

Minutes

Board Charities SORP Committee

Date 14 December 2022

Time 13:30 – 16:30

Venue Microsoft Teams

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| Joint Chair | Laura Anderson Rossa Keown Amie Woods | <i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for Northern Ireland (CCNI)</i> <i>Charity Commission for England and Wales (CCEW)</i> |
| Members present | Caron Bradshaw Michael Brougham Daniel Chan Tom Connaughton Diarmaid Ó Corrbuí Tim Hencher Francesca de Munnich Joanna Pittman Jenny Simpson Neal Trup | <i>Charity Finance Group</i> <i>Independent Examiner</i> <i>PwC</i> <i>The Rehab Group</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Scottish Council for Voluntary Organisations</i> <i>Association of Charitable Foundations</i> <i>Sayer Vincent</i> <i>Wylie and Bisset LLP</i> <i>Neal Howard Limited</i> |
| In attendance | Alison Bonathan Sarah Sheen | <i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Contract Manager</i> |
| Observers | Deirdre O'Dwyer | <i>Charity Commission for England and Wales (CCEW)</i> |

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| Jelena Griscenko | <i>The Charities Regulator in Ireland</i> |
| Claire Morrison | <i>Office of the Scottish Charity Regulator (OSCR)</i> |
| Adrian Wallis | <i>Financial Reporting Council (FRC)</i> |

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| Apologies | Tony Clarke | <i>Clarke & Co Accountants</i> |
| | Gareth Hughes | <i>Diocese of Down and Connor</i> |
| | Noel Hyndman | <i>Queen's University Belfast</i> |
| | Carol Rudge | <i>HW Fisher</i> |

1. Welcome, apologies for absences and declarations of interest Action

1.1 The Chair welcomed SORP Committee Members to the meeting.

1.2 Declarations of interest

1.3 The Chair noted four standing declarations of interest:

Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board.

Caron Bradshaw is a Country Champion for the IFR4NPO project.

CIPFA works with Humentum on the IFR4NPO project.

Sarah Sheen is Secretary to the CIPFA Charities and Public Benefit Entities Faculty Forum.

No additional declarations of interest were noted.

The Secretariat notes that at the meeting held on 5 October 2022 an additional standing declaration of interest was recorded with respect to Steven Cain's (CIPFA Secretariat) role on the IFR4NPO project. This declaration has been removed as Steven is no longer a regular attendee of meetings of the Charities SORP Committee.

2. Paper 1 – Minutes of the Meeting of 5 October 2022

2.1 The minutes were accepted as an accurate record of the meeting held on 5 October 2022.

3. Paper 2 – SORP Drafting. Narrative reporting (Module 1)

3.1 The Chair invited an observer from CCEW to introduce paper 2. The observer noted that Charities SORP Committee members had been invited to provide feedback on the structure of module 1 by email. Five responses had been received. Module 1 has been redrafted such that the requirements are grouped by tier.

Since the meeting of the Charities SORP Committee on 5 October 2022, the Joint Chairs have made the following amendments to the draft of module 1:

- The proposed definition of reserves has been clarified and included within the draft module.
- The proposed explanation of going concern has been clarified.
- The requirements of the extant Regulations applicable in England and Wales have been incorporated into the requirements for all tiers. The requirements of the Regulations will therefore apply to some charities that are not otherwise covered by the Regulations applicable in England and Wales.

Content on legacies as discussed at the meeting on 5 October 2022 has been retained in the draft module.

The Chair invited comments on the questions included in paper 2.

The questions discussed by the Committee from paper 2 are listed in Annex 1 below.

3.2 ***Paper 2 Section 4 – Drafting Suggestions relating to the definition of reserves***

A Committee Member expressed concern that if the definition of “reserves” omits an adjustment for long term liabilities included in unrestricted funds, reserves may be negative if the charity has a long mortgage. This may distort the view of the charity.

A Committee Member agreed that there is a need to reflect the net position of an asset bought using a mortgage, rather than only reflecting the liability.

A Committee Member expressed concern that the nuance involved in setting a reserves policy is not signposted in the draft module, for example risk. The Committee Member observed that there are two matters that need to be considered:

- 1) defining “reserves” and
- 2) supporting charities in setting a reserves policy.

The Committee Member expressed the view that there needs to be a focus on stewardship.

The Secretariat commented that “reserves” is a commonly understood term in financial reporting, therefore there is a need to avoid confusing the term with “free reserves”. The Secretariat suggested defining the term “free reserves” rather than “reserves” in the Charities SORP. The Chair responded that charities think differently about reserves. A Committee Member agreed with the Chair (see also the debate at paragraph 3.3 below).

A Committee Member expressed concern that the proposed text in paragraph 1.38 of appendix 1 to paper 2 does not make clear that designated funds should be excluded from reserves if they are committed for spending.

Another Committee Member agreed and expressed the view that the definition of reserves as presented in the papers is too prescriptive. The Committee Member noted that the proposed definition does not refer to restricted funds, which are an important part of a charity’s reserves policy.

In summarising, the Chair noted the Committee’s view that there is a need to do more on supporting charities to set a reserves policy from a governance point of view.

3.3

Paper 2 Section 4 – Drafting Suggestions relating to the definition of reserves: pension and revaluation reserves

A Committee Member commented that pension and revaluation reserves should not be explicitly excluded from the definition of reserves. Flexibility is required. For example, with a defined benefit pension, the constraint may be the charity's ability to pay the contribution in a year.

A Committee Member noted that pension schemes are often in deficit. Including a pension deficit in the reserves calculation might lead to a charity having no free reserves. The Committee Member expressed the view that the SORP should include guidance on what to think about when calculating reserves, rather than being prescriptive on what should be included or excluded in the calculation.

The Secretariat expressed the view that excluding balances commonly understood to be reserves from the definition of "reserves" would cause confusion. Accountants from outside the charities sector will be confused by the definition of reserves as it is proposed (which would normally include both pensions and revaluations reserves and equate to equity) and therefore clarity will be needed on why a charities reserve would only include a part of the commonly understood term. This might benefit from the use of terminology such as "free reserves". The Chair noted that the use of terminology in regulation should also be considered. For example, Scottish regulations refer to a "reserves policy" rather than a "free reserves policy".

Committee members expressed the following views:

- A reserves policy should include all reserves. The Committee Member questioned whether the wording as drafted is seeking to define what the charity has freely available to spend. The Committee Member noted their disagreement with such a definition. The Committee Member did not advocate for including more guidance in the SORP in this respect. Rather, the Committee Member commented that clarity is needed over what the definition is seeking to achieve. This was agreed to by a second committee member who added that it is not the role of the SORP to state how reserves should be managed. The Committee Member highlighted that documentation exists outside the SORP to provide guidance in this respect. The Committee Member expressed the view that there should be a way to use "reserves" while still retaining clarity over the meaning of "free reserves".
- Reserves are more complex in larger charities than in smaller charities. The Committee Member questioned whether a tiered approach could be taken to the definition of reserves.
- There is a need for education and training in the sector, as funders do not always believe a charity should hold reserves.
- In smaller charities, stakeholders do not always understand reserves, but do want to know what the charity has available to spend. A prescriptive definition should therefore be avoided, as it would lead to small charities with negative reserves which would have a negative effect for funding.

In summarising, the Chair noted the Committee's comments on the flexibility of the definition of "reserves", as well as the need for governance support for charities

developing a reserves policy. The Chair questioned whether the SORP is the correct place for such support but noted that module 1 of the SORP does cover governance issues.

3.4 ***Paper 2 Annex 1 – Questions 4 and 5 Detailed Drafting Proposals***

The Chair asked for comments and feedback from the Charities SORP Committee on each page of annex 1.

Committee members made the following comments on the draft Module:

- There was a suggestion that the presentation of paragraph 1.4 would benefit from the use of bullet points.
- Trend information provides evidence of a charity's achievements; this could be reflected in paragraph 1.33.
- The draft module only requires a description of risks at tier 2. The Committee Member expressed the view that charities in tier 1 will also need to include a description of risks as this relates to reserves.
- The draft text only requires charities in tier 3 to discuss restricted funds, and expressed the view that there should also be some discussion of restricted funds by charities in tier 2.
- There was a suggestion about including content on liquidity policies, as liquidity links to reserves and going concern. The Committee Member expressed the view that this is particularly important in larger charities.
- With reference to question 5 on the definition of going concern, (see annex 1 below), the definition of going concern might benefit from a reference to a charity's ability to pay liabilities as they fall due, and recommended clarification of the term "foreseeable future" as there can be confusion over this. For example, some preparers understand "foreseeable future" as meaning twelve months from the balance sheet date rather than the date when the financial statements are authorised for issue. There is not a "going concern note" therefore the wording of the draft paragraph requires amendment.
- Agreement with comments about "foreseeable future".

The observer from the FRC noted that FRS 102 contains a definition of going concern. The Chair agreed and noted that this section of the SORP is to ensure going concern is understandable to charities.

A Committee Member commented that the explanation of going concern in the SORP should be consistent with the definition in FRS 102 even if the SORP adds to this.

3.5 ***Paper 2 – Regulations relevant to England and Wales in Module 1***

The Chair highlighted a paragraph in paper 2 that made reference to the inclusion of regulations in the SORP, noting that where regulations are included in the SORP, charities in tier 2 or charities in particular jurisdictions might be required to follow regulations that otherwise would not apply to them.

No members of the Charities SORP Committee made any comments. The Chair confirmed the Committee is content with the implications of including regulations in the SORP.

3.6 ***Paper 2 – The Structure of Module 1***

Committee members expressed the following views about the structure of (draft) Module 1:

- The approach to structuring requirements by tier in the redrafted module might be confusing. The draft module is clear, but that there is a lot of extra text and there is duplication across the module.
- The structure of the module could be confusing and suggested that in an electronic version of the SORP, it would be useful if a charity only saw the requirements for the relevant tier.
- Whether it would be possible to have a SORP for each tier if an electronic solution is not possible. Another Committee Member suggested this may be useful for module 1 if it is not possible for the whole SORP.
- SORP users who are returning to the SORP are likely to be interested in what changes have been made in drafting the new SORP.
- implementation guidance or a document summarising the changes to the SORP would be useful when the new SORP is issued.

The Secretariat noted that blank boxes, such as those in the table in paragraph 1.8 of the draft module, could be confusing and suggested that the module could be styled differently to make clear that the requirements build cumulatively.

The Chair noted that the draft modules as included in the papers have been produced using the feedback and tentative conclusions of the SORP Committee from previous meetings. A Committee Member responded that when seeing the ideas on paper, adding tiers 2 and 3 onto content included in tier 1 meant that the module appeared disjointed.

A Committee Member commented that feedback from the initial stages aimed at making the SORP more understandable for non-accountants. As drafted, this has not yet been achieved in module 1. The Committee Member expressed the view that the 'building blocks' approach has led to the module being difficult to work through and existing text from the SORP has been retained without being reworded in the draft module.

The Secretariat asked whether drafting module 1 with a single section for each tier would be more suitable. The Committee Member reflected that module 1 is a module in which the Charities SORP Committee can address criticism that the SORP is not user friendly and thought that this has not yet been achieved. The Chair asked how the draft module could be amended to ensure it is user friendly, for example through amending the language or the layout.

Another Committee Member reflected that the Charities SORP Committee had the opportunity to start with a blank sheet, strip out any difficult language and include more signposting to make it clear to small charities in particular what they need to do.

A Joint Chair noted that there is a limit to which content can be stripped out of the SORP due to regulatory requirements.

The Chair and the Secretariat expressed a wariness towards creating three separate SORPs. A Committee Member suggested that the SORP could serve as a master document that can be filtered by tier. The Chair noted that there would likely be a need for a 'master' SORP to meet FRC requirements, although there may be options over how the master can be filtered.

In summary, the Chair noted the need for the SORP-making Body to consider how best to present module 1, and that helping charities through the SORP will be important.

4. Paper 3 – Income in the Charities SORP (Modules 5 and 6)

4.1 The Chair invited the Secretariat to introduce paper 3.

The Secretariat drew the Committee's particular attention to Section 3 of the paper on the use of 'entitlement' in the recognition criteria for income in the SORP. The Chair noted that it would be helpful to understand if the term 'entitlement' is used by charities.

The Secretariat noted that 'entitlement' is currently used in the SORP to mean two different things. In the context of income from the sale of goods, 'entitlement' is used to mean that the risks and rewards of ownership of the goods has passed to the buyer, whereas 'entitlement' is used as a proxy for 'control' elsewhere in the SORP. The Secretariat questioned whether the SORP could instead use 'control' if 'entitlement' is used in the SORP as a proxy for 'control', noting that 'entitlement' is a more legalistic term and that it is not used in the income recognition criteria in FRS 102.

4.2 The Chair invited comments on the questions in Paper 3. A summary of the questions from paper 3 is included in Annex 2 below. Where Committee Members and, where indicated, the Chair, Secretariat or FRC observer, expressed agreement with the questions from paper 3, this is noted alongside the question in Annex 2.

The tentative advice of the SORP Committee was as follows:

4.3 Paper 3 Section 3

Question 1: relating to the use of "entitlement" or "control" in the SORP's income recognition criteria.

The Chair asked how well understood the term "entitlement" is. Committee members expressed the following views:

- "Control" should be used in the SORP rather than "entitlement" as charity clients find "control" to be more understandable than "entitlement".
- "Control" is defined in FRS 102 and this can be drawn out in the SORP. "Control" is likely to also arise in the FRED.
- In Ireland, accountants often have a commercial background therefore "control" is understandable, however, use of the performance model for recognition of income from grants is less well understood.

- A preference for “entitlement” as this helps charities to consider whether they have the rights to income. For legacies, “entitlement” is preferable as charities may believe they must have received income from a legacy before they “control” it.

The Secretariat commented that having a definition of “control” in the SORP will assist charities’ understanding. Where there are two definitions of “entitlement” as in the SORP, there is the opportunity for misunderstanding.

The Committee agreed to revisit this issue following the publication of FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review* (the FRED). The Committee noted that income recognition criteria are likely to be changed by the FRED, particularly revenue from contracts with customers.

4.4

Paper 3 Section 4

Questions 2 – 8: relating to the inclusion of a requirement to mandate the use of a separate fund for income from capital grants.

The Secretariat noted that if a separate fund is mandated for income from capital grants, CIPFA would need an understanding of the rationale for this in order to draft the consultation paper.

Committee Members commented:

- The financial statements of a small charity can be distorted when the charity is in receipt of a large capital grant.
- The Committee discussed this point when debating reserves as there is a need for clarity that income from capital grants is not part of free reserves. A separate column on the SoFA for capital grant income can help bring clarity, but this should not be mandated in the SORP. Further, the Committee Member would extend the use of a designated fund for capital items if the charity collects donations to finance capital expenditure.
- It would be difficult to mandate the creation of a designated fund for income from capital grants as the income may already be part of a different fund.

The Chair noted that at the meeting of the Charities SORP Committee on 9 September 2021, there had been a range of views about mandating a separate fund for income from capital grants. The Chair expressed the view that the issue may be one of understanding the accounting issues rather than changing the accounting treatment.

The Secretariat suggested amending the SORP to encourage, rather than mandate, a separate fund where the charity expects a separate fund will improve presentation.

The Observer from the FRC agreed, and added that additional complexity would arise if the fixed asset purchase was only part-funded by grant income.

The Chair summarised that the Committee does not support the requirement for the mandatory use of a separate fund for income from capital grants and concluded that the SORP should be amended to make it clearer to charities that they can use a

designated fund for income from capital grants when the charity is of the view that this would be useful.

With respect to question 4, Committee Members expressed the following views:

- If the use of a mandatory separate fund for income from capital grants is optional, the use of a separate column on the face of the SoFA should also be optional.
- The disclosure of the separate fund could either be on the face of the SoFA or in a note to the accounts.
- A separate column also helps to develop an understanding of a charity's reserves.

With respect to question 6 (transition arrangements), a Committee Member noted that in practice, funds are created in-year without retrospective application. The Secretariat questioned whether this treatment is compliant with FRS 102. The Observer from the FRC responded that the FRC would consider this when reviewing the final SORP Exposure Draft.

The Secretariat confirmed that the draft SORP would need to clarify that the creation of a designated fund for income from a capital grant would not require retrospective restatement of income from capital grants received in prior years, as this matter could be considered an accounting policy choice. The Secretariat noted that a change in accounting policy is normally applied retrospectively.

A Committee Member did not think that this would require retrospective restatement, as the creation of a designated fund should be at the Trustee's discretion. The Committee member noted that this would not constitute an accounting policy as the designated fund would still sit in unrestricted funds.

The Secretariat responded a change in presentation of financial statements could be an accounting policy, therefore clarity will be needed and noted that if the SORP decided to interpret that it was not that clear arguments would need to be provided.

Questions 7 and 8 can be considered in the February meeting of the Charities SORP Committee once the Committee has reviewed a revised draft of the module amended to reflect this discussion.

The Committee did not support the introduction of a requirement to mandate the use of a designated fund for income from capital grants. The Chair concluded that the SORP should be amended to make it clearer to charities that they can use a designated fund for income from capital grants when the charity is of the view that this would be useful.

4.5 **Paper 3, Section 5**

Question 9: relating to including an emphasis on materiality in the section of module 5 on legacies.

A Committee Member noted that paragraph 5.36 of the draft module 5 referred to materiality and suggested that this may be a more suitable place to do this for income from legacies. The Committee Member expressed the view that materiality of legacies is most relevant where the charity receives notification of a legacy post year end, ie

the charity is only required to consider disclosure of, or adjustment for, the legacy income if the notification relates to a material legacy. The Committee Member suggested deleting paragraph 5.29 from the draft module and making a more specific reference to materiality in paragraph 5.36.

The Chair confirmed that the Committee and the Secretariat were content with this suggestion.

Question 10: *relating to the wording of content on uncertainty associated with legacies.*

The Chair confirmed that the Committee was content with the proposed wording.

4.6 **Paper 3 Annex 1 – detailed drafting amendments**

The Chair invited comments on the questions in annex 1 of paper 3. A summary of the questions from paper 3 and the comments made by Committee Members and, where indicated, the Chair, Secretariat or FRC observer is included in Annex 2 below.

The Chair noted that throughout discussions of annex 1, if no comments are made on a particular amendment this would be taken as agreement with the proposed amendment.

Tentative advice was provided by the Committee as follows:

- **Questions 1 – 10:** The Committee agreed with all proposals in questions 1 – 10.
- **Question 11:** A Committee Member commented that the proposed language might suggest the charity has to investigate claims. The Committee Member suggested including the phrase 'of which they are aware' in paragraph 5.30 in relation to challenges to avoid the paragraph giving the impression that charities are expected to conduct investigations to identify challenges to legacy entitlement. The Secretariat will reflect on this suggestion in redrafting module 5.
- **Question 12:** The Committee agreed with the proposals in question 12.
- **Question 13:** The Committee debated what might constitute an impairment of a legacy debtor (rather than the uncertainties around the estimation process). A Committee Member suggested that an impairment might arise if a charity is left some shares that fall in value between the date on which the legacy is left and the date on which the charity receives the shares. The Committee Member suggested seeking the advice of a legacies expert, in particular on the practicalities of remeasurement of legacy debtors.

The observer from the FRC suggested that if the legacy debtor is a financial instrument, the requirements for financial instruments might apply. The Secretariat noted that there is a question of whether the legacy debtor arises because of a contract. The Secretariat will continue its research into this matter outside the meeting.

- **Question 14:** The Committee agreed with the proposal in question 14.

- **Question 15:** A Committee Member noted that charities could be pushed into a higher threshold due to 'notional' income and suggested excluding tier 1 from the requirements around recognising 'notional' income such as income from donated goods and services. The Secretariat responded that this would not be possible under FRS 102, and noted that charities preparing accounts on the receipts and payments basis would not need to comply with the requirements. Another Committee Member noted that a reasonable approach to the exclusion of immaterial transactions could be taken to help make reporting as simple as possible for smaller charities. The Secretariat will reflect on how a commentary on materiality might be included in module 6.
- **Question 16:** A Committee Member identified an error in the question, as it relates to paragraph 6.8 rather than 6.4 as stated in the paper. The Committee Member then questioned how a charity can assess materiality to determine the need for a valuation before a valuation is obtained. The Committee Member suggested the SORP could explain the process of identifying the materiality of donated goods in a different way, for example through reference to the scale of the donation, or its significance to the charity. Another Committee Member agreed, suggesting additional commentary could be included in supplementary material. The Secretariat will reflect on this matter in revising the draft module, including giving consideration to the wording of FRS 102.
- **Question 17:** The Committee agreed with the proposal in question 14.
- **Question 18:** As the Committee does not recommend mandating the use of a designated fund for capital grants, question 18 is no longer relevant.
- **Question 19:** A Committee Member raised the question of when a volunteer is a volunteer – meaning income is not recognised – versus when the volunteer's work meets the definition of a donated service, therefore income recognition is required. The Committee Member expressed the view that this requires more thought in the SORP. Another Committee Member expressed the view that expressing the work of volunteers as a number of full-time equivalent (FTE) staff is problematic from a practical point of view. The Committee Member questioned the value of the information if it is provided and how information on FTE of volunteers could be audited.

The Secretariat asked whether the reference to FTE should be removed from the paragraph. The Chair noted that the Academics and regulators and proxies for the public interest engagement strand had discussed this proposal, but had suggested that charities should disclose information on the number of volunteers rather than the FTE.

A Committee Member suggested information on the number of volunteers could be contained in the 'front half' of the annual report, with module 6 to include a cross reference to the disclosure in the 'front half'. This will then allow charities a greater latitude of determining the meaning of "volunteer" in the charity's individual context. The Chair confirmed the Committee was content with this suggestion.

- The Committee agreed that information on the number of volunteers working for a charity should be covered by the requirements of module 1 rather than module 6. Module 6 should include a cross reference to the requirements of module 1.

The Chair asked for any comments on amendments listed in annex 1 that had not been addressed by one of the questions.

Committee members had the following additional comments:

- Paragraphs 5.6 and 5.7, it can be difficult to differentiate between a grant and a contract, which creates difficulties in determining which line of the SoFA to record the income under. If the SORP encourages following substance over form, it might not be useful to be prescriptive in determining the contents of line items on the SoFA. The Secretariat noted that this wording is in the current SORP, but it would recommend following the economic substance of the arrangement over the legal form.
- Paragraph 5.50 – the second use of donation should be preceded by “other” to add clarity to the requirement.
- Why the income recognition criteria are repeated in module 6 when a cross-reference could be provided to the income recognition criteria in module 5.
- Paragraph 6.18 – the paragraph could be redrafted to enhance its readability.
- The amendment proposed to paragraph 6.23 (relating to donated goods held by the charity for distribution to its beneficiaries), in which a ‘should’ requirement has been amended to a ‘must’ requirement. The Secretariat responded that this amendment has been proposed to ensure compliance with FRS 102 paragraph PBE34.73. The Chair expressed the view that the Committee should reflect on this point when the FRED is available as this point is relevant to charities such as food banks.

4.7 Paper 3 – Section 7 Possible implications of IFRS 15 Revenue from Contracts with Customers for the SORP

The Chair noted section 7 of paper 3, which was included in the paper for information only. The Chair advised that if Committee Members had any questions on this section of the paper, they should contact the Joint Chairs or the Secretariat.

5. FRC update – progress on periodic review and timing of new FRS 102

5.1 The observer from the FRC advised that the FRED should be published on 15 December 2022.

The FRED has been mentioned in some previous items, and the Committee should expect content in the FRED related to IFRS 15 *Revenue from Contracts with Customers*, the definitions of assets and liabilities, and content on the donation of goods for onward distribution.

The observer from the FRC advised the Committee to look out for webinars and round table opportunities to hear about and discuss the FRED in the first quarter of 2023.

6. Any other business including future Committee meetings

6.1 Future meetings

- 22nd February 2023 (10am – 1pm)
- 3rd May 2023 (10am – 1pm)
- 12th July 2023 (10am – 1pm)
- 20th September 2023 (10am – 1pm)

6.2 AOB

The Secretariat will circulate the link to the FRED when it is available.

The Chair wished the Committee a merry Christmas on behalf of the Joint Chairs and CIPFA.

Disclaimer

These Charities SORP Committee minutes have been developed during the drafting stage of the Charities SORP. They set out areas of agreement or otherwise and present the Charities SORP Committee advice to the joint SORP-making body. Charities should not treat this advice as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.

Summary of questions from Paper 2 on Module 1 – the Trustees' Annual Report

| Section of Paper 2 | Questions |
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| <p>Section 4 Drafting Suggestions relating to the definition of reserves</p> | <ol style="list-style-type: none"> 1. Does the Committee agree the revised text [on 'reserves freely available to spend'] in paragraph 1.38 of the revised module? 2. Does the SORP Committee agree the revised definition in the glossary? 3. Can the SORP Committee advise whether pension and revaluation reserves should be specifically excluded from the definition of reserves? |
| <p>Annex 1 Detailed drafting proposals</p> | <ol style="list-style-type: none"> 4. Are there any further changes the Charities SORP Committee believes are necessary to the module under consideration [Module 1, Trustees' Annual Report]? 5. It was agreed at the meeting of the Charities' SORP Committee on 5 October that this requirement [on the meaning of going concern] be retained in a revised SORP and although no changes to wording were suggested, the SORP Making Body felt that it would be helpful for users of the SORP to have a definition of 'going concern'. Does the Charities SORP Committee support this change? |

Summary of discussions on Paper 3 SORP Drafting – Income in the Charities SORP (Modules 5 and 6)

| Discussion Point | Comments noted from Committee Members |
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| <p>Paper 3, Section 3</p> <p>Q1: What are the Charities SORP Committee’s views on the use of “entitlement” in the income recognition criteria?</p> | <p>Comments from Committee Members are summarised above at paragraph 4.3.</p> |
| <p>Paper 3, Section 4</p> <p>Q2: Which accounting problem identified during the reflection and problem-solving stage of the process was this proposed amendment [to mandate a designated fund for income from capital grants] addressing?</p> <p>Q3: Is the Committee content with the wording of the paragraph as drafted? Is the proposed paragraph addressing the accounting issue raised? Is the Committee content for the SORP to mandate trustees to show a fund as designated?</p> <p>Q4: Is the committee content with the requirement to disclose the movement on designated funds on the face of the SoFA?</p> <p>Q5: Is the Charities SORP Committee content for the proposed amendment to apply to charities in all three tiers? If not, to which tiers should the requirements apply?</p> <p>Q6: How does the Committee anticipate that charities will transition to apply these new requirements?</p> <p>Q7: Does the Charities SORP Committee recommend retaining the example as currently included in paragraph 5.26, or would the Committee prefer to delete or amend</p> | <p>Comments from Committee Members are summarised above at paragraph 4.4.</p> |

| Discussion Point | Comments noted from Committee Members |
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| <p>the example given the revised SORP includes additional requirements mandating the use of a designated fund for fixed assets?</p> <p>Q8: If the Committee recommends an amended example, what should the amended example be?</p> | |
| <p>Paper 3, Section 5</p> <p>Q9: Is the Charities SORP Committee content with the reference to materiality considerations as proposed in this draft paragraph [related to income from legacies]?</p> <p>Is the Committee concerned that an emphasis on materiality in this section of the SORP may lead preparers to misinterpret the SORP such that materiality is only considered by preparers if it is directly referenced alongside accounting requirements for particular transactions or events?</p> <p>Q10: Is the Charities SORP Committee content with the content of paragraph 5.40 following consideration of the views of the Institute of Legacy Management (ILM)?</p> | <p>Comments from Committee Members are summarised above at paragraph 4.5.</p> |
| <p>Paper 3 Annex 1</p> <p>Q1: Is the proposed approach an appropriate approach to tiered reporting for module 5?</p> | <p>No comments were made by Committee Members – taken as agreement with the proposed amendment.</p> |
| <p>Q2: Is the Charities SORP Committee content with the revised definition/description of income?</p> | <p>The Chair confirmed the Committee was content with the proposed amendment.</p> |
| <p>Q3: As the concepts of exchange and non-exchange transactions might cause confusion for preparers, is the Charities SORP Committee content for the definitions and</p> | <p>The Chair confirmed the Committee was content with the proposed amendment.</p> |

| Discussion Point | Comments noted from Committee Members |
|--|---|
| examples to be contained in the glossary, or would the Charities SORP Committee advise that the definitions and relevant examples are included in the main body of module 5? | |
| Q4: Does the Charities SORP Committee agree that paragraph 5.18 as redrafted should remain in the SORP? | No comments were made by Committee Members – taken as agreement with the proposed amendment. |
| Q5: Is the Charities SORP Committee content with duplication of content explaining the term 'performance-related grant' across the SORP, or would the Committee prefer cross-referencing to avoid duplication across the SORP? | The Chair confirmed the Committee was content with the proposed amendment. |
| Q6: If the Charities SORP Committee is content with duplication of content explaining the term 'performance-related grant' across the SORP per Question 5, does the Charities SORP Committee recommend the inclusion of the text included in paragraph 7.16 of the revised SORP in paragraph 5.17 in this section of Module 5? | No comments were made by Committee Members – taken as agreement with the proposed amendment. |
| Q7: Is the Charities SORP Committee content with deleting content from paragraphs 5.20 and 5.21 [on time-related conditions]? If not, how does the Committee recommend that the implications for the paragraphs for a charity's financial reporting are articulated? | No comments were made by Committee Members – taken as agreement with the proposed recommendation. |
| Q8: Is the Charities SORP Committee content with the use of two separate sections for the requirements for accounting for grants (i.e. a section for the requirements for performance-related or other conditions, and a section for conditions not wholly within the control of the charity)? | The Chair confirmed the Committee was content with the proposed amendment. |

| Discussion Point | Comments noted from Committee Members |
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| Q9: If so, is the Committee content with the subheadings used for each section? | |
| Q10: Is the Charities SORP Committee content with the suggested restructuring and rephrasing of this section of the SORP [income from legacies]? | No comments were made by Committee Members – taken as agreement with the proposed amendment. |
| Q11: Is the Charities SORP Committee content with the proposed inclusion of content on the link between challenges and other claims and a charity’s entitlement to a legacy in the SORP? If so, is the Committee content with the suggested wording of the proposed amendment to this paragraph? | Comments from Committee Members are summarised above at paragraph 4.6. |
| Q12: Does the Charities SORP Committee agree that paragraph 5.34 should refer to use of information from databases etc. to help develop accounting estimates? Should this be instead of, or as well as, the reference to developing accounting policies? | The Chair confirmed the Committee was content with the proposed amendment. |
| Q13: Are there any circumstances in which a legacy debtor could be impaired (as opposed to the estimated receivable being remeasured as a result of a change in estimate)? | Comments from Committee Members are summarised above at paragraph 4.6. |
| Q14: Does the Charities SORP Committee agree that the need for a separate section on the settlement of insurance claims in module 5 should be reviewed after the publication of the FRED? | The Chair confirmed the Committee was content with the suggestion. |
| Q15: Is the proposed approach an appropriate approach to tiered reporting for module 6? | Comments from Committee Members are summarised above at paragraph 4.6. |
| Q16: Is the Charities SORP Committee content with the reference to materiality considerations as proposed in this | Comments from Committee Members are summarised above at paragraph 4.6. |

| Discussion Point | Comments noted from Committee Members |
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| <p>draft paragraph [relating to donated goods, services and facilities]? Is the Committee concerned that an emphasis on materiality in this section of the SORP may lead preparers to misinterpret the SORP such that materiality is only considered by preparers if it is directly referenced alongside accounting requirements for particular transactions or events?</p> | |
| <p>Q17: Is the Charities SORP Committee content with the proposed amendments to paragraphs 6.14 and 6.17? Do the revised paragraphs meet the objective of the Committee to make it clearer that donated facilities and services should be valued at the value <i>to the charity</i>?</p> | <p>The Chair confirmed the Committee was content with the suggestion.</p> |
| <p>Q18: Is the Charities SORP Committee content that a separate designated fund should be mandated for fixed assets acquired using a grant, but not for donated fixed assets?</p> | <p>As the Committee does not recommend mandating the use of a designated fund for capital grants, question 18 is no longer relevant.</p> |
| <p>Q19: Is the Charities SORP Committee content with the proposed amendment [relating to disclosing the number of volunteers]? If so, and noting the tiered reporting requirements in the redrafted Module 1, does the Committee anticipate that the requirement should apply to charities in all three tiers?</p> | <p>Comments from Committee Members are summarised above at paragraph 4.6.</p> |