ICAEW
REPRESENTATION 116/23

FRED 84 DRAFT AMENDMENTS TO FRS 102: SUPPLIER FINANCE ARRANGEMENTS

Issued 20 December 2023

ICAEW welcomes the opportunity to comment on the FRED 84 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland: Supplier finance arrangements* published by Financial Reporting Council on 28 September 2023, a copy of which is available from this link.

For questions on this response please contact ICAEW's Corporate Reporting Faculty at crf@icaew.com quoting REP 116/23.

We think it is appropriate that UK GAAP is based on principles consistent with those applied to international standards. We are therefore broadly supportive of the proposal to include disclosure requirements in relation to supplier finance arrangements into FRS 102. We would recommend that guidance on applying the proposed disclosure requirements is produced to support preparers.

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ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with the introduction of the proposed disclosure requirements in relation to supplier finance arrangements into FRS 102? If not, why not?

1. We agree that adequate disclosure of supplier finance arrangements is necessary to allow users of the financial statements to understand the effect of such arrangements on the entity's financial position and cash flows. Additionally, we think it is appropriate that UK GAAP is based on principles consistent with those applying to international standards.
2. We are therefore broadly supportive of the proposal to include disclosure requirements in relation to supplier finance arrangements in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
3. We note the disclosures set out in the proposed sub-paragraph 7.20C(b) are required as at the beginning and end of the reporting period. Given that comparative information will be required after the initial period of application, it would appear that entities would then be required to disclose figures at three balance sheet dates, ie, including figures as at the beginning and end of the current period and at the beginning of the prior period. We think this additional requirement is disproportionate for FRS 102 preparers and seems inconsistent with the FRC's previous decision not to require comparative information for the analysis of changes in net debt disclosure required by paragraph FRS 102.7.22. To ensure an entity's disclosures are proportionate and relevant, we believe such an inconsistency between requirements should be avoided.
4. To reduce diversity in practice with respect to disclosure of, and accounting for, supplier finance arrangements and to support application of the new requirements, we believe it would be useful for the FRC to produce guidance that includes illustrative examples outside of FRS 102.
5. We believe that Appendix 1 of the FRC Lab's report on Disclosures on the sources and uses of cash could helpfully form the basis of such guidance. While this report predates the IASB's exposure draft on supplier finance arrangements and its amendments to IAS 7 *Statement of Cash Flows*, we believe Appendix 1 provides clarity of the issues and some helpful illustrative examples. We would encourage the FRC to produce an updated version of this Appendix and issue it as guidance to support application of the new requirements.

Question 2

Do you believe that the disclosure required by sub-paragraph 7.20C(b)(ii) will provide useful information to users, proportionate to the cost and effort involved for preparers?

6. Paragraph 7.20C(b)(ii) requires entities to disclose the carrying amounts of financial liabilities that are part of a supplier financing arrangement for which suppliers have already received payment from finance providers. Although entities will know when such payments are due, they will not necessarily know whether they have actually been made by the finance provider. Entities may therefore struggle to accurately disclose such amounts without incurring additional costs. While it may not prove to be excessive, this will still represent an additional cost for preparers.
7. We would also question the usefulness of the information required by sub-paragraph 7.20C(b)(ii) to users of the entity's financial statements as the information relates to an arrangement between the finance provider and the supplier rather than the entity itself. We suggest the FRC assesses the likely usefulness of the information required by this proposed sub-paragraph and considers whether this requirement can be removed from the amendments.

Question 3

Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?

8. We agree that entities should not need a significant amount of time to prepare the required information and therefore agree with the proposed effective date for the amendments.

Question 4

Do you have any comments on the consultation stage impact assessment, including those relating to assumptions, sources of relevant data, and the costs and benefits that have been identified and assessed? Please provide evidence to support your views.

In particular, feedback is invited on the assumptions about the prevalence of supplier finance arrangements amongst entities applying FRS 102.

9. We agree that the proposed amendments to FRS 102 will have a positive impact on financial reporting.

10. We note the potential number of large companies that are exempt from the disclosure requirements of Section 7 of FRS 102 as a result of being a subsidiary included in the consolidated financial statements of an overseas parent. In some cases, the relevant parent companies may not provide disclosures related to supplier finance arrangements in the consolidated financial statements either. There may therefore be a considerable number of companies that do not disclose details of supplier finance arrangements in either the single entity or consolidated financial statements.

11. The proposed supplier finance arrangement disclosures are in part related to liquidity risk. We therefore recommend that subsidiaries of an overseas parent are only provided an exemption from supplier finance arrangement disclosures if equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. Such an exemption would mirror the exemption from FRS 102.11.42 (which addresses disclosure of liquidity risk) permitted by FRS 102.1.12(c).