

While I agree with most of the Draft Update Bulletin, I am not convinced that the changes to the FRS102 definition of a financial institution introduced by the FRC necessitate the very broad interpretation reflected in paragraph 5.2 of the Draft Update Bulletin, which considerably widens the range of charities potentially caught by the definition. In particular, I do not believe that charities making mixed motive investments are relevantly similar to any of the institutions explicitly described as financial institutions (banks, custodian banks, broker-dealers, investment trusts, Irish investment companies, venture capital trusts, mutual funds, exchange traded funds, unit trusts, open-ended investment companies) and to suggest that they are is to fundamentally misconceive the nature, motivation and activities of the charities concerned. I am not clear what quantum of activity in this area would constitute it being a 'principal activity' (would making a few mixed motive investments alongside a main activity of traditional grant making count?) but would point out that requiring the considerable additional disclosures contained within paragraph 34 of FRS102, and the substantial additional cost in professional fees that complying with these disclosures will likely entail, especially when those disclosures will provide no useful information to the reader of a charity's accounts (indeed will almost certainly be totally incomprehensible to any plausible reader of that charity's accounts) will act as a huge disincentive to charities considering entering or remaining in this space of activity and will thus make it much harder to implement government policy which is precisely to encourage increased activity in this area (weaning beneficiary charities off grants onto sustainable funding models that generate a return). I would strongly encourage the SORP Committee to reconsider the wording of this paragraph to ensure that only the very few charities which might genuinely be thought of as financial institutions as those words would be commonly interpreted by the man in the street are caught by the FRS 102 definition and to do everything possible to provide advice clarifying which activities carried out to what extent would 'tip the balance' so that charities can make an informed decision as to whether to engage in this area.

Yours faithfully

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