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Peter Godsall
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5th Floor, Aldwych House
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1 February 2010

Dear Mr Godsall

Re: Policy Proposal: the Future of UK GAAP

The Charity Finance Directors' Group (CFDG) welcomes this opportunity to respond to the Accounting Standards Board (ASB) consultation on the future of UK Generally Accepted Accounting Practice (UK GAAP) as part of its plan for convergence with the International Financial Reporting Standards (IFRS). We gratefully acknowledge the support of BDO LLP in helping us to formulate this submission.

CFDG was set up in 1987 and is the only charity specialising in the management and accountability of charities from the finance perspective. CFDG has over 1,600 members who are responsible for the finances of charities with a wide variety of income levels. Around 60% of the top 300 charities are members of CFDG, and between them our members manage over £17 billion in charity income per year. CFDG works to promote and raise public confidence in good management within charities. Our response focuses on those questions of relevance to charities and is based on the outcome of consultations with our members.

Question 1 – Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be.

We prefer the Board's proposed definition of public accountability as we do not see the benefit of charities which exceed the small and medium sized criteria under the Companies Act preparing accounts in accordance with EU endorsed IFRS. Indeed, such a move would lead to a two-tier accounting regime for charities (potentially four-tier if you include the FRSSE and receipts and payments accounts) which will lead to a lack of consistency in the sector, and ultimately make charity accounts more confusing for donors and supporters. We therefore do not believe that any charities should be able to adopt EU endorsed IFRS (please see our response to question 2).

Promoting Best Practice in Charity Finance

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

Under the current proposal some charities would be included in Tier 1 due to listed debt (e.g. Wellcome Trust) or due to FSA regulated activities (e.g. Age UK). As some accounting principles are significantly different between EU endorsed IFRS and IFRS for SMEs (for example, accounting for capital grants from government departments) we do not believe that any charities should be included in Tier 1. Ideally we would prefer all charities to report under the same regime in order to facilitate comparison of performance and ensure transparency. Consistency of reporting imposed by the charity SORP has played a key role in raising accounting standards throughout the charity sector and we would like to build on that good work. However we recognize that the status of the very small number of charities with listed debt needs to be considered further.

Question 3 – Do you agree with the Board’s proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

No comment.

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.

We believe all subsidiaries should be permitted to take reduced disclosures, not just those that are publicly accountable. The disclosure reductions should include the option to:

- not prepare a cash flow statement,
- not disclose related party transactions with other members of the group,
- not disclose information on financial instruments.

We do not believe the publication of this information at a subsidiary level will enhance a reader’s understanding of the accounts as any such disclosure can be easily influenced by the actions of the parent. This information is much more relevant at a group level.

Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?

The ASB’s proposed move to international accounting standards only affords two options for Tier 2 entities: either optional compliance with full IFRS or adoption of the newly developed IFRS for SMEs. As the IFRS for SMEs is less onerous than full IFRS compliance and likely to result in accounts that are more easily understood by charities’ financial supporters and governing boards of volunteer trustees, of the two options, our preference is for Tier 2 entities to follow this standard. However, it should be noted that although consistency with commercial accounts is important, as they stand, neither the IFRS for SMEs nor the full IFRS meet charities’ financial or narrative reporting needs in the way that the charity SORP does.

Question 6 – Do you agree with the Board’s proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.

The wholesale adoption of IFRS for SMEs would ensure that a wider audience can understand charity accounts. This is crucial to ensuring that the charity sector can benefit from the input of accounting professionals from other sectors in roles as advisers and trustees, and also key to the sector’s transparency and accountability. CFDG appreciates the logic of the Board’s proposal, however the IFRS for SMEs was not designed with charity

accounts in mind and there are certain transactions – many of which are identified in section 3.15 of the consultation paper - that are specific to public benefit entities and which do not occur in the commercial sector. In addition, the lack of a requirement to produce a narrative report may hinder the transparency of charity accounts. These issues will require further clarification or support to ensure consistent reporting throughout the sector. Indeed, for some transactions we believe the principles contained within the IFRS for SMEs will need to be interpreted to meet the requirement of the public benefit sector (for example under the current rules, donated assets to a charity will not have a cost and hence will not be capitalised). It is essential that the ASB retains the flexibility in the rules of the IFRS for SMEs so that when a public benefit entity standard is produced we do not end up being bound by the existing rules.

Question 7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

CFDG believes that the charity SORP’s achievements of improved accounting and reporting throughout the charity sector and comparability of the performance of different charities are best built on through the adoption of a common accounting framework for the sector. Having different accounting requirements for different sized charities would not facilitate sector-wide performance comparison. It would also increase the possibility of identical accounting transactions being treated differently across the sector. This can already happen under the different Public Benefit Entity SORPs. As a result, we believe large charities should not normally have a choice to be able to adopt full IFRS.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

At present, charities producing FRSSE compliant accounts are also required to comply with the charity SORP. It is not clear if compliance with the SORP will still be required if the ASB’s proposals are implemented, or even if this SORP will continue to exist, given the ASB’s statement that the separate body of literature currently referred to as UK GAAP will cease to exist. It should be noted there are only about 1,000 registered charities in England and Wales who do not meet the conditions for following the FRSSE. The ongoing accounting requirements for the 150,000 other charities (who choose an accruals basis of accounting) will need to be clarified if the FRSSE is to remain in force for the foreseeable future.

Question 9 – Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

Generally charities do not report under the FRSSE, because the existing SORP addresses their needs. The FRSSE can only exist if supported by a charity SORP. However if it is only to exist as an interim measure, it would delay the adoption by the smallest entities of the accounting standards that are being more widely used, thus allowing the smallest charities to fall further behind the rest of the charity sector. As a result, we would prefer the FRSSE to cease to exist at the same time as all of the other current UK accounting standards. This will require a suitable length of time for transition for small charities to get up to speed with the IFRS for SMEs (at least two years from issuing a public benefit statement).

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

Reducing the number of SORPs would help ensure the simplicity and consistency of financial reporting. It would reduce the discrepancy in the treatment of the same types of transactions under different SORPs and thus may also reduce the divergence of accounting practice between the different types of public benefit entities. However such a reduction could only successfully come about as a result of cross-sectoral coordination.

Question 11 – Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

We agree that the development of a public benefit entity standard is a sensible progression. Building on the achievements of the charity SORP, it could additionally offer the UK charity sector an opportunity to lead the development of public benefit entity accounting at an international level. However, we recommend that guidance is provided in sufficient detail to ensure that the current differences in accounting treatments between current public benefit entity SORPs are eliminated (for example, ensuring capital grants from government agencies have a consistent accounting treatment across the public benefit entity sector). Any guidance developed will have to take into account the needs of both EU endorsed IFRS and the IFRS for SMEs as a few charities will fit into the EU endorsed category. We trust that any accounting standard will be largely consistent with the principles established by the ASB’s interpretation of the statement of principles for public benefit entities.

We recognise that the different regulators of public benefit entities may have their own requirements in addition to this standard, whether this be between different sectors (e.g. registered charities and higher education institutions) or between different geographical regions (e.g. OSCR and the Charity Commission). Any such requirements will need to be consistent with a public benefit entity standard.

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

CFDG’s members are of the view that, in principle and as far as practicable, a new public benefit entity standard should cover all the requirements for preparing true and fair view accounts – i.e. it should be a ‘one stop shop’.

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

We agree that all issues listed in paragraph 3.15 are distinctive to the public benefit entity sector and should therefore be covered in a public benefit entity standard. In addition, CFDG members have raised the need for the standard to cover accounting for and reporting of heritage assets, branches (in particular whether these are controlled by a charity and hence included in the financial reporting boundary) and that accounting for non reciprocal transactions should cover accounting for volunteers, services and gifts in kind, and the importance of the narrative reporting requirement. The standard should also have consideration to the defining class of user.

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where

this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

CFDG is of the view that any supplementary guidance will need to be endorsed by the ASB to demonstrate that such guidance is consistent and compliant with the new UK GAAP.

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

As a registered charity the basis of the preparation of CFDG's financial statements will change, as will those of our member charities. It is difficult to accurately predict the full nature of such changes as they will depend on the decisions made at the end of the consultation period. However, whatever the nature of the new standard, there is likely to be a requirement for an increased investment of human resources to produce compliant financial statements and for a changed approach to budgeting in order to collect relevant information.

Question 16 – What are your views on the proposed adoption dates?

CFDG believes that the proposed timetable is very ambitious. It is unclear whether the proposed change date for financial years beginning on or after 1 January 2012 is the date by which full compliance or transition is expected. However, given the need to publish an exposure draft in the summer of 2010, receive and review comments, and to develop, produce and debate a new public benefit entity standard (if that is the option chosen) before the first accounts under the new rules are produced, we believe it highly unlikely that 2012 is a realistic deadline for full compliance. While the articulation of a timetable is important to ensure that deadlines are set (and met) it may be more realistic to aim for a deadline of 2015 for full compliance for public benefit entities.

Convergence for public benefit entities is likely to be a much more complicated process than for commercial entities due to the need for adjustment due to the commercial orientation of international accounting standards. We urge the ASB to ensure that the process delivers a practical accounting framework for public benefit entities, whatever the necessary timescale.

We hope that our comments are helpful. Please let us know if you would like to discuss them further.

Yours sincerely

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