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XX March 2022

Dear Dr Barckow

**Invitation to Comment: Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7***

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS Standards<sup>1</sup>. In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option<sup>2</sup>.

We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB) Exposure Draft *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7* (the ED). To develop our draft response our work to-date has included in-house research and some initial stakeholder interviews. Our work on these matters continues and will inform our final comment letter.

We support the proposals in the ED as they will improve transparency about the use of supplier finance arrangements and enhance the ability of users of financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management.

Our main recommendations to enhance the proposals in the ED are outlined below. For detailed responses to the questions in the ED please see Appendix 1.

1. One of the main concerns from users of financial statements was the lack of adequate disclosure of the cash flows related to supplier finance arrangements. We recommend

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<sup>1</sup> UKEB calculation based on LSEG and Eikon data. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

<sup>2</sup> UKEB estimation based on FAME, Companies Watch and other proprietary data.

that the proposals in the ED could be further enhanced by adding a specific requirement to disclose the following: an entity's accounting policy for the presentation of cash flows that are part of supplier finance arrangements; the amounts of those cash flows; and the line item(s) in the Statement of Cash Flows where they are presented. This information would enable users of financial statements to understand the magnitude of the entity's supplier finance arrangements throughout the period.

2. The disclosure of concentration of risk arising from supplier finance arrangements is key for users of financial statements due to the potential impact of an entity losing access to these arrangements. We recommend that the proposed amendment in paragraph IG18 of IFRS 7, currently proposed only for the Implementation Guidance, be incorporated as part of the specific disclosure requirements in the Standard to ensure it is given appropriate prominence.

If you have any questions about this response, please contact the project team at [UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)

Yours sincerely

**Pauline Wallace**  
Chair  
**UK Endorsement Board**

Draft for Consultation

## Appendix I: Questions on Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*

### Question 1 - Scope of disclosure requirements

The [Draft] Amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the [Draft] Amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in this Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the Board's proposals.

Paragraphs BC5-BC11 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

- A1 We support the suggested approach of not defining supplier finance arrangements but describing the characteristics of an arrangement that would be in the scope of the ED. Disclosure requirements should be applied to the relevant transactions based on the substance of the arrangements as opposed to the terminology used to refer to them.
- A2 However, we are concerned that the description in paragraph 44G may encompass arrangements that have no effect on the entity's liabilities or cash flows and so do not meet the disclosure objective in paragraph 44F. In particular, the description in paragraph 44G would seem to extend to many factoring arrangements as well as reverse factoring arrangements. For example, a supplier may choose to factor its receivables with a finance provider, with the entity's involvement being limited to confirming that the goods or services have been received and it regards the invoice as valid for payment to an account nominated by the supplier. In such cases and provided there are no changes to the terms and conditions – in particular, no extension of the payment terms – we question whether disclosure proposed in the ED is useful. In addition, as noted in paragraph A6(d) below, in such cases the entity may not have access to the information needed to give the proposed disclosures.

### Question 2 - Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] Amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:

- a) The terms and conditions of each arrangement;
- b) For each arrangement, as at the beginning and end of the reporting period:
  - (i) The carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;
  - (ii) The carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and

(iii) The range of payment due dates of financial liabilities disclosed under (i); and

c) As at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.

Paragraphs BC12-BC15 and BC17-BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

- A3 We support the introduction of a disclosure objective and specific disclosure requirements to meet this objective. This is consistent with the UKEB's recommended hybrid approach in our response to the IASB Exposure Draft *Disclosure Requirement in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)*<sup>3</sup>.
- A4 We support the disclosure objective to enable users of financial statements to assess the effects that supplier finance arrangements have on an entity's liabilities and cash flows.
- A5 In addition, we support the proposed specific disclosures in paragraph 44H.
- A6 However, we believe the disclosure requirements should be enhanced to provide greater transparency for users of financial statements, as follows:
- a) Paragraph 44H(a), as proposed in the ED, requires an entity to disclose the terms and conditions of each supplier finance arrangement. We recommend amending the proposal so that it refers to the *key* terms and conditions of each supplier finance arrangement that are *relevant to meeting the disclosure objective* in paragraph 44F.
  - b) The proposed paragraph 44H(b)(i) requires disclosure of the carrying amount and the line item(s) in which financial liabilities that are part of supplier finance arrangements are presented in the entity's statement of financial position. We suggest that an entity should disclose *separately* the carrying amount of supplier finance arrangements presented in each relevant line item in the entity's statement of financial position.
  - c) In addition, the proposed paragraph 44H(b)(i) requires disclosure of the carrying amount of financial liabilities that are part of supplier finance arrangements. However, there is no proposed requirement to disclose the amount of related cash flows nor the line items in the Statement of Cash Flows in which those cash flows are presented.

One of the main concerns from users, as noted in the IASB's Investor Perspectives November 2021, is that "*without adequate disclosure it can be difficult for investors to differentiate between operating and financing cash flows, adjusting for the*

<sup>3</sup> The UKEB's response to IASB's ED/2021/3 can be found here:

[Final Comment Letter - Disclosure Requirements in IFRS Standards – A Pilot Approach.pdf \(k-usercontent.com\)](#)

*effects of amounts financed by a finance provider*". We consider an entity should be required to disclose its accounting policy for the presentation of cash flows that are part of supplier finance arrangements, the amounts of those cash flows and the line item(s) in the Statement of Cash Flows where they are presented. This information would enable users of financial statements to understand the magnitude of the entity's supplier finance arrangements throughout the period, as opposed to only disclosing balances at specific points in time (i.e. at the beginning and end of the reporting period).

- d) We have concerns about the proposed disclosure requirement in paragraph 44H(b)(ii) as it is our understanding that in many cases the entity does not have access to that information, since it is a contractual transaction between the finance provider and the supplier to which the entity is not a party. We believe the IASB should carry out further work to determine whether in those circumstances the costs might outweigh the perceived benefit of this disclosure.

### Question 3 - Examples added to disclosure requirements

Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] Amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively.

Paragraphs BC16 and BC21-BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

- A7 We note that the introductory paragraphs to the ED state that '*users of financial statements want to understand the effects of these arrangements on an entity's liabilities and cash flows, as well as on liquidity risk and risk management*'. We are supportive of this objective and therefore welcome the proposals to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities from financing activities and about an entity's exposure to liquidity risk, respectively, subject to the recommendations provided below.
- A8 We welcome the proposed amendment to paragraph 44B(da) requiring the disclosure of non-cash changes arising from supplier finance arrangements. However, we note that this disclosure requirement is limited to changes in liabilities arising from financing activities. Some supplier finance arrangements are classified by entities as operating activities (for example, when balances are not reclassified and continue to be presented as trade payables in the statement of financial position). So, we recommend extending the disclosure requirement for non-cash transactions in IAS 7 paragraph 43<sup>4</sup> to supplier finance arrangements arising from operating activities.
- A9 In addition, the disclosure of concentration of risk that an entity could be exposed to because of supplier finance arrangements is key for users of financial statements, for example, due to the potential impact of losing access to these arrangements. We recommend that the proposed amendment in IG18, currently only proposed for the

<sup>4</sup> IAS 7 paragraph 43 requires disclosure for non-cash transactions arising from investing and financing activities. Paragraph 43 is not currently being subject to amendments by the proposals in the ED.

Implementation Guidance, be incorporated as part of the specific disclosure requirements in the Standard, such as those in paragraphs 34c) and B8(b) of IFRS 7, in order to give appropriate prominence to such disclosure.

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