

CHARITIES SORP (FRS 102)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

INFORMATION SHEET 4: Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans

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Secretariat to the joint SORP-making body:



CHARITY COMMISSION
FOR ENGLAND AND WALES



Background

The Charity Commission for England and Wales (CCEW), the Charity Commission for Northern Ireland (CCNI), and the Office of the Scottish Charity Regulator (OSCR) comprise the joint SORP-making body for charities and as such are required by the Financial Reporting Council (FRC), in accordance with its Policy on Developing Statements of Recommended Practice (SORPs), to keep the Statement of Recommended Practice (SORP) under review.

As part of this work, the joint SORP-making body may issue information sheets which seek to clarify the application of the SORP or particular recommendations contained within the SORP. Information sheets may also cover matters not addressed in either FRC standards or the SORP, but which are relevant to charity reporting and on which the joint SORP-making body considers additional guidance to be necessary. Information sheets do not amend the SORP, are advisory in nature and are released to assist preparers, auditors and examiners of accounts.

It should be noted that information sheets do not form part of the SORP, nor are they reviewed by the FRC and therefore they do not carry the authority of the SORP. They do not introduce new standards for the preparation of financial statements or impose particular interpretations of statutory prescriptions or recommendations of the SORP.

References to reporting standards are correct at the date of publication. Where this information sheet predates changes to accounting standards and a conflict is thereby created, or other developments lead to a conflict, the affected clarifications offered in this information sheet cease to have effect.

Context

This information sheet was developed by the joint SORP-making body with the assistance of the advisory SORP Committee.

In May 2019 the FRC issued an amendment to FRS 102, Section 28 Employee Benefits relating to multi-employer defined benefit plans.

The joint SORP-making body has concluded that the amendments to FRS 102 relating to multi-employer defined benefit plans do not require any changes to the Charities SORP (FRS 102). It is of the view, however, that additional application guidance is likely to be useful when a charity participates in a defined benefit plan, which is a multi-employer plan accounted for as if the plan were a defined contribution plan, and sufficient information to use defined benefit accounting becomes available.

All reasonable care has been exercised in preparing this information sheet. However, it is important for preparers of accounts to make reference both to the relevant SORP modules and to FRS 102 when preparing accounts, presenting the financial statements and in making the required disclosures.

1. Introduction and background

Purpose of Information Sheet

- 1.1 This information sheet assists practitioners in implementing the new reporting requirements for the changes in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) for multi-employer defined benefit plans. The Financial Reporting Council issued: Amendments to FRS 102 – Multi-employer defined benefit plans on 24 May 2019 effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

Background

- 1.2 The Charities SORP (FRS 102) requires that where a charity participates in a multi-employer defined benefit plan it should account for it as a defined contribution plan if insufficient information is available to account for the plan using defined benefit accounting (ie when a charity is not able to identify its share of the plan's assets and liabilities).
- 1.3 This results in their contributions being recognised as an expense in the Statement of Financial Activities (SoFA) over the reporting period. Charities which are in this situation and have entered into an agreement to fund a deficit in the pension plan must recognise:
- a liability for the present value of contributions payable that arise from the agreement in their balance sheet; and
 - a finance cost equal to the unwinding of the discount in their Statement of Financial Activities (where the liability is not expected to be wholly settled within 12 months).
- 1.4 The accounting requirements for charities participating in multi-employer defined benefit plans are included in section 17 of the Charities SORP (FRS 102) and section 28 of FRS 102.
- 1.5 The social housing sector carried out an exercise to provide sufficient information to participating employers to facilitate the use of defined benefit accounting for the first time (understood to be a part of the 2019 reporting periods). As a result, participating employers will change their accounting for these defined benefit plans, transitioning from defined contribution accounting to defined benefit accounting.
- 1.6 There were differences of opinion over how related requirements of FRS 102 should be interpreted and applied in such circumstances. Therefore in May 2019 amendments were made to FRS 102 to set new explicit requirements for how an entity is required to transition from defined contribution accounting to defined benefit accounting.
- 1.7 The joint SORP-making body considers that the amendments to FRS 102 for multi-employer defined benefit plans do not require changes to the Charities SORP as the situation is expected to arise infrequently. Furthermore the provisions require little additional application guidance specifically for charities. It has, however, decided to issue this information sheet to assist charities that participate in multi-employer

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pension plans to account for plan assets and liabilities using defined benefit accounting when sufficient information become available.

2. Index of Topics (Hyperlinked index)

- [When is a charity affected?](#)
- [Overview of the new reporting requirements](#)
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3. When is a charity affected?

- 3.1 Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Multi-employer defined benefit plans* (amendments to FRS 102) apply to all charities that apply the Charities SORP (FRS 102). The requirements apply for reporting periods beginning on or after 1 January 2020. Early application is permitted. If a charity applies the amendments to a reporting period beginning before 1 January 2020 FRS 102 requires that this fact is disclosed.
- 3.2 The requirements will become applicable primarily where defined benefit pension plan administrators provide relevant information about plan assets and liabilities that has not previously been available to the charity.
- 3.3 For more information on the application of the changes to FRS 102 for multi-employer defined benefit plans see [Section 4](#).

4. Overview of the new reporting requirements

Introduction

- 4.1 A charity participating in a multi-employer plan that previously accounted for that plan using defined contribution accounting is required to apply the amendments to FRS 102 for multi-employer defined benefit plans issued in May 2019 when it has sufficient information to use defined benefit accounting in accordance with Module 17 of Charities SORP (FRS 102) and Section 28 of FRS 102.
- 4.2 When and only when sufficient information becomes available to move to defined benefit accounting for multi-employer plans (see paragraph 4.3), charities are required to adjust the balance sheet to recognise the difference between:
- i) its net defined benefit liability (after taking into account the effect of paragraph 17.12 of the Charities SORP (FRS 102) if any) at the relevant date as defined in paragraph 4.6 below, and
 - ii) the carrying value at the relevant date of its liability for the contributions payable arising from any agreement to fund a deficit, plus any liability recognised in accordance with paragraph 28.13 of FRS 102 for unpaid contributions for service before the relevant date.

The difference between i) and ii) will be recognised as a separate line item in the other recognised gains/(losses) section of the Statement of Financial Activities (this section is analogous to other comprehensive income in FRS 102).

- 4.3 Defined benefit accounting is then applied to the multi-employer plan from that day forward.
- 4.4 This means that if information becomes available for a date within the current reporting period then accounting adjustments will be made in that (current) reporting period. Where information is for a date before the current reporting period, the prior year reporting period related change in accounting treatment is not presented in the financial statements by means of restatement but instead applied at the start of the current reporting period.
- 4.5 The difference between the net defined benefit liability and the carrying value for the contributions payable arising from the agreement to fund a deficit in paragraph 4.2 above excludes the impact of any plan changes, curtailments or settlements occurring at the relevant date which are accounted for in accordance with paragraphs 29.21 and 28.21A of FRS 102.

Relevant Date

- 4.6 FRS 102 also specifies the requirements of the timing of the transitional reporting requirements as the FRC is of the view that sufficient data could become available as at any date which might not be at the start of a reporting period. For instance an administrator could provide information backdated to the start of the prior year. Therefore the amendments to FRS 102 define the relevant date as the later of the first day for which

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sufficient information to use defined benefit accounting becomes available, and the first day of the current reporting period (comparative information is not restated).

Illustrative Example

4.7 Charity A has a financial year end of 31 March. In April 20x2 it was informed by its plan administrator that it is now able to identify the charity's share of assets and liabilities as of 1 January 20x2. Charity A now has the following information:

- As of 1 January 20x2 the defined contribution plan deficit funding agreement liability was £2 million (all other contributions payable for service before 1 January 20x2 had been paid to the plan's administrator)
- At 1 January 20x2 the defined benefit plan liability was measured at £8 million
- At 31 March 20x2 the defined benefit plan liability was measured at £8.5 million.

In accordance with the prescriptions in FRS 102 the availability of new information does not meet the definition of a plan change or a plan settlement or curtailment. No new benefits were introduced in this financial year and there were no other changes to the plan.

As sufficient information is now available to recognise scheme assets and liabilities Charity A is not able to continue to apply defined contribution accounting but defined benefit accounting must instead be applied to plan assets and liabilities.

The amendments to FRS 102 require that the difference between the net defined benefit liability and the carrying value of its liability for any contributions payable (including those arising from the agreement to fund the deficit) are recognised in other recognised gains/(losses) section of the Statement of Financial Activities (SoFA). The Appendix to this information sheet demonstrates the impact on the SoFA of Charity A.

The move to defined benefit accounting is considered to be an improved measurement basis using more complete information for the same underlying obligation for the deficit funding agreement. The difference between the two bases of accounting is recognised in the financial statements. As defined contribution accounting is no longer used, the liability for the defined contribution plan deficit funding agreement is removed and is replaced with the net defined benefit liability. The Appendix to this information sheet sets out the impact on Charity A's balance sheet.

Therefore following the requirements of FRS 102 (see paragraph 4.2 above) Charity A is able to make the changes in the 20x1 / 20x2 Trustees Annual Report. The following adjustments and transactions are required for:

- the introduction of defined benefit accounting as at 1 January 20x2

Debit	Defined contribution plan deficit funding agreement liability in the balance sheet	£2m
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Credit	Multi-employer defined benefit liability - other recognised gains/(losses)	£2m
To derecognise the defined contribution plan deficit funding agreement liability recognised to date for the financial year 20x1 / 20x2		

Debit	Multi-employer defined benefit liability - other recognised gains/(losses) – this entry would be as a part of their unrestricted funds – see also paragraph 17.5 of the Charities SORP (FRS 102) for consideration of whether the defined benefit liability should be allocated to the restricted fund.	£8m
Credit	Net defined benefit liability recognised in the balance sheet	£8m
First time recognition of the net defined benefit liability		

- defined benefit accounting for the remaining transactions for 20x1 / 20x2 as at 31 March 20x2 (a summary):

Debit	Defined benefit accounting costs recognised in the SoFA (ie operating costs such as current service costs, net interest on the net defined benefit liability, etc)	£0.2m
Debit	Remeasurement of the net defined benefit liability – actuarial gains and losses – recognised in other gains/(losses)	£0.3m
Credit	Net defined benefit liability recognised in the balance sheet	£0.5m
Recognise the movement in the net defined benefit liability as at 31 March 20x2		

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Other Reporting Requirements

4.8 The SORP recommends, paragraph 1.47, that the impact of a material pension liability is explained in the Trustees' Annual Report. If the impact on the charity's reported financial position is material, the move from defined contribution accounting to defined benefit accounting should be explained. The following table summarises the potential areas which will need to be addressed.

Reporting Requirement	Detail
Trustees Annual Report	<p>The impact of the change in accounting where it has a material effect should be reported in the 'financial review' section of the Trustees Annual Report. Any commentary should explain:</p> <ul style="list-style-type: none"> • the move to defined benefit accounting; • the impact on the SoFA and the balance sheet; and • any ongoing impact on the financial performance and financial position of the charity.
Statement of financial activities	<p>The amendments to FRS 102 require that the difference between the net defined benefit liability and the carrying value of its liability for contributions payable arising from an agreement to fund a deficit is reported as a separate line item. For charities this would be recognised in a manner which is analogous to actuarial gains and losses recognition in the other recognised gains/(losses) section of the SoFA. Charities will also need to refer to paragraphs 4.14 and 4.15 of the Charities SORP (FRS 102) to consider how it reports material transactions in the SoFA.</p>
Balance sheet	<p>The recognition of the net defined benefit liability will need to be presented in the balance sheet under the appropriate headings. Where necessary any adjusting item may need to be reported separately – see Charities SORP (FRS 102), Module 10.</p>
Accounting policies	<ul style="list-style-type: none"> • Measurement basis The amendments to FRS 102 described the move to defined benefit accounting when sufficient information becomes available as an improved measurement basis. The move to this new measurement basis will need to be adequately disclosed in a charity's accounting policies. However, charities will need to consider the impact the change will have on

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Reporting Requirement	Detail
	<p>consistency of presentation (see paragraph 3.11 of FRS 102 and 4.8 of the Charities SORP FRS 102) and comparability (see paragraph 2.11 of FRS 102). Any early adoption of the changes should also be described.</p> <ul style="list-style-type: none"> Retirement and post-employment benefits The new accounting policies for recognising movements in the net defined benefit liability will need to be explained. This will include the impact on the financial statements.
Significant Judgements	<p>The new judgements made by management in relation to the application of defined benefit accounting to a plan where previously defined contribution accounting was used will need to be reported. This may include commentary on the methods used to separately identify plan assets and liabilities to arrive at the net defined benefit liability.</p>
Key sources of estimation uncertainty	<p>All key sources of estimation uncertainty in relation to the improved measurement basis for the plan will need to be reported. This is likely to include assumptions about, for example, actuarial gains and losses and demographic and financial variables.</p>
Retirement and post-employment benefits (pensions) note	<p>The retirement and post-employment benefits (pensions) note will require a clear description of the change in financial reporting requirements and the adjustments required for each financial statement including the impact on the individual line items. This will include the financial effect of the change for the move from defined contribution accounting to defined benefit accounting and the introduction to the financial statements of the net defined benefit liability.</p>

5. Further information

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Appendix: Impact on the Financial Statements

Consolidated Statement of Financial Activities for Charity A for year ending 31 March 20x2

	Note Number	Unrestricted funds	Restricted funds	Endowment funds	Total funds for 20x1/20x2	Total funds for 20x0/20x1
		£'m	£'m	£'m	£'m	£'m
Income and endowments from:						
Donations and legacies	2	65.3	20.3	-	85.6	39.3
Charitable activities	3	35.1	5.8	-	40.9	22.1
Other trading activities	4	6.3	-	-	6.3	4.5
Investments	5	1.1	0.5	-	1.6	2.1
Other	6	2.4	-	-	2.4	0.2
Total		110.2	26.6	-	136.8	68.2
Expenditure on:						
Raising funds*	7	35.2	-	-	35.2	30.2
Charitable activities*	8	12.7	25.5	-	38.2	10.9
Other	9	5.1	-	-	5.1	2.1
Total		53.0	25.5	-	78.5	43.2
Net gains/(losses) on investments	5	2.1	1.3	0.9	4.3	1.2
Net income/(expenditure)		59.3	2.4	0.9	62.6	26.2
Transfers between funds		-	-	-	-	-
Other recognised						

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gains/(losses):						
Actuarial gains/(losses) on defined benefit pension schemes**	23	(3.1)	-	-	(3.1)	(2.0)
<i>Initial recognition of the net defined benefit liability</i>	23	(6.0)	-	-	(6.0)	-
Net movement in funds		50.2	2.4	0.9	53.5	24.2
Reconciliation of funds:						
Total funds brought forward		193.4	91.0	8.0	292.4	316.6
Total funds carried forward		243.6	93.4	8.9	345.9	292.4

* The operating costs of £0.2million relating to the net defined benefit liability are allocated across the relevant activities in accordance with paragraph 17.8 of the Charities SORP FRS 102.

**This will include the actuarial loss relating to the net defined benefit liability of £0.3m.

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Balance sheet for Charity A as at 31 March 20x2

Note ref.		Total funds 20x1/20x2	Prior year funds 20x0/20x1
		£'m	£'m
	Fixed assets:		
15	Intangible assets	7.9	7.0
16	Tangible assets	214.1	211.3
17	Heritage assets	10.2	10.7
18	Investments	122.9	60.2
	<i>Total fixed assets</i>	355.1	289.2
	Current assets:		
19	Stocks	9.5	8.0
20	Debtors	19.2	15.2
21	Investments	7.0	5.8
20	Cash at bank and in hand	5.2	3.2
	<i>Total current assets</i>	40.9	32.2
	Liabilities:		
22	Creditors: Amounts falling due within one year	8.0	4.0
	<i>Net current assets</i>	32.9	28.2
	<i>Total assets less current liabilities</i>	388.0	317.4
22	Creditors: Amounts falling due after more than one year	14.3	10.6
22	Provisions for liabilities	5.7	4.2
	<i>Net asset or liabilities excluding pension asset or liability</i>	368.0	302.6

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23	Net defined pension liability*	22.1	10.2
	Total net assets or liabilities	345.9	292.4
	The funds of the charity:		
25	Endowment funds	8.9	8.0
25	Restricted income funds	93.4	91.0
25	Unrestricted funds	243.6	193.4
	<i>Total unrestricted funds</i>	243.6	193.4
	Total charity funds	345.9	292.4

* The net defined benefit liability includes the change in accounting for the multi-employer plan when sufficient information became available to move to defined benefit accounting. The difference between the net defined benefit liability and the carrying value of Charity A's liability for the contributions payable of £6m is initially recognised in this line item. This line item will also record the movements in the year for the £0.5million, the remaining movements are due to the other changes in the net defined benefit liability for Charity A's other defined benefit pension plans.