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Michelle Samson,  
Accounting Standards Board,  
5<sup>th</sup> Floor, Aldwych House,  
71-91 Aldwych,  
WC2B 4HN.

30<sup>th</sup> April 2012

Dear Ms. Samson,

### **Consultation Response – FRS 101 and 102**

I would like to start by congratulating the ASB on the work that is being done to reduce the body of UK accounting regulations that most charities have to work within. It is welcome that a reduction in the regulatory burden is one of the principles behind this proposal.

I would also like to thank you for taking on-board the concerns that the charity sector raised with regard to the previous draft standards (FREDs 43-45). You have shown that responding to consultations is worth-while, as respondents views were taken into account.

However, I do have some concerns with regard to the new proposed standards, which I will set out below. Unfortunately, most of the questions within the consultation response framework do not affect us as a charity. Therefore, I have had to respond in a way that is outside of the structure that has been suggested.

### **Responses to Specific Consultation Questions:**

#### **Question 1: Project objective**

I believe that there are still some drafting issues with regard to the proposed standards that mean it is not necessarily meeting the project objective. The pressure placed on ASB staff to produce an amended version of the standards within the timeframes given, standards that attempt to integrate the complexity of the previous drafts and the various consultation responses, means that they have not had enough time to consider thoroughly the implications of the proposed standards on the PBE sector. More detailed comments follow the structured consultation responses.

In fact, the very drafting of the questions call into question whether there is sufficient focus at the ASB on the PBE sector. If not, then detailed guidance on the PBE sector should be left for the SORP making bodies.

Caring since 1905

Question 2: Financial Institution exemption

Not relevant to the PBE sector, so no comment.

Question 3: Cross-reference to EU-adopted IFRS

Not relevant to the PBE sector, so no comment.

Question 4: Definition of a financial institution

Not relevant to the PBE sector, so no comment.

Question 5: Specialist activities

Not as relevant to the PBE sector and no direct experience, so no comment. We would expect umbrella bodies and professional firms to guide us in this area

Question 6: Retirement benefit plans

Not as relevant to the PBE sector and no direct experience, so no comment. We would expect umbrella bodies and professional firms to guide us in this area

Question 7: Related party disclosures

Not as relevant to the PBE sector and no direct experience, so no comment. We would expect umbrella bodies and professional firms to guide us in this area

Question 8: Effective date

See comments in response to question 1.

Question 9: The alternative view

I have some sympathy with this view, as it is not clear whether the ASB has conducted sufficient research into the information needs of users to justify the current proposals. If further disclosure showed that there had been sufficient consideration of users' needs, then the alternative view is not appropriate. However, bearing in mind this is coming from a member of the ASB, this would seem to indicate that there has not been sufficient reflection on the needs of users. This would put the whole project at odds with the FRC's stated aim in the "Louder than words" document.

**Additional Comments:**

Income Recognition

The first example of poor drafting is in connection with the definitions around restricted income and income with performance conditions. This is currently not drafted in sufficient clarity to allow for consistency. In addition, there is some confusion over the treatment of grant income and possible inconsistency of treatment between grantors and grantees.

Grant making

Within the guidance on this area, the drafting is perhaps too strong, in that it requires future grant liabilities to be recognised only when the incoming assets have been received to fulfil that commitment. In some cases, this could lead to liabilities being understated and therefore a false view being given of the financial resources available for the charity to use. This is obviously at odds with presenting a true and fair view of the health of a PBE. Detailed guidance on this area should probably be delegated to the underlying SORP.

#### Goods/services gifted to charities

The draft standards currently state that the goods should be valued at an open market value. However, the arguments presented in the drafts by the ASB would go against all of the donor relationship principles that we as charities work within. In the distant past, we have had buildings donated to us, for us to then run as care homes. Some of the properties would be recognised as of considerable value. However, the value to us as charity is not the open market value of the asset, but the service potential that it gives us. Would the ASB really expect a donor to sell a house, give us the cash and then for us to buy another property? The transaction costs within this process would prohibit this happening; therefore the value in use is the more appropriate valuation method.

#### Mergers

Concerns around the criteria for merger accounting were raised in the previous draft and do not appear to have been addressed in this draft. Most charity mergers would have the aim of improving services for beneficiaries or altering the class of beneficiaries served. Although most charity combinations are not mergers, the current draft would catch a high proportion of combinations within the sector. Therefore, the substance of the transactions would not be reflected in the accounting treatment.

#### Process

In addition, I believe that the ASB should consider extending the principle that responses from umbrella bodies should be given more weight. I am sure that, when the ICAEW or ACCA responds strongly to a consultation exercise, the ASB will consider their view very carefully. This principle should be extended to other umbrella organisations, for example the Charity Finance Group.

I hope that the above comments are helpful and hope that they help you as you work towards better standards for the public reporting of PBE's financial performance.

Kind regards,

A handwritten signature in black ink, appearing to read 'Rui Domingues', with a long horizontal line extending to the right.

Rui Domingues  
Director of Finance & ICT