Universities UK

FEHE SORP Guidance Note 2015

Background

1. The FEHE SORP Board (see Annex 1 for membership details) is a recognised body by the Financial Reporting Council (FRC) Codes and Standards Committee as the SORP making body for further and higher education.

2. The SORP Board uses the British Universities Finance Directors Group - Financial Reporting Group (BUFDG FRG) as its technical working group to put proposals to the SORP Board for consideration, that group commissioned a review of the SORP by KPMG which is provided at Annex 2. The KPMG review was undertaken before the latest amendment to FRS102 (September 2015) was published which has taken these Financial Reporting Exposure Drafts (FREDs) into the Financial Reporting Standards (FRS).

3. The SORP Board has approved the following guidance updating the SORP which was approved on 26 March 2014.

4. The guidance note does not form part of the SORP and has not been reviewed by the FRC. It attempts to explain what is required by the SORP, but does not carry the authority of the SORP.

Updated Guidance

5. FEHE SORP is amended to reflect FRS102 (as at September 2015) as follows:

SORP (approved 26 March 2014)	Amendment *underlined in italics*
Section 1: Introduction and Scope	
1.3 The recommendations in this SORP are applicable to all Further and Higher education ("FE and HE") institutions in the United Kingdom (referred to as institutions in this SORP). The SORP may be applicable to a wide range of Further and Higher education providers including those that are not in direct receipt of Government funding.	1.3 The recommendations in this SORP are applicable to all Further and Higher education ("FE and HE") institutions in the United Kingdom (referred to as institutions in this SORP). The SORP may be applicable to a wide range of Further and Higher education providers including those that are not in direct receipt of Government funding. <u>*Entities that are small, as defined in company law, are permitted to adopt the small entity requirements of FRS102.*</u>
Section 12: Intangible Assets Other than Goodwill	
12.8 All intangible assets are considered to have finite lives which will be	12.8 All intangible assets are considered to have finite lives which will be

limited to the period of any contractual or legal rights (including any renewal periods where the cost of renewal is not significiant). If institutions are unable to reliably estimate the useful life of an intangible asset, the life shall presumed to be five years.	limited to the period of any contractual or legal rights (including any renewal periods where the cost of renewal is not significiant). *If, in exceptional cases, institutions are unable to make a reliable estimate the useful life of an intangible asset, the life shall not exceed 10 years.*
Section 13: Business Combinations and Goodwill	
13.3 Goodwill acquired on a business combination is recognised as an asset initially at cost with subsequent measurement in line with the amortisation of intangible assets as set out in Section 12 of this SORP.	13.3 Goodwill acquired on a business combination is recognised as an asset initially at cost with subsequent measurement in line with the amortisation of intangible assets as set out in Section 12 of this SORP*. If the useful life of goodwill cannot be reliably estimated, supporting reasons for the period chosen should be disclosed in line with paragraph 19.25(g) of FRS102*.
13.8 Merger accounting must be applied if the following 3 criteria are met: (a)… (b)… (c)…	13.8 Merger accounting must be applied if the following 3 criteria are met *(unless it is not permitted by the statutory framework under which a public entity reports)* (a)… (b)… (c)… *If it is not permitted by the statutory framework under which a public entity operates, then paragraph A4.30A of FRS102 should be considered. If paragraph A4.30A is applied then relevant disclosures are required as set out by Section 396(5) of the Companies Act 2006. These disclosures need to make it clear that the entities have applied the true and fair override and set out the reasons why.*
Section 15: Provisions and Contingencies	
15.13 It is extremely rare that disclosure of some, or all, of the required information my prejudice seriously the position of the institution on the	15.13 It is extremely rare that disclosure of some, or all, of the required information my prejudice seriously the position of the institution on the

subject matter of the provision, contingency liability or contingent asset. In these circumstances the institution should disclose the general nature of the matter together with the reason the information has not been disclosed.	subject matter of the provision, contingency liability or contingent asset. *In these circumstances the institution should disclose the matter as set out in FRS102 paragraph 21.17.*

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Annex 1

SORP Board membership 2016

Chair	Professor Simon Gaskell, Principal, Queen Mary University of London
Sector representatives	
Association of Colleges	Mr Julian Gravatt
Colleges Scotland	Mr Alan Williamson, Edinburgh College
NI	Mr Patrick McKeown, North West Regional College
GuildHE	Ms Teresa Chapman, Royal Agricultural University
Sector Regulators/Funders	
England	Mr Andy Beazer, Higher Education Funding Council for England (HEFCE)
Scotland	Mr Andrew Millar, Scottish Funding Council (SFC)
Wales	Ms Emma Smith, Department for Education and Skills, Welsh Government
NI	Ms Maria McAleer, Department for Education and Learning, Northern Ireland (DELNI)
FE	Mr Jim Minogue, Skills Funding Agency
BUFDG	
Chair of BUFDG FRG	Mr Andrew Connolly, University of Exeter
Audit Representatives	
KPMG	Mr Michael Rowney, Ms Clare Partridge
PWC	Mr Ian Looker
FRC observer	Mrs Jenny Carter

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Annex 2

KPMG

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Our ref cp/ss/16/jb-830

10 November 2015

Dear Karel

Consideration of FEHE SORP 2015 update following recent accounting standard changes

In accordance with recent correspondence, KPMG has been commissioned by BUFDG on behalf of the FEHE SORP Board, to provide a note to enable the SORP Board to commission any changes to SORP2015, to inform its future development and to assist the SORP Board in evidence to the FRC that it has properly considered these issues.

The note specifically looks at the following:

1 Providing an opinion on whether SORP2015 needs to be updated for the following:
   - Basic financial instruments and hedge accounting issued by the FRC in July 2014
   - Pension obligations, issued by the FRC in February 2014.

2 Indicating whether the SORP2015 *may* need updating should the following FREDs be franked as FRSs:
   - FRED58: withdrawing the FRSSE
   - FRED59: draft amendments to FRS 102 *Small entities and other minor amendments*
   - FRED60: amendments to FRS100 and FRS101

3 Within the Note to indicate how SORP2015 and future SORP developments might be impacted by the implementation of the EU Accounting Directive, set out in *'Consultation Overview: FREDs 58.60 and 60, Implementation of the EU Accounting Directive'* issued by the FRC in February 2015.

Attached to this letter are two appendices, the first appendix looks at point 1 above. In our opinion based on this review, we do not consider that the FEHESORP2015 needs updating for either the basic financial instrument and hedge accounting changes or the pension obligation changes.

Appendix 2 covers points 2 and 3 above. In our opinion we do consider that the FEHE SORP needs to be updated following the publication of *Amendments to FRS 102: The Financial Reporting Standard Applicable in the UK* on 16 July 2015. We consider there are three small amendments required: firstly in relation to goodwill and other intangibles, secondly, to prejudicial disclosures within provisions and contingencies and thirdly in relation to merger accounting for universities that are also limited companies. These changes are set out in Appendix 2. In the Amendments to FRS 102, Section 21on Provisions and Contingencies differed from the treatment proposed in FRED 59.

In our opinion no HEI's will meet the criteria to be able to apply micro-entity or small entity standards proposed by FRED 58 and 59.

If you require any further clarification, please get back in touch.

Kind regards

Yours sincerely

Clare Partridge
Director

Enclosures: Appendix 1: Impact of FRC updates
Appendix 2: Impact of FRED 58, 59 & 60

KPMG

Impact of FRC updates
July 2014 and February 2015

Appendix 1

FRS 102 Amended		Relevant SORP 2015 paragraphs	Amended Paragraphs	Conflict?	Change required?
BASIC FINANCIAL INSTRUMENTS (JULY 2014)					
To allow a wider range of debt instruments to be measured at amortised cost where this is a relevant measurement basis;			1.12 – 1.14B	No conflict	No - the SORP already allows for basic financial instruments to be recorded at amortised cost. The SORP refers to the basic instrument in FRS 102 for more detail and hence SORP already takes account of amendments to FRS 102 in relation to this area.
	6.8	When a basic financial asset or financial liability is recognised initially, an entity shall generally measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through income and expenditure). Other criteria and accounting treatments for basic instruments are set out in FRS 102.	11.6(c)	No conflict	
	6.9	When a **complex** financial asset or financial liability is recognised initially, an entity shall measure it at its fair value, which is normally the transaction price.	11.8 (b)	No conflict	
To align the measurement requirements for financial instruments more closely with those of IFRS 9 Financial Instruments; and	6.10	Basic Financial instruments are in general held at amortised cost using the effective interest rate method or cost and are subject to annual impairment.	11.9	No conflict	
To reduce the cost of compliance with FRS 102.			11.11 (a)–(c)	No conflict	
			11.14(b)	No conflict	
HEDGE ACCOUNTING (July 2014)					
To allow entities to apply hedge accounting when this reflects their economic and risk management strategies;	6.13	If specified criteria are met as set out in FRS 102, an entity has the option to designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. The detailed accounting treatment for hedge accounting is set out in FRS 102.	12.8 (a) – (c)	No conflict	No change required, SORP refers back to FRS 102 definition and hence SORP already takes account of amendments to FRS 102 in relation to this area.
To use concepts and language that are, as far as possible, consistent with those included in IFRS 9;			12.15 – 12.29 (all amended)	No conflict	
To introduce hedge accounting requirements that are as straightforward to apply as possible, without onerous conditions.			New paragraphs 12.16A, 12.16B, 12.16C, 12.17A, 12.17B, 12.17C, 12.18A, 12.19A, 12.25A, and 12.29A inserted.	No conflict	

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PENSION OBLIGATIONS (February 2015)					
These amendments clarify that, for entities already recognising assets or liabilities for defined benefit plans in accordance with FRS 102, no additional liabilities need be recognised in respect of a 'schedule of contributions', even if such an agreement would otherwise be considered onerous and that disclosure should be made of the future payments to fund a deficit that have been committed.	21.15	Institutions should refer to paragraphs 28.14 to 28.28 of FRS 102 for details on how to account for defined benefit plans. For disclosure requirements, follow paragraph 28.41 and 28.41A of FRS 102.	Section 28 28.15A added 28.16, 28.18, 28.25, 28.41A amended	No conflict	No change required, SORP refers back to FRS 102 definition and hence already takes account of amendments to FRS 102 in relation to this area.
These amendments also clarify that the effect of restricting the recognition of a surplus in a defined benefit plan, where the surplus is not recoverable, shall be recognised in other comprehensive income, rather than profit or loss.					

KPMG

Impact of FRED 58, 59 & 60

June 2015

Will the SORP2015 need updating should the following FREDs be franked as FRSs?

- FRED58: Draft FRS 105 withdrawing the FRSSE
- FRED59: Draft amendments to FRS 102 small entities and other minor amendments
- FRED60: Draft amendments to FRS100 and FRS101

FRED 58 and 59

The current requirements for adopting these exposure drafts are set out below:

Regime	Micro-entities regime-FRED 58	Small entities regime-FRED 59
Eligible entities	Companies only	• Companies • Limited Liability Partnerships • Any other type of entity that would have meet the criteria of the small companies regime had it been a company incorporated under company law (for example Charities).
Size thresholds	A company qualifies if it does not exceed two or more of the following criteria: • Turnover £632,000 • Balance sheet total £312,000 • No. of employees 10	A company qualifies if it does not exceed two or more of the following criteria: • Turnover £10.2m • Balance sheet total £5.1m • No. of employees 50
Ineligible entities	• Any companies excluded from the small companies regime • Financial institutions including credit and insurance institutions • Charities • Small parent companies that choose to prepare group accounts • Companies that are not parent companies but their accounts are included in consolidated accounts	• Public Companies • Financial Institutions including insurance companies and banking companies

Based on the criteria above, no HE institution will be eligible to adopt FRED 58. In addition, no HE institution has been identified which will be eligible to adopt FRED 59.

However, subsidiaries may wish to adopt FRED 59. The only reference currently to subsidiary companies within the HE SORP is within paragraph 3.9.

SORP 3.9 states "Where an institution or its subsidiary is constituted as a company, the financial statements must be properly prepared in accordance with the provisions of the Companies Act".

KPMG

Impact of FRED 58, 59 & 60

June 2015

In our opinion, the minor amendments set out in *Amendments to FRS 102: The Financial Reporting Standard Applicable in the UK (published on 16 July 2015)*, we do consider that the FEHE SORP needs to be updated. The following adjustments are required:

Goodwill and intangible assets:

FRS 102 Amendment	SORP Paragraph	Amendment proposed
Paragraph 18.20 is amended as follows: 18.20 If, in exceptional cases, an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall not exceed ten years.	12.8 All intangible assets are considered to have finite lives which will be limited to the period of any contractual or legal rights (including any renewal periods where the cost of renewal is not significant). **If institutions are unable to reliably estimate the useful life of an intangible asset, the life shall be presumed to be five years.** Amortisation must be charged on a systematic basis over the useful life and institutions should follow the requirements of Section 18 of FRS 102 in relation to the review of the amortisation period and amortisation method and residual values. 13.3 Goodwill acquired on a business combination is recognised as an asset initially at cost with subsequent measurement in line with the amortisation of intangible assets as set out within Section 12 of this SORP.	*12.8 If, in exceptional cases, institutions are unable to make a reliable estimate of the useful life of an intangible asset, the life shall not exceed 10 years* Additional sentence: *13.3 If the useful life of goodwill cannot be reliably estimated, supporting reasons for the period chosen should be disclosed in line with paragraph 19.25(g) of FRS 102*

Provisions and Contingencies:

Amendment to FRS 102	SORP Paragraph	SORP Amendment
Paragraph 21.17 has been revised.	15.13 It is extremely rare that disclosure of some, or all, of the required information may prejudice seriously the position of the institution on the subject matter of the provision, contingent liability or contingent asset. *In these circumstances the institution should disclose the general nature of the matter together with the reason the information has not been disclosed.*	Revised sentence: *In these circumstances the institution should disclose the matter as set out in FRS 102 paragraph 21.17* [Reference to the general nature of the dispute should also be removed in line with the removal in the updated FRS 102]

KPMG

Impact of FRED 58, 59 & 60
June 2015

Merger accounting:

Amendment to FRS 102	SORP Paragraph 13.8	SORP Amendment
Paragraph 34.80 has been **revised**. Paragraph A4.30 has also been **amended** by the **insertion** of Paragraph A4.30A. This additional paragraph specifically covers the scenario where a public benefit entity ('PBE') combines with another PBE.	Merger accounting must be applied if the following 3 criteria are met.	Revised sentences: Merger accounting must be applied if the following 3 criteria are met (unless it is not permitted by the statutory framework under which a public entity reports). If it is not permitted by the statutory framework under which the public entity operates, then paragraph A4.30A of FRS 102 should be considered. If paragraph A 4.30A is applied then relevant disclosures are required as set out by Section 396(5) of the Companies Act 2006. These disclosures need to make it clear that the entities have applied the true and fair override and set out the reasons why.

FRED 60 - Draft amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework. This proposes amendments to FRS 100 to reflect the revised framework of accounting standards, including the proposed replacement of the FRSSE with a new section in FRS 102 and the proposed introduction of micro-entity accounting standard, draft FRS 105. The FRED also proposes minor amendments to FRS 101 to maintain consistency between FRS 101 and company law. Applicability to the University regime in this respect is limited.

We would therefore conclude that only three minor updates are required specifically to the FEHE SORP, and that if Universities/FE Colleges wish to adopt the necessary regimes for their subsidiaries, the SORP already provides sufficient reference to both FRS 102 and Companies Act. However given that the FEHE SORP can be adopted by any entities, including for example private training providers, you may consider adding a sentence to the FEHE SORP which says that for entities that are small, as defined in company law, they are permitted to adopt the small entity requirements of FRS 102. If you decide to add this sentence, then paragraph 1.3 of the FEHE SORP would probably be the best place to include it.

How SORP2015 and future SORP developments might be impacted by the implementation of the EU Accounting Directive, set out in 'Consultation Overview: FREDs 58.59 and 60, Implementation of the EU Accounting Directive'

This consultation simply provides an overview of the changes to the reporting standards as a result of the proposed FREDs, setting out the differences between FRS 105 and FRSSE and the proposed Small Entity elements of FRS 102 and FRSSE. Again these changes are only relevant to subsidiary accounts and will only impact the FEHE SORP as applicable to HE/FE Institutions to the extent discussed above.