement which already existed.
- 4.29 The Chair explained that as the responses indicate a need for advice on this area, it was proposed that advice could be developed by a working group drawn from members of the SORP Committee. The advice would be taken to a Committee meeting for discussion and would be included as a help-sheet on the SORP Microsite.
- 4.30 The Committee welcomed the proposal as set out by the Chairs. It was observed that the current exemption provided in the SORP has resulted in different approaches to component accounting being taken by charities. Members believed that the amendment and proposed advice would help improve the consistency of reporting by charities and other public benefit entities.
- 4.31 The Committee were asked to notify CIPFA Secretariat if they wished to volunteer to be part of the working group which would develop advice on this subject. **ALL**

Permit charities that rent investment property to another group entity to measure the investment property at either cost or at fair value (Paragraph 10.36A, 10.48A, 10.48B & 10.56)

- 4.32 CIPFA Secretariat gave an overview of the responses, where respondents had suggested that the draft Update Bulletin should refer to the transitional provisions applicable to the amendment within FRS 102.
- 4.33 The Chair explained that including references to the transitional arrangements contained within FRS 102 was not considered practical. They observed that these references would tie the Update Bulletin to a specific reporting period and result in it containing provisions which are of temporary relevance to preparers.

Appendix B - Suggested changes/amendments to the Charities SORP (FRS 102) not based on the recent changes to FRS 102

- 4.34 CIPFA Secretariat gave an overview of the table within Appendix B of Paper 2. He explained that the table summarised suggested amendments to the SORP which were not based on the recent changes to FRS 102 made as part of the FRC's triennial review 2017.
- 4.35 The Chair explained that it was proposed to consider these suggestions as part of the development of the new version of the SORP.

Appendix C - Suggested changes/amendments to the Charities SORP (FRS 102) not based on the recent changes to FRS 102

- 4.36 CIPFA Secretariat outlined the proposed amendment to the SORP which had been given by an audit firm in their response to the consultation. He explained that the

amendment reflected guidance included paragraphs A.37B and A3.37C of FRS 102 which covers the reporting requirements of charitable companies when recognising unrealised gains from income from non-exchange transactions.

- 4.37 The Chair explained that Module 15 of the SORP includes guidance which allows charitable companies that must meet the requirements of company law to do so. They noted that as the SORP is not intended to be a one-stop-shop for all legal and regulatory requirements, Module 15 does not include all the reporting requirements of company law. They explained that for some transactions the SORP is silent on those disclosures required to ensure compliance with the requirements set out in legislation, given complexity of providing guidance on every legal requirement applicable to charitable companies.
- 4.38 The Chair explained that it was not proposed to amend the SORP to include the suggested guidance within Module 15, as it was considered that the existing guidance included in the module covers the situation described by the audit firm in their response.
- 4.39 The Committee supported the proposal. Members observed that it was impractical for the SORP to include guidance on all reporting requirements necessary to ensure compliance with company law in the UK and Ireland.

Appendix D - Detailed analysis of comments on proposed amendments

- 4.40 CIPFA Secretariat explained that Appendix D contained a detailed analysis of those amendments where five or fewer respondents offered comments. The Chair outlined the tentative thinking of the Committee Chairs in response to this analysis. They highlighted the following amendments and proposed actions:
- *Changing the reference of non-convertible preference share and non-puttable ordinary shares (Table 7)*
Respondents' comments on the accessibility of the language used to describe basic financial instruments was acknowledged. It was proposed to consider how the module which covers this areas of accounting could be written in more unusable language and in a simpler and more accessible style as part of the development of the new version of the SORP.
 - *Requirement for unconsolidated interests in special purpose entities to be disclosed where consolidated accounts are prepared (Paragraph 24.35)*
It was proposed to defer the consideration of guidance about what constitutes a special purpose entity in the context of a charitable group as part of the development of the new version of the SORP.
 - *To encourage additional disclosure where the risks arising from financial instruments held are particularly significant (Paragraph 11.35A)*
It was proposed to consider what advice could be developed for inclusion in a help-sheet to assist preparers comply with this requirement.
- 4.41 The Committee expressed their views on the proposed actions and through discussion the following comments were noted:
- Changes in UK GAAP were cited as contributing to the increasingly complicated language used to define basic financial instrument in the SORP. Members believed there was potential to make the current SORP guidance simpler. However, it was felt that in order to do so the SORP would have to depart from the language used in FRS 102. This was considered as appropriate, given the different users and types of entities applying FRS 102 compared to the SORP.

- The process used to identify and select which issues are included in a help-sheet was considered. Members felt that time should be taken to determine the number of charities that will apply any such advice, and the size of these organisations. It was noted that some issues will be particular to a subset of the sector, where it would be reasonable to expect organisations to seek professional advice.
- Evaluating the impact of amendments and the potential need for application advice can be difficult. It was acknowledged that often esoteric issues can have a wider impact, with minor amendments leading to unforeseen consequences which are not flagged through public consultation.

4.42 The Chair thanked the Committee for their views on the analysis of responses and proposed changes to the draft Update Bulletin. They then outlined the actions and changes which would be made to the draft Update Bulletin following the meeting. It was noted that the SORP-making body's work plan for 2017/18 required the final version of the Update Bulletin to be submitted to the FRC for sign-off review by mid-May to allow the Bulletin to be published in July 2018. The Chair acknowledged that the joint SORP-making body would have a limited amount of time to develop a body of evidence to be taken to the FRC regarding their position on the issue around comparatives if it proceeded based on these timings.

4.43 The Committee believed that in light of the number of respondents who raised concerns specific to this requirement, more time should be taken to develop a body of evidence which is reflective of the respondents' strength of feeling. It was agreed to defer taking the final version of the draft Update Bulletin to the FRC until mid-June. CIPFA Secretariat observed that these revised timings would result in the Bulletin being published in October 2018 opposed to July 2018. It was agreed that this date still gave charities a sufficient amount of time to comply with these amendments and make the necessary changes to their existing accounting policies.

4.44 The Chair explained that the joint SORP-making body would meet with the FRC later that week to discuss the revised timetable and the proposed changes to the draft Update Bulletin. The outcome of this discussion and the revised timetable would be shared with Committee following this meeting. A paper presenting the joint SORP-making body's position on the requirement for comparative information would then be circulated, together with the draft Update Bulletin. Comments and changes would be requested from the Committee prior to both documents being submitted to the FRC.

CIPFA

5 Verbal update on Committee matters

5.1 The Chair provided an update on the proposed change to the constitution of the SORP-making body. They confirmed that the Charity Commission for Northern Ireland intended to join as a full member of the existing joint SORP-making body. It was noted that the Charity Regulatory Authority also intended to join as a full member, subject to planned legislative changes being approved and the decision of their board. The Chair explained that any change to the constitution of the SORP-making body was subject to the approval of the FRC.

5.2 The Chair observed that the SORP-making body's intention to review the governance processes for developing the SORP, including membership of the Committee, was currently on hold. They explained that the governance review was planned to take place following the proposed change to the constitution of

the SORP-making body, given the review would require the input of all members of the SORP-making body.

5.3 The Chair explained that CIPFA's contract to provide secretariat support to the SORP Committee would end in December 2018. They explained that the contract would be retendered and the process would commence later in the year.

5.4 The Chair noted that an [article](#) about the differences between for-profit and not-for-profit accounting had been co-authored by the Committee Chairs. They explained the article did not represent a manifesto for change on behalf of the joint SORP-making body but was intended to initiate further debate. Therefore the article should not be interpreted as being indicative of the future direction of charity reporting as this would be the decision of the reconstituted SORP-making body having considered the views of the committee. The article was planned to be published in a forthcoming issue of a trade magazine and would be circulated to the Committee when published.

Chairs

6 Any other business and dates for next meetings

6.1 There was no other business and the meeting was closed.