

**From:** [Greyham Dawes](#)  
**To:** [Asbcomment Letters](#)  
**Cc:** [CARA](#)  
**Subject:** ASB public consultation on the future of UK financial reporting - FRS102  
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For financial reporting by charities to be 'fit for purpose' under FRS102, we think the statutory accounts must be able to show strict compliance with English trust law for the proper stewardship of all grants, legacies and other gifts to the charity, as well as those made by the charity, whether in cash or in kind.

The Charities SORP 2005 does ensure this, as can be seen from the fact that the Charity Sector's principle regulators other than the Charity Commission are now required under the Charities Act 2011 to ensure due compliance with trust law by the charities they regulate. Unfortunately, however, this clear accountability is not supported by the ASB's proposed definitions of donor-imposed "restrictions" and "performance conditions" attaching to "funding commitments" and "incoming resources from non-exchange transactions" (Section 34 of FRS102), which conflict with trust law.

We therefore think the ASB needs to revisit and correct those two definitions to bring them into line with trust law before amending its PBE sections of FRS102 accordingly so that the ASB can be seen as having met its ambitious objective of remaking UK-GAAP as a succinct and globally based financial reporting standard reflecting the long-term IASB/FASB Conceptual Framework's "consistent principles" for all financial reporting worldwide, pragmatically applied to the satisfaction of all parties in conjunction with the proposed retention of its existing FRSE (updated for the EU's proposed 'lite' regime for micro-entities) for reporting entities below the company audit threshold.

In this connection we note from the ASB's Part 1: Explanation of FRED46-8:

5.4 In December 2011 the European Council and the European Parliament reached agreement on a revised Directive which gives Member States an option to treat micro-entities as a separate category of company and to exempt them from certain accounting requirements. This Directive complements the Commission's October 2011 proposals and will be integrated into the revised Accounting Directives.

5.5 The final new Accounting Directive is intended to be made effective by Member States by 1 July 2014 ...

5.9 ... the ASB currently intends to issue a revised FRSE [which] would take into account (a) consistency with the proposed Directive, as implemented in the UK and Republic of Ireland, including the specified disclosure requirements; (b) updating for consistency with the draft FRS 102\$, mainly in relation to language. The ASB would also consider any differences in recognition and measurement principles between the draft FRS 102 and the FRSE.

5.10 The ASB will consult on the options for the revision of the FRSE, including the extent to which consistency with draft FRS 102 should be achieved, once changes to the Directives are clear; this is expected to be during the first half of 2012.

As regards the ASB's temporary expedient of incorporating in FRS102 the two existing but mutually conflicting accounting treatments for grants receivable where these relate to fixed assets for the recipient's own use, we note:

3.42 FRED 44 proposed that government grants with specified performance conditions should be recognised when the performance condition was met. A number of respondents, particularly those from the public-benefit sector, questioned this proposal. Their concerns focused on what is a performance condition. The ASB decided to retain the accounting for government grants currently permitted in EU-adopted IFRS in addition to that proposed in FRED 44. FRED 48 therefore includes the option to recognise grants in profit and loss on a systematic basis over the periods in which the entity recognises the expenses for which the grants are intended to compensate.

3.43 The ASB decided to permit this accounting treatment on pragmatic grounds, acknowledging that a more fundamental review of the accounting for grants is required. It will undertake a research project on accounting for grants in the near future.

3.44 The ASB also revised the title of this section so that it applies to all grants and not only those from governments.

We do appreciate that this may have been done so that the relevant SORPs can point to its preferred option in FRS102 without anybody needing to debate the issue until the ASB can

develop its own thinking through its planned research project.

Finally, whilst fully appreciating where the ASB is coming from (ie, the global Conceptual Framework under construction by the IASB/FASB), we note that very careful audit guidance will be needed from the APB if the ASB's pragmatism in the last sentence of the following extract from the FRS102 Explanation is not to result in the negation of its high-minded principles-based approach here:

4.2 The proposed requirement in FRED 45 to recognise incoming resources (including goods and services) from non-exchange transaction on receipt at fair value unless there are performance conditions to be considered was not supported by respondents. The ASB has clarified, in FRED 48, that in applying the recognition criteria an entity takes into consideration whether the resources can be measured reliably and whether the benefits to recognise the resources outweigh the costs.

In all other respects we feel that the ASB has achieved a remarkable synthesis and an eminently pragmatic solution in FRS102, and we therefore hope that the ASB will now 'go the extra mile' by amending the exposure draft to take in the above observations so that the Charity Sector's various SORPs can link with it without further ado.

We would be happy to amplify any aspect of the above comments, if asked.

***Greyham Dawes***

Exec. Director - C.A.R.A

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