



CHARITY SORP: CONSULTATION ON BULLETIN 2

Issued 4 April 2018

ICAEW welcomes the opportunity to comment on the consultation on the SORP *Update Bulletin 2* published by the SORP making body on 20 February 2018 a copy of which is available from this [link](#).

In general, the proposals reflect changes needed in light of amended FRS 102, but there are a few areas that merit further consideration as noted in this response. In particular, we believe it is unhelpful to apply the changes regarding events after the end of the reporting period with 'immediate effect' and that this could have material short term adverse effect on the sector.

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This response reflects consultation with ICAEW's Charity Committee which includes representatives from public practice and the charity sector and is responsible for ICAEW policy on charity issues and related submissions to legislators, regulators and other external bodies.

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Question 1

Do you agree with how the amendments to FRS 102 have been reflected in the proposed amendments to the Charities SORP (FRS 102) in draft Update Bulletin 2? If not, which of the proposed changes do you not agree with, and why?

1. We agree except as noted below.

Module 3 - Comparative information (para 3.2 of Update Bulletin)

2. The proposed new paragraph 3.49 appears to be a re-statement of the position under FRS 102. While FRS 102 generally requires comparative information for all amounts presented in the current period's financial statements, some comparative requirements for charities stem from the SORP rather than FRS. For instance, FRS does not require comparatives for notes that provide reconciliations such as of fixed assets or investment properties. There may be scope to reduce requirements on charities, for instance on the reconciliation of restricted and designated funds and the detailed analysis of expenditure. We suggest that consideration should be given to reducing the number of comparatives required by the SORP where those comparatives are not required by FRS 102.
3. Charities are currently free to present the comparative information in different ways. For instance, the columnar funds analysis of prior year figures may be presented on the face of the SoFA or in notes. In some cases, this diversity is driven by practical issues, such as ease of fitting tables on one page, or a desire to present current year information in a continuous form, with comparatives dealt with at the end. The comparative information is, therefore, often of limited use to the main users of the accounts who may as easily refer to the prior year accounts for the comparative information. We suggest that consideration be given as to whether flexibility on presentation is in the interest of charities and users or whether, in some cases, a more standardised approach would be preferable.
4. In the longer term, we believe that the SORP making body should aim to use its influence to reduce the volume of comparatives required of charities. The current approach is increasing 'clutter' in charity accounts, contrary to the declared objectives of FRC and others that accounts should be as clear as possible to users. It may also increase costs, for instance where hard copy reports are produced that are longer than necessary.

Module 10: Balance sheet (para 3.4)

5. We believe that some charities would welcome guidance on how the requirement to depreciate major components separately should be interpreted to avoid potential disproportionate impact of the requirement now that the undue cost and effort exception in FRS 102 has been removed.
6. In the table provided in relation to the statement of cash flows, an explanation of what is meant by 'current asset investments' would be helpful.

Module 13: Events after the end of the reporting period (paras 3.5-3.6)

7. It will be necessary for the reference to constructive obligations to be removed but it is unhelpful and unnecessary for this change to be made with 'immediate effect'. FRS 102 provides for specific treatment of distributions in the form of dividends but this does not necessarily mean that all distributions are dividends for this purpose. While the expected accounting treatment has now been clarified there has been diversity of approach historically. It follows that some charities will now need to change their approach and it is only reasonable that they be allowed some time to do so. FRC made the clarification as a 'practicable' solution

to a somewhat intractable issue and it is important that implementation takes account of the practicalities too.

8. Those charity subsidiaries that previously accounted on the basis of there being a constructive obligation and wish, in effect, to continue the former accounting treatment will now need to make the payment subject to a legal obligation, for instance by a deed of covenant. This is not necessarily a straightforward issue, particularly for charities making these arrangements for the first time, when they may need to obtain legal advice. Many charities have a March year end and it may be impracticable for them to do this for the 2018 financial year. The changes to FRS 102 can be expected to achieve the objective of bringing consistency of accounting treatment over the next couple of years. Requiring immediate implementation could lead to unintended short term consequences that do not seem to be warranted in the context.
9. In light of the above comments, we suggest that this change to the SORP take effect in line with the timetable for changes resulting from amendments to FRS 102, ie for reporting periods beginning on or after 1 January 2019 unless adopted early.
10. Whilst the changes in FRS 102 relating to the accounting for payment of a Gift Aid payment by a trading company to its charitable parent might be thought of as being a ‘for profit’ issue, it is of major relevance to charities and charitable groups. We therefore urge the SORP making body to ensure that appropriate guidance is provided on this either by the FRC or the SORP making body.
11. In particular, it is likely that a significant number of charities may wish to have a legal obligation in place in order to apply the accounting treatment this permits. The SORP refers to deeds of covenant as one type of legal obligation and would be helpful if guidance could be given on other types of legal obligation (for instance, whether a shareholder resolution would suffice for the purpose).
12. We believe that the SORP also needs to address (in section 5) recognition of a Gift Aid payment by the charitable parent. In particular, it should make clear that the charitable parent should only recognise the payment where it is payable under a legal obligation and not where it is merely probable and quantifiable (as it might previously have done under a constructive obligation), if this is the case.

Scope and Application module (5.2) – definition of financial institution

13. We do not believe that the proposed guidance on the new definition of financial institution is helpful. For instance, it seems to imply that a charity that gives low interest loans to good causes as its principal activity might be similar to a bank even if it does not take deposits. We understand that the change in definition of ‘financial institution’ in FRS 102 was intended to narrow the number of entities caught by it and any guidance provided should avoid broadening the scope in relation to charities (or provide clear explanation where this is the intended effect).

Module 11: Accounting for financial assets and financial liabilities – risks from financial instruments

14. Paragraph 5.8 of the SORP exposure draft notes the new FRS 102 requirements that, where risks from financial instruments are particularly significant, relevant disclosures, normally only applicable to ‘financial institutions’, should be made. It does not, however help charities apply this new requirement.

15. We suggest that the SORP is updated to help charities understand when these requirements might apply (to avoid the risk of inadvertent non-compliance) and to provide guidance on how to apply s34 of FRS 102 with due regard to materiality (to avoid disclosure of large amounts of immaterial information). For instance, guidance could describe the credit, market and liquidity risks in more detail and provide examples of when the risks could be of particular significance.
16. This would also assist charities, classed as ‘financial institutions’, determine which disclosures they should make based on their particular circumstances. Similar guidance is already provided on the accounting for financial instruments (Table 7 assists users in identifying how to account for common financial instruments).

Question 2

Are there any other amendments to the Charities SORP (FRS 102) that you consider to be necessary based on the recent amendments to FRS 102?

If so, please state the amendment to FRS 102 and the relevant SORP paragraph(s).

17. We would like the SORP-making body to issue an updated SORP, incorporating the changes contained in Bulletin 1 and Bulletin 2 for ease of reference.