

SORP Committee

Minutes of the SORP Committee Meeting of 14 December 2009 (Approved at the July 2010 SORP Committee Meeting)

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Present:

Andrew Hind, Chair of the SORP Committee
Laura Anderson, OSCR
Debra Allcock Tyler
Peter Gotham
Keith Hickey
Noel Hyndman
Ray Jones
Lynne Robb
Carol Rudge
Kate Sayer
Paul Spokes

In attendance:

Nigel Davies, Secretary to the SORP Committee
Alan O'Connor, Accounting Standards Board

Apologies:

Tidi Diyan
Pesh Framjee
John Graham
Chris Harris
Tris Lumley
Catriona Scrimgeour

Item 1: Opening remarks and declarations of interest

1.1 The Chair welcomed the Committee to the new Charity Commission offices. Laura Anderson was welcomed as she joined the Committee as OSCR's new representative, replacing Kirsty Gray.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 22 September 2009 were considered and approved.

Items 3: Feedback from the Conference: Charity Reporting and Accounting: ‘Telling Your Story’

3.1 Nigel Davies introduced this item and summarised the feedback from the conference held on 4 December 2009. 124 delegates attended with 60 providing feedback. All presentations and other aspects of the conference were rated as good. Also five written comments were made on the Accounting Standards Board’s (ASB) consultation discussed at the plenary session. In addition to the written comments, notes were made of the plenary session discussion. There were no new substantive points raised in debate with the contributions generally echoing the findings of the SORP research. The main comments focused on the needs of smaller charities, the retention of the SORP and the need to reconsider accounting for multi-year commitments.

3.2 Committee members who attended the conference confirmed that it was a well received event. There was strong support for the research findings and for the Committee’s objective to focus any new SORP, or similar document, around the needs of the smaller charities and to make the accruals framework more accessible. The event provided a valuable opportunity for the chair of the ASB, Ian Mackintosh, to hear the sector’s views and to note their support for the SORP.

3.3 The main finding from the conference was that the sector wanted to retain the SORP and were less concerned with the technical debate and processes that would achieve that objective following convergence with International Financial Reporting Standards (‘IFRS’).

3.4 A suggestion from the ACCA representative at the conference that an intermediate public benefit standard might not be needed was also discussed. It was suggested that a framework document could set key principles with the SORP simply rewritten in the context of IFRS. In effect this would be the charity equivalent of the International Accounting Standards Board’s (IASB) small and medium enterprise standard (SME standard). It was noted that ACCA’s field testing for small commercial companies had shown the transition to the SME standard appeared to be straightforward for small commercial companies.

3.5 The Committee concluded that:

- **The feedback from the conference should be formatted for publication on the web.**
- **The Secretariat should contact those named in the transcript to obtain their consent to being named in the published feedback and to confirm that they are content with the summarised record of their contribution.**
- **The Committee noted the overwhelming support for SORP and the need to consider carefully how it could be improved to meet the needs of smaller charities.**

Items 4 and 5: Distinctive features of charity accounting and the draft response to the ASB

5.1 It was agreed to take the paper on the distinctive features of charities together with the draft response to the ASB consultation.

5.2 Ray Jones introduced the ASB consultation response and noted that the ASB had proposed a 3 tier structure for convergence with IFRS.

- Tier 1 - full IFRS for those meeting the definition of public accountability under IFRS
- Tier 2 - the SME standard, for entities not meeting the IFRS definition of public accountability; and
- Tier 3 - the retention of the Financial Reporting Standard for Smaller Entities (FRSSE) for small entities with turnover (income) below £6.5m.

5.3 The ASB proposal would not include charities in tier 1 (full IFRS) as they did not fulfil the criteria of public accountability as currently defined by reference to listed debt/equity or deposit taking. It was noted that the ASB's definition was really one of market accountability since the emphasis of IFRS is global capital markets.

5.4 The Committee was concerned that the definitions were poor and that the ASB should clarify that market accountability was a feature of IFRS, tier 1. Also the term public benefit entities was inappropriate as not all social enterprises were for the public benefit as defined in charity law because they distributed profit. There was a need to carefully define the public benefit sector. Also whilst trustees do hold money in a fiduciary capacity as trustee this is dissimilar to banking activities and this aspect of the definition needed to be clarified.

5.5 It was also noted that a handful of registered charities did have listed debt and that they would fall into tier 1 in order to meet the requirements of global capital markets. In so doing, they must preserve the charity aspects of their annual reporting and accounting, for example fund accounting. However there was no need for a future SORP to cater for this small group specifically. In their accounting they would also have to apply charity specific reporting requirements.

5.6 The Committee debated whether to replicate for charities the concept of tiers 2 and 3 by having an FRSSE option for smaller charities. There was a concern that this might introduce potential confusion with two SORPs (one based on the FRSSE and another based on the SME standard). This could create a further complication as charities would cross from one SORP to another as their size increased and would introduce a further threshold and might also reduce comparability. It was also recognised that the FRSSE option might well be temporary and would only delay a move towards a single framework at a later date. Multiple changes would again add to complexity.

5.7 Whilst maintaining UK GAAP through a FRSSE for smaller charities might assist smaller charities in the short term, this objective could be achieved better through a single framework which took a proportionate approach in relation to small charities. On balance a dual tier approach for charities was not supported by the committee. If time allows further consideration should be given to the ACCA

research on the experience of small companies applying the SME standard before responding to the ASB.

5.8 The Committee considered options of a suite of standards as opposed to a broad framework (equivalent to the Statement of Principles) or a single public benefit entity standard. On balance a standard was preferred as a framework might not carry sufficient weight or authority in relation to its application. A UK standard could also be a catalyst for a future global standard. There was a preference for a single standard rather than addressing the issue piecemeal through a suite of separate standards. It was also recognised that it was important for a standard to continue to give scope for the SORP to develop the framework in a charity specific context.

5.9 It was important for the SORP to retain a substantial role in the practical application of the standard. The standard should deal with high level issues affecting the wide constituency proposed for the standard. The SORP would then continue to provide the detailed recommendations on the standard's application within the specific context of UK charities. An ASB standard, if developed at too detailed a level, might limit the role and scope of the SORP too much. The sector wanted a comprehensive 'one-stop shop' solution and its preference was that this solution be delivered through a SORP. The sector was not concerned as to the mechanics of how this was achieved and simply wanted to be assured that a single primary reference point for charity accounting was maintained. The ASB's endorsement of the SORP remained important to both the sector and sector regulators.

5.10 The timeline was discussed and a concern raised that further delay in introducing an IFRS framework could disadvantage the sector. If commercial entities were to move to an IFRS based accounting regime in 2012, then it would be inappropriate for the charity sector to be held back in its adoption of IFRS. Clearly, there was significant work involved in developing a public benefit standard, then developing a new Charities SORP and then obtaining a new legislative underpinning for the regime.

5.11 If implementation was to be delayed (as seemed likely) then efforts should be made to avoid unnecessary delay. There should be clarity from the ASB over the proposed time-frame. It is vital that the sector makes a smooth transition to an IFRS based framework and that the costs of transition are minimised.

5.12 The option of a staged approach allowing smaller charities a longer transition period was debated but was not supported by the committee. A single implementation date was preferred as a staged move to IFRS for charities of different sizes would add complexity and uncertainty. Also a long delay in a move to an IFRS framework might create pressures for an interim revision of the current SORP.

5.13 A new SORP written under UK GAAP which is then followed by a new IFRS based SORP would increase implementation costs for the sector and add to complexity. The needs of smaller charities and the research findings needed implementing in a timely way. Ideally this would be achieved through a single change to an IFRS framework rather than an interim SORP prepared under existing UK GAAP.

5.14 To avoid delay, a new IFRS based SORP would need to be developed alongside the ASB's standard. It was noted that the SORP could not be consulted upon until the standard itself had been consulted upon and finalised. Given the time constraints it was likely that the ASB standard would be pitched at a more principled rather than detailed level. The ASB would also need to access charity expertise to ensure the successful development of a public benefit standard.

5.15 Provided the public benefit standard addresses issues at a principle level then this will help ensure that the sector, through the SORP Committee, can continue to develop charity specific recommendations on the application of the standard. This will ensure that a future IFRS based SORP continues to meet sector specific needs. Provided the ASB standard continued to allow sufficient scope for the SORP to develop the principles of the standards for sector application then the sector's needs are met better by a standard than through a framework document.

5.16 The future SORP should not neglect medium sized charities (those just over the audit threshold) which also have limited expertise and capacity. Full IFRS would not address the sector's needs and a charity specific solution is required based around the SME standard. There is also a need for the professional bodies to equip practitioners for the change.

5.17 The Committee concluded that:

- **The definitions used by the ASB need clarifying. In particular, the concept of public accountability should refer to market accountability. This allows the different nature of the accountability of charities to be recognised.**
- **Tier 1 (Full IFRS) should not be an option for charities except for the very few charities with listed debt with reporting responsibilities to capital markets. It was noted that charities with listed debt, applying full IFRS, should also meet the disclosures required by the SORP.**
- **The Secretariat to contact ACCA about their research on the SME standard to confirm a FRSSE for charities offers little advantage.**
- **The key to charity accounting is fund accounting and this applies equally to HEFE and charitable RSLs as it does to other charities.**
- **The future standard or suite of standards needs to be broadly defined and avoid too much detail due to the different needs of HEFE, RSLs, charities and social enterprises and should allow significant latitude for sector SORPs to meet the needs of particular stakeholder groups.**
- **It is essential that charity accounting is not left lagging behind and is treated with an equivalent priority to that of small and medium companies. Therefore the ASB should be pressed to settle a firm timetable for developing the not-for-profit standard(s) and if not implemented in 2012 then 2013 should be the latest date for implementation.**
- **The ASB to be pressed to have greater charity sector representation, especially smaller charity representation, on the Committee for Public Benefit Entities that is charged with overseeing the new standard.**
- **There was no need for an annex about the distinctive features of charities since the draft response had incorporated these points.**

Item 6: Draft response to the ASB Consultation by the British Universities Finance Directors' Group (BUFDG)

6.1 Nigel Davies introduced the draft submission and noted that there was a great deal of agreement between the BUFDG response and the thinking of the Committee.

6.2 In discussion the Committee agreed that it was not appropriate to comment in detail but the Committee welcomed the sharing of the draft.

6.3 The Committee concluded that:

- **The Secretariat thank BUFDG for sharing the draft.**
- **The charities SORP Committee's own response to the ASB's consultation should be copied to BUFDG for information when ready.**

Item 7: Draft Information Sheet on heritage assets

7.1 Ray Jones introduced the Information Sheet which sought to inform the sector of the new standard for heritage assets, FRS30, that had been approved by the ASB and is applicable from 1 April 2010. The Information Sheet noted that the SORP and standard were in agreement but that a higher level of disclosure of transactions, holdings and asset maintenance would now be required. The SORP also provided for ancient abbeys and similar buildings not to be valued and this would remain the case but the FRS30 disclosure requirements would be recommended to apply to those assets.

7.2 The Committee concluded that:

- **The Secretariat forward the Information Sheet to the CAPE Committee for information prior to publication.**
- **That the Information Sheet should be clearer in specifying the disclosure requirement expected where historic assets, not falling with the definition of heritage assets, are not capitalised.**

Item 8: Work programme

8.1 Ray Jones introduced a discussion of the likely work programme for 2010. It was noted that the exact timing of activity was dependent upon the ASB's own progress with its implementation of convergence with IFRS.

8.2 In discussion, Alan O'Connor advised that the February consultation would probably lead to a further Exposure Draft which was likely to be in late summer 2010. Assuming a September 2010 publication of an Exposure Draft then a further 3 months would elapse in consultation before any development work on a future public benefit standard could be released for consultation. A draft standard would take 6 months to develop with the timing of any consultation being later in 2011. This 3 month consultation period would be followed by further review prior to final publication. Therefore an implementation date of January 2012 might prove over optimistic.

8.3 The Committee noted that drafting of a new SORP could be undertaken in the meantime using the existing text by reformatting it to meet the needs of smaller

charities and addressing the SORP research findings and detailed technical issues. The redrafted SORP could then be reviewed once the not-for-profit standard was in place.

8.4 The Committee concluded that:

- **That a sub-group meet early in 2010 to review the options for reformatting the SORP to make it more accessible and report back to the March Committee meeting.**

Items 9: Dates of meetings in 2010

9.1 The next meeting would be in March 2010 with further meetings planned in late June/early July and October.

Items 10: Any other business

10.1 The introduction of Extensible Business Reporting Language (XBRL) based filing (XBRL) and reporting (iXBRL) was discussed. It was noted that this government initiative was being led by Companies House and HM Revenue and Customs (HMRC). It was noted that computer software to allow companies to enter data in the required format was not yet available and a charitable company version was as yet unavailable. Whilst Companies House had indicated that they would accept paper filing, HMRC appeared to require XBRL submissions. HMRC had promised free user software to enable filing. **With implementation planned for 2011 the matter would be kept under review.**

10.2 The Institute of Chartered Accountants Scotland (ICAS) had requested topics for research studies. **It was agreed that the Secretariat contact ICAS for more information.**

10.3 The adoption of SORP by Sierra Leone was noted.

10.4 The developments in Northern Ireland and the Republic of Ireland were discussed. Whilst the remit of the ASB included the Republic of Ireland, the remit of SORP was only the UK. Harmonisation however would afford advantages to cross-border charities. It was agreed that the Commission and OSCR would consider any request for membership by the Charity Commission for Northern Ireland. This would be particularly relevant if the SORP was embedded in charity law in Northern Ireland. The equivalent body in the Republic of Ireland, in common with ASB's own approach, could join the Committee as an observer member if a request was made.

10.5 There being no other business the meeting closed.