



Minutes of the SORP Working Party meeting of 11:30 am, Wednesday 26 September 2018

Location: Lion Court, 25 Procter Street, London, WC1V 6NY

Chair: Rob Griffiths (national housing federations)

Present: Jenny Brown (professional advisor)
Jonathan Clarke (professional advisor)
Lindsey Dryden (national housing federations)
Maria Hallows (professional advisor)
Phil Cliftlands (professional advisor)
Stuart Fisher (national housing federations)
Sarah Smith (national housing federations)

Observers: Mei Ashelford (FRC)
Nigel Gregory (Scottish Housing Regulator)
Andy O'Regan (TPT Retirement Solutions)
Guy Flynn (professional advisor – full membership pending)

Secretariat: Harry Mears (KPMG)
Sarah Brown (KPMG)
Joseph Carr (for the National Housing Federation)

Minute no

Action

1. **Apologies**
Apologies were received from Paul Edwards, Amerjit Barrett, Anne O'Meara, Philip Winter, Anna McOwen, Michael Rafferty and Andrew Speer.
2. **Minutes of the meeting of 13 March 2018**
 - Jack Marshall was recorded as present at 13 March 2018 meeting when in fact he was absent.
 - The minutes of the meeting were otherwise agreed as an accurate record of the meeting.
3. **Matters arising**
 - There were no matters arising.
4. **Accounting for multi-employer pension schemes**
 - Andy O'Regan advised the SWP on TPT's:
 - progress to analyse SHPS and SHAPS assets between participating employers
 - engagement with employers on new processes – autumn 2018 SHPS/SHAPS roadshows
 - time table for rolling out the new systems and key stage points
 - systems and data controls being implemented.

- The professional advisors stressed the importance of TPT providing adequate assurance to auditors in relation to the DB accounting. Auditors felt TPT would need to rely on the skills of pensions specialist as opposed to a housing specialist for this exercise.
- Andy O'Regan acknowledged these requirements –TPT intended to sign-off control objectives and controls by January 2019.
- Andy O'Regan would contact the NHF to invite a selection of professional advisors from the SWP and the wider sector to review and agree TPT's assurance reporting.
- Representative of the SWP have volunteered to attend TPT roadshows to update housing associations on proposed changes to the accounting for SHPS and SHAPS (but see agenda Item 9 below).

TPT

SWP

5. Investment property reclassification

- This item was deferred until the next meeting.

6. Investment property reclassification

- This item was deferred until the next meeting.

7. IFRS 15 Review

- Sarah Brown overviewed the likely impact of IFRS 15 on housing association financial reporting:
 - as Sanctuary prepared accounts under IFRS, it would be required to implement IFRS 15 for the year-ended 31 March 2019. This would be reviewed in the autumn of 2019 to see how Sanctuary has implemented IFRS 15.
 - IFRS 15 would be relevant to other housing associations accounting only if/when the FRC decides to incorporate it into FRS 102, but not before 2022
 - the FRC may decide to incorporate only a simplified version on the IFRS 15 – in which case, this may result in the Housing SORP merely cross-referring to IFRS 15.
- Accounting for housing association properties developed for rental income is unlikely to be affected by IFRS 15. However, this will be determined:
 - by details of individual agreements
 - by, for example, the relative proportion of the income accounted for as service charges – a predominance of service charges might suggest the existence of a lease and greater relevance for IFRS 15.

- IFRS 15 is more likely to be relevant to the accounting for shared ownership properties and could reopen the debate regarding the accounting for:
 - first tranche sales
 - staircasing events.
- IFRS 15 might also affect the accounting for:
 - supporting peoples' contracts
 - contracts where one housing association manages property on behalf of another organisation
 - development contracts, e.g. JV relationships.

8. Update on FRC's policy on SORP

- The FRC will introduce a number of changes to its SORP-making processes, including:
 - amendments to reflect GDPR
 - greater consideration of key stakeholders and stakeholder engagement – using a greater mix of formal and informal consultation (round tables, conferences and other events).
- The FRC is reviewing governance arrangements and this will include attending meetings of SORP-making Bodies as well as SORP Working Parties.
- The FRC Executive will now approve SORPs on the recommendation of the FRC Corporate Reporting Council.

9. Feedback from FRC TAG on draft SHPS/SHAPS guidance

- The recent meeting of the FRC TAG was unable to get full agreement on the Housing SWP proposed accounting guidance for switching from DC to DB accounting for SHPS/SHAPS.
- Existing accounting standards are currently silent on the approach to adopt when additional/sufficient information becomes available that allows such change to accounting treatment.
- The alternative accounting options considered by the Housing SWP are, to treat as:
 - i. change in accounting policy and make the accounting adjustments retrospectively (below the line) – **SWP preference** (although specific reference to a 'change in accounting policy' may be reconsidered, albeit this is noted as an appropriate treatment by the SWP)
 - ii. a past service cost and make a current year adjustment
 - iii. a prior period adjustment and make an adjustment to the opening balance sheet position.
- The SWP felt that if the guidance included all three options, this would reduce consistency across the sector. It was agreed that

option i. should be the only proposed guidance by the SWP, pending further feedback from the FRC.

- The FRC Reporting Council is scheduled to review the position again at its next [September] meeting but it is reluctant to reach a decision hurriedly, developing accounting standards on the hoof, but prefers to observe due process – this could take 9 months. Particularly as the principle being considered may have future wider applications.
- However, observing FRC, due process would be problematic for housing association compiling financial statement with year-end March 2019. The matter could be resolved in the interim, if the principal auditors within the sector were to reach a consensus on accounting treatment – currently there was a divergence of opinion amongst audit firms.
- The risk of this approach is that, failure to reach a consensus could encourage housing associations to adopt audit opinion shopping. The FRC would be powerless to mandate a particular approach, in the interest of consistency, as accounting standards were silent on the matter.
- Engagement with lenders and credit rating agencies have not, so far, elicited a significant response on the issue.
- It was acknowledged that if the situation remained unresolved by the time of the TPT autumn roadshows (see Agenda Item 5 above), SWP representatives should postpone updating housing associations on proposed accounting treatment.
- The SWP agreed to set up a conference to coincide with conclusion of the next FRC Reporting Council to consider the way forward.

FRC Reporting Council

ICAEW Social Housing Committee

SWP

SWP

Subsequent meetings of the SORP Working Party:

- 11:00-13:00 Monday 10 December 2018, Lion Court, London, WV1V 6NY
- 11:30 – 13:00 Tuesday 19 March 2019, ACC, Liverpool