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# Policy and Code of Practice on SORPs

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# Policy and Code of Practice on SORPs

## Introduction

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This document sets out the Policy and Code of Practice of the Financial Reporting Council (FRC) on Statements of Recommended Practice (SORPs), with effect from 1 May 2014. It replaces an earlier version of this Policy and Code of Practice issued by the FRC in August 2013.

The FRC is a prescribed body for issuing accounting standards in the UK.

SORPs are sector-driven recommendations on accounting practices for specialised industries or sectors which supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in that particular industry or sector that are not addressed in accounting standards. SORPs also address matters that are addressed in accounting standards, but about which additional guidance is considered necessary. Where there are accounting policy options in accounting standards, a SORP may recommend the most appropriate option to the particular industry or sector.

SORPs may only be issued by 'SORP-making bodies'. A SORP-making body is a body that has been recognised by the FRC for the purpose of producing the SORP for a particular industry or sector. SORP-making bodies have a responsibility to act in the public interest when developing and issuing a SORP.

To be recognised as a SORP-making body, a particular industry or sectoral body must meet a set of criteria set by the FRC and must agree to develop SORPs in accordance with this Policy and Code of Practice.

Only SORPs that have been developed in accordance with this Policy and Code of Practice will be recognised by the FRC.

An extant SORP must carry a statement by the FRC confirming, as appropriate, that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard.

## Policy on SORPs

### Becoming a SORP-making Body

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The FRC may recognise bodies for the purpose of developing and issuing SORPs. Bodies will only be recognised where the following criteria are met:

- (i) the industry or sector represented by the body in question has special accounting or financial reporting issues and the application or interpretation of accounting standards (within the principles of the standards) require clarification in order to deal with those issues;
- (ii) the body in question represents the whole or a major part of the industry or sector;
- (iii) the body shares the FRC's aim of high-quality financial reporting proportionate to the size and complexity of the entity and users' information needs;
- (iv) the body agrees to abide by this Policy and Code of Practice in developing its SORP;
- (v) the body commits to reviewing its SORP in line with this Policy and Code of Practice;
- (vi) where an industry or sector is regulated or financed by another body, the regulator or financing body has confirmed in writing that it is content for the body seeking recognition by the FRC as a SORP-making body to promulgate SORPs for that industry or sector.

The FRC may, at its sole discretion, withdraw recognition of a SORP-making body if it considers that the above criteria are no longer met, or if the SORP-making body fails to act in accordance with this Policy and Code of Practice.

In the event that the FRC withdraws recognition of a SORP-making body, it may publish that fact if it considers that publicity is necessary or desirable in the public interest.

## Recognition of SORPs by the FRC

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SORPs issued by SORP-making bodies must include the FRC's 'Statement on the SORP'. The Statement on the SORP will:

- outline the limited nature of the review the FRC has undertaken; and
- confirm that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard.

An example of the kind of statement that will be issued is set out below:

*"The aim of the Financial Reporting Council (FRC) is to promote high-quality corporate governance and reporting to foster investment. In relation to accounting standards applicable in the UK and Republic of Ireland the FRC's overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. In particular industries or sectors, clarification of aspects of those standards may be needed in order for the standards to be applied in a manner that is relevant and provides useful information to users of financial statements in that industry or sector.*

*Such clarification is issued in the form of Statements of Recommended Practice (SORPs) by bodies recognised for this purpose by the FRC. The [insert name of body] has confirmed that it shares the FRC's aim of high-quality financial reporting and has been recognised by the FRC for the purpose of issuing SORPs for the [industry or sector].*

*In accordance with the FRC's Policy and Code of Practice on SORPs the FRC carried out a limited scope review of the SORP focusing on those aspects relevant to the financial statements.*

*On the basis of its review, the FRC has concluded that the SORP has been developed in accordance with the FRC's Policy and Code of Practice on SORPs and does not appear to contain any fundamental points of principle that are unacceptable in the context of present accounting practices or to conflict with an accounting standard."*

*[date]*

The FRC will vary its Statement on the SORP to fit the circumstances of an individual SORP.

When issuing a Statement on the SORP, the FRC is making an assessment of that SORP at a particular moment. The FRC gives no guarantee that it will not, at some point in the future, issue a pronouncement that supersedes that SORP.

This Policy and Code of Practice also describes the role of the FRC in relation to SORPs:

- The Codes & Standards Committee of the FRC will be advised by the Accounting Council when deciding whether or not the FRC should recognise individual bodies for the purpose of making SORPs.
- The Codes & Standards Committee will be advised by the Accounting Council (and its advisory groups) when deciding whether or not to issue a Statement on the SORP

unless the FRC Board has specific responsibility set out in legislation for issuing a Statement on the SORP (where it will be advised by the Accounting Council (and its advisory groups)).

The table below sets out how this will operate within the current FRC structure:

<b>Action</b>	<b>Carried out by</b>
Recognition as SORP-making body	Codes & Standards Committee on advice of Accounting Council
Statement on a SORP	FRC Board or Codes & Standards Committee on advice of Accounting Council
Approval to publish Exposure Draft of a SORP	Accounting Council on advice of UK GAAP Technical Advisory Group or Committee on Accounting for Public Benefit Entities, as appropriate
Limited scope review of a SORP	UK GAAP Technical Advisory Group or Committee on Accounting for Public Benefit Entities, as appropriate



## **FRC Review of SORPs**

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Before issuing a Statement on the SORP, the FRC will conduct a limited scope review of the proposed SORP to determine whether the SORP:

- (a) has been developed in accordance with the Policy and Code of Practice on SORPs;  
and
- (b) contains requirements that conflict with the requirements or principles of an accounting standard.

Where a SORP also provides recommendations relating to other information to be provided in a document containing the financial statements the FRC's review is limited to reading those other recommendations, not to ensure compliance with any relevant regulations, codes, standards or guidance, but to consider whether the SORPs requirements in relation to that other information could undermine the credibility of a document containing the financial statements. If the FRC believes the SORPs recommendations in relation to other information could undermine the credibility of the document containing the financial statements it will in the first instance discuss the issue with the SORP-making body. If this does not resolve the issue, the FRC will consider the implications for its Statement on the SORP, and may vary its Statement to fit the circumstances.

## Code of Practice on the Development of SORPs

1. Industry and sector bodies that wish to develop SORPs must first secure recognition by the FRC as a SORP-making body. Once recognition as a SORP-making body has been granted, a body may proceed to develop a new SORP.

### Developing a new SORP

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#### First Principles

2. Before starting work on the development of a SORP, a SORP-making body should seek approval from the FRC, by contacting the Executive Director, Codes and Standards. This will ensure that the proposed SORP does not overlap with an FRC project or address a matter that the FRC would prefer to deal with itself.
3. A SORP should make its scope clear from the outset by indicating the types of entity to whose financial statements the SORP is intended to apply. Where the SORP-making body is aware that entities within the scope of the SORP may also fall within the scope of another SORP, the SORP should make clear which SORP should be applied. It will usually be appropriate to indicate that an entity should follow the SORP with the more specific application. In such circumstances, the SORP-making body should consult with the FRC and any other relevant SORP-making body before making a decision.
4. A SORP should aim to promote consistency of accounting treatments across the industry or sector by recommending a preferred accounting treatment. It should also seek, where practicable and appropriate, to adopt an approach to accounting in the industry or sector that is consistent with the approach taken in similar industries or sectors.
5. A SORP should clearly indicate those areas that relate to the financial statements and those that relate to other information to be provided in a document containing the financial statements. In relation to the financial statements a SORP should clearly indicate which recommendations provide guidance on applying accounting standards and which go beyond the application of accounting standards (for example by recommending additional disclosure).
6. SORPs should be developed in line with current accounting standards and best practice. The provisions of a SORP cannot override the provisions of the law, regulatory requirements or accounting standards.
  - (a) Where, at the time of issue, the provisions of a SORP conflict with accounting standards or with legal or regulatory requirements, the requirements of the accounting standards, and/or legal or regulatory requirements will take precedence, and the FRC's Statement on the SORP will usually be varied to refer to this.
  - (b) Where a more recently issued accounting standard or a change in legislation creates a conflict with the provisions of an existing SORP, the relevant provisions

of the SORP will cease to have effect. The SORP-making body is responsible for updating the relevant provisions within the SORP on a timely basis to bring them into line with new legislation or accounting standards or to withdraw them as appropriate.

7. To provide clarity regarding the standards that were considered in developing the SORP, a SORP should include a clear and prominent statement along the following lines:

*“In developing this SORP, all accounting standards [and other FRC pronouncements] issued by [insert date] were considered in the development of the SORP.”*

8. After considering accounting standards in their entirety, SORP-making bodies should ensure that a SORP makes clear which sections of the relevant accounting standard(s) and other pronouncements in effect at the date of publication of the SORP have been addressed in the development of the SORP, including an indication as to their relevance to the industry or sector in question and an explanation of how each has been dealt with in the SORP.
9. Failure to update a SORP does not exempt reporting entities from applying the accounting standards effective at the relevant reporting date. This includes accounting standards issued after publication of a particular SORP. Entities that operate in the public sector or under specific legislative regimes should be guided by those regimes in assessing whether they are prevented or exempt from complying with this requirement.
10. SORP-making bodies should include in their SORP a statement setting out the status of the SORP with reference to accounting standards, along the following lines:

*“Entities complying with this SORP shall apply the accounting standards applicable at the relevant reporting date (which does not preclude early application where permitted). Where the current edition of this SORP predates a change in legislation or accounting standards and a conflict is thereby created, the affected provisions of this SORP cease to have effect.”*

### **Accountability**

11. SORPs must be drafted by the SORP-making body itself or by a properly constituted working party of the SORP-making body. The SORP-making body should inform the FRC of the arrangements it is putting in place to develop the SORP, including the membership of its working party, and provide an appropriate point of contact to the FRC. Relevant FRC staff must be accorded observer status at meetings of the SORP-making body or SORP working party, whichever is appropriate.
12. The process of developing a SORP should ensure the participation of representatives of the industry or sector concerned, independent members who represent the wider public interest, and, where possible, users of financial statements. It should also ensure that there is sufficient technical accounting support.

13. The SORP-making body will have to provide evidence of the process followed and effective participation by stakeholders when seeking a Statement on the SORP from the FRC. The FRC will not normally agree to make a Statement on the SORP unless it is satisfied that:
  - (a) in developing the SORP:
    - (i) due process was followed;
    - (ii) an appropriate cross-section of stakeholders was involved including users, preparers and technical support; and
  - (b) the SORP does not conflict with an accounting standard.

### **Due process**

14. Proceedings of the SORP-making body or its working party should be conducted in a spirit of openness and follow due process involving open consultation.
15. During the development or revision of a SORP, the SORP-making body is responsible for identifying potential divergence from accounting standards and must inform the FRC of any such potential divergence at an early stage.
16. Where a proposed SORP includes recommendations relating to the financial statements that go beyond the application of accounting standards (for example by recommending additional disclosure) the FRC will need to be satisfied that the SORP-making body has considered the expected impact in terms of costs and benefits.
17. The SORP-making body should proactively seek the views of entities and individuals active in the industry or sector concerned, member bodies of the Consultative Committee of Accountancy Bodies (CCAB), auditors and examiners actively involved in the industry or sector and relevant regulators and Government departments.
18. Before finalising and publishing the SORP, the SORP-making body should consult publicly. The preferred mechanism for public consultation is a published Exposure Draft, with a minimum three month comment period. In certain circumstances a shorter period of consultation may be acceptable. The FRC will, however, need to be satisfied that the nature of the consultation and length of the comment period was appropriate.
19. In some cases, a SORP-making body may wish to seek input via a published statement of intent in advance of publishing an Exposure Draft. However, a published statement of intent is not an acceptable substitute for a published Exposure Draft and will consequently delay development of the SORP. A SORP-making body should therefore be clear about the benefits of issuing a statement of intent before embarking on this course. A comment period shorter than three months may be acceptable when publishing a statement of intent.

20. All statements of intent, Exposure Drafts and final SORPs should be presented to the FRC for comment before publication. The SORP-making body must allow sufficient time for any changes sought by the FRC to be incorporated prior to publication.
21. A statement should be included in a SORP Exposure Draft or statement of intent setting out the limited scope of the FRC's review, along the following lines:

*“In accordance with the FRC’s Policy and Code of Practice on SORPs the FRC carried out a limited scope review of the proposed SORP focusing on those aspects relevant to the financial statements.”*
22. In addition, the FRC reserves the right to require a statement to be included within a SORP Exposure Draft or statement of intent indicating areas of overlap with its own work and any reservations it has regarding the content of the SORP Exposure Draft or statement of intent.
23. Before publishing a final SORP, the SORP-making body must provide the FRC with copies of consultation responses and comment letters, an analysis or summary of the main comments and an indication of how the comments have been dealt with. In this way the FRC can satisfy itself that stakeholder comments have been appropriately invited and considered.
24. SORP-making bodies are expected to adopt a transparent process and accordingly, comment letters should be made publicly available unless confidentiality is requested by the respondent. SORP-making bodies should publish on their websites all responses to formal consultations unless the respondent explicitly requests otherwise. SORP-making bodies should aim to publish responses as soon as possible and at least within one month of receipt.

### **Consistency between SORPs**

25. As SORPs should be developed in the context of current accounting standards and best practice the FRC will expect a degree of consistency between SORPs if they are addressing similar matters for different industries or sectors, unless there are good reasons for different approaches (for example different user needs and different legal or regulatory environments).
26. The FRC will consider consistency between SORPs as part of its limited scope review.

### **The FRC's 'Statement on the SORP'**

27. The SORP-making body must obtain the written consent of the FRC to include a Statement on the SORP. The FRC's Statement on the SORP should be included in a prominent place in each SORP. No other reference to the FRC should be made without prior written approval of the FRC.

## **Review of SORPs**

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28. The SORP-making body should provide the FRC with an appropriate point of contact for the purposes of reviewing and maintaining the SORP.
29. Responsibility for maintaining a SORP falls to the body which promulgated that SORP. In promulgating a SORP, the SORP-making body undertakes to review on an annual basis each SORP for which it is responsible. In particular the body should consider:
  - (a) any implications for the SORP of new and proposed accounting standards – any divergence should be notified to the FRC as soon as possible;
  - (b) any evidence of widespread or significant failure in the relevant industry or sector to follow any part of the guidance contained in the SORP, of which the SORP-making body is aware;
  - (c) developments in the industry or sector which suggest that further guidance in respect of their accounting treatment is desirable; and
  - (d) the continued need for the SORP.
30. The SORP-making body should provide the FRC with a written report setting out its membership and the findings of its annual review. The report should also reaffirm the SORP-making body's commitment to complying with this Policy and Code of Practice, and state whether it proposes to revise any of the SORPs for which it is responsible in the light of the findings of its annual review.

### **Withdrawal of the FRC's 'Statement on the SORP'**

31. The FRC reserves the right to withdraw its Statement at any time if it considers that it is no longer appropriate to maintain its Statement, for example because:
  - (a) the SORP is out of date;
  - (b) the SORP has been superseded by developments in accounting standards or by legislative or regulatory requirements;
  - (c) the SORP-making body does not review and/or maintain the SORP in line with this Code of Practice; or
  - (d) the SORP-making body refuses to implement changes to the SORP that are requested by the FRC.

### **Additional Guidance**

32. It will not normally be necessary for a SORP-making body to supplement a SORP with further guidance. Material that a SORP-making body proposes to issue which offers an interpretation of accounting standards should normally be included in the SORP itself. In the event that a SORP-making body intends to issue supplementary material,

the development of that material should be submitted to the same due process and scrutiny as a SORP, including review by the FRC.

33. There are, nevertheless, three sets of circumstances in which it may be desirable to publish further guidance outside the SORP itself, as follows:
- (a) an urgent need for guidance on a new accounting standard or other relevant publication issued after publication of the SORP – any such guidance should normally be incorporated into the SORP at the earliest subsequent opportunity;
  - (b) further guidance is necessary in order to interpret the requirements of the SORP for a particular sub-sector; or
  - (c) guidance on the application of the SORP is necessary in order to aid practitioners.
34. In the situations cited in paragraph 33, the SORP-making body should notify the FRC and explain what guidance is proposed. The FRC may require that a reference to the FRC is included in the guidance. The guidance should not be published without the agreement of the FRC.
35. The FRC does not usually endorse additional guidance issued outside the SORP. However, where it is clear in relation to matters that fall within paragraph 33(a), that:
- (a) guidance is urgently needed on a significant issue and cannot be delayed until revision of the SORP; and
  - (b) the SORP-making body follows the same due process that it would normally follow when revising a SORP, including review by the FRC,

then the FRC's Statement on the SORP may be attached to the guidance, thereby according it the same authority as the SORP.

36. For situations that fall within paragraphs 33(b) and (c), the SORP-making body should include in any published guidance a statement that clearly indicates the authority of that material and states that it is not part of the SORP and has not been reviewed by the FRC. An example of such a statement is set out below:

*“the overall aim of the [additional guidance] is to assist practitioners in the preparation of financial statements. It does not form part of the [date and name of SORP], nor has it been reviewed by the FRC. It attempts to explain and illustrate what is required under [date and name of SORP] but does not carry the authority of the SORP.”*



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