

Drafting process- initial evaluation of options

1 Overview of the drafting options paper

- 1.1 The purpose of this paper is to explore the options for progressing the drafting process as a catalyst for an initial discussion. This initial discussion will assist the SORP-making body and SORP Committee reach a consensus as to the way forward in the run up to the joint meeting with the SORP engagement strand convenors planned for February 2021.
- 1.2 The paper identifies five aspects of the drafting process and closes with a series of outline proposals for the way forward.
- 1.3 The five aspects are: time, drafting capacity, initial workload, items from the SORP Governance review, and priority setting.
- 1.4 The proposals look to offer a framework to progress into the drafting stage, including a dialogue with the engagement strands, and to agree the scheduling of activities.
- 1.5 The Committee is asked to agree tentative proposals as to the approach to be taken in drafting the next SORP subject to a further review. The settled approach to the drafting stage would be reached following the outcome of the discussion on sustainability reporting and later dialogue with the SORP engagement strand convenors.

2 Time

- 2.1 There are two facets to the time aspect - the timeline to the new FRS 102, for which a new SORP is required and the time it takes to deal with editing to allow for the consultation and approval process.
- 2.2 The timeline is subject to a degree of uncertainty until the FRC settles on the final date for applying the new FRS102. Currently the planned effective date is for reporting periods beginning no earlier than 1 January 2024. The SORP Committee previously expressed the aspiration that the new SORP be published by the end of October 2023 to allow preparers to identify what information may need to be collected and the implications of any changes to formats and disclosures when closing down the year-end prior to applying the new SORP.
- 2.3 The time that likely drafting changes will take will need confirming, however the SORP-making body anticipates monthly meetings from March 2022 to January 2023 to effect drafting changes. Allowing the March meeting as a planning meeting, this means from April onwards there will be 10 meetings.

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- 2.4 In developing the first edition of current SORP comprising 29 modules, it took from October 2010 to December 2012 and 15 meetings. Some topics required more than one meeting to settle: trustees annual report (3 meetings) and SoFA (2 meetings). It follows that there will therefore not be sufficient time to debate every module and a more selective approach will be required.
- 2.5 Of the topics subject to FRC review in the new FRS102 (see section 4), leases may require addressing in the SORP for the first time. If this is the case, this will take a meeting to resolve leaving only 9 meetings for other matters.
- 2.6 Completing the drafting stage by the end of January 2023 will enable the SORP-making body to submit the exposure draft SORP for pre-consultation clearance to the FRC in time to allow a consultation for three months to take place from March.
- 2.7 Post the close of the public consultation at the end of June, CIPFA will require up to 2 months to analyse and discuss with the SORP Committee the feedback prior to settling the text by early September 2023. If more responses than the 179 recorded for the FRS102 SORP are received, then this timescale will need to be extended.
- 2.8 The final SORP is subject to FRC approval, including its full Board, and so it is therefore unlikely that this approval process will be concluded in time to allow initial web publication by the end of October 2023.

3 Drafting capacity

- 3.1 Aside from time, the second major constraint on the scope for editing the SORP is that of capacity across the process. Capacity in respect of the resource provided by CIPFA under contract as the Secretariat to draft the SORP's content, supplemented by a limited capacity of the SORP-making body to in drafting content, and the capacity of volunteers in both the SORP Committee and engagement strands to contribute content or comment upon it.
- 3.2 Two issues arise, the available capacity and how best to deploy that capacity effectively given all calls upon that resource and respecting the limitations that should be placed on relying on volunteer support. In the past, the Secretariat/SORP-making body has written content and volunteer Committee members have provided a fatal flaw or critical friend review in formal Committee meetings.
- 3.3 The experience of the new SORP development process so far is that time is needed to both organise the discussion times and to debate the topics. Scheduling time for debate requires notice for both engagement strands and the advisory SORP Committee. An important consideration

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is therefore that the process so far has proven to be very demanding on volunteer time and has relied on great commitment from all parties.

4 Initial workload

4.1 In addition to the initial conclusions from the discussion of the topics so far that potentially merit changes to the SORP, there remain a number of uncertainties as to the work involved in updating the SORP.

4.2 The Committee's review of the topics reviewed so far has already flagged a significant volume of potential work in amending the SORP and a request for substantial additional advisory materials.

4.3 The first uncertainty is the extent to which FRS 102 may be changed to accommodate developments in for-profit international financial reporting standards (IFRS). To the SORP-making body's knowledge, the FRC is considering updates in five areas:

- Leasing - with the distinction between operating leases and finance leases to end and all leases recognised on the balance sheet (statement of financial position)
- Financial instruments in respect of the 'expected loss' model
- Income recognition - changing the approach to recognise revenue when: 'a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service)'
- Definition and its application of the concept of 'control' in groups
- Consequential changes due to updating of the IFRS for SMEs standard

4.4 The second area of uncertainty is how far, if at all, the changes requested in the two submissions to the periodic review will be accepted and, if accepted, the changes that will be made to FRS102. This has significant implications for the scope for simplification and having tiered reporting requirements. The changes requested were in respect of:

- SORP-making body enjoying latitude in the application of section 1A
- Greater flexibility in formatting primary performance statements (SoFA)
- Latitude in requiring comparatives for SORP specific items
- Flexibility to frame disclosures in a manner that the reader is expected to understand
- Simplification to defined benefit pension disclosures
- Changes to the accounting treatment for certain gifted goods and services

4.5 The extent to which changes in company reporting in the UK and Ireland may impact on the SORP is a further uncertainty. Of particular

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note are developments in sustainability reporting and corporate governance disclosures.

- 4.6 The final area of uncertainty is whether pressing emerging issues not previously considered in the engagement process merit a response due to their potential impact on public confidence and/or sector confidence in the SORP framework were they not addressed. An example in respect of the FRS 102 SORP was the emergence of executive pay as a very pressing issue late in the process.

5 Items from the SORP Governance review

- 5.1 The SORP Governance Review, which reported in June 2019, was more extensive than simply a review of governance arrangements. Its recommendations extended to aspects of guidance that might be offered, including the SORP itself.
- 5.2 In particular the review recommended:
- Given that there are many smaller charities preparing accounts to give a 'true and fair' view, their needs have not been demonstrably at the forefront of thinking by the SORP-making body. So a new approach is needed by the SORP to better meet the needs of smaller charities reporting under the SORP.
 - In terms of developing the SORP in the future, a key focus should be on the proxies who represent the public interest - their needs should be central to what financial reporting is all about. Early engagement with these proxies should help to identify what is needed to better serve public needs.
 - In developing the next SORP the aim should be to simplify and clarify the report and accounts making these an easy read for proxy users and those interested in the work of charities. Consideration should be given to simplified accounts, in particular for smaller charities, with a focus on key financial information in the statutory reporting.
 - Illustrative examples should be provided to help explain proposed changes and the potential impact. The impact of changes to the SORP in exposure drafts is not clearly understood and worked examples would help support a broader understanding of the application.
 - A future SORP should include a statement to the effect that where a charity reports on financial matters out with the SORP compliant accounts, the other financial information reported should be consistent with that detailed in the formal accounts.
 - Consideration should be given by the four charity regulators as to how they can promote common principles and standards in respect of non-statutory financial reporting, in advance of the development of more formal guidance.
 - Financial reporting by smaller charities should be more central to the SORP-making process in future.

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- The Panel urges the SORP-making body, supported by the FRC, and the SORP Committee to take steps to ensure the SORP is made more accessible to the majority of users who are applying it in the context of smaller charities.
- The SORP-making body and SORP Committee, when drafting or revising the SORP, should consider the costs and benefits of compliance in their decision making, bearing in mind the FRC's policy on SORPs in cases where SORP requirements go beyond those of accounting standards. The SORP should avoid mandating compliance with requirements that are only likely to be complied with by the most diligent. In making such decisions the SORP-making body and SORP Committee should bear in mind that many of the SORP's provisions are directly referenced in the charity law regulations in each jurisdiction, and the SORP thus has the force of law.
- The SORP-making body and SORP Committee should seek to ensure that provisions in the SORP are understandable by those expected to apply them.
- The Panel recommends the charity regulators consider their approach to education on the SORP with a view to improving compliance.
- The specific issues for smaller charities could merit further attention by the SORP Committee and the SORP-making body supported by the FRC vis-à-vis the interaction between the SORP and accounting standards, in particular with regard to how far any options available for smaller entities could be applied to charities.

6 Priority setting

- 6.1 The factors of time and the potential workload are likely to require the setting of priorities meaning that some less essential matters, although desirable, are deferred to a later update of the SORP.
- 6.2 To guide these choices, the SORP 'Aims and Principles' document will be the frame of reference along with the findings of the SORP Governance Review.

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7 Tentative proposals as to progressing the drafting of the next SORP

- 7.1 Limit the workload plan to the work arising from:
- Changes to FRS102 and relevant changes to company and charity law
 - Consideration of findings from the review of the topics that potentially require changes to the SORP
 - Settling the definition of each tier of reporting under the new SORP once the likely changes to FRS 102 are known
- 7.2 Only accept emerging issues for review in the drafting stage where the issues have not previously arisen in the feedback from the 'exploration stage' and where the SORP Committee's view or SORP-making body's view is that the issues require addressing and there is capacity and time available to address the drafting required.
- 7.3 Involve the engagement stands in the drafting stage through a mixture of planned tasking, related to either the text of the SORP or identifying or developing post publication advisory materials, and fatal flaw or selected text/drafting solution review.
- 7.4 Defer the consideration of advisory information, including information sheets or help sheets, the development of model examples and other advisory support to after the FRC's approval of the next SORP. This is anticipated to happen in late 2023.
- 7.5 The SORP Committee is asked to:
- To agree the five aspects affecting the drafting process are: time, drafting capacity, initial workload, SORP Governance review, and priority setting, and advise if any aspect is missing
 - To agree that the two aspects that in large part determine the drafting stage are time and capacity
 - To confirm the tentative proposals advised in this section are to inform the drafting stage, subject to later review
 - Agree to a further review of these tentative proposals following the discussion on sustainability reporting at the next meeting
 - Agree to settle the framework for the drafting stage following the joint meeting with the engagement strand convenors in February 2022
 - Given the very demanding timescale and noting the aspiration of publication of the new SORP by the end of October 2023 advise on the latest date for which publication would be acceptable .