

## **Notification to the ASB of development work on SORP 2010**

### **1 The process for developing a new SORP**

- 1.1 The ASB Code of Practice “SORPs: Policy and Code of Practice” (July 2000), requires that before beginning a new SORP project a SORP making body must seek approval from the Accounting Standards Board (ASB).
- 1.2 At its October meeting, the SORP Committee agreed that work should begin on developing a new SORP which will be ready for issuance, if at all possible, as soon as practicable after the planned convergence of UK Generally Accepted Accounting Practice (UK GAAP) with International Financial Reporting Standards (IFRSs) takes place.
- 1.3 When considering how best to develop an IFRS compliant SORP, the Committee considered a paper setting out a number of options. All the options required an adaptation of existing IFRS standards or draft or proposed standards which were IFRS compliant. It was noted that the International Accounting Standards Board (IASB) had not begun work on developing a conceptual framework for not-for-profit standards and its discussion paper “Phase G application to not-for profit entities” had yet to be timetabled for development (IASB work plan 2006-2008).
- 1.4 The International Public Sector Accounting Standards Board (IPSASB) is proposing to begin the development of a conceptual framework (strategy and operational plan 2007-2009) to address the needs of public sector entities other than “Government Business Enterprises” (for profit entities) in 2009 or later with a view to publication in 2012 (project brief December 2006).
- 1.5 In the absence of a conceptual framework the initial IFRS compliant Charities SORP will therefore be an adaptation of a commercial standard and draw heavily on the ASB’s existing conceptual approach “Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities”, where that Interpretation is consistent with IFRSs. IPSASB standards, developed for government accounting, may also provide a useful reference point for the interpretation of IFRS in their application to charities.

### **2 Developing a new IFRS compliant SORP under uncertainty**

- 2.1 The SORP Committee was advised that a number of uncertainties existed about the development of standards and the timing of convergence at its October meeting. Having considered the available options the Committee resolved that the development of the SORP, whilst initially being developed as an adaptation based on the draft IASB Small and Medium Enterprise standard (IFRS for SMEs), should not rule out the potential adaptation of the proposed IFRS compliant Financial Reporting Standard for Smaller Entities (FRSSE), which is actively being considered by the ASB (ASB publication Inside Track, bulletin 53, October 2007).

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- 2.2 The Committee also noted that the only public indication of the timing by the ASB for the convergence of UK GAAP with IFRSs is 1 January 2009 (Inside Track, bulletin 47, April 2006). It was noted that whilst this date may well slip, development work must begin on a new charities SORP if it is to be ready for convergence.
- 2.3 The Committee was also advised that there was some uncertainty as to whether a SORP which is based on an adaptation of an IASB standard, the IFRS for SMEs, could be endorsed by the ASB since the interpretation of IASB IFRSs is undertaken by the International Financial Reporting Interpretations Committee (IFRIC). Although the SORP would not be interpreting an IFRS in the context of commercial accounting, it would be filling a gap where there is no accounting framework or interpretation within international accounting standards addressing the specific accounting needs of our sector.
- 2.4 It was also noted that the ASB may develop sector specific standards within UK GAAP that addressed specific issues not dealt with by IFRSs thereby removing or reducing the need for sector SORPs. Even in the event of SORPs being superseded in the future by sector specific standards the development work undertaken by the SORP Committee will still be of considerable value to the ASB in any future project they might undertake.

### 3 Next steps

The SORP Committee is recommended to consider and approve the draft letter (paper 4.1) which seeks authorisation from the ASB for the Committee to proceed with the development of the next SORP on a contingent basis, pending clarity about the development of an IFRS convergent UK GAAP and clarification of the standing and place of SORPs within a convergent UK GAAP framework.

#### Questions:

1. Is the SORP Committee content that authorisation should be sought from the ASB to proceed with the development of the next SORP?
2. Does the SORP Committee approve the draft letter?