

Coordination of SORP Review with CAPE Research Agenda

1 Introduction

- 1.1 There are currently four public benefit entity SORPs covering charities, housing associations, local authorities and further and higher education which fall within the oversight of the ASB's Committee on Accounting for Public-benefit Entities ('CAPE').
- 1.2 CAPE's recent work has highlighted a number of topics which it believes warrants some further research. There have been three main sources for identifying those topics for proposed research:
 - The report to CAPE reviewing how the four public-benefit SORPs compare to each other and to UK GAAP;
 - Issues that were identified as 'unfinished business' from CAPE's work on the Interpretation for Public Benefit Entities of the Statement of Principles ('IPB-SoP'); and
 - Issues arising from CAPE's recent reviews of SORP's and suggestions made by members of CAPE.
- 1.3 This paper looks at the issues identified and at how, as a SORP Committee, we should respond ensuring the issues identified by CAPE are addressed in our own research programme and where necessary coordinated with CAPE's own research plans.

2 Report to CAPE - Review of Public Benefit SORPs

- 2.1 The review of the four public-benefit SORPs was carried out by Matthew Hodge of PricewaterhouseCoopers ('PwC') and provided a detailed analysis of how the four public benefit SORPs compare to each other and to UK GAAP. A copy of the report, previously circulated to the SORP Committee, can be downloaded at:
<http://www.frc.org.uk/asb/technical/sorps.cfm>
- 2.2 The report does not identify any departures from UK GAAP in any of the four SORPs. The report contains a commentary (section 4 - pages 11 to 16) on those areas where different accounting treatments are prescribed by different SORPs.
- 2.3 The Charity Commission and OSCAR, as the joint-SORP making body, were given the opportunity to comment on the accuracy of the report before it was presented to the ASB and subsequently published on their website. We are grateful to the preparers of the report for taking full account of the technical comments we made on the draft.
- 2.4 The Chair of CAPE (Andrew Lennard) recently wrote to the Chair and Deputy Chair of the SORP Committee drawing attention to the publication of the report on the ASB's website, and highlighted a number of areas where different accounting treatments are prescribed by different SORPs (see Paper 5). The letter recognised there may be

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valid reasons for some of these differences, reflecting the differing circumstances of the sectors to which the SORPs are addressed.

2.5 In the specific context of the Charities SORP, four specific treatments were identified as different and a request made to the SORP Committee to review the relevant issues and consider whether financial reporting would be improved if the Charities SORP were to require the treatment prescribed by another SORP. The four issues identified were:

- Primary statements;
- Capital grants and financing;
- Designated reserves; and
- Combinations.

2.6 The Chair and Deputy Chair of the SORP Committee have responded (See Paper 6) pointing out that we are now also “entering a period of research that will inform the development of our next SORP which we hope will be set within the framework provided by IFRSs. We plan to take forward a number of issues through a series of stakeholder roundtables starting in the autumn and we suspect that this would also provide a good opportunity to consider the issues identified within the PwC report. Clearly, we would like to obtain the views of the SORP Committee before committing to this way forward.”

2.7 At the last meeting of CAPE, Richard Bray of Cancer Research UK, tabled a paper highlighting issues surrounding the current approach to the recognition of liabilities arising from multi-periods grant awards (the SORP and IPB-SoP are considered by the SORP Committee to be consistent). A request was made by the Chair of CAPE to ask the SORP Committee to consider adding liability recognition to the SORP Committee’s own research agenda.

Question:

Is the SORP Committee agreeable in principle to include the 5 issues identified in its programme of research?

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3.1 In addition to the five issues raised with us following the PwC report, CAPE has also identified five topic potential topics for their own research programme. This research programme was subject to ASB approval, the availability of ASB staff resources and support and input of the SORP making bodies.

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3.2 Two of these five topics were given priority by ASB:

- Capital grants, including donated fixed assets (included in issues we have been asked to review in context of PwC report)
- Narrative and non-financial reporting, including annual report/OFR

3.3 The other three topics which were identified, but where CAPE lacks the resources for them to be carried forward as a project in the current year, were:

- Reporting performance, including issues from PwC report - turnover, donations, designated reserves, primary statements, operating results and measurement of performance (we have been asked to review primary statements and designated reserves in the context of the PwC report).
- Consolidations
- Combinations (including acquisition and mergers (we have been asked to review combinations in the context of the PwC report).

Questions:

Does the Committee agree in principle that all of the topics identified by CAPE should be included in its own programme of research?

Does the Committee agree that the outcome of our work in these areas should be reported to CAPE as being relevant to their own research agenda?

4 How might the technical issues identified be carried forward?

- 4.1 The forum and series of roundtable events will provide an opportunity to identify the general direction that the next SORP should take and will identify further issues for consideration. However, it may not provide the best forum for the detailed review and analysis and resolution of more complex technical issues.
- 4.2 Our planning has already identified the need for a technical sub-committee to undertake an initial review and analysis of technical issues prior to the submission of papers to the full SORP Committee.
- 4.3 The structure of the sub-committee should draw on the expertise of the main Committee and be made up of between 3 to 5 members of the Committee and representatives of the SORP making body.

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- 4.4 Papers would be prepared by the SORP-Committee secretariat and circulated to the full SORP Committee for information and email comment which would inform the sub-committee's consideration of an issue. The membership of the sub-committee would not be fixed and may be varied according to issue being considered and particular interests of SORP Committee members. Membership would be determined by the Chair and Deputy Chair of the SORP Committee. The sub-committee would be able to invite external involvement where further technical input or perspective is considered helpful. The outcome of its work would be reported to the SORP Committee who would consider the endorsement of the papers submitted.

Questions:

Does the Committee agree that the use of technical sub-committee is a pragmatic and helpful way to initiate the review and analysis of technical issues?

Does the Committee agree with the proposed membership of the technical sub-committee?

5 The research agenda and time-table

- 5.1 It is anticipated that the series of roundtable events and SORP Committee meetings will identify further technical issues for consideration. However, CAPE's research agenda and in particular the issues arising from the PwC reports does provide a number of priority issues that could form the basis of the sub-committee's initial programme of work. The work of the sub-committee would also involve ensuring proposals were consistent with IASB framework.

- 5.2 The following programme of work is suggested:

- ***The structure of primary statements*** - Consistency of SoFA with FRS2; disclosure of restricted and endowment funds; complexity (clutter); approaches adopted by other public-benefit SORPs;
- ***Designated funds*** - consistency IPB-SoP and other SORPs; disclosure in primary statements or notes/TAR; 'window dressing' or conveying 'relevant information';
- ***Capital grants and funding*** - recognition points; deferral; conditions preventing recognition; consistency with IPB-SoP, SSAP4 and other SORPs;

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- **Consolidations and Combinations** - what does control mean in context of a 'trust interest'; what is meant by 'benefit' in the context of a 'trust interest'; what is an acquisition or merger in the context of charities; consistency with FRS2 and FRS6;
- **Recognition of multi-period funding arrangements** - asset/liability test or matching; implied conditions; entitlement; what are unavoidable commitments; what is entitlement in absence of legal redress; performance related grants; consistency with FRS 12, FRS 5, IPB-SoP and other SORPs;
- **Narrative and non-financial reporting, including annual report/OFR** - role of TAR, what do users of accounts want, annual reporting and small charities?

Question:

Is the SORP Committee content with this initial list of topics?

6 Date and timing of meetings

- 6.1 It is proposed that the sub-committee meets monthly, except in a month when the SORP Committee itself meets. The first meeting should be scheduled for late September 2008 and will consider a single topic at each meeting. Meetings are anticipated to last between 1.5 to 3 hours (depending on complexity of an issue) and would normally be held at the Commission's London Office. The programme of work would follow the order of topics set out in the section above.

Question:

Is the SORP Committee content with this timetable?