

SORPs:
POLICY AND
CODE OF PRACTICE



**ACCOUNTING
STANDARDS
BOARD**

STATEMENT

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Introduction

Statements of Recommended Practice (SORPs) are recommendations on accounting practices for specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector. SORPs are issued not by the Accounting Standards Board (ASB) but by industry or sectoral bodies recognised for the purpose by the ASB. (Bodies that have been recognised by the ASB for the purpose of producing a SORP or SORPs for an industry or sector are designated ‘SORP-making bodies’ in this document.)

To secure such recognition, SORP-making bodies are expected to meet criteria laid down by the ASB and to develop their SORP proposals in conformity with the ASB’s code of practice. A SORP is required to carry a statement by the ASB confirming, as appropriate, that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard or the ASB’s plans for future standards. To assist in dealing with proposals for SORPs the ASB has two specialist advisory committees—the Financial Sector and Other Special Industries Committee and the Public Sector and Not-for-profit Committee.

POLICY FOR SORPS

The ASB has adopted the following policy in respect of SORPs:

- a** The ASB will recognise bodies for the purpose of issuing SORPs. Bodies will not be recognised unless the following conditions are met:
- (i) The industry or sector has special accounting or financial reporting problems that require the clarification of accounting standards or interpretation (within the principles of the standards).
 - (ii) The body represents the whole or a major part of a significant industry or sector for the purposes of financial reporting within the relevant jurisdiction.
 - (iii) The body shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest.
 - (iv) The body agrees to abide by the ASB's code of practice for bodies recognised for issuing SORPs.
 - (v) Where an industry or sector is regulated or financed by another body, the regulator or financing body is content for the body seeking recognition by the ASB to promulgate SORPs for that industry or sector.

The ASB will, at its discretion, withdraw recognition if it appears that these conditions are no longer met, or if the recognised body fails to comply with the spirit of the code of practice. (This would include circumstances in which a SORP-making body publishes a SORP or similar guidance without securing the approval of the ASB.) The ASB may publicise the withdrawal of recognition if it believes publicity is necessary or desirable.

- b SORPs issued by SORP-making bodies will include a statement by the ASB that:
 - (i) outlines the limited nature of the review the ASB has undertaken; and
 - (ii) confirms that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard or the ASB's plans for future standards.
- c A pro-forma statement is as follows:

“The ASB’s statement on the SORP

The aims of the Accounting Standards Board (the ASB) are to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. To this end, the ASB issues accounting standards that are primarily applicable to general purpose company financial statements. In particular industries or sectors, further guidance may be required in order to implement accounting standards effectively. This guidance is issued, in the form of Statements of Recommended Practice (SORPs), by bodies recognised for the purpose by the ASB.

The XYZ Association (the Association) has confirmed that it shares the ASB’s aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the Association has agreed to follow the ASB’s code of practice for bodies recognised for issuing SORPs.

The code of practice sets out procedures to be followed in the development of SORPs. These procedures do not include a comprehensive review of the proposed SORP by the ASB, but a review of limited scope is performed.

On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB's code of practice and does not appear to contain any fundamental points of principle that are unacceptable in the context of present accounting practice or to conflict with an accounting standard or the ASB's plans for future standards.

Dated day/month/year"

- d** The ASB will vary its statement to fit the circumstances of individual cases.
- e** The ASB will not necessarily make a statement on an exposure draft, but may require a statement to be included indicating areas of overlap with its own work and any reservations that it would find necessary to make if the material were carried through to a final SORP.
- f** In making a statement on a particular SORP, the ASB in no way guarantees that it will not in time produce a subsequent pronouncement that will supersede, and may contradict, that SORP.
- g** The ASB has appointed committees to advise it on whether to recognise bodies that wish to develop SORPs and on whether the ASB's statement should be given in respect of individual proposed SORPs. The committees include independent experts and are serviced by the ASB's technical staff and secretariat. The committees monitor adherence to the code of practice and ensure that the ASB is apprised of any issues of fundamental importance that come to their attention. The committees are not required to undertake a comprehensive review of proposed SORPs but only such review as is necessary to enable the ASB to make its statement.

CODE OF PRACTICE ON THE DEVELOPMENT OF SORPS

Primary considerations

- 1 Before beginning a new SORP project, a SORP-making body must seek approval from the ASB. This will ensure that the proposed project does not overlap with an ASB project or address a matter that the ASB would prefer to deal with itself.
- 2 SORPs should be developed in the context of current accounting practice. In particular, it should be recognised that SORPs cannot override the provisions of the law, accounting standards or UITF Abstracts. It should also be noted that failure to update a SORP does not exempt reporting entities from following, from their effective date, accounting standards or UITF Abstracts issued after the publication of a SORP (except for those entities that operate in the public sector under specific legislative regimes that would prevent or exempt them from doing so). When provisions of a SORP conflict with a more recent accounting standard or UITF Abstract, those provisions cease to have effect.*

* In order to clarify the position of the SORP with reference to accounting standards and UITF Abstracts, SORP-making bodies should, where appropriate, include in their SORP a paragraph along the following lines:

'Entities following this SORP should apply all extant accounting standards, UITF Abstracts and legislation [as specified]. When an accounting standard, UITF Abstract or legislation [as specified] is issued after publication of the most recent edition of the SORP, any provisions of the SORP that conflict with the new standard, UITF Abstract or legislation cease to have effect.'

- 3 A SORP should state, in a prominent position, the latest date up to which extant accounting standards and other pronouncements were considered in the development of the SORP. For SORPs that give comprehensive guidance on the preparation of financial statements, it is helpful to append a full list of accounting standards and other pronouncements extant at the date of publication of the SORP, with some indication of their relevance to the industry or sector and how each has been dealt with in the SORP. For specialised SORPs, only related standards would need to be mentioned.
- 4 A SORP should state its scope by indicating the types of entity to whose financial statements the SORP is intended to apply. Where the SORP-making body is aware that entities to which the SORP applies may also fall within the scope of another SORP, it will be useful to indicate which SORP should be applied (it will usually be appropriate to suggest that an entity should follow the SORP with the more specific application).*
- 5 A SORP should aim to reduce areas of difference of accounting treatments within the industry or sector by recommending a preferred accounting treatment. It should also seek, where practicable and appropriate, to adopt an approach to accounting in the industry or sector that is consistent with the approach taken in similar industries or sectors.

* *In these situations, consultation will be necessary with the ASB and the other relevant SORP-making body.*

Development of a SORP

Working parties

- 6 Drafting of the SORP must be undertaken either by the SORP-making body itself or by a working party of the SORP-making body. In either case the process should ensure the participation of representatives of the industry or sector concerned, independent outsiders on behalf of the wider public interest and, where possible, users of financial statements, and have sufficient technical accounting support. The arrangements proposed (including membership of any working party), and any changes in those arrangements, should be notified in advance to the ASB, so that the ASB may satisfy itself that these requirements are met.
- 7 Where the ASB's approval of the arrangements is premised on the use of a working party including representatives of outside interests, the SORP-making body should normally expect to accept the recommendations of its working party. Where in such cases a draft of a proposed SORP or exposure draft submitted to the ASB has, at the request of the SORP-making body, been changed from the text recommended by the working party, the change and the reason for it should be notified to the ASB.

Due process

- 8 The SORP-making body should conduct its proceedings in a spirit of openness and follow due process involving wide consultation. In addition to organisations and individuals in the industry or sector concerned, those invited to comment should normally include member bodies of the CCAB, auditors actively involved in the industry or sector and relevant regulators and Government departments.

- 9 Before publishing the final SORP, the SORP-making body should invite public comment, normally by means of a published exposure draft, allowing a reasonable period for comments. The ASB will wish to be satisfied that the period given for responses allows due process; a minimum period of three months should be given, although, where a case can be made, a shorter period may be acceptable.
- 10 Comments may also be sought on a published statement of intent: however, it will not be acceptable to dispense with publication of an exposure draft, even following the publication of a statement of intent. The SORP-making body should attempt to secure publicity for its exposure drafts and statements of intent in journals specialising in the relevant industry or sector and in accountancy journals.
- 11 During development of a SORP (or its revision) it is the responsibility of the SORP-making body to identify potential divergences from accounting standards and inform the ASB of them at an early stage.
- 12 All exposure drafts and final SORPs should be presented to the relevant ASB committee for comment before publication. At each pre-publication stage sufficient time should be given to the committee to allow any necessary changes to be determined and incorporated.
- 13 The ASB will wish to be satisfied that public comments have been appropriately invited and considered. Before publishing the SORP the SORP-making body should provide the ASB with copies of the comment letters, a summary or analysis of the main comments and an indication of how they have been dealt with, in sufficient time to allow any necessary changes to be incorporated.
- 14 The invitation to comment included in exposure drafts should state that comments will be regarded as on the public record, unless confidentiality is requested. Copies of comments that are on the public record should be made available on request at a reasonable charge.

The ASB's statement on the SORP

- 15 Written permission should be obtained from the ASB for inclusion of the ASB statement in a SORP. The ASB's statement should be included in a prominent place in each SORP. No other reference to the ASB should be made without prior written approval from the ASB.

Review of SORPs

- 16 The SORP-making body should keep under review all the SORPs for which it is responsible. In particular, the body should consider:
- any implications for the SORPs of new and proposed accounting standards. In the interests of the SORP-making body and its constituency any divergences must be notified to the ASB as soon as is practicable.
 - any evidence of widespread failure in the relevant industry or sector to follow any part of the guidance in a SORP that has come to the attention of the SORP-making body.
 - any developments in the industry or sector that suggest that further guidance on accounting matters is desirable.
- 17 The body should report to the ASB, at least annually, the results of such a review. The report should confirm that the body continues to comply with this code of practice and state whether, in the light of the review, it proposes to revise any of the SORPs for which it is responsible.

Additional guidance

- 18 It will not normally be necessary for a SORP-making body to supplement a SORP with further guidance. Any material that a SORP-making body proposes to issue formally, offering an interpretation of accounting standards that is likely to lead to widespread acceptance as industry or sectoral practice, should be included in the SORP or should be submitted to the same due process and scrutiny procedures as the SORP, including review by the ASB and its relevant committees.
- 19 There are, however, three circumstances where the publication of further guidance outside the SORP may be desirable:
- (a) when urgent guidance is required on a new accounting standard or other relevant publication issued since the SORP was published. Normally, such guidance should subsequently be incorporated into a revised version of the SORP.
 - (b) when further guidance is required to interpret the requirements of the SORP within a particular subsector.
 - (c) when informal guidance on application of the SORP is necessary in order to aid practitioners.
- 20 In the situations described in paragraph 19(a) and (b), the SORP-making body should notify the ASB, explaining what guidance is proposed. The ASB may, if appropriate, confirm that it has no objection to the proposed guidance and require a reference to the ASB to be included in the guidance. The guidance should not be published without the agreement of the ASB.

- 21 In the situation described in paragraph 19(a), where it is clear that guidance on a major issue is needed and cannot be delayed until revision of the SORP, the SORP-making body should attempt to follow all due process as required for the revision of a SORP. Where full due process has been followed, including review by the ASB and its relevant committees, then the ‘ASB’s statement on the SORP’ may be attached to the guidance, giving it the same authority as the SORP.
- 22 In the situations described in paragraph 19(b) and (c), a SORP-making body should ensure that the authority of any such material in relation to the SORP is clearly indicated, and in particular state whether it has been reviewed by the ASB. A pro-forma statement for cases where the ASB has not carried out a review is as follows:

“The overall aim of the [additional guidance] is to assist practitioners in the preparation of financial statements. It does not form part of the [dated SORP], nor has it been reviewed by the ASB. It attempts to explain and illustrate what is required by the [dated SORP], but does not carry the authority of the SORP.”

Right to reproduce

- 23 The SORP-making body shall grant the ASB the unrestricted right to reproduce in full any SORPs it has developed without being subject to any financial charge.

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