

INVITATION TO COMMENT ON EXPOSURE DRAFT CHARITIES STATEMENT OF RECOMMENDED PRACTICE (SORP)

**Comments invited via our online
survey**

Consultation period 28 March to 20 June 2025



**CHARITY COMMISSION
FOR ENGLAND AND WALES**

OSCR
Scottish Charity Regulator

**The Charity
Commission**
for Northern Ireland

INVITATION TO COMMENT ON EXPOSURE DRAFT CHARITIES SORP

Key Facts

Subject of consultation:	The Exposure Draft Statement of Recommended Practice 2026: Accounting and Reporting by Charities (the Exposure Draft SORP).
Scope of this Consultation:	The Exposure Draft SORP sets out proposals for accounting and reporting by charities in the context of the updated FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i> (FRS 102) for financial years beginning on or after 1 January 2026.
Who should read this consultation:	Preparers, auditors and examiners of charity accounts, trustees, employees and beneficiaries of charities and others who may use charity accounts including donors, funders, financial supporters and other stakeholders.
Period of consultation:	The consultation runs for 12 weeks from 28 March to 20 June 2025.
How to respond to consultation	By using the survey available on the SORP micro-site at www.charitysorp.org . Consultation responses will be published in accordance with the FRC policy unless confidentiality is requested. Please refer to the data privacy statement.
Additional ways to be involved:	It is likely that SORP Consultation events will be held by sector and professional bodies as well as a number of free events held by accountancy firms.
Getting to this stage and previous engagement:	The proposals contained in this Exposure Draft have been developed by the SORP-making body with advice received from a sector-based expert SORP Committee. The SORP Committee's work has been informed by a substantial engagement process that commenced in 2020.
After the consultation:	A summary of the consultation responses will be published in Summer 2025. The consultation responses will inform the finalisation of SORP 2026 with a view to publishing the final SORP by Autumn 2025.

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About the consultation

The Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland are the joint SORP-making body for charities. We publish the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP). The SORP applies to charities preparing accounts under UK-Irish Generally Accepted Accounting Practice (GAAP), to present a 'true and fair view'. The SORP provides guidance on the Financial Reporting Standard (FRS) 102.

The SORP supplements accounting standards and other legal and regulatory requirements. It reflects the special factors prevailing and transactions undertaken in the charity sector. The SORP is developed in line with a SORP policy issued by the Financial Reporting Council (FRC). The FRC reviews the SORP before it is issued. When it is issued, it carries a statement confirming that it does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice and does not conflict with an accounting standard.

The SORP-making body must consult before issuing a new SORP. We are seeking views from charities, organisations, funders and individuals in the sector. This includes accountants, auditors, independent examiners and other professional advisers who work with charities.

Why has the SORP been updated and how has it been developed?

Charities that prepare their accounts on an accruals basis to give a true and fair view must follow the accounting standards that constitute UK-Irish GAAP. FRS 102 has been updated following a periodic review so a new SORP must be developed to be consistent with the updated accounting standard.

The FRC made two significant changes to FRS 102, in relation to lease accounting and revenue recognition. The Exposure Draft SORP sets out how the changes in FRS 102 apply to charities. This consultation will not be seeking views on the changes introduced by the updated FRS 102 as these requirements are set by the FRC.

The Exposure Draft SORP has also been updated following a wider review of its content. The proposals in the Exposure Draft SORP have been developed with advice from a sector-based expert SORP Committee. The SORP Committee's membership is drawn from the charity sector, charity auditors, charity independent examiners, academics, funders, charity advisers and charity regulators. The Committee also reflects the different jurisdictions covered by UK-Irish GAAP which each have their own charity regulator.

The SORP-making body obtained feedback and input from a group of Engagement Partners. The seven groups consisting of over 70 individuals and organisations were recruited to support the SORP-making body and the SORP Committee. The Engagement Partners were recruited to:

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- have a dialogue about charity financial reporting
- identify the main things financial reporting should cover
- identify issues or problems that need addressing
- help develop solutions to those problems

The engagement work identified 15 topics for the SORP development work. Annex A sets out these 15 topics.

In developing the Exposure Draft SORP, the SORP Committee also considered available research from engagement partners, sector stakeholders and the charity regulators.

The SORP-making body, supported by the SORP Committee agreed the following drafting aims and principles which have guided the drafting of the Exposure Draft SORP:

- Firstly, the SORP has been updated to address the needs of the main users of a charity's annual report and accounts, who do not have the power to require specific information of a charity. The statutory trustees' annual report and financial statements (accounts) are an opportunity to explain to beneficiaries and others with an interest in the charity how it has delivered its charitable purpose. Preparers of the report and accounts should have this in mind when writing the report and compiling the accounts.
- Secondly, the SORP has been drafted to comply with current FRC standards and best practice. The SORP must be consistent with the law, regulatory requirements and FRC standards.
- Thirdly, the SORP aims to promote consistency across the charity sector by recommending a preferred treatment, approach or methodology. We have provided guidance on those areas that are a direct requirement of FRS 102 and those requirements that are SORP specific.
- Lastly, we have ensured that amendments are relevant to the socioeconomic context in which charities operate, by retaining the advice of the SORP Committee and through an extensive engagement process.

A 2019 SORP Governance Review recommended that the SORP should better serve the needs of smaller charities, and reporting requirements made more proportionate where possible. The SORP-making body have carefully considered the needs of small charities. Identifying areas for simplification whilst still meeting FRS 102 requirements has been challenging. Section 1A of FRS 102 sets out the presentation and disclosure requirements that are specific to small entities choosing to apply the small entities regime. It sets out the minimum requirements that small entities under FRS 102 are required to provide. The SORP-making body believes

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that the public have different transparency and accountability expectations of charities compared to for-profit entities, meaning that more information is required about how charities operate.

The SORP-making body previously considered whether using Section 1A of FRS 102 as a starting point, the SORP could be developed to reduce any burden of reporting on smaller charities. This consideration included the partial drafting of a SORP based on Section 1A of FRS 102 which was discussed with the Charities SORP Committee. The conclusion from that work was that there would be very little practical benefit arising for charities from developing a SORP on the basis of Section 1A of FRS 102 as the requirements set out in Section 1A would require significant additions to meet the transparency and accountability expectations of relevant stakeholders. Consequently, the SORP-making body have concluded that the Section 1A regime is not suitable for charities and therefore the SORP continues not to permit the use of Section 1A of FRS 102. Section 1A of FRS 102 does provide certain exemptions from requirements which can be used by small entities.

The SORP-making body have sought to develop the requirements of the SORP proportionately for smaller charities within the constraints of FRS 102 and applicable law. In considering proportionality, the SORP-making body took into account a number of factors including:

- the number of requirements that entities have to meet
- the needs of users of charity annual reports and accounts
- the changing operating environment for charities
- the ease of fulfilling reporting requirements.

The SORP-making body are also committed to advancing financial reporting for charities as this positively contributes to public trust and confidence in charities. The Exposure Draft SORP proposes to add requirements for information to be included within the Trustees' Annual Report for all charities, but it is expected that this information is already available to the charity trustees in governing the charity appropriately. The SORP-making body therefore considers the reporting requirements to be proportionate, taking into account all relevant factors.

The Exposure Draft SORP does aim to address the needs of smaller charities by:

- ensuring reporting requirements are proportionate including a move to 3 tiers with an added tier 3 for the very largest charities;
- providing clarity and guidance on key areas identified through the engagement work, for example in relation to fund accounting, reserves, narrative reporting and legacies;
- including sector-specific illustrations to support understanding in new or more complex areas; and

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- enhancing the cross referencing in SORP both between modules and to FRS 102

We are interested in your views on the Exposure Draft SORP. Your views will be collected via the online survey.

Some questions are general in nature; others deal with detailed technical points.

Before answering the questions, you may wish to consider the relevant consultation documents including the Appendix 4 - Basis for Conclusions, the Summary of key changes to SORP modules and the relevant sections of the Exposure Draft SORP that identify key areas of change. Please also read the explanatory text for each question before answering.

The survey questions are a mix of yes/no and multiple-choice questions, with free text boxes to capture the reasons for the answers to the questions. At the end of each section there is a free text box to capture any other points that you may have on that section. We encourage respondents to use the free text boxes to provide succinct reasons for their answers.

We will carefully consider your comments. The SORP-making body will be meeting with the SORP Committee after the consultation period to consider what changes to make in light of stakeholder feedback before finalising the SORP for publication.

The SORP 2026 will apply to reporting periods starting on or after 1 January 2026, when the new edition of FRS 102 becomes mandatory. Early adoption of the SORP 2026 will be available in jurisdictions where the relevant regulations permit this.

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The survey questions are shown below. Responses to these should be submitted via the online survey.

Initial questions about the respondent:

Do you consent to personal data you provide being held, in accordance with UK GDPR and the Privacy Policy of the Charities SORP making body and its delegated parties? If you select 'no' your name and email address will not be stored, but your organisational data (if relevant) and all consultation responses will be collected.

Yes/No (If 'no' is selected users will not complete name, email address and role questions)

If you wish to withdraw your consent at a later date, please contact us at sorpsiteenquiries@charitycommission.gov.uk

For further information on all processing of personal data including the publication of responses, refer to the privacy policy on the 'Invitation to Comment' section of the SORP site.

Name:

Email address:

Role (for example Chair, Trustee, Accountant, Treasurer):

Are you happy for the SORP-making body to contact you if needed to discuss your responses? Yes/No

Do you want your response to be treated confidentially by the SORP-making body and not published? Yes/No

Are you responding:

- On behalf of an organisation/body
- As an individual

If responding on behalf of an organisation or body, please provide its name:

If responding on behalf of an organisation or body, please select what best describes the organisation (multiple selection permitted):

- A charity applying FRS 102 and the Charities SORP
 - o What was the last reported gross income as set out in the charity's last annual accounts?

Response options:

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- under £100K
 - £100K-£250K
 - £250K-£500K
 - £500K-£1M
 - £1M-£5M
 - Over £5M
 - Don't know
- A user of accounts prepared under FRS 102 and the Charities SORP
- In which capacity were you using accounts prepared under FRS 102 and the Charities SORP?

Response options

- academic
 - funder
 - regulator/other public body
 - member of public
 - other (please specify)
- An accounting firm / auditor
- How many charity clients do you supply your services to?

Response options

- Less than 10 charity clients
 - Between 10-20 charity clients
 - Between 21-50 charity clients
 - More than 50 charity clients
 - Don't know
- An independent examiner
- How many charity clients do you supply your services to?

Response options

- Less than 10 charity clients
- Between 10-20 charity clients
- Between 21-50 charity clients
- More than 50 charity clients

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- Don't know
- A sector body
 - How many member charities does your organisation have?

Response options

- Less than 10 member charities
 - 10-20 member charities
 - 21-50 member charities
 - 51-100 member charities
 - More than 100 member charities
 - Don't know
- Other [text field for details]

If responding as an individual which of the following best describes you?

- Academic
- Charity beneficiary or service user
- Funder or donor
- Independent examiner of charity accounts
- Member of public
- Trustee
- Other (please specify)

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Consultation questions

Section 1 Tiered reporting

The Exposure Draft SORP retains the existing modular format and contains core modules that are relevant to all charities and specialist modules that only apply to particular charities according to their constitution, structure and activities. Each module has an introduction which explains what the module is about and details the requirements for charities in each tier of the proposed new structure.

We have proposed a new tiered reporting structure in response to feedback that the SORP should “think small first”. The three-tier approach should help alleviate the reporting burden on smaller charities where the SORP-making body has the flexibility to do so.

Tiered reporting – there are four questions in this section plus a free text box for you to provide reasons for your answer.

The Exposure Draft proposes three tiers:

- Tier 1 - charities with gross income of not more than £500,000 (EUR 500,000)
- Tier 2 - charities with gross income above the tier 1 threshold but not more than £15 million (EUR 15 million)
- Tier 3 – charities above the tier 2 threshold

The scope and application module of the Exposure Draft SORP sets out a summary of the tiers, which modules have different requirements for some tiers and which modules are applicable to all tiers.

Question 1: Do you support the move to three tiers?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 2: Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

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Question 3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 4: Do you agree that charities within the largest income threshold should be referred to as “tier 3” charities, or should they be referred to as “tier 1” charities?

Response options:

- Agree with tier 3
- Disagree – should be referred as tier 1
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 5: Do you have any additional comments in relation to the proposed tiered reporting structure in the Exposure Draft SORP? (Free text box)

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Section 2 Trustees' Annual Report

There are eight questions in this section each with a free text box for you to provide reasons for your answer. This section also includes a free text box for you provide any other comments on the Trustees' Annual Report module.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 1 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 1 – Trustees' Annual Report

The module has been redesigned to help users of the SORP to understand the requirements that apply to them and to encourage charity trustees to tell their story. Although the requirements are driven by charity regulations, consideration has been given to the relevance of the requirements for each tier. Some requirements that apply to larger charities in the extant SORP have been extended to charities in all tiers.

All charities exist to provide public benefit. It follows that they should be able to explain the benefit provided to the beneficiaries that the charity exists to serve and support. To facilitate this, module 1 includes prompt questions for charity trustees to consider and answer, to help them develop their Trustees' Annual Report.

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Impact reporting

The engagement strands strongly recommended that charities report on the difference they are making in the SORP 2026. Consequently, the Exposure Draft SORP proposes that charities in all tiers must explain how their work has benefited society as a whole. Charities in tiers 2 and 3 must provide more detail on impact reporting.

Question 7: Do you consider the requirements for impact reporting for each tier to be proportionate?

Response options:

- Yes
- No

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- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Sustainability reporting

Stakeholders are increasingly interested in how charities respond to environmental, governance and social issues. To reflect this and to advance reporting in this area, in a proportionate manner, the Exposure Draft SORP proposes that charities in tiers 1 and 2 are now **encouraged** to explain how they are responding to and managing environmental, governance and social matters. It is proposed that charities within tier 3 **must** explain how they are responding to and managing all of these matters.

Question 8: Do you consider the requirements for sustainability reporting for each tier to be proportionate?

Response options:

- Yes – free text box
- No – free text box
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Volunteers

The extant SORP requires all charities to disclose in the notes to the accounts a description of the role played by general volunteers (Module 6, Donated goods, facilities and services, including volunteers). Some of the disclosure requirements have been relocated from Module 6 in the Exposure Draft SORP and instead included in the requirements for all charities in the Trustees' Annual Report. In addition, the Exposure Draft SORP extends the existing requirement in the extant SORP for larger charities to provide a narrative explanation of the scale and nature of activities undertaken by volunteers to charities in all tiers. Module 6 still requires the notes to the accounts to include information about the contribution of unpaid general volunteers.

The Exposure Draft proposes that charities in tiers 2 and 3 should provide information on the number of volunteers and where practicable, the contribution of volunteers may be expressed in terms of full-time equivalent hours. These disclosures are considered helpful in telling the charity's story, whilst addressing the difficulty of producing financial information on volunteers and/or obtaining a reliable measurement of volunteer time for recognition in the financial statements. The SORP-making body believes that as this kind of information is provided as part of the annual return process to each charity regulator, that there would be minimal cost associated with including this information.

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To support your understanding of the proposed changes and to help you respond to the next question you should also refer to module 6 of the Exposure Draft SORP 2026.

Question 9: Do you consider the disclosures for volunteers to be proportionate?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Reserves

Charity reserves are an area of interest for stakeholders but one which is sometimes misunderstood by charity trustees. This area was one of the topics identified by engagement strands to be considered in the development of the SORP 2026. The SORP Committee agreed that improvements needed to be made to how reserves are defined in the SORP and how the disclosure requirements are explained. The Exposure Draft SORP proposes an updated definition of reserves in the glossary and more clarity about the relevant disclosure requirements for the Trustees' Annual Report.

To support your understanding of the proposed changes and to help you respond to the next question you should also refer to Appendix 1 - Glossary of the Exposure Draft SORP 2026.

Question 10: Do you consider the explanation of reserves in the glossary helpful?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

The Exposure Draft SORP also seeks to address the apparent isolation of the reserves figure in the Trustees' Annual Report from figures in the statements of account and from the consideration of going concern. The Exposure Draft SORP proposes to require charities in all tiers to provide a reconciliation of the reserves figure in the Trustees' Annual Report to the accounts where these figures are inconsistent with one another. Where a charity has no reserves, it must explain how it is operating as a going concern.

Question 11: Do you consider the disclosures for reserves are proportionate?

Response options:

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- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Plans for the future

In the extant SORP, larger charities must provide a summary of their plans for the future. The Exposure Draft SORP proposes to extend this requirement to charities in all tiers. Our view is that charities in all tiers must consider future plans when assessing whether they are operating as a going concern. Therefore, it would not increase the reporting burden for smaller charities to provide this information.

Question 12: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Legacies

The Exposure Draft SORP proposes a new requirement for tier 2 and tier 3 charities, to provide a narrative explanation of how legacies are included in the accounts. This is to help users of the accounts to understand that a legacy may be recognised as income before the resources are received. The difficulty regarding recognition of legacies in charity accounts arose in discussions with engagement strands and the proposal aims to help address this issue.

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 14: Do you have any other comments on module 1 and the proposals for the Trustees' Annual Report? (Free text box)

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Section 3 Statement of financial activities

There are two questions in this section, the second question has a free text box for you to provide any comments you may have on module 4.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 4 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 4 - Statement of financial activities (SoFA)

To support smaller charities choosing whether they wish to report income and expenses on an activity basis or use natural classification, module 4 has been updated to make clearer how the SoFA will appear depending on the basis of reporting selected. An example table has been included to illustrate how reporting on a natural basis could look in the SoFA.

Question 15: Is the example table helpful?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 16: Do you have any other comments on module 4? (Free text box)

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Section 4 - Recognition of income

There are seven questions in this section some with free text boxes for you to provide the reasons for your answers. There is also a free text box at the end of the section for you to provide any other comments you may have on module 5.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 5 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 5 - Recognition of income

Section 23 of FRS 102 includes new accounting requirements for revenue recognition based on the five-step model. This model applies to contracts with customers and does not apply to income from non-exchange transactions.

The aim of the five-step model is to enable more consistent and comparable accounting for income. It focuses on identifying the distinct goods or services promised to a third party (customer/service user), determining an amount of consideration that a charity will be entitled to in exchange and the pattern of fulfilment of those distinct elements. For many charities, this approach will not change how much income they recognise or when they recognise it. For others there may be significant change.

The Exposure Draft SORP aims to explain the five-step model in an understandable way for charities by using simpler language and some examples. It also aims to explain when the five-step model, either in whole or part, must be applied to membership income and income from royalties.

Question 17: Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Structure of module 5

As explained, module 5 has been updated to include the new accounting requirements for revenue recognition for exchange transactions based on the five-step model in FRS 102. To accommodate the extra detail on exchange transactions and to help users of the SORP to identify the paragraphs relevant to them, the module has been split into two main sections: section one deals with exchange transactions and section two deals with non-exchange transactions.

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Question 18: Do you find the module easy to navigate as drafted?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 20: In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Other specific types of income

The engagement strands identified that where a charity receives a grant for capital expenditure, and there is no restriction on the use of the asset, this creates a mismatch between recognition of the income and the related expense (depreciation). This can confuse users of the accounts. The Exposure Draft SORP proposes to clarify the existing option available for charities to set up a designated fund for the tangible fixed assets purchased with a grant. This can be shown as an additional note to the accounts, and the depreciation charge written off against the designated fund.

Question 21: Do you consider this clarification a helpful addition to the SORP?

Response options:

- Yes
- No

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- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

The engagement strands identified issues with understanding the accounting treatment of legacies. These may cause inconsistency in charity reporting. The Exposure Draft SORP includes additional guidance on information sources for charities developing their accounting policy. FRS 102 clarified existing requirements in relation to the recognition of legacy income, and the SORP has been updated in this area.

Question 22: Does the module set out the accounting requirements for legacy income clearly?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 24: Do you have any other comments on module 5? [free text box]

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Section 5 Lease accounting

There are five questions in this section, some with free text boxes for you to provide reasons for your answers. There is also a free text box at the end of the section for you to provide any other comments you may have on module 10B.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 10B of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 10B - Lease accounting

The amendments made to FRS 102 introduce a new approach to lease accounting to enhance visibility of lease commitments and the impact on the reporting entity. The changes mean that where a charity is leasing a piece of specialist equipment for example, it will recognise an asset which is the 'right of use' of that piece of equipment, and a corresponding lease liability for the payments due by the charity over the term of the lease.

The SORP must mirror the requirements of FRS 102. The SORP-making body consider these changes to potentially be challenging for charities to comply with, partly due to the requirement to take into account the effect of the 'time value of money' on the lease liability. Payments will be made by the lessee over the term of the lease, and the value of those payments in the future will not be the same as the value of the payments made at the start of the lease term. This means that the present discounted value of future payments must be used to measure the lease liability.

The Exposure Draft SORP proposes to introduce a new module on leasing. The module sets out a logical flow to how charities should approach determining if the new reporting requirements apply to them.

FRS 102 provides some recognition exemptions, meaning a simpler form of accounting may be used for some lease arrangements. These are explained in the new module. The module also explains terminology that charities will need to be aware of and provides relevant examples. The module includes more examples than other modules of the SORP to help illustrate new requirements, recognising the additional complexity of some of those requirements.

Question 25: Do you find the module easy to navigate as drafted?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

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Question 26: Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply.

Response options:

- Yes
- No - do not understand a specific section
- No - do not understand recognition exemptions
- No - do not understand disclosure requirements
- No - do not understand time value of money
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

The new leasing module has detail about how to treat lease arrangements where the payments are below market rate. FRS 102 recognises that such situations may arise and the relevant requirements of FRS 102 do apply to leases at below market rate but the Exposure Draft SORP provides more guidance for the charity sector on such situations. We consider this to be an important area for the SORP to support preparers of charity accounts. While the SORP cannot cover all possible situations, it sets out the principles that should be considered to help preparers determine the substance of the arrangements and the correct accounting treatment.

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Where charities have social donation leases as a lessee, the Exposure Draft SORP proposes additional disclosure requirements for charities. Similarly, where charities enter into a finance lease at below market rate as a lessor and therefore make a social investment, the Exposure Draft SORP proposes additional disclosure requirements. This is to ensure users of charity accounts can understand the arrangements and commitments the charity has and the impact on its finances. FRS 102 contains a number of disclosure requirements for lease arrangements that are not social donation leases or leases that are a social investment – the additional requirements in the Exposure Draft SORP seek to ensure there is no gap in the information provided by charities with such arrangements.

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

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Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 29 – please provide any other comments you have on module 10B (free text box)

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Section 6 Statement of cash flows

There are two questions in this section, the second question is a free text box for you to provide any comments you may have on module 14.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 14 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 14 - Statement of cash flows

Section 7 of FRS 102 allows an exemption for small entities, applying full FRS 102, from the requirement to prepare a statement of cash flows. The requirement within the previous SORP was that all charities with income over £500,000, preparing their accounts in line with the SORP, were required to prepare a statement of cash flows. The Exposure Draft SORP proposes to increase this income threshold to £15 million (tier 3).

There are additional criteria within FRS 102 for defining a small entity (employee numbers and total assets) that are not considered in the threshold of the SORP tiers. Charities in tiers 1 and 2 will need to consider if they meet the small entity criteria as defined in FRS 102 to determine if they are exempt from preparing a statement of cash flow. It should be noted that the small entity definition applies to all entities, not just those constituted as companies. Tier 1 and 2 charities, who meet the small entity criteria in FRS 102, are not required to prepare a statement of cash flows but may wish to do so. Tier 1 and 2 charities who do not meet the small entity criteria will still be required to prepare a statement of cash flows. This proposed change may lead to a reduction in transparency for certain users of charity accounts, e.g. funders. However, charities still have the option to present a statement of cash flows if they feel it is beneficial for their users. Similarly, those users who require this information can still request this information directly from the charity, if necessary.

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

Response options:

- Yes
- No, this should be required of all tier 2 and 3 charities
- No, this should be required of all charities
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 31: Do you have any other comments on module 14? (free text box)

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Section 7 Total return

There are three questions in this section, the third question is a free text box for you to provide any comments you may have on module 20.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 20 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 20 - Total return

This module has been updated to reflect changes in the Charities Act 2022. Section 104AA(2) of the Charities Act 2022 gives trustees a power, once they have made a section 104A(2) resolution, to then resolve to use permanent endowment to invest the total return fund, or part of it, in social investments with a negative or uncertain financial return, provided that any losses are offset by gains made elsewhere in the relevant fund.

The SORP-making body have included three new disclosures to help users of the accounts to understand the effect of making such investments and to give assurance that any losses made on such investments are covered by gains in the fund.

Question 32: Do you agree that the additional disclosures are helpful?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 33: Do you agree that the additional disclosures are proportionate?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 34: Do you have any other comments on module 20? – free text box

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Section 8 Social Investment

There are five questions in this section, some with free text boxes. The last question is a free text box for you to provide any comments you may have on module 21.

To support your understanding of the proposed changes and to help you respond to the questions asked in this section you will need to read module 21 of the Exposure Draft SORP 2026 and Appendix 4 - Basis for Conclusions.

Module 21 - Social Investment

The Exposure Draft SORP proposes to retire the terms 'programme related' and 'mixed motive' investments and use the term 'social investments' to cover both terms. This is to align the definition of social investments in SORP to the Charities Act 2011(as amended) definition and to help simplify the presentation of social investments within the financial statements. The Exposure Draft SORP proposes that all gains and losses on social investments are presented in the SoFA as gains and losses on investments whereas in the extant SORP, a gain on a programme related investment is included within 'other income'

Question 35: Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

As a result of the simplification of how gains and losses on social investments are presented in the financial statements, some charities may need to adjust comparative figures.

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Question 37: Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 38: Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

Question 39: Do you have any other comments on module 21? (Free text box)

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Section 9 Smaller charities

There are two questions in this section with free text boxes for you to provide reasons for your answer.

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

Response options:

- Yes
- No
- No opinion

Please provide any reasons for your answer here, if you wish to do so (free text box with 250 word limit)

In developing the Exposure Draft SORP the SORP-making body has continued to disallow the option to apply Section 1A of FRS 102 for charities that are small entities under FRS 102. This decision is made on the basis that the application of Section 1A would not, without the addition of further disclosures, provide the required level of transparency and accountability that users of charity accounts are seeking. Furthermore, this would also present issues in respect of comparability which would impact on utility for users of charity accounts.

Question 41: Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A?

Response options:

- Yes
- No.
- No opinion
- Do not understand the position enough to comment

Please provide reasons for your answer or suggestions on how you think Section 1A could be applied differently (free text box with 250 word limit)

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Section 10 Other comments

There is one question in this section with a free text box for you to provide reasons for your answer

Question 42: Do you have any other comments on the Exposure Draft SORP? (free text box)

End of survey questions

The public consultation will close on Friday 20th June 2025.

Consultation responses will be published in accordance with the FRC policy within a reasonable a timeframe, you will find updates on the SORP website.

A summary of the consultation responses will be published in Summer 2025. The consultation responses will inform the finalisation of SORP 2026 with a view to publishing the final SORP by Autumn 2025.

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Annex A – Topics considered by the engagement partners

1. Reserves
2. Summary financial information (key facts summary)
3. Presentation of the SoFA
4. Notes to the accounts
5. Grant accounting
6. Accounting for legacies
7. Materiality
8. Donated goods and services
9. Income recognition
10. Impact reporting
11. Funds note
12. Support costs
13. Expenditure classification
14. Activity analysis
15. Sustainability reporting