

Proposed SORP-making body submission to the FRC: an opportunity to transform the accounting framework

1 Accounting standards and the wider context for developing the next SORP

- 1.1 The next SORP is planned to be synchronised with the Financial Reporting Council's (FRC) periodic review of Financial Reporting Standard: FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. This approach to updating the SORP has been the SORP-making body's practice since SORP 2005 and seeks to minimise the burden of change on practitioners.
- 1.2 The FRC launched an initial preparatory exercise seeking views on what changes might be beneficial to FRS102 in order to inform its next update: <https://www.frc.org.uk/news/march-2021/frc-requests-views-to-inform-the-periodic-review-o> and the invitation includes advising 'new issues/transactions that should be addressed, or comments or suggestions in relation to the current requirements'.
- 1.3 This preparatory exercise concludes on 31 October 2021. This exercise offers a timely opportunity to request the FRC consider changing FRS102 for charity specific issues emerging from the exploration stage of the SORP development process. This paper sets out the proposed initial submission by the SORP-making body and requests comment on the draft letter and annex. Views are also sought on leaving the door open to a later submission to submit further issues that may emerge from the reflection and problem solving stages in the SORP process.
- 1.4 The initial submission looks at changes to the current framework, considers the possibilities afforded by the IFR4NPO initiative and seeks transformative change with a future UK-Ireland conceptual framework and not-for-profit accounting standard.

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2 Proposed letter and annex

- 2.1 The letter acts as both an introduction to overarching themes of further adapting the current for-profit framework and to the detailed changes set out in the annex. It sets the scene and requests dialogue about transformative change. The key details making the case for change are found in the annex.
- 2.2 Papers 2 and 3 to the meeting of 23 February noted that a number of matters raised in the exploration stage related to FRS 102 and so were not directly in the gift of the SORP process to change. Paper 3 set out these matters: use of comparatives, pension disclosures, legacy accounting, and simplification of accounting disclosures for smaller charities. These matters are addressed in the annex.
- 2.3 The annex invites the FRC to include specific proposed changes and provides a suggested text. For each change the rationale (basis for conclusions) is given followed by the evidence justifying that change accompanied by consideration of the impact of the proposed change.
- 2.4 Section 1 of the annex considers changing the way section 1A applies by differentiating between for-profit and public benefit entity (PBE) reporting. If included in the proposals for change and supported by the subsequent consultation process, then this change would facilitate applying tiering to the disclosures in the accounts.
- 2.5 Section 2 considers proposals for greater flexibility in matters of presentation in the Statement of financial activities to address points raised in the exploration stage to do with: the layout of the SoFA, use of comparatives, and recognition of legacies.
- 2.6 Section 3 focusses on simplifying disclosures in the notes to the accounts with reference to: focussing disclosures on the needs of the majority of users, pensions disclosures and financial instrument disclosures.
- 2.7 Section 4 concludes with proposals to clarify the potential role of the IFR4NPO guidance in defining future PBE reporting under UK-Irish GAAP. Having clarity will facilitate sector engagement with the IFR4NPO project and allow for the guidance, once published, to be appropriately assimilated into the SORP development process. Also, in looking to the future, a recommendation is made that the FRC consult on developing a wholly new PBE specific conceptual framework and accounting standard.

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3 Matters for discussion

- 3.1 The initial submission seeks to arise matters that affect the development of the current SORP and longer-term arrangements in the light of the IFR4NPO project. The views of the Committee are sought on the merits of this approach and the matters raised.
- 3.2 A future Committee meeting will be invited to consider the current IFR4NPO consultations and their detailed proposals for guidance for non- profit organisations.
- 3.3 It is also anticipated that a second submission to the FRC may be appropriate to capture further specific proposals that may emerge from the reflection and problem solving stages of the SORP development process.

Questions:

- 1. Does the Committee have any comments on the draft letter?**
- 2. Does the Committee have any comments or suggestions on the proposed changes set out in sections 1 to 3 of the annex?**
- 3. In respect of the topics already identified would the Committee cite any other evidence from the process to further make the case for change, and, in particular, with reference to financial instrument disclosures?**
- 4. Does the Committee have any comments on section 4 of the annex and the proposal to develop a future not-for-profit accounting standard?**