21. Accounting for social investments

Types of social investment and income risk sharing arrangements

21.1 The reporting tiers applied for module 21 are as specified in the table below.

Table 21.1A: Tiered reporting requirements for module 21

All tiers	The requirements in this module apply fully to all charities who make social investments.
Tier 2 and tier 3	In addition to the requirements of this module charities in tier 2 and tier 3 must provide an explanation of the charity's social investment policies in the trustees' annual report and explain how the investments contributed to the achievement of the charity's purposes (these requirements are set out in paragraph 1.25, SORP module 1 '*Trustees' annual report*')

21.2 This module applies to all charities making social investments. FRS 102 does not provide specific accounting guidance on social investments and therefore this module explains what a social investment is and how such investments must be measured and disclosed when accounts are prepared using this SORP.

21.3 A charity making or in receipt of social investments or undertaking complex contractual arrangements needs to consider carefully the nature of the arrangement and account for the substance of the arrangement.

21.4 To account for the investment or contractual arrangement correctly, a charity needs to be able to identify:

- the nature of the asset or entitlement to income acquired
- the basis upon which any financial return is calculated
- the method(s) to be used to measure financial return
- the nature of any liabilities or obligations acquired
- the method(s) to be used to measure any liability or obligation
- the charity's motive(s) for acquiring the investment

21.5 Reference must be made to the SORP module 10 '*Balance sheet*', which sets out the classification and disclosures required for investments and liabilities, and to the SORP module 5 '*Recognition of income, including legacies, grants and contract income*', which sets out the basis for income recognition including profit-sharing arrangements.

21.6 Previously the SORP has divided social investments into programme related investments and mixed motive investments. This has been simplified in this SORP by only referring to social investments. Comparative information must be restated as far as practicable on a like-for-like basis.

How the SORP defines social investment

21.7 This SORP uses the term 'social investment' to describe a class of assets that comprises investments made for both a financial return and to further the investing charities' purpose.

21.8 Social investments may take a variety of forms such as making loans, taking on a commitment, for example by giving a guarantee, or buying shares in a private company. An example is a development charity making a loan to a small-scale farming business. This helps to achieve the charity's purposes directly through the investment by bringing benefits to the local population, as well as providing a financial return from interest on, and repayment of the loan.

21.9 When a social investment is held in a subsidiary entity, an associate or joint venture, reference must also be made to the SORP module 24 '*Accounting for groups and the preparation of consolidated accounts*', SORP module 28 '*Accounting for associates*' and SORP module 29 '*Accounting for joint ventures*'.

21.10 This module sets out:

- Social investment policies
- Social investments in property (land and buildings)
- Social investments loans
- Accounting for guarantees
- Accounting for ordinary or preference shares
- The presentation of social investments in the investing charity's accounts
- The reclassification of a social investment as a financial investment
- Impairment of social investments
- Accounting for impairment losses
- Accounting for gains on disposal
- Information to be provided in the investing charity's trustees' annual report
- Disclosures in the notes to the accounts

Social investment policies

21.11 When social investment forms a material part of the charity's charitable and investment activities, tier 2 and tier 3 charities must provide an explanation of the charity's social investment policies in the trustees' annual report and explain how the investments contributed to the achievement of the charity's purposes. Tier 1 charities are also encouraged to make these disclosures. See paragraph 1.25, SORP module 1 '*Trustees' annual report*'.

Social investments in property (land and buildings)

21.12 Property may be classified as a social investment when it is held to enable a third party to undertake activities using the property that contribute to the investing charity's charitable purposes.

21.13 Property used by a charity to provide goods or services, or used for its own administrative purposes, must be presented within tangible fixed assets (property, plant and equipment). Similarly, property that is let out to further the lessor charity's own purposes by providing a service to a charity's own beneficiaries must also be accounted for within tangible fixed assets.

21.14 A charity that decides to occupy a property partly to carry out its own activities and partly lets it to another charity or third party which undertakes activities that further the landlord charity's purposes, should apportion it between tangible fixed assets and social investments. However, if such an apportionment is impracticable, the whole property must be classed as a tangible fixed asset.

21.15 Property that is held to generate rental income and/or for its capital appreciation must be accounted for as investment property.

21.16 A mixed use property used in part by the charity to provide goods or services and for its own administrative purposes, and in part to generate rental income, must be apportioned between tangible fixed assets and investment property if the resulting portions could be sold separately or leased out separately under a finance lease. However, if the fair value of the investment property component cannot be measured reliably, the entire property shall be accounted for, in the case of property held by the owner, as property, plant and equipment in accordance with Section 17 of FRS 102 or, in the case of property held by the lessee, as a right-of-use asset in accordance with Section 20 of FRS 102.

Social investment loans

21.17 A social investment may be made in the form of a concessionary loan to a third party interest free, or at below prevailing market rates. Concessionary loans are not made solely to achieve a financial return but also to advance the charity's purposes. **Concessionary loans**, as defined in FRS 102, are not repayable on demand.

21.18 Other loans that are interest free or at below market rate but are repayable on demand do not meet the FRS 102 definition of a concessionary loan. These loans are Social Investments and must be accounted for in line with section 11 and 12 of FRS 102 as well as making the disclosures required in this module.

21.19 Charities making (or receiving) concessionary loans must opt to either:

- initially recognise and measure the loans at the amount received or paid, with the carrying amount adjusted in subsequent years to reflect repayments and any accrued interest and adjusted, if necessary, for any impairment (with any losses recognised in income and expenditure). For further information on accounting treatment please refer to PBE34.87 to PBE34.97 of FRS 102
- apply the charity's accounting policy for financial instruments (refer to SORP module 11 '*Accounting for financial assets and financial liabilities*')

21.20 The same accounting policy for the measurement of concessionary loans must be applied to concessionary loans both made and received.

Accounting for guarantees

21.21 A charity may, as part of its strategy for social investments, provide loan guarantees to facilitate the financing of activities undertaken by third parties. All such guarantees must be recognised by the charity making a guarantee as either a provision or a contingent liability depending upon the circumstances that exist as at the reporting date. A charity receiving a guarantee must disclose the guarantee as a contingent asset when an inflow of economic benefits is probable. If it is virtually certain that the guarantee will be called upon it is no longer contingent and the income receivable is recognised.

Accounting for ordinary or preference shares

21.22 When a social investment takes the form of ordinary or preference shares, it must be measured at the reporting date:

- at its fair value, if this can be measured reliably
- if its fair value cannot be measured reliably, at its cost less impairment. If a reliable measure of fair value is no longer available for an asset measured at fair value, its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available

21.23 The bid price may be used to measure fair value for accounting purposes of shares that are traded in an active market. When quoted prices are unavailable, the price of recent transactions of identical (or similar) investments in an arm's length transaction between knowledgeable, willing parties may offer evidence of their fair value, provided that there has not been a significant change in economic circumstances since those transactions. Prices may need to be adjusted if the last transaction price is not a good estimate of fair value (for example, if the transaction was as a result of a forced sale).

21.24 If neither the market price nor recent transaction prices provide a reliable estimate of fair value, then the fair value shall be estimated using another valuation technique. The objective of using another valuation technique is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. Refer to Section 2A.16 of FRS 102.

21.25 If a reliable measurement of fair value is no longer available for an asset measured at fair value, its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available.

The reclassification of a social investment as a financial investment

21.26 If a social investment ceases to be held to further the charity's purposes of the investing charity, it must be reclassified as a financial investment, or investment property, as appropriate.

21.27 However, if the failure of the investment to contribute to the charity's purposes of the investing charity is only temporary, a social investment should not be reclassified; instead, it should be subject to a review for impairment.

21.28 If the contribution made by a social investment to the investor's charitable purposes is reduced significantly, for example, due to a change in the activities financed by the investment), then the classification of the asset must be reviewed. When necessary, the asset must be reclassified appropriately in the balance sheet and/or the notes to the accounts to reflect the purpose of the investment.

21.29 A financial investment acquired to generate a financial return must not be subsequently reclassified as a social investment as the initial decision to make the investment was based wholly on commercial considerations. Similarly, where financial investments are selected on other criteria, for example environmental, social or governance reasons, the investments must not be classified as social investments as they are held for financial return. However, the notes to the accounts may be used to identify the amounts of investments held that were selected using these other criteria.

Impairment of social investments

21.30 Social investments that are measured at cost or amortised cost must be assessed for objective evidence of impairment at the end of each reporting period.

21.31 If there is objective evidence of impairment, for example, a default on repayments due or evidence of significant financial difficulty in the entity in which the investment has been made, then an immediate impairment loss must be recognised in the statement of financial activities (SoFA). The impairment is measured on the same basis as other investments or financial assets. See paragraph 11.21 of FRS 102 for further information.

Accounting for impairment losses

21.32 An impairment loss arising on a social investment should be recognised as an investment impairment in the 'gains/(losses) on investments' line in the SoFA.

21.33 Any reversal of a previous impairment must be credited to 'gains/(losses) on investments' . The reversal of an impairment charge must not result in an asset's carrying amount exceeding its carrying amount prior to its initial impairment.

Accounting for gains on disposal

21.34 Any gain on the disposal of a social investment must be recognised in the 'gains/(losses) on investments' line in the SoFA after offsetting any prior impairment loss.

Information to be provided in the investing charity's trustees' annual report

21.35 This SORP requires that tier 2 and tier 3 must include an explanation of the charity's policy for the use of social investments in the trustees' annual report when such holdings are material. The report must also explain the investment's performance in relation to the objectives set by the trustees. Further guidance is provided in the SORP module 1 '*Trustees' annual report*'.

Disclosures in the notes to the accounts

21.36 This SORP requires that the accounting policy note must disclose:

- the measurement bases used for social investments
- any other accounting policies that are relevant to understanding these transactions in the accounts

21.37 This SORP also requires that the notes to the accounts must present social investments as a separate class of investment in the relevant note, if not separately disclosed on the balance sheet, and disclose:

- details required by the SORP module 10 '*Balance sheet*' for the relevant classes of fixed asset into which the investment falls
- details and amount of any guarantee made to, or on behalf of, a third party
- the name of the entity or entities benefiting from those guarantees
- an explanation as to how the guarantee furthers the charity's purposes

21.38 The applicable disclosures set out in the SORP module 11 '*Accounting for financial assets and financial liabilities*' must also be made.

21.39 Section 34 of FRS 102 sets out the accounting treatment and disclosures relating to concessionary loans. Charities must disclose:

- the carrying amount of concessionary loans made or received (multiple loans made or received may be disclosed in aggregate, provided that such aggregation does not obscure significant information)
- the terms and conditions of concessionary loan arrangements (for example, the interest rate, any security provided and the terms of repayment)
- the value of any concessionary loans that have been committed but not taken up at the reporting date
- Separately, amounts payable or receivable within one year and amounts payable or receivable after more than one year