



CHARITY COMMISSION
FOR ENGLAND AND WALES

OSCR
Scottish Charity Regulator

The Charity
Commission
for Northern Ireland

Mrs Jenny Carter
Director, Accounting and Reporting Policy
Financial Reporting Council
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25 May 2021

Dear Jenny,

Proposed amendments to Financial Reporting Standard FRS 102 and the future of charity reporting and accounting

Overview

The Charity Commission for England and Wales, the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for charities in the UK and are advised by the Charities SORP Committee. The joint SORP-making body reported on our new approach to SORP development including our new engagement process in our 2020 Annual Review. The new process has been very fruitful and drawing on the evidence coming out of this process and we are writing to encourage the FRC to make changes to FRS102 as a precursor to making a wholesale change to the arrangements for financial reporting and accounting by non-profits, including charities.

The annex to our letter sets out the recommendations, accompanied by the evidence from the 'exploration stage' of our new SORP development process, for changes to the text of FRS102. We recognise that the FRS102 accounting standard represented a major step in terms of aligning for-profit accounting in the UK and Ireland with IFRS whilst accommodating company law requirements and existing traditions in reporting. The Charities SORP provides an application of this framework for charities. However, in implementing this framework, it is now very clear, in our view, that a number of developments in for-profit accounting are ill-suited to charities.

The focus of accounting standards is very much on the interests of the providers of risk capital to for-profit businesses. Charities are established for the public benefit and not as owner managed for-profit businesses and, although welcome, the PBE paragraphs are proving insufficient in addressing the reporting needs of the users or charity accounts and avoiding for-profit orientated disclosures detracting from the quality and character of public benefit accounting and reporting.

Developments in IFRS and for-profit accounting that have had particularly distorting effects on charity financial reporting and accounting are threefold:

- The interplay of section 1A and company law (refer to the annex section 1)
- The orientation of the presentation of the financial statements to informing readers on the return on capital and reporting of cash-flows orientated to informing readers on matters relevant to the interests of providers of capital and the inflexible application of FRS102 to charity specific matters (refer to the annex section 2)
- The need for simplification in the context of the growth in disclosure requirements orientated at a for-profit audience including disclosures likely to be unintelligible to all but the most expert reader (refer to the annex section 3)

Sections 1 to 3 of the annex offers our interim solution to address these distorting effects whilst section 4 proposes a longer-term solution for financial reporting and accounting by charities.

A future not-for-profit accounting standard

It is our view that the IFR4NPO project offers a helpful recognition of the need for a framework for non-profits. Its foundation, in being an adaptation of IFRS for SMEs, shares a common feature with the approach already taken by FRS102 but neither represent a conceptual framework for financial reporting and accounting by not- for-profits. Section 4 of the annex sets out our recommendations as to how work might be undertaken on a conceptual framework for non-profits. We recommend that the FRC now consult developing a UK-Ireland conceptual framework and not-for-profit accounting standard as a longer term solution.

The SORP development process is entering its 'reflection' and 'problem-solving' stages and we may make a second submission of proposals as a further contribution to the dialogue on the periodic review of FRS 102. Should you have any enquiry do contact Nigel Davies in the first instance.

Yours sincerely,



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