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Your Ref:
Our Ref: RTJ/ND/SORP
Date: 4 May 2012

Dear Jenny,

Consultation – Revised Financial Reporting Exposure Drafts (FREDs 46, 47 and 48)

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 consultation and revised exposure drafts have been considered by our SORP Committee and our response incorporates the views and advice that we have received from that Committee.

We welcome the development of this suite of proposed standards that will provide the future framework for a new GAAP in the UK. Overall, we see the general reporting framework provided by these standards as being proportionate to the reporting needs of both medium-sized and large charities. We appreciate the work undertaken by the Board in addressing the reporting needs of charities and other PBEs within this framework and the pragmatism shown in addressing many of the concerns raised in last year's consultation on FRED 45 (FRS for PBEs).

However, the proposals in FRS 102, as they stand, will introduce a radical change to the way in which restricted income and funding commitments with repayment conditions are recognised in charity accounting. We do not believe that this was the Board's policy intention but rather a result of definitional and drafting issues in the proposed text of FRS 102. In particular, we are concerned that restricted income may often be construed as being subject to a performance condition resulting in the deferral of income despite the charity having both control over, and a right to, the gifted resource. We have met with the Project Directors taking forward the proposals and have been encouraged by their recognition of our concerns and their willingness to give further consideration to them.

The recognition of both income and commitments resulting from non exchange transactions are central to PBE accounting and were very thoroughly considered and resolved in the Board's development of the Interpretation of the Statement of Principles for Public Benefit Entities which we regard as an exemplary piece of work. In developing the final text of FRS 102 relating to PBEs, we would encourage the Board to ensure consistency with the recognition criteria developed in the context of their earlier work on Interpretation of the Statement of Principles for Public Benefit Entities.

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We have set out in annex A to this letter what we consider to be the essential amendments to the text of FRS 102 to ensure consistency with sector accounting practice, the concepts and pervasive principles set out in FRS 102, the interpretation and the Charities SORP. If these drafting issues are addressed it will enable charities and other PBEs to account appropriately for income and commitments subject to a restriction and/or conditions.

We have also set out in annex B to this letter our comments on the specific questions raised by your consultation.

We would welcome continued liaison with the Project Directors taking forward the PBE aspects of the new standards and in particular the recognition bases applying non exchange transaction where gifts are subject to restrictions and/or conditions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Sam Younger', with a stylized flourish at the end.A handwritten signature in black ink, appearing to read 'Laura Anderson', written in a cursive style.

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