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Your Ref:
Our Ref: RTJ/ND/SORP

Date: 29 November 2012

Dear Jenny,

Amendment to FRED 48 – Employee Benefits and Service Concessions

The Charity Commission and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for UK charities and our response to your consultation is made in that capacity. Your proposal to revise FRED 48 has been discussed with our SORP Committee and our response incorporates the advice that we have received from that Committee.

We agree with your proposed amendment to Section 28 (Employee Benefits) of draft FRS 102. If an entity, including a charity, enters into a binding agreement with a multi-employer pension scheme that determines the amount of additional contributions relating to a scheme's deficit then the criteria for the recognition of a liability (and an expense) are likely to be met. Clearly, the payment must be probable and there must a schedule of payments which has been agreed for there to be a binding obligation. It may be helpful for the amendment to reiterate these criteria.

It may also be helpful to specify the discount rate to be used to calculate the present value of the payments (when the amount adjustment is material) rather than deal with this by cross reference to other text within the standard. It would also be helpful if the FRC could liaise with the actuarial profession to explain these changes and the importance of their distinguishing the payments required to fund a deficit from the current service cost of the scheme.

We are aware that a significant number of charities contribute to multi-employer defined benefit schemes where actuaries appear to be unable to provide sufficient information to facilitate accounting for the arrangement as a defined benefit scheme within an entity's accounts.

We are aware that some accountancy practitioners struggle to understand how a deficit on a multi-employer scheme can be calculated and an equitable apportionment made between contributing members when setting additional contributions whilst, at the same time, a member's 'share' of the deficit cannot be calculated reliably for accounting purposes. This may be an issue the FRC could usefully explore with the actuarial profession in its oversight capacity.

It would also appear that entities, including charities, adopting the FRSSE will not be required to recognise a liability for agreed deficit payments. The FRC will need to consider whether a similar amendment should be made to the FRSSE given that it is often smaller entities that contribute to multi-employer schemes following the hive-off of activities from the public sector employers.

From the perspective of charity accounting, we are content with the proposals for accounting for service concession arrangements provided that an exemption is made where the arrangement takes place within a group structure. For example, it is not uncommon for charities to undertake major construction projects and for the resulting facility to be operated through a subsidiary controlled by a parent charity. The services provided through the facility will be controlled by the charity through the influence it exerts over its subsidiary and often additionally by contract. We see no point in the accounts of the parent charity setting up an asset and liability to reflect a quasi finance lease when this accounting would be reversed on consolidation when producing group accounts.

Yours sincerely,

Sam Younger
Joint Chair of Charities SORP Committee
Chief Executive, Charity Commission

Laura Anderson
Joint Chair of Charities SORP Committee
Head of Inquiry & Investigation, OSCR