

ASB Proposals for the Future of UK GAAP

1 Background

The consultation:

1.1 The Accounting Standards Board (ASB), at its meeting of 22 April, reviewed its proposals for Public Benefit Entities (PBE) in the context of responses to its consultations. The consultation provided evidence of strong support for both the retention of PBE SORPs and the development of a PBE standard. In particular:

- 98 per cent of respondents agreed there was a continuing need for guidance to supplement a PBE standard and that this guidance should continue to be in the form of SORPs and franked (negative assurance statement) by ASB; and
- 90 per cent of respondents agreed that a PBE standard should be developed.

ASB plans:

1.2 The ASB confirmed that it proposed to:

- Develop a PBE standard;
- Retain PBE SORPs; and
- Task the Committee for Public Benefit Entities (CAPE) with the development of a PBE standard which would be a 'differences-only' standard: covering issues which international financial reporting standards (IFRS) do not address.

1.3 ASB have noted that other standards setters were doing work on PBEs but conclusions had not been reached. The Chair of ASB also noted that the development of a PBE standard was not a simple task and the time required to develop a standard should not be underestimated.

1.4 Initial discussion at CAPE pointed towards a 'high-level' PBE standard that would draw where appropriate, in its development, on existing SORPs and the Interpretation of the Statement of Principles for Public Benefit Entities. An outline time-table discussed by CAPE pointed to a target for the development of a draft PBE standard for ASB consideration by the end of this year.

2 Issues arising

Remit of PBE standard:

2.1 The ASB's plan is for CAPE to take forward work on developing a 'differences-only' PBE standard, covering those issues where IFRS does not address a PBE issue. This is likely to limit the number and nature of issues the PBE standard can address and this may mean that standards

ASB Proposals for the Future of UK GAAP

that produce a sub-optimal solution for PBEs may not be addressed. Whether this proves to be a significant issue cannot be accurately gauged until development work on the PBE standard has progressed.

- 2.2 An example of such an issue is the prohibition within the IFRS small and medium enterprise standard (SME standard) on the revaluation of tangible fixed assets and the capitalisation of interest charges relating to the construction of tangible fixed assets. Whilst it is unlikely that charities will wish to capitalise interest charges, a number of charities do revalue land and buildings. As revaluation of assets is not a charity specific issue, it is questionable whether an alternative treatment could be put forward within a PBE standard. This may result in charities that which to follow the SME standard being effectively forced to move up to Tier 1 (IFRS) or down to Tier 3 (if small) to revalue assets.

Question:

- **Does the Committee view the prohibition on revaluation contained within the SME standard to be a significant issue for the charity sector?**
- **Have any other issues been identified by the Committee where the SME standard provides a sub-optimal result in the context of charities using the standard?**

The implications of a three tier framework:

- 2.3 The SORP Committee's working assumption to date is that charities would generally apply the SME standards in Tier 2 of the proposed three tier framework.
- 2.4 The ASB has noted that some PBEs, including some charities, would fall into Tier 1 (full IFRS). A number of PBEs, for example, have listed debt and therefore would be required to adopt full IFRS. The ASB also agreed that charities should have the option of moving up a tier and applying full IFRS if they so choose. Moreover ASB do not appear to have ruled out small charities continuing to apply the Financial Reporting Standard for Smaller Entities (FRSSE) - Tier 3 - at least for transition period.
- 2.5 The SORP Committee need to be aware that we may see a situation where charities will have a choice of applying the SME standard or full IFRS. Moreover, the majority of charities, which fall within the Companies Act definition of small, will have the third choice also of reporting under the FRSSE in Tier 3. This creates three potential problems which will require very careful consideration by the Committee:
- Firstly, as charities may fall within all three tiers of the framework, it will be essential to find a mechanism to overlay the PBE standard on all three tiers under which charities might report.

ASB Proposals for the Future of UK GAAP

- Secondly, if the SORP is to add value then it needs to develop the PBE standard to meet the specific needs of the charities sector. Again, it will be essential to find a mechanism to overlay the SORP's recommendations on all three tiers of the framework under which charities might report.
- Thirdly, a decision will be needed as to which specific tier(s) of the framework the Charity SORP addresses. Clearly, the SORP will need to provide guidance on the application of the PBE standard but if it is to continue to provide a 'one-stop shop' then it will need also to link into a particular tier of the new three tier framework. The SORP would struggle to offer guidance on accounting issues across a three tier framework as approaches and disclosures may differ between tiers. Attempting to address all three tiers within a single SORP would add hugely to the length and complexity of the document.

- 2.6 The first issue could be addressed by ASB being clear the PBE standard applies to all UK Charities irrespective of the tier under which they report. This approach might work where the issues in question are not addressed in general standards and are PBE sector specific. However, it might be more difficult to over-ride a general standard simply on the basis that its application does not provide the optimal solution for charities. For example where a trustee makes an interest free loan to their charity general standards may require disclosure whereas SORP 2005 does not require disclosure.
- 2.7 Similarly, where the SORP address a sector specific issue not addressed in general standards then its recommendations could be applied across all three tiers. However, again, it would be difficult for SORP to interpret a general standard simply on the basis that its application does not provide the optimal solution for charities.
- 2.8 The third issue arises only if the Charities SORP is to continue to provide the favoured 'one-stop shop' to charity accounting. The current SORP provides guidance or summarises parts of UK GAAP: giving an initial single reference point to preparers of charity accounts. This approach is practical in the context of a single set of standards but is likely to prove impractical in the context of the three tier framework. For example, the SORP would have to deal with three levels of disclosures (and perhaps treatment) if it were to address financial instruments.

ASB Proposals for the Future of UK GAAP

2.9 There are a numbers of options as to how the SORP might address the issues presented by a three tier framework:

- The SORP could limit its recommendation to the trustees' annual report, the format of primary statements and specific charity issues where general standards are silent. The SORP would simply develop the requirements of the PBE standard but would not cover issues addressed in general standards. This approach would provide a clear remit for the SORP but the 'one-stop shop' favoured by the sector would be lost.
- An alternative approach might be for the next SORP to be written around the PBE and SME standards. This was the approach favoured by the SORP Committee, Charity Commission and the Office of the Scottish Charities Regulator in their responses to the ASB consultation. The SORP could then continue to provide a 'one-stop shop' based on the SME standard. Charities adopting full IFRS would simply be signposted to those standards without the SORP providing a significant commentary on their application. The assumption would be that those charities opting or required (due to listed debt) to adopt full IFRS would have relevant skills to apply those standards. Similarly, eligible charities who wished to apply the FRSSE could do so but the SORP would again simply signpost to that standard. Even this approach would need considerable skill in drafting so that summaries or signposts to the SME standard were differentiated from specific charity sector recommendations.

Questions:

- **Does the Committee agree that it would be impracticable to provide guidance on the application of all three tiers of the proposed framework in addition to the PBE standard within the context of a single SORP?**
- **Does the Committee still believe the SORP should attempt to provide a 'one-stop shop' or should the SORP limit its remit to the application of the PBE standard, format of primary statements and trustees' annual reporting?**
- **If the 'one-stop shop' approach is to be maintained, should the SORP be developed at Tier 2 and based on the SME and PBE standards? If not, at what tier of the framework should the SORP's remit be set?**
- **If the 'one-stop shop' approach is maintained and a SORP is developed at Tier 2 (based on the SME and PBE standards), how would charities reporting at a different tier relate to the SORP?**

ASB Proposals for the Future of UK GAAP

Boundaries of PBE standard:

2.10 The ASB agreed that the PBE should not apply to for-profit entities but should include all PBEs, including those not covered by SORPs.

Questions:

- **Does the SORP Committee have any views on how the boundaries of the PBE standard might be drawn? Are there particular entities that the Committee believe should be included or excluded from the PBE standard?**