

UKEB FEEDBACK STATEMENT

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Endorsement Criteria Assessment (ECA)

November 2023

The UK Endorsement Board (UKEB) is responsible for the 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 on the development of new standards, amendments and interpretations.

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Purpose of this Feedback Statement

This Feedback Statement presents the views of UK stakeholders received during the UKEB's public consultation on the draft Endorsement Criteria Assessment (ECA) of *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) and where relevant explains how the UKEB has addressed those views in the final ECA.



Description of the Amendments

Supplier Finance Arrangements (Amendments to IAS 7¹ and IFRS 7²) (the Amendments) were issued by the IASB in May 2023. The Amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted³.

The Amendments do not introduce changes to recognition, classification or measurement requirements in UK-adopted international accounting standards, but are intended to complement existing disclosure requirements that apply to supplier finance arrangements⁴. The Amendments require entities to disclose additional information in the notes about such arrangements.

The Amendments aim to provide users of financial statements with information that enables them to assess the effect of supplier finance arrangements on an entity's liabilities and cash flows, as well as on the entity's exposure to liquidity risk.

¹ IAS 7 *Statement of Cash Flows*.

² IFRS 7 *Financial Instruments: Disclosures*.

³ Transition relief is provided (in relation to some of the requirements) in the first year of application of the Amendments.

⁴ Often also referred to as supply chain finance, payables finance or reverse factoring arrangements.



Description of the Amendments

❖ IAS 7 Statement of Cash Flows

The Amendments describe the type of arrangements to which the Amendments apply.

The Amendments introduce disclosure objectives and add specific disclosure requirements about an entity's supplier finance arrangements, including:

- terms and conditions;
- carrying amounts of financial liabilities that are part of a supplier finance arrangement;
- line items where such liabilities are presented in the entity's statement of financial position;
- type and effect of non-cash changes in the carrying amounts of the above liabilities;
- range of payment due dates for the above liabilities and comparable trade payables (not part of a supplier finance arrangement); and
- carrying amounts (and associated line items) of financial liabilities that are part of a supplier finance arrangement for which suppliers have already received payment from finance providers.

❖ IFRS 7 Financial Instruments: Disclosures

The Amendments add supplier finance arrangements as a factor an entity might consider in providing quantitative liquidity risk disclosures.

UKEB public consultation on the draft ECA

- Prior to publishing the draft ECA, we gathered stakeholder feedback through discussions with:
 - UKEB Advisory Groups:
 - Investor Advisory Group
 - Accounting Firms and Institutes Advisory Group
 - Preparer Advisory Group
 - Users of accounts – one credit rating agency.
 - Preparers – one membership organisation and one large multinational entity.
 - Finance providers – two financial institutions.
 - The UK accounting regulator.Stakeholder feedback was reflected in the draft ECA.
- The draft ECA was published for consultation for 90 days, between 20 July 2023 and 18 October 2023.
- During the consultation period, the UKEB promoted awareness of the draft ECA and encouraged stakeholders to respond through News Alerts, LinkedIn posts, the UKEB website and targeted emails to UK stakeholders with an interest on the subject (e.g. those that submitted comments on the IASB’s Exposure Draft or participated in the UKEB’s outreach activities).
- Eight formal responses from stakeholders were received.

Stakeholder type	Number of formal responses
Accounting firms	6
Representative body of users of accounts	1
Professional body	1
Total	8

- Stakeholder submissions received were published on the UKEB website.
- All stakeholder comments and views were considered in reaching the UKEB’s final assessment of the Amendments.

Overall assessment

Respondents to the draft ECA concurred with the UKEB's assessment based on the adoption criteria in paragraph 1 of Regulation 7 SI 2019/685 and are supportive of the adoption of the Amendments.



Detailed assessment—Comments from respondents

UKEB tentative assessment	Stakeholder views	UKEB final assessment
Technical accounting criteria assessment		
<p>The draft ECA tentatively concluded that the Amendments met the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1) of SI 2019/685.</p>	<p>All respondents were supportive of the UKEB’s tentative conclusion.</p> <p>One respondent, who did agree with the UKEB’s tentative conclusion:</p> <ul style="list-style-type: none"> considered the Amendments would be only partially effective in their aim of increasing transparency on the extent of usage of supplier finance arrangements throughout the year; suggested that investors would require additional disclosures, such as an average balance over the year, or total interest costs and average interest rate over the year, or a maximum balance at any point in the financial year; and acknowledged additional, complementary disclosure requirements in other IFRS Accounting Standards (such as IAS 1 paragraph 31) but urged the FRC to provide guidance to set expectations of how preparers should disclose the extent of their ongoing use of such arrangements. 	<p>Consistent with the tentative assessment.</p> <p>Regarding the specific feedback from one of the respondents:</p> <ul style="list-style-type: none"> The ECA (section Relevance and reliability, page 13) addresses the lack of specific disclosure requirements of cash flows from supplier finance arrangements during the period. The UKEB will continue to influence the IASB on this matter as part of the IASB pipeline project ‘<i>Statement of Cash Flows and Related Matters</i>’. This would be in line with the recommendations in the UKEB’s response to the IASB’s ED <i>Supplier Finance Arrangements</i>. The UKEB considered the relevance of the specific comments to the endorsement process. The UKEB noted that the respondent was supportive of its tentative decision to adopt the Amendments, and therefore concluded that the issues raised by the respondent did not alter its adoption decision.

Detailed assessment—Comments from respondents

UKEB tentative assessment	Stakeholder views	UKEB final assessment
True and fair view assessment		
<p>The draft ECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.</p>	<p>All respondents were supportive of the UKEB’s tentative conclusion.</p> <p>One respondent, who did agree with the UKEB’s tentative conclusion, considered that the Amendments should also had been made mandatory for interim reporting.</p>	<p>Consistent with the tentative assessment.</p> <p>The UKEB considered the specific feedback from one of the respondents in relation to interim reporting. The UKEB noted that the respondent was supportive of its tentative decision to adopt the Amendments. The UKEB therefore concluded that the issue raised by the respondent did not alter its adoption decision.</p>
UK long term public good		
<p>The draft ECA tentatively concluded that having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the use of the Amendments is likely to be conducive to the long term public good in the UK as required by Regulation 7(1) of SI 2019/685.</p>	<p>All respondents were supportive of the UKEB’s tentative conclusion.</p> <p>One respondent, who did agree with the UKEB’s tentative conclusion:</p> <ul style="list-style-type: none"> • Noted that additional disclosures about the extent of usage of supplier finance arrangements during the year would have been desirable. [Refer to ‘Technical accounting criteria assessment’ on previous page]. • Believed the Amendments should be subject to an automatic review by the IASB 24 months after implementation. 	<p>Consistent with the tentative assessment.</p> <p>The UKEB’s assessment in the ECA is that this is not a significant change in accounting practice. It will therefore monitor the impact of these Amendments as part of its monitoring activities in relation to the IASB’s workplan.</p>

Disclaimer

This Feedback Statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's draft Endorsement Criteria Assessment on the IASB's *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) and should not be relied upon for any other purpose.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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