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Dear Jenny,

Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS

The Charity Commission for England and Wales and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for UK charities, and this response to the consultation is made in that capacity. Our detailed responses to the questions posed in the consultation document are set out in an annex to this paper.

The response to the consultation on the FRC's approach to changes in IFRS was considered by our SORP Committee at its last meeting. Our comments incorporate the views and advice we have received from this committee. Please note that our submission excludes the feedback from the SORP research exercise, the responses to which are being summarised at the time of writing.

We believe the perspective of charities is very different to other entities applying FRS 102. The financial statements of charities play a key role in demonstrating accountability to the organisation's donors and funders for the funds held and used in the period. This is different to for-profit entities, where the users of financial statements focus on elements of the accounts which will often have limited relevance to not-for-profit entities.

Charities in the UK and the Republic of Ireland must apply FRS 102 when preparing their accounts on an accruals basis. Therefore charities are included in the scope of FRS 102, with the SORP framework providing guidance on how to apply the standard to their particular activities and transactions. We would urge the FRC to ensure the wider application of FRS 102 is considered when making the proposed changes outlined in the document. Amendments made as a result of changes to IFRS should not impede users of charity accounts from understanding the stewardship of resources by the organisation.

Our comments to the consultation questions note our concern with financial accounting standards rooted in the commercial sector being applied to the charity sector. Whilst the FRC's proposed approach to making changes in IFRS is supported, previous and current research has clearly shown the SORP continues to remain necessary for charities to interpret for-profit standards including any amendments to FRS 102 and is supported by preparers of charity accounts. The framework also allows the requirements of FRS 102 to remain appropriate for the information needs of users of charities reports and accounts. This is necessary given the inherent differences between the information needs of users of public benefit entities of financial statements compared with users of the financial statements of profit-orientated entities. Whilst we welcome the FRC's aim to develop reporting standards that offer 'proportionate solutions', we believe greater discretion should be given to SORP-making bodies to determine when meeting the requirements of FRS 102 result in disclosures which are of little benefit to users of these accounts, and allow exemptions and carve-outs for public benefit entities where appropriate.

Comments on the technical aspects of the significant changes in IFRS are not offered at this stage. We look forward to giving feedback on the Financial Reporting Exposure Drafts to be issued as part of the next stage of the Triennial Review, where comments on the proposed changes and their compatibility with those transactions commonly encountered by charities will be given. The committee's recent research exercise will also identify specific implementation issues that require improvements to the SORP and FRS 102, which will be fed into future consultation responses.

Yours sincerely,

Nigel Davies
Joint Chair of Charities SORP Committee
Head of Accountancy Services
Charity Commission for England and Wales

Laura Anderson
Joint Chair of Charities SORP Committee
Head of Professional Advice & Intelligence
Office of the Scottish Charity Regulator

Annex to Charities SORP-making body's response to the consultation document: Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS

We have limited our response to the points on which we wish to place most emphasis, as well as those most relevant to the charity sector.

Question 1

The FRC has reviewed its principles for developing succinct financial reporting standards for the UK and Republic of Ireland. As a result, limited changes have been made to the principles, to emphasise the need to balance improvement with stability and the need for proportionate solutions (see paragraph 1.11). Do you agree with the principles? If not, why not?

We agree with the principles and the revisions detailed in paragraph 1.11.

Over the last two years, there has been significant change to the accounting and reporting frameworks for charities. Therefore, we welcome the FRC's intention to develop financial reporting standards which balance improvement with stability. Making the amendments necessary to maintain consistency with the underpinning international standards should be done at the same time as ensuring stability.

We also welcome the intention to develop reporting standards which are proportionate. Initial feedback from the Charities SORP Committee indicates that that compliance with specific reporting requirements of FRS 102 results in financial reporting which is not always proportionate to user's information needs. This was referenced in our response to the recent invitation to comment on stakeholder experiences of implementing FRS 102.

It is acknowledged that users' information needs differ for public benefit entities when compared to profit-oriented entities. What is 'proportionate' based on the information needs of users of charity accounts changes when compared to users of corporate accounts. These differences should be recognised by the FRC when developing 'proportionate solutions' in the context of user's information needs, given the range of entities which are within the scope of FRS 102.

Question 2

Significant changes in IFRS have been considered against the FRC's principles for developing succinct financial reporting standards for the UK and Republic of Ireland; see Section 3 *Changes in IFRS – Detailed analysis*. Do you agree with the proposals for updating FRS 102 as result of changes in IFRS as part of this triennial review? If not, please provide alternative suggestions.

We agree with the proposals for updating FRS 102 as result of changes in IFRS.

We welcome the progress being made by the FRC to keep UK GAAP in step with developments in IFRS. Within the charity sector, it is acknowledged that domestic standards which are consistent with the accounting principles of IFRS have the potential to provide a catalyst to promote consistency in international not-for-profit accounting. This is particularly relevant amongst international charities, where such a framework would allow consistent reporting across state borders, and also amongst charities which have donor relationships outside the UK.

The approach proposed in section 3.2 is also supported, given that International Standards are developed for for-profit entities as a result of the IASB's remit not covering not-for-profit financial reporting. Experience has shown that the strict application of for-profit standards can lead to inappropriate outcomes for not-for-profits, both in the presentation and disclosures required in financial statements. Therefore, it is necessary for the FRC to consider those changes in IFRS in respect of their impact on not-for-profits. Failing to do so may risk changes which are rooted in the commercial sector creating undue burdens and additional complexity to charity reporting.

We agree with the approach to not revisit those requirements of IFRS that have been considered by the FRC, but are not reflected in FRS 102, as detailed in section 2.4. This will limit the extent of amendments to UK and Ireland accounting standards, and provide a degree of stability which would be welcomed by the sector.

Question 8

Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?

We agree with the proposed effective dates but note the potential challenges which this presents ourselves, as a SORP-making body, and the sector.

The proposed effective date of 1 January 2019 allows around 12 months from the issue of the final amendments to FRS 102, following Phase 1 of the Triennial Review, to be interpreted into the Charities SORP and published. The development of the exposure draft, consultation and final version of the SORP requires to be done in line with the process outlined in FRC Policy.

Twelve months would appear as the minimum amount of time that could be allowed for this process. Any delay would impact on the amount of time available to develop a framework which is tailored to the particular accounting and reporting issues encountered by charities. Sufficient time is needed to ensure maximum engagement and support from the sector. We look forward to continuing to work closely with the FRC to minimise any possible delays in this process. This will ensure sufficient time is made available for the SORP to be developed in close collaboration with the sector.

Both proposed effective dates allow for an adequate 'lead-in time' between the publication of the SORP and its implementation by the sector. The longer 'lead time' allowed for the more fundamental changes brought in by Phase 2 of the Triennial Review is essential. We would advocate as long a 'lead-in time' as possible to enable sufficient training on the new regime to be provided for the sector and sector specialist advisors. This is needed given the wide variety of organisations within the charity sector and the considerable learning and training needs created by changes to FRS 102.

We welcome the effective date for the amendments arising from Phase 2 of the Triennial Review 2017 being designed to dovetail with the amendments arising from the Triennial Review 2020. Concurrent effective dates for changes to FRS 102 will allow longer periods of stability for UK and Ireland accounting standards.

Question 9

Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?

We acknowledge the FRC's intention to review FRS 102 every three years and support deferring the effective date of major change to a later triennial review. This frequency is understood as being necessary to align UK and Ireland accounting standards with ongoing changes to IFRS. However, ensuring these amendments are made in a way which maximises the stability of the reporting requirements for entities which are within the scope of FRS 102 is vital.

We believe adopting the proportionate and pragmatic approach set out in section 2 will help ensure this for the charity sector. We would also welcome any practical steps which would minimise the pace of change for charities, for example concurrent effective dates as proposed in section 1.22. The FRC's continued involvement with the IASB is also necessary to ensure changes to FRS 102 are made in line with current trends and thinking about reporting standards, and a piecemeal approach is avoided.

Question 10

The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

Costs and benefits likely to arise from specific proposals in the Consultation Document are not offered at this stage.

In order to ensure a comprehensive approach is taken, we would recommend impact assessments are not limited to UK and Irish companies. The assessments should include all other entities which are required to prepare accounts under FRS 102, such as charitable trust and associations.