THE INSTITUTE OF LEGACY MANAGEMENT

Accounting and Reporting Policy team
Financial Reporting Council
8th Floor 125 London Wall
London
EC2Y 5A

28th April 2023

Dear Financial Reporting Council,

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 Institute of Legacy Management is the sector body for charity legacy professionals. We have almost 700 members working at roughly 450 UK charities. Our members administer £2.8bn of the £3.5bn received from gifts in wills by UK charities each year.

Income from legacies currently contributes 27% of the voluntary income received by charities each year. This percentage is expected to grow considerably in the coming decades due to the combination of rising death rates and more awareness of legacy giving amongst the public. The forecast growth in legacy income comes at a time when other income streams are struggling and makes income from legacies increasingly important for charities.

We welcome the opportunity to respond to FRED 82 on behalf of members. Our response which follows this letter, is informed by the survey of members which we carried out to inform our engagement with the work reviewing the Charities SORP.

Our research informs us that that there is currently significant variance in the way that charities account for legacies. The current wording of FRS102 and the wording for the SORP is unclear and fails to give clear direction on the correct approach to accounting.

This is unhelpful for users of accounts, is a barrier to automation and efficiency in legacy administration, hinders the training and recruitment of legacy officers and is also is unhelpful for executors trying to provide charities with the information they need. Our members are clear that they would like a more consistent approach to accounting for legacies.

However, few members would wish to change from their current method given the costs and disruption from changing method and we hope that any changes can be implemented sensitively.

Above all we hope that we might have the opportunity to discuss the wording set out PBE34.70A so that the Charities SORP that follows is as coherent as possible for charities.

Your sincerely

[redacted]

James Stebbings
Chairman
Institute of Legacy Management

Response to Consultation

Question 1: Disclosure

We are in favour of charities providing users of accounts with clear information about the legacies they have and expect to receive.

Question 2: Concepts and pervasive principles.

Comparability:

We support principle of comparability and are concerned that users of accounts can't confidently expect different charities to account for the same legacy in the same way. We do not feel that the proposed wording of PBE34.70A will result in the consistent approach that our members would like to see.

Definition of an Asset

Our members do not have a shared understanding of when a legacy is an asset and when they should be accounted for. We do not feel able to strongly advocate for a particular approach given the variance of our members views but we would strongly encourage the FRC to decide when a legacy should be accounted for as an asset, and to then clearly define this. Until this happens users of accounts will not have comparability. We would welcome the opportunity to share our knowledge about legacies to help the FRC more clearly define when legacies should be accounted for.

The uncertainty would appear to arise largely from the meaning of control as set out at 2.41. Our members and their auditors do not seem to agree on whether the beneficiary of an estate has control of the asset or simply the right to receive it as set out at 2.38 (a). We are not ourselves clear if the obligations an executor has to account to the charity for the gift gives sufficient control to the charity for it to treat the legacy as an asset.

Recognition, Measurement, Faithful representation

We support the proposed wording at 2.57 to 2.99. We are however not clear that the principles are then adopted in PBE34.70A

Question 3:

We have not given this sufficient consideration to make comment and think others are better placed to judge if it is appropriate in respect of legacies. It may however be helpful to observe that charities are often dependent on the executor to provide valuations of the assets in an estate and will not always be able to dictate the valuation method used.

Question 4:

We have no comment to make on this question

Question 5:

We have no comment to make on this question

Question 6:

We have no comment to make on this question

Question 7:

Whilst IFRS 15 refers to contracts we were interested in the similarities between the obligations of parties to a contract and the obligations of executors to distribute an estate to the beneficiaries of a will. It might be that the five-step model can inform the approach to accounting for legacies?

Question 8:

Whilst we believe there would be long term benefit if charities adopted a more consistent approach we are very conscious that forcing charities to change their accounting method could have significant negative consequences in terms of administrative costs and by causing significant short term shifts in their declared financial position. We feel that 1st January 2025, the proposed date for amendments to become effective, doesn't give charities long to prepare for the changes.

Question 9:

We are pleased to see the section relating to legacies move from the Appendix into the main body of the text.

However, we think that more consideration needs to be given to the wording at PBE34.70A and we believe that our knowledge and experience of legacies could assist in the drafting of this wording so as to make it as coherent as possible for charities.

We are unsure about the wording in relation to contingent assets at 21.143 of the Staff Draft which suggests that suggests that the move from contingent asset to asset is when an inflow of economic benefit is virtually certain. This feels a much higher bar than elsewhere in the documents. It feels at odds with the definition of asset and also with our interpretation of the current Charities SORP.

Question 10:

We have no comment to make on this question