



03 June 2010

Our ref: ICAEW Rep 52/10

Your ref:

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Dear Joseph

PROPOSED UPDATE OF 2008 SORP FOR SOCIAL LANDLORDS

The ICAEW is pleased to respond to your request for comments to the SORP Working Party's consultation paper *Proposed update of 2008 SORP for Social Landlords published in March 2010*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

PROPOSED UPDATE OF 2008 SORP FOR SOCIAL LANDLORDS

Memorandum of comment submitted in May 2010 by the ICAEW, in response to The SORP Working Party's consultation paper Proposed update of 2008 SORP for Social Landlords published in March 2010.

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INTRODUCTION

1. The ICAEW welcomes the opportunity to comment on the consultation paper *Proposed update of 2008 SORP for Social Landlords* published by SORP Working Party.

WHO WE ARE

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.
4. The ICAEW's Social Housing Committee (the committee) is responsible for co-ordinating the technical considerations of the social housing sector with respect to Chartered Accountants working in or for registered social landlords, the interests of practitioners, their clients and Chartered Accountants employed in financial roles within the housing association sector.

GENERAL POINTS

5. The committee welcomes the opportunity to provide comments on the 2008 SORP Update exposure draft. This response provides the committee's views in relation to the overall approach and content, detailed drafting comments and, where possible answers to the specific questions posed by the working party. The content of this response represents a broad consensus of views, save for those areas where it states a divergence of opinion arose.
6. We support encouraging greater consistency across the sector but note there will continue to be variations in detailed approaches as between different registered providers. We recognise that this exposure draft, containing proposed amendments to the SORP and the technical note, does not present complete solutions to all problems but feel it moves in the right direction. We support greater transparency and consistency.
7. The committee noted the absence of detailed content on component accounting when a valuation basis is adopted and would invite the SORP Working party to give this further consideration. In the committee's view more guidance on this area would be desirable. In particular the committee suggests more consideration could be given to whether movements in valuation should be narrowed further from land and structure (as proposed in the Technical Note) to just land. Anecdotal evidence suggests there are significant variations in approach.
8. The committee suggests the technical notes should each include both a "purpose" and a "context" statement. At present, the impairment technical note does not include a context statement. The committee also strongly suggested that when definitions are updated/revised further definitions are included. For example reference is made to "social landlords" without the scope of the phrase being defined.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

9. Capitalisation of works to existing properties

1. **The SORP Working Party has consulted on the applicability of component accounting and has prepared a draft Technical Note that provides further guidance on this area. Are consultees of the view that existing guidance in the SORP over the**

capitalisation of works to existing properties requires updating, specifically to provide a clearer link to the adoption of component accounting?

2. **If yes, do consultees agree with the proposed amendments in relation to works to existing properties? If not, why not and what alternatives do consultees support (with reasons)?**

Yes. We agree with the proposed amendments subject to some suggestions which we list below:

The committee is of the view that there are a wide variety of approaches in terms of identification of components and the periods over which such components are depreciated. More consistency would be achieved by requiring disclosure of the specific components and their individual useful economic lives. We recommend the SORP introduces this requirement.

Under paragraph 125, three bases for capitalisation are given. However in paragraphs 127-132 reference is only made to 125(i) and 125(ii). The committee suggests that for completeness and consistency, comment should also be made on the third basis and its applicability to the housing sector.

Under paragraph 171, final sentence, the committee suggest the insertion of the words "if identified" after "*and other components*".

Under paragraph 175 the committee consider the exclusion of non depreciable land is inappropriate; it should also be reviewed for impairment.

10. **Treatment of negative goodwill**

3. **Are consultees of the view that existing guidance over the recognition of negative goodwill requires updating in the SORP?**
4. **If yes, do consultees agree with the SORP Working Party's proposals for accounting for acquisitions that are, in substance, gifts? If not, why not and what alternatives do consultees support (with reasons)?**

The committee is of the view that guidance in respect of how amortisation of previously recognised negative goodwill should be reflected, should be made more explicit. The two main choices appear to be to release the negative goodwill gradually with a credit taken in the I & E account (which then creates an imbalance in reserves) or via a reserves transfer. The present SORP wording is unclear over which is preferred. We appreciate that this point will be superseded if the proposed change in treatment is adopted but it remains an inconsistency in current financial reporting which it would be helpful to resolve. The committee is also of the view that it would be helpful to make more explicit that previously recognised negative goodwill arising on "gifts" can either continue to be treated as before or restated in line with the revised treatment. This point is only made in the invitation to comment, not in the draft wording of the SORP itself.

In paragraph 244, for clarity, the committee suggests that the revised wording makes it explicit that negative goodwill will be classified as a fixed asset.

11. **Date from which effective**

6. **The proposed effective date is for accounting periods beginning on or after 1 April 2011. Early adoption is encouraged, although retrospective application of the requirements for negative goodwill is not mandatory. Do consultees agree with an effective date of 1 April 2011 for this proposed Update of the 2008 SORP?**

Yes we agree.

References to early adoption throughout the document should be consistent. The committee is of the view that “encourage” is preferable to “recommends” in this context.

12. Additional comments on technical notes:

a) Component accounting

In A4, final paragraph the word “recalculate” could be misleading and could imply a prior year adjustment is necessary in all cases. We suggest the word is amended to “calculate”. This point is equally applicable to the use of “recalculate” in A7.

Under A8 the committee suggests the sentence (which commences at the foot of page 12 and continues on page 13) beginning “*The only type of prior period items...*” is amended to read “*The only type of prior period items that should be treated as prior period adjustments are those that arise from a change of accounting policy.....*”. Furthermore the committee is of the view that the use of the word “may” in relation to the adoption of an accounting policy in the same paragraph is not strong enough. The committee recommends the use of the words “will normally” as a preferable alternative.

b) Impairment

The committee suggests that it would be useful to insert within the text of A2 sentences referring to paragraph 20 of the FRS11 which the sector use to enable it to use planned subsidies as discussed in, and as an introduction to, the principles set out in A4.

Some concern was expressed by registered providers as to the flexibility to assess the way their business is managed. Whilst A3 (final paragraph) does state the approach is “*not prescriptive*” there is concern within the sector regarding the intended direction. Therefore the committee recommends the working party reconsiders the wording used and ensures the intention is more clearly stated.

There are a few minor typographical errors –
A2, final sentence should read “interprets”
A3, paragraph commencing “*paragraph 106...*” should read “...*defining an IGU*”

c) Business combinations

There are a few minor typographical errors –
A1, first sentence, should read “*criteria*” (not “*criterion*”)
A1, second sentence should read “...*which set out...*”
A3 second paragraph, second sentence, should read “...*natural dominance by...*”

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