

Minutes

Board Charities SORP Committee

Date 27 March 2023

Time 10:00 – 12:00

Venue Microsoft Teams

Joint Chair	Laura Anderson Amie Woods	<i>Office of the Scottish Charity Regulator (OSCR) Charity Commission for England and Wales (CCEW)</i>
Members present	Caron Bradshaw Michael Brougham Tony Clarke Diarmaid Ó Corrbuí Noel Hyndman Joanna Pittman Neal Trup	<i>Charity Finance Group Independent Examiner Clarke & Co Accountants Carmichael Centre for Voluntary Groups Queen's University Belfast Sayer Vincent Neal Howard Limited</i>
In attendance	Alison Bonathan Milan Palmer Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee CIPFA, Contract Manager</i>
Observers	Jelena Griscenko Adrian Wallis	<i>The Charities Regulator in Ireland Financial Reporting Council (FRC)</i>
Apologies	Daniel Chan	<i>PwC</i>

Tom Connaughton	<i>The Rehab Group</i>
Deirdre O'Dwyer	<i>Charity Commission for England and Wales (CCEW)</i>
Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
Gareth Hughes	<i>Diocese of Down and Connor</i>
Rossa Keown	<i>Charity Commission for Northern Ireland (CCNI)</i>
Francesca de Munnich	<i>Association of Charitable Foundations</i>
Carol Rudge	<i>HW Fisher</i>
Jenny Simpson	

1. Welcome Action

1.1 The Chair welcomed SORP Committee Members to the meeting.

[Secretariat note: as this meeting was on a single issue, a formal agenda was not set or circulated to Committee Members prior to the meeting. Paper 1 was circulated to Committee Members ahead of the meeting.]

2. Paper 1: High level summary of FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review

2.1 The Chair reminded the Committee that the meeting is to allow Committee Members to provide feedback on, and help shape, the joint SORP-making body's (SMB's) response to [FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review](#) (the FRED). Committee Members were invited to provide evidence and examples to support the points being made in the SMB's draft response.

The questions included in Paper 1 are reproduced in the Annex to these minutes.

2.2 Paper 1, questions 1 and 2. Disclosure

The Chair invited CIPFA to introduce the section of paper 1 on disclosure.

A Committee Member commented that the overriding objective of the FRC in setting FRS 102 per the FRC is "to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs" and expressed the view that there is a need for a review of the FRS 102 in whole to ensure it is proportionate to, and meets the needs of, small charities. The Chair stated that the observer from the FRC is not expected to comment on any views of the Charities SORP Committee.

A Committee Member expressed the view that where reporting requirements are removed from standards based on the size of the entity, requirements can come full circle. The Committee Member cited the example of pension disclosure requirements which were reinstated for small charities.

The Secretariat expressed the view that removing some disclosure requirements for small charities might be counterintuitive, for example grants might be more important to small charities.

In response to questions 1 and 2, the Chair confirmed that no Committee Members had specific examples of disclosure requirements that could be withdrawn for charities because of their applicability or size.

2.3 ***Paper 1, questions 3 – 7. Concepts and pervasive principles***

A Committee Member noted their broad alignment with the proposed response regarding concepts and pervasive principles and asked whether the response needed to address “social benefits” as well as “economic benefits”. The Secretariat responded that the proposals in the draft response on service potential would cover “social benefits”.

Another Committee Member expressed their agreement with the draft response, and that their preference would be for consistency across definitions used in FRS 102. Further, the Committee Member favours consistency with respect to recognition criteria, for example consistent treatment of donated goods and assets acquired via peppercorn lease.

A Committee Member added that peppercorn leases are often assumed to be below market value; however, restrictions within the lease may mean the lease is at market value. The Committee Member noted there is a need for clarity as assets acquired via peppercorn lease may differ from donated goods.

2.4 ***Paper 1, question 8. Fair value***

A Committee Member reiterated the point that restrictions may affect the value of assets and donations for a charity. The Secretariat noted that measurements of fair value using IFRS 13 *Fair Value Measurement* and, by extension, Section 2A *Fair Value Measurement* of the FRED should reflect any conditions or restrictions.

2.5 ***Paper 1, questions 9 – 12. Expected credit loss model***

A Committee Member asked whether the timeframe for the alignment of FRS 102 with the expected credit loss model of financial asset impairment from IFRS 9 *Financial Instruments* would impact the timeframe for SORP development. The Secretariat advised that the expected credit loss model would be considered as a separate amendment in the future therefore would not impact the current SORP development process.

The observer from the FRC advised that if the Charities SORP Committee is not of the view that charities should ever have to apply the expected credit loss model, it may wish to recommend inclusion of this in the SMB’s response to the FRED. The Secretariat confirmed that there would be a separate consultation if the expected credit loss model is introduced to FRS 102 in the future.

A Committee Member expressed the view that the expected credit loss model does not look suitable for small charities as it would introduce additional complications for no anticipated benefits.

A Committee Member highlighted that there are some large charities that are financial institutions, and that there is also a need to ensure any future requirements are proportionate to the needs of this category of charity.

The Secretariat expressed the view that larger charities may prefer the expected credit loss model as, through being forward-looking, it is conceptually stronger than the extant incurred loss model. The observer from the FRC clarified that the expected credit loss model leads to the earlier recognition of losses. The Joint Chair added that the expected credit loss model takes into account a broader set of circumstances than the incurred loss model does.

A Committee Member noted that some of the issues are very technical and expressed the view that it would be preferable to omit such technicalities from the SORP to avoid confusion. The Joint Chair commented that if the expected credit loss model is included in FRS 102 in the future, it cannot be excluded from the SORP. The Committee member suggested use of cross-referencing to FRS 102 to avoid adding further length to the SORP.

The Secretariat clarified that the FRED indicated that if and when a consultation on the expected credit loss model in FRS 102 takes place, the Charities SORP Committee will need to consider whether it should apply to trade receivables and contract assets and whether it only should apply to specific sectors, but noted this is not part of the FRED consultation.

2.6 ***Paper 1, questions 13 – 14. Other financial instruments issues***

The Secretariat noted that similar content is in the Local Government Code, although it does not have wide application in local authorities so the Secretariat would not expect wide application in charities either but that it is useful in the event that this might occur. A Committee Member commented that to the extent the content does apply to charities, it makes sense.

2.7 ***Paper 1, questions 16 – 19. Leases***

A Committee Member agreed that the requirements are too complicated for small charities and that the SMB's response to the FRED should refer to the different requirements in FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*. The Committee Member added that a peppercorn lease does not necessarily contain a non-exchange transaction, for example if a local authority provides a cheaper rent to support the charity's provision of social benefit, this is not a donation, and that there is a lack of clarity over what is meant by "low value". The Committee Member expressed the view that the requirements will create difficulties for preparers in small charities where the preparers may not understand the requirements.

Another Committee Member agreed that the requirements are complex and could lead to non-compliance, and therefore problems with consistency, for years after the introduction of FRS 102. However, the Committee Member note that if the SMB argues small charities should be exempt from the requirements around on-balance sheet accounting for leases, there could be issues with the production of group accounts.

A Committee Member expressed the view that complex accounting requirements could drive behaviours that might undermine charitable activity. For example, charities may avoid leasing assets to avoid having to understand the accounting requirements. However, another Committee Member expressed the view that the requirements could drive better governance as charities may think more about the liabilities being taken on when leasing an asset, and commented that charities should not be exempt from the requirements just because preparers may find them to be complex.

A Committee Member asked whether break clauses would be included when establishing the length of a lease, and suggested that clarity over the definition of a "short term" lease would be helpful. The Secretariat noted that the FRED includes a section on lease term.

The Secretariat asked if any Committee Members had examples of situations in which a peppercorn rent was at fair value due to conditions imposed on the lessee. A Committee Member responded that this can happen when local authorities lease buildings to charities but require a social return from the asset. The Committee

Member expressed the view that it can be difficult to measure the fair value of the rents where conditions are imposed. Another Committee Member cited the example of a client that leased a unique building, making it difficult to establish a fair value.

A Committee Member expressed the view that a peppercorn lease might contain a non-exchange transaction, or it might not depending on the conditions attached to the lease. The Secretariat agreed that this is an extra complication, as there will sometimes be a donated asset, but sometimes there will not be.

Referring to question 17 in paper 1 and the difficulties associated with charities identifying an appropriate borrowing rate for use when discounting a lease liability to present value, the Secretariat noted that if charities can use a gilt rate to discount a lease liability, there may not be a need to allow charities to instead use a deposit rate. A Committee Member expressed the view that smaller charities will not understand these requirements.

2.8 **Paper 1, questions 20 – 21. Revenue**

Noting the proposed simplifications to the requirements of IFRS 15 *Revenue from contracts with customers* proposed in Section 23 of the FRED, the Secretariat asked Committee Members whether “promises” has a less precise meaning than “performance obligations” with the potential to cause confusion. A Committee Member responded that there were a lot of questions when income recognition criteria were last changed. The Committee Member expressed the view that “promises” sounds sensible and there is a need to avoid complexity in the SORP, but that there will still be questions when changes are made. Another Committee Member expressed the view that any amendments to language can change the meaning of requirements and lead to preparers applying requirements incorrectly.

A Committee Member noted that charities face additional complexities when accounting for income. For example, a contract could be priced above fair value where the additional amount is a donation from the customer. Charity-specific interpretations of requirements will therefore be necessary. Another Committee Member cited the example of charity friends or patrons paying a membership fee, which is sometimes partly a donation, but partly in return for services provided by the charity.

2.9 **Paper 1, questions 22 – 25. Effective date and transitional provisions**

The Secretariat noted that some participants at FRC round table events had suggested staggered implementation dates for the various sections of FRS 102, for example that Section 20 *Leases* might only become effective one year after the rest of FRS 102. This may add complexity to SORP drafting, but might be beneficial to small charities. No Committee Member made comments on this suggestion.

The Secretariat highlighted the difference between transitional arrangements for leases and revenue; at the option of the preparer, the new Section 23 (revenue) could be adopted on a fully retrospective basis, while this is not the case for Section 20 (leases). The Secretariat noted that the exposure draft for the IFRS for SMEs allows the prospective application of revenue, and asked whether the Committee would recommend that the SMB raises this in its response to the FRED.

A Committee Member noted that accounting software will need a development period, which is problematic if the effective date is too soon.

A Committee Member expressed the view that a later effective date is preferable as it will allow more time for the SORP development process and for charities to prepare for the changes.

Another Committee Member agreed that an extra year would be helpful. The Committee Member questioned whether it is suitable to allow early adoption for charities as this puts additional pressure on the Charities SORP Committee and the SMB to produce the SORP quickly and could lead to complaints that the SORP process is holding up adoption. The Joint Chair noted that regulations can be used to prevent early adoption, which can be a problem for charities.

A Committee Member agreed that it would be preferable if implementation of FRS 102 was extended by a year to allow time for charities to engage with, and prepare for, the new standard, as well as to allow relevant organisations to develop materials and events to support charities in adopting the new standard. The Committee Member asked how likely it is that the effective date will be pushed back by a year. The observer from the FRC responded that the FRC intends to reflect on consultation feedback in this respect. However, the observer cautioned against assuming that there will be a delay as the FRC is currently of the view that 1 January 2025 is achievable as an effective date. Where respondents believe the effective date should be delayed, the observer stressed that a case would need to be made.

The Secretariat enquired how the effective date might affect charities' regulatory returns.

The Joint Chair expressed the view that the SMB will need to reflect on responding in favour of a delay to the effective date of FRS 102 bearing in mind resource requirements for producing the SORP.

2.10 ***Paper 1, questions 26 – 27 and question 28. Other comments and Consultation stage impact assessment***

The Secretariat asked for examples where reliable measurement of donated goods, facilities or services is challenging for charities, noting that it already has the example of foodbanks and leases with conditions attached.

A Committee Member raised the example of donated goods received by charity shops. The Secretariat commented that practical expedients built into the accounting requirements to allow delayed recognition of income from such donations will allow for income recognition when the resale value is known.

Committee Members offered the following examples where reliable measurement of donations is challenging:

- Donations of food which is made into a meal for service users at a drop-in centre.
- Donations of toys and games for use by residents at shelters.
- Donations of tents, where the tents donated are top-of-the-range and therefore exceed the needs of the charity. It was noted that this example links to the fact that donated services and facilities can be measured at value to the charity, but donated goods cannot be.

The Secretariat suggested that there is a cost-benefit issue when valuing lots of small donations of different items, and that the condition of goods and facilities donated to charities can create difficulties in valuation, for example where donations of food are close to the use-by date or where donated facilities are not maintained to a condition comparable to facilities used in a commercial setting.

2.11 ***Paper 1 – concluding remarks***

The Chair confirmed that Committee Members had no further comments on the draft FRED response.

The Secretariat reminded Committee Members that any further feedback can be emailed to CIPFA by noon on 30 March.

3. Reflection on the SORP-making process

The Joint Chair updated the Committee that the SMB has been reflecting on the SORP-making process, as timescales are challenging and the SMB is looking to alleviate pressures on Committee Members as well as on itself. The SMB has decided to cancel the meeting scheduled for 3 May 2023 to allow time to assess the SORP-making process. The Joint Chair advised that communications will follow on how the SORP-making process will be reshaped in due course.

4. Any other business including future Committee meetings

4.1 Future meetings

- 12th July 2023 (10am – 1pm)
- 20th September 2023 (10am – 1pm)

Disclaimer

These Charities SORP Committee minutes have been developed during the drafting stage of the Charities SORP. They set out areas of agreement or otherwise and present the Charities SORP Committee advice to the joint SORP-making body. Charities should not treat this advice as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.

Summary of questions from Paper 1

Section of Paper 1	Questions
Disclosure	<ol style="list-style-type: none"> 1. Is the Charities SORP Committee of the view that the disclosure requirements of FRS 102 could be amended to better reflect the reporting needs of Charities? 2. If so, which specific disclosure requirements does the Charities SORP Committee recommend the joint SORP-making body refers to in its response to the FRED? (This will need to be supported by examples and evidence as why this would not be useful to the users of charity accounts.)
Concepts and pervasive principles	<ol style="list-style-type: none"> 3. Is the Charities SORP Committee broadly supportive of the alignment of Section 2 of FRS 102 with the IASB's 2018 Conceptual Framework for Financial Reporting? 4. Does the Charities SORP Committee have any comments on the Secretariat's suggested response regarding the definition of "economic resource" (section 2.2)? 5. Are there any other sections of the concepts and pervasive principles which it is of the view should be commented on or which will have a particular effect on charity reporting? 6. Does the Charities SORP Committee have any comments on the Secretariat's suggested response regarding the definitions of assets and liabilities in Sections 18 and 21 of FRS 102? 7. Does the Charities SORP Committee recommend the inclusion of any further commentary about Section 2 of the FRED?
Fair Value	<ol style="list-style-type: none"> 8. Does the Charities SORP Committee have any further comments about the approach to application of section 2A Fair Value Measurement to charities?
Expected credit loss model	<ol style="list-style-type: none"> 9. Does the Charities SORP Committee support the approach in the FRED? 10. Are there any additional comments it would like to make? 11. Does the Charities SORP Committee have any views on whether it considers that FRS 102 should apply to other financial assets measured at amortised cost (in line with the IASB's proposals) or should it be on an entity-based approach in accordance with the preliminary views of the FRC? 12. Does the SORP Committee have any views on whether it is appropriate to define the scope based on an entity's activities?
Other Financial Instruments Issues	<ol style="list-style-type: none"> 13. Does the Charities SORP Committee have any specific views on the eventual removal of the IAS 39 option? 14. CIPFA might suggest a response where the joint SORP-making body is broadly supportive of the deletion of temporary amendments in relation to interest rate benchmark reform though does not consider that there is widespread application for charities. Does the Charities SORP Committee agree with these comments?

Section of Paper 1	Questions
Leases	<p>15. See section 6.1 of the draft response, which suggests general support for the overall approach. Does the Charities SORP Committee agree with this comment? If not, what commentary would it wish to pursue to best represent useful information for Charities reporting of leases which still represents high quality financial information?</p> <p>16. Does the Charities SORP Committee have any specific examples of charities renting assets at a rent below market value, but that would face practical difficulties in identifying or estimating the market value of the rent reliably? If so, what are the examples and the practical problems that would be faced?</p> <p>17. The Secretariat seeks the views of the Charities SORP Committee as to whether use of a rate obtainable on deposits is appropriate in discounting a lease liability to present value at the commencement of a lease in the context of charity reporting of useful financial information and information availability.</p> <p>18. Does the Committee anticipate that charities will face practical problems in identifying an interest rate when discounting a lease liability to present value?</p> <p>19. Does the Committee have any further comments or feedback from the text of the draft response included in Section 6.3?</p>
Revenue	<p>20. What are the views of the Charities SORP Committee in relation to the new proposals for the recognition and measurement of revenue?</p> <p>21. Are there any further simplifications which should be proposed?</p>
Effective date and transitional proposals	<p>22. What is the view of the Committee on the appropriate effective date for FRS 102?</p> <p>23. The FRED proposes to require the calculation of lease liabilities and right-of-use assets on a modified retrospective basis at the date of initial application. What are the views of the Charities SORP Committee?</p> <p>24. The FRED proposes to permit an entity to apply the revised Section 23 of FRS 102 on a modified retrospective basis with the cumulative effect of initially applying the revised section recognised in the year of initial application. What are the views of the Charities SORP Committee?</p> <p>25. What are the views of the SORP Committee on whether there should be prospective application for the revised section 23 regarding revenue?</p>
Other Comments	<p>26. Does the Charities SORP Committee have specific examples of instances where donations of goods, facilities or services cannot be measured reliably? The Secretariat notes that the Committee has provided the example of small donations to food banks in previous meetings and would welcome a range of additional examples for consideration.</p>

Section of Paper 1	Questions
	27. Does the Charities SORP Committee have any further comments or feedback from the text of the draft response included in Section 9?
Consultation stage impact assessment	28. Does the Charities SORP Committee have any comments on the impact assessment?