

Charities SORP Committee Minutes

Date	10 January 2018	
Venue	Conference Call	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charity Commission for England and Wales</i>
Members present	Sarah Anderson Richard Bray Michael Brougham James Brooke Turner Tom Connaughton Pat Dennigan Noel Hyndman Kenneth McDowell Sheila Nordon Carol Rudge Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP Cancer Research UK ACIE ACF Observer, The Nuffield Foundation The Rehab Group Focus Ireland Queen's University Belfast Saffery Champness Charities Institute Ireland Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution Kreston Reeves LLP</i>
In attendance	Mei Ashelford Easton Bilsborough Claire Morrison Fiona Muldoon	<i>FRC CIPFA, Secretariat to the SORP Committee OSCR Charity Commission Northern Ireland</i>
Apologies	Caron Bradshaw Pesh Framjee Mark Hill Simon Ling Tom Malone	<i>CFG Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Regeneris Limited National Association of Almshouses Charity Regulatory Authority</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 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 25 October 2017 and matters arising**
 - 2.1 The draft minutes of the previous Committee meeting were approved.

- 2.2 CIPFA Secretariat followed up on a number of action points from the previous meeting:
- The [Annual Review 2017](#) of the SORP had been received by the FRC.
 - Four working groups had been formed and the first meeting of each had been arranged by the convenors.
 - The joint SORP making body's [statement of aims and drafting principles](#) had been finalised by the Chairs, shared with the Committee and was now available on the SORP microsite.
 - A response to the IPSASB consultation on the recognition and measurement approaches for revenue and non-exchange expenses had not been submitted by the joint SORP-making body as a result of the availability of Secretariat staff.
- 2.3 CIPFA Secretariat then gave an update of recent staff changes at CIPFA. He informed the Committee that Don Peebles, Head of Policy & Technical at CIPFA, would be attending the Committee's March meeting as an observer. The Committee noted their thanks for Alison Scott's contribution over the past three years.

3 Update from the FRC

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She explained that following the FRC issuing the [final amendments](#) to FRS 102 in December 2017, they expected to issue a revised version of the standard. She reported that the current educational materials which accompany the standard would also be updated for the amendments to FRS 102 in due course.
- 3.3 She noted that, following stakeholder feedback received as part of the 2017 triennial review, the FRC were looking to provide informal guidance to assist users applying FRS 102. It was noted that this is currently provided by the FRC through Staff Education Notes. She explained that there was no firm timetable or indication of which topics any such guidance would cover at this stage.
- 3.4 She then gave an update of the FRC's future work planned for 2018. The FRC plan to begin evidence-gathering and undertaking analysis on the amendments required to update FRS 102 for major changes in IFRS.
- 3.5 One member enquired if a summary was issued to accompany the final amendments to FRS 102. The FRC representative noted that the [press release](#) issued to accompany the amendments highlighted the principal amendments. It was also explained that a summary of the main amendments could be found in the basis of conclusion issued with the final amendments.

4 Update Bulletin 2: Proposed content & Invitation to Comment

- 4.1 The Chair set out the planned approach for the discussion of Update Bulletin 2. She proposed to consider the proposed amendments to the SORP (FRS 102) in the order set out in Paper 2, and then go on to consider the draft Invitation to Comment (ICT).

Schedule of proposed amendments (Paper 2)

- 4.2 The CIPFA Secretariat introduced the 21 proposed amendments for inclusion in Update Bulletin 2. He outlined the changes which had been made to the amendments since the previous Committee meeting as a result of the FRC issuing the final amendments to FRS 102 in December 2017.

4.3 CIPFA Secretariat explained the proposed format of the draft Update Bulletin which would go out to consultation. He explained that the Bulletin would present each amendment, accompanied by a paragraph which would introduce and provide a background to the change. This was based on the format of [Update Bulletin 1](#). It was also proposed to split the amendments between those which were considered to be more substantial in nature, and those which were more minor and considered to impact a smaller number of charities.

4.4 The Committee considered the draft schedule of amendments and the following changes were discussed:

Amendment 1A: Including the amendments and their effective date within the scope of the SORP

4.5 The Committee discussed the option for charities to early adopt those amendments which clarify how the requirements of FRS 102 should be applied, rather than those which introduce new or remove reporting requirements for charities.

4.6 A number of members believed charities should be required to apply these amendments immediately or early (i.e. before the effective date of 1 January 2019), given that failing to do so would represent a departure from the requirements of FRS 102. They suggested that such amendments should be signposted for preparers in the Update Bulletin. It was discussed that this could be done either within the text of the amendment, or indicated through the format of the Bulletin.

4.7 It was agreed to revisit the status of these amendments. Following this, CIPFA Secretariat would change the amendment or the format of the Bulletin as appropriate.

CIPFA

Amendment 2A: Clarification on whether comparatives are necessary for disclosures required only by a SORP

4.8 The Committee discussed the clarity of the proposed amendment to paragraph 4.2. CIPFA Secretariat explained that the amendment had been drafted to make clear that comparative information is required for all information presented in the charity's financial statements, regardless of whether this information is required by FRS 102 or the SORP. He noted that this amendment had been included following the clarification provided by the FRC within the 'Basis for Conclusion' of the amendments to FRS 102.

4.9 A number of members queried how paragraph 4.2 was intended to apply to other sections of the accounts, i.e. for amounts presented outside the SoFA. It was felt that the paragraph may be misinterpreted as only applying to the SoFA, and not as a general requirement for all items presented in the current period's financial statements.

4.10 It was agreed that the requirement should be inserted in Module 3 of the SORP to ensure it is presented as a general statement which must be applied by charities when preparing accounts.

CIPFA

Amendment 3A: Accounting policy choice for entities that rent investment property to another group entity

4.11 One member observed that the use of the term 'income and expenditure' in this context was inconsistent with the terminology used in the SORP to denote

charities' principal financial statements. It was suggested that it should be changed to 'SoFA' to better denote the terminology used to describe the accounting treatment for movement in financial instruments used elsewhere in the SORP.

Amendment 6A: Payments by subsidiaries to their charitable parents that qualify for gift aid

- 4.12 The Committee discussed how the clarification of the accounting treatment for payments by subsidiaries to their charitable parents that qualify for gift aid should be interpreted within the SORP.
- 4.13 A member raised the need to look laterally and consider the impact that the clarification would have for charitable parents when recognising such payments as income. They explained that as such payments are donations for tax purposes but distributions for company law purposes, they may be recognised either as donation income or investment income in the individual accounts of the parent. The member also noted that where a subsidiary has no legal obligation to make the payment and is therefore unable to accrue it at the year end, the parent may still recognise the income in their individual accounts where the payment meets the income recognition criteria. This could potentially result in the payment being accounted for differently in both the parent and subsidiaries' financial statements.
- 4.14 The Chair noted that as the SORP does not make any other references about how to account for this transaction, the general rules for income recognition and classification would apply. It was acknowledged that whilst the payment could be accounted for differently by group entities, it would be assumed that the parent would reflect the accounting treatment applied by the subsidiary. It was also observed that both of the potential inconsistencies identified would be removed on consolidation.

Amendment 8A: Amend the glossary definition of a group reconstruction

- 4.15 The Committee discussed the clarity provided by the amendment. It was agreed that whilst the amendment was unlikely to change the accounting treatment applied by charities when setting up a trading subsidiary, it was sensible to include it within the Update Bulletin.

Amendment 2B: Change referencing to investments in shares

- 4.16 A member commented on the increasing complication of the terminology used to define basic financial instruments in UK GAAP. They believed that the amended description of a basic financial instrument had the potential to confuse preparers of financial statements.
- 4.17 This concern was acknowledged by the Chair. He suggested that the module covering accounting for financial assets and financial liabilities should be reviewed as part of the next SORP in order to ensure it offered assistance in plain English to preparers of charity accounts.

Amendment 7B: Amend the glossary definition of a financial institution

- 4.18 CIPFA Secretariat explained that the amendment had been made following a change to the FRS 102 definition of a 'financial institution' which meant that those charities which may now meet this revised definition is no longer restricted to only charitable incorporated friendly societies. He noted that this may result in

charities which provide loans at concessionary rates for public benefit purposes meeting this amended definition.

- 4.19 The Chair explained that the FRC's intention in changing the FRS 102 definition of a 'financial institution' was to not expand but reduce the number of entities meeting this definition. He proposed including an exemption for those charities advancing loans that are wholly programme related investments (PRI).
- 4.20 The Committee supported the proposed inclusion of an exemption for PRI. It was agreed that extra clarification was needed in the SORP to offer reassurance that PRIs are not captured by the change. One member questioned the status of mix motive investments, which are made in part to further the charitable purpose of the investing charity and in part to generate a financial return. It was confirmed that as mixed motive investments are not wholly concessionary in nature, the exemption would only exclude investments that are wholly PRIs from the definition of a 'financial institution'.
- 4.21 It was agreed to share the proposed wording for the exemption with the FRC to ensure it was consistent with FRS 102.

Draft Invitation to Comment (Paper 3)

- 4.22 CIPFA Secretariat gave an overview of the draft ITC, explaining the purpose of document which would be finalised and issued together with the draft Update Bulletin.
- 4.23 The Committee considered the draft and the following changes were discussed:
- A member queried the accuracy of the statement which encouraged charities to consider applying the amendments to FRS 102 prior to Update Bulletin 2 being issued. It was agreed that this should be revisited to ensure that the wording was sufficiently clear and took account of the precedence of FRS 102 for those entities applying the SORP.
 - It was agreed that the ITC should explain the rationale for the shortened consultation period of six weeks.
 - It was observed that the paragraphs covering the format of the draft Update Bulletin and its effective date would be required to be revisited when the status of those amendments which clarify how the requirements of FRS 102 should be applied was established.
- 4.24 The FRC representative questioned the reference to Section 1A of FRS 102 within the section of the ITC which covered changes to company law in the Republic of Ireland (RoI). She observed that the draft ITC correctly noted that Section 1A had been updated to include the legal disclosure requirements for small companies reporting under the Companies (Accounting) Act 2017. However, it was suggested that this should be removed given that charities applying FRS 102 were unable to take advantage of the exemptions provided within Section 1A.
- 4.25 It was agreed that CIPFA Secretariat would make the changes discussed. A revised version of the schedule of amendments and ITC would then be shared with the Committee, together with the draft Update Bulletin. Comments and changes would be requested from the Committee prior to the draft Update Bulletin being reviewed by the FRC and taken to the UK GAAP Technical Advisory Group (TAG) and Corporate Reporting Council (CRC) in February 2018 for approval.

CIPFA

5 Impact of changes in Irish company and charity law (Paper 4)

- 5.1 CIPFA Secretariat introduced Paper 4 which provided an update of the changes in company and charity law in the RoI and the proposed plan for updating the SORP. He gave an overview of the recent and planned legislative changes and the impact that these will have for charitable companies in the RoI.
- 5.2 CIPFA Secretariat outlined the plan to undertake a review to identify the updates which will be required to be made to the SORP to reflect changes in company law. He then explained the following two options for updating the SORP for these changes:
- Including these in a second edition of the SORP to be issued in 2018
 - Deferring these changes until the Draft Charities (Accounting and Reporting) Regulations are passed in 2019.
- 5.3 The Committee discussed the appropriateness of each option. It was observed that as many charities in the RoI are applying the SORP for the first time, any major changes at this time would potentially make this process more difficult. It was also noted that whilst charities are being encouraged to voluntarily adopt the SORP, the framework is currently considered to demonstrate best practice.
- 5.4 The Committee agreed that the proposal to defer any changes was the most appropriate approach at this stage. The Chair noted that the Committee would return to this topic at a later date, following the review of the changes to company and charity law being undertaken by the Secretariat.

6 Update on Committee membership

- 6.1 The Chair shared the joint SORP-making body's intention to review the governance processes for developing the SORP including membership of the Committee. This intention was prompted following the resignation of a Committee member who in resigning had shared a number of observations with the Chairs which centred on the need for the SORP to place greater focus on the needs of the end users of charity accounts. The Chairs had tentatively concluded that there was merit in revisiting the composition of the Committee and the SORP-making process to determine how it could ensure effective participation from this key stakeholder group.
- 6.2 The Chair reassured members that their input would be sought if the governance review did proceed. He observed that the review would provide a timely opportunity to stand back and reflect on the composition of the Committee prior to work commencing on the next SORP.
- 6.3 The Committee considered the joint SORP-making body's intention and a number of comments and suggestions were made, including:
- The SORP represents a technical document which interprets financial reporting standards. Whilst the members should have a diverse set of skills, it is important that the Committee understands accounting.
 - The review should consider the governance arrangements and models used by standard-setting boards. Many boards which undertake activities similar to the SORP Committee sit alongside a consultative group, which monitor the activities of the board to ensure that they fulfil their responsibilities.
 - The review should consider the work of other SORP-making bodies which provide recommendations for public benefit entities. These bodies may

have undertaken work to identify and engage with the end users of financial statements in their particular sector.

- The aim to better recognise the needs of 'end users' makes an assumption that the general public are interested in charity accounts. Research has shown that users of charity accounts are generally more interested in the trustees' annual report rather than the financial statements. Therefore, a review may place greater weight on the importance of non-financial information.

6.4 The Chair noted that at this stage the joint SORP-making body's intentions were only tentative. An update would be given on these proposals at the next Committee meeting in March.

7 Any other business and dates for next meetings

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