

Exposure Draft – *Supplier Finance Arrangements*

Executive Summary

Project Type	Influencing
Project Scope	Limited (Narrow Scope Amendment)
Purpose of the paper	
<p>This paper requests the Board's approval of the UKEB's Final Comment Letter for issuance to the IASB, the related Feedback Statement and Due Process Compliance Statement for publication on the UKEB's website.</p>	
Summary of the Issue	
<p>The IASB Exposure Draft (ED) proposes changes to the disclosure requirements in IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures</i> to improve the transparency of accounts in relation to supplier finance arrangements and their effects on a company's liabilities and cash flows. The proposals are intended to address feedback from users of accounts that the information currently provided falls short of their information needs.</p> <p>The UKEB's Draft Comment Letter was published in January, expressing support for the proposals in the IASB's ED and providing some recommendations to enhance the proposed disclosure requirements. The UKEB's public consultation period ended on 4 March 2022. All stakeholder feedback received has been considered and reflected as appropriate in the draft of the UKEB's Final Comment Letter presented to the Board today. The IASB's comment period ends 28 March 2022.</p>	
Decisions for the Board	
<p>The Board is asked for its:</p> <ol style="list-style-type: none"> approval to issue the Final Comment Letter to the IASB and publish the letter on the UKEB website; approval to publish the Feedback Statement on the UKEB website; and approval of the Due Process Compliance Statement, once finalised. 	
Recommendation	
<p>We recommend the Board approve the Final Comment Letter for issuance to the IASB, approve the Feedback Statement for publication on the UKEB website, and approve the Due Process Compliance Statement, once finalised.</p>	
Appendices	
Appendix 1	Draft Final Comment Letter
Appendix 2	Draft Feedback Statement
Appendix 3	Draft Due Process Compliance Statement
Appendix 4	High Level Summary of Stakeholder Feedback

Background

1. The IFRS Interpretations Committee (IFRS IC) considered a question about the information an entity is required to provide in its financial statements about supply chain finance (reverse factoring) arrangements. In December 2020 the IFRS IC published the Agenda Decision *Supply Chain Financing Arrangements – Reverse Factoring* to explain the applicable requirements in IFRS Standards.
2. Although those requirements go some way towards meeting the information needs of users of financial statements, feedback on the draft Agenda Decision – including from investors and analysts – suggested that the information an entity is required to provide about this form of financing falls short of meeting user information needs. 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.
3. As a result of the above, in November 2021 the International Accounting Standards Board (IASB) published its Exposure Draft (ED) *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*.
4. The IASB's objective is to ensure users of financial statements are able to obtain the information that enables them to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management.
5. The ED uses the term 'supplier finance arrangement' to refer to a reverse factoring or other similar arrangement. The proposals in the ED are intended to complement the IFRS requirements that apply to reverse factoring and similar arrangements. The proposed amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* would require entities to disclose additional information in the notes about those arrangements. The IASB decided not to address the measurement, the classification or the presentation of such arrangements as part of this ED.
6. The ED does not define supplier finance arrangements. Instead, it describes the characteristics of an arrangement that would be in the scope of the ED.
7. The ED proposes the introduction of a disclosure objective. To meet the disclosure objective, the ED proposes requiring an entity to disclose specific information about supplier finance arrangements such as terms and conditions, carrying amounts of financial liabilities, and range of payment due dates. The ED also proposes additional guidance via examples in IAS 7 and IFRS 7.
8. The IASB's comment period ends 28 March 2022.

UKEB draft comment letter – key themes

9. The UKEB's Draft Comment Letter (DCL) was open for public consultation from 26 January until 4 March 2022. The draft letter:
- a) Expressed overall support for the IASB's proposals in the ED. The proposals 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.
 - b) Noted some concerns, particularly in relation to:
 - i. The scope of the ED, as 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; and
 - Would seem to extend to many factoring arrangements as well as reverse factoring arrangements [DCL paragraph A2].
 - ii. The proposed requirement to disclose the carrying amounts of financial liabilities for which suppliers have already received payment from the finance providers, as in many cases the entity does not have access to that information [DCL paragraph A6(d)].
 - c) Provided recommendations to enhance the proposals in the ED. The UKEB's main recommendations were to:
 - i. Add a specific requirement to disclose information on cash flows that are part of supplier finance arrangements [DCL cover page and paragraph A6(c)].
 - ii. Give appropriate prominence to the disclosure of concentration of risk arising from supplier arrangements [DCL cover page and paragraph A9].

UK stakeholder feedback

10. The UKEB's outreach activities took place between December 2021 and March 2022. In total, the UKEB Secretariat held 14 meetings with stakeholders from a range of organisations (one user, two preparers, six accounting firms, one accounting professional body, two regulators and two national standard setters). We also received one comment letter responding to the UKEB's Invitation to Comment.
11. Most stakeholders expressed overall support for the IASB's proposals and for the recommendations in the UKEB's Draft Comment Letter. A high-level summary of the feedback we received is included as Appendix 4 to this paper. The outreach led to the following changes to the UKEB's comment letter:

- a) Scope – The Draft Comment Letter expressed concerns on the scope of the ED. During our outreach activities we heard mixed views from stakeholders. Some believe that all supplier finance arrangements should be encompassed in the scope of the ED, while others believe that only those arrangements that have an effect on the entity’s liabilities or cash flows (i.e. those from which the entity derives a working capital benefit) should be considered. In addition, although the Basis for Conclusions note that the IASB decided not to include in the scope arrangements linked directly to financing receivables or inventory, some believe the description of supplier finance arrangements in paragraph 44G could be read to capture factoring arrangements as well as reverse factoring arrangements. As a result, the UKEB’s Secretariat recommends highlighting in the Final Comment Letter the lack of clarity in the description in paragraph 44G and potential approaches for the IASB.
- b) Additional recommendation - The Secretariat recommends adding a recommendation to the IASB to perform a comprehensive review of IAS 7 *Statement of Cash Flows* as a separate project. This is consistent with the UKEB’s recommendation to the IASB’s Request for Information: *Third Agenda Consultation*.

12. The Feedback Statement at Appendix 2 provides a summary of outreach undertaken, feedback received and subsequent amendments to the UKEB’s comment letter.

Questions for the Board	
a)	Do Board members have any suggested amendments to the Final Comment Letter included at Appendix 1?
b)	Subject to any required amendments, does the Board approve the Final Comment Letter for issuance to the IASB and publication on the UKEB website?
c)	Do Board members have any suggested amendments to the Feedback Statement included at Appendix 2?
d)	Subject to any required amendments, does the Board approve the Feedback Statement for publication on the UKEB website?
e)	Do Board members have any suggested amendments to the draft Due Process Compliance Statement included at Appendix 3?
f)	Subject to any suggested amendments, does the Board approve the compliance statement for publication on the UKEB website once finalised?

Next Steps

13. The next project milestones are as follows:

Date	Milestone	Complete
26 November 2021	IASB Publish ED	✓
20 January 2022 Board Meeting	Approve Project Initiation Plan Approve Draft Comment Letter	✓
26 January 2022	Publish Draft Comment Letter. Deadline for responses 4 March 2022.	✓
18 March 2022 Board Meeting	Approve Final Comment Letter	

	Approve Feedback Statement Approve Compliance Statement	
28 March 2022	Submit Comment Letter to IASB Publish Feedback Statement on website.	
21 April 2022 Board Meeting	Final Due Process Compliance Statement to Board for noting.	
22 April 2022	Publish Due Process Compliance Statement on website.	

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International Accounting Standards Board
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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 Standards¹. In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option².

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 u~~Users of financial statements ~~are concerned was about~~ the lack of adequate disclosure of the cash flows related to supplier finance

¹ 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).

² UKEB estimation based on FAME, Companies Watch and other proprietary data.

arrangements. We recommend 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 also 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.

[Whilst we welcome a narrow scope for this project as a means of providing an urgent solution to user demands for enhanced disclosures on supplier finance arrangements, we reiterate our previous request to the IASB to prioritise, as a separate project, a comprehensive review of IAS 7 *Statement of Cash Flows*. Understanding cash performance is fundamental for users of financial statements.](#)

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

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

Question I – 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 is not clear, may be difficult to apply and could lead to inconsistent application. We therefore recommend the IASB considers the following:

a) We understand it is the IASB's intention to scope out arrangements linked directly to financing receivables or inventory. However, factoring arrangements might be inadvertently included in the description in paragraph 44G, resulting in an entity (buyer) providing the required disclosures even when the entity was not involved in the establishment of the arrangement. In addition, as noted in paragraph A6(d) below, in such cases the entity may not have access to all the information needed to give the proposed disclosures. We recommend the IASB clarifies explicitly that such arrangements are not intended to be in scope, for example, by issuing application guidance to facilitate its interpretation.

a)b) Our stakeholders expressed mixed views on whether the scope of the ED should capture supplier finance arrangements that have no effect on the entity's liabilities or cash flows and so do not meet the disclosure objective in paragraph 44F. Some noted concerns about the usefulness in such cases of disclosing the detailed information proposed in the ED. In their view, this could obscure more meaningful information. We understand it may not be easy to draw the line for purposes of defining the scope of this ED, but we encourage the IASB to ensure the disclosure requirements enable users of financial statements to distinguish clearly supplier finance arrangements that have an impact on the entity's liabilities or cash flows from those that do not. ~~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.

A2A3 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)*³.

A3A4 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.

A4A5 In addition, we support the proposed specific disclosures in paragraph 44H.

³ 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 \(k-usercontent.com\)](https://www.ukendorsementboard.org.uk/usercontent.com)

A5A6 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 in the notes the carrying amount of supplier finance arrangements presented in *each* relevant line item (i.e. it should not be sufficient to disclose one single amount covering more than one 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 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.

A6A7 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.

A7A8 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 43⁴ to supplier finance arrangements arising from operating activities.

A8A9 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 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.

⁴ 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.

UKEB FEEDBACK STATEMENT

Exposure Draft: *Supplier Finance Arrangements*

[DRAFT FOR BOARD REVIEW]

March 2022

The UK Endorsement Board (UKEB) is responsible for 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 feedback statement relates to a comment letter that forms part of those influencing activities and 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 adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's Exposure Draft: *Supplier Finance Arrangements* and explains how the UKEB's comment letter addressed those views.



The IASB's Exposure Draft

The IASB's ED relates to supplier finance arrangements. However, it does not define such arrangements but instead, it describes the characteristics of an arrangement that would be in the scope of the ED.

The ED proposes the introduction of a disclosure objective. It requires disclosure that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet the disclosure objective, the ED proposes requiring an entity to disclose specific information about supplier finance arrangements such as terms and conditions, carrying amounts of financial liabilities, and range of payment due dates.

The ED also proposes additional guidance via examples in IAS 7 and IFRS 7.



Outreach approach

The UKEB's outreach activities took place between December 2021 and March 2022.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

Given the IASB's ED related to a narrow scope amendment the Board approved a proportionate and targeted approach to outreach.

In total 14 meetings were held with a variety of stakeholders, including some representative bodies.

Stakeholder type	Number of meetings
Preparers/Membership Organisations	2
Auditors & Accounting Firms	6
Regulators/Standard Setters	4
Users	1
Professional Bodies	1

We also received one comment letter responding to the UKEB's Invitation to Comment on its Draft Comment Letter.

The UK stakeholders indicated broad agreement with the concerns identified in the UKEB Draft Comment Letter.

All comments and views were considered in reaching the UKEB final views on the questions raised.

I. Supplier Finance Arrangements

IASB proposal	UKEB draft position	Stakeholder views	UKEB final position
<p>Does not define supplier finance arrangements. The ED describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in the ED.</p>	<p>In support of not defining but describing the characteristics of supplier finance arrangements.</p> <p>However, we note concerns that:</p> <ul style="list-style-type: none"> • The description may encompass arrangements that have no effect on the entity's liabilities or cash flows. • The description seems to extend to many factoring arrangements as well as reverse factoring arrangements. 	<ul style="list-style-type: none"> • Mixed feedback. Some stakeholders support a scope that captures <i>all</i> supplier finance arrangements, including those where there is no effect on the entity's liabilities or cash flows. While others feel strongly that the scope should <i>not</i> encompass arrangements that have no impact on the entity's working capital. • Stakeholders requested clearer drafting of the scope to avoid unintended consequences. 	<p>The UKEB final position notes the scope is not clear, might be difficult to apply and could lead to inconsistent application. We recommend the IASB:</p> <ul style="list-style-type: none"> • Clarifying that factoring arrangements are not in the scope (e.g. by issuing application guidance). • Ensuring disclosure requirements enable users of accounts to distinguish arrangements that have an impact on the entity's liabilities or cash flows from those that do not.
<p>Introduction of a disclosure objective (IAS 7) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows.</p>	<p>In support of the IASB's proposal.</p>	<p>Supportive of UKEB draft position.</p>	<p>Unchanged from UKEB draft position.</p>

2. Supplier Finance Arrangements

IASB proposal	UKEB draft position	Stakeholder views	UKEB final position
Requires disclosure of the terms and conditions of <i>each</i> arrangement	We express concerns about the level of detail as it could obscure relevant information. Instead, we recommend disclosure requirement of <i>key</i> terms and conditions of each supplier finance arrangement that are <i>relevant to meeting the disclosure objective</i> in paragraph 44F.	Similar concerns on the level of aggregation and potential risk of obscuring meaningful information.	Unchanged from UKEB draft position.
Requires disclosure of carrying amounts and 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 recommend an entity should provide this information, showing <i>separately</i> carrying amounts presented in each line item.	Supportive of UKEB draft position.	Consistent with UKEB draft position, but clarifying that the recommendation relates to disclosure in the notes (not in the face) of the financial statements.
Requires disclosure of carrying amounts of financial liabilities for which suppliers have already received payment from the finance providers.	We express concerns as entities might not have access to this information. We recommend IASB to carry out further work to determine whether the costs might outweigh the perceived benefit of this disclosure.	Mixed feedback. Although some support the IASB's proposal, others expressed concerns as information is not currently available and there might be restrictions (such as legal) which could vary by country. They also questioned the usefulness of this information for users of accounts.	Unchanged from UKEB draft position as it reflects stakeholders' concerns.

3. Supplier Finance Arrangements

IASB proposal	UKEB draft position	Stakeholder views	UKEB final position
<p>Adds supplier finance arrangements as example, for disclosure requirements of changes in liabilities arising from financing activities (IAS 7) and about an entity's exposure to liquidity risk (IFRS 7).</p>	<p>Supportive of the IASB's proposals. However, we suggest the following enhancements:</p> <ul style="list-style-type: none"> • Recommend extending the disclosure requirement for non-cash transactions in IAS 7 to supplier finance arrangements arising from operating activities. • Giving appropriate prominence to the disclosure requirement of concentration of liquidity risk. 	<p>No stakeholders disagreed with UKEB draft position.</p>	<p>Unchanged from UKEB draft position.</p>
<p>N/A</p>	<p>One of the main concerns from users is the difficulty to differentiate between operating and financing cash flows. We recommend the IASB to require disclosure of cash flow information, such as:</p> <ul style="list-style-type: none"> • Accounting policy for the presentation of cash flows that are part of supplier finance arrangements. • Amounts of those cash flows. • The line item(s) in the Statement of Cash Flows where they are presented. <p>This would enable users to understand the magnitude of the arrangements throughout the period.</p>	<p>Supportive of UKEB draft position.</p>	<p>Unchanged from UKEB draft position.</p>

4. Supplier Finance Arrangements

IASB proposal	UKEB draft position	Stakeholder views	UKEB final position
N/A	N/A	Additional feedback received, to emphasise the importance of revisiting disclosures in the future as part of a broader project on the cash flow statement and ongoing deliberations on the primary financial statements project.	A recommendation to IASB for a comprehensive review of IAS 7 <i>Statement of Cash Flows</i> has been added to the UKEB final comment letter.

Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on IASB's Exposure Draft *Supplier Finance Arrangements* 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.

Contact Us

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Influencing process: ED Supplier Finance Arrangements			
Step	Required / Optional	Metrics or evidence	UKEB secretariat comments
IASB's due process document			
Exposure Draft ED <i>Supplier Finance Arrangements</i>		Published: 26/11/2021 Comment deadline: 28/03/2022	

Project preparation			
Technical project added to UKEB technical work plan and discussed	Required	Project is included in the published technical UKEB Work Plan.	Yes
Project preparation and Project Initiation Plan (PIP)	Required	PIP created which includes: - Approach to influencing; - Proposed types of fieldwork; - Involvement of IASB staff; - Key milestones and timing; - Initial analysis based on desk based or other research.	Yes
	Required	Assessment of whether to set up an ad-hoc advisory group	Yes. Concluded an ad-hoc group was not necessary as it was not proportionate.
	Required	UKEB Board public meeting held to approve PIP	Yes, approved at 20/01/22 meeting
	Optional	UKEB Education or initial assessment	Yes, an education session was held at the 9/12/21 private Board meeting.

Communications			
Communications	Required	UKEB Board public meetings held to discuss technical project	Yes, 20/01/22 Approve PIP 20/01/22 Approve DCL and ITC questions; 18/03/22 Approve FCL, Approve FS, Approve CS.
	Required	Board meeting papers posted and publicly available on a timely basis.	Yes
	Required	Project website contains a project description and up to date information.	Yes

Outreach activities			
<i>Fieldwork undertaken</i>			
Public events, roundtables, workshops or interviews with specific groups of stakeholders	Optional	Numbers for stakeholder outreach and venues documented	Undertook 14 one-on-one discussions with various stakeholders. Documented in Feedback Statement.

UKEB draft comment letter			
	Required	Draft comment letter approved for publication at UKEB public meetings	Yes, approved at 20/01/22 Board meeting
	Required	Draft comment letter, including deadline for responses, posted on UKEB Website for public consultation	Yes Published: 26/01/22 Comment deadline: 04/03/22
	Required	News Alert published to announce publication	Yes
	Required	Public responses on draft comment letter posted on website	1 comment letter received and published on the UKEB website

UKEB final comment letter			
Final comment letter			
	Required	Final comment letter approved for publication at UKEB public meeting.	To be approved at the 18/03/22 Board meeting

	Required	Publish final comment letter on UKEB website and submit to IASB	Letter to be published after approval at Board meeting on 18/03/22.
	Required	News Alert published to announce publication	To take place following posting to website.

Finalisation			
Feedback statement	Required	Draft Feedback Statement for discussion and review at UKEB public meeting	Feedback Statement to be approved at Board meeting 18/03/22.
	Required	Feedback Statement posted on UKEB Website	To take place following Board approval of the Feedback Statement.
	Required	News Alert published to announce publication	To take place following posting to website.
Compliance Statement	Required	Due process Compliance Statement approved by UKEB in public meeting	To consider at 18/03/22 Board meeting.
	Required	Due Process Compliance Statement posted on UKEB Website	To take place following Board approval of Compliance statement.

Conclusion	
<p>This ED was published on 26 November 2021 with a comment deadline of 28 March 2022. The timing of consultation activities was affected by the holiday season and year-end preparation/reporting. Given the ED was a narrow-scope amendment a focus on targeted outreach and one-on-one discussions was deemed appropriate. We also engaged with a number of organisations, in addition to UKEB channels, to publicise the content of the Draft Comment Letter and seek feedback. We had good engagement with a range of stakeholders, which supported the development of both the Draft and Final Comment Letters.</p> <p>Overall, this project due process complies with the UKEB Due Process that is in place at the time of writing.</p>	

ED: Supplier Finance Arrangements

High-Level Summary of Stakeholder Feedback

Stakeholder type	Number of meetings
Users	1
Preparers/Membership organisations	2
Auditors & Accounting Firms	6
Professional Bodies	1
Regulators	2
Other National Standard Setters	2

A high-level summary of UK stakeholder feedback is presented below:

ED's question 1 – Scope of disclosure requirements

Stakeholder type	Key points Raised
Users	<ul style="list-style-type: none"> Support for a scope which captures all supplier finance arrangements, even those for which there is no perceived economic benefit for the entity.
Preparers /Membership organisations	<ul style="list-style-type: none"> The scope of the ED should not encompass supplier finance arrangements that have no impact on the entity's working capital.
Auditors & Accounting Firms	<ul style="list-style-type: none"> Some in favour of a wide scope, including supplier finance arrangements where there is no perceived economic benefit for the entity. One response to the UKEB's draft comment letter agrees with the concern that factoring arrangements may be inadvertently included in the scope of these disclosures and suggests that the IASB ring-fence the scope more clearly for the purpose of this narrow scope amendment.
Professional Bodies	<ul style="list-style-type: none"> Recommends the IASB to publish guidance on whether or not arrangements instigated by the supplier rather than the entity are intended to be within the scope to avoid interpretation difficulties.
Regulators	<ul style="list-style-type: none"> Strongly believe that all supplier finance arrangements should be reported, even those for which there is no perceived economic benefit for the entity.

ED's question 2 – Disclosure objective and disclosure requirements

Stakeholder type	Key points Raised
Users	<p><i>c) Disclosure of carrying amount of liabilities for which suppliers have already received payment from the finance providers</i> Support for this disclosure requirement.</p>
Preparers/ Membership organisations	<p><i>a) Level of aggregation</i> Strong concerns about the extent and level of detail of information required. Aggregation would be challenging as terms and conditions can vary by supplier and by country. This could result in extensive, but not meaningful, information.</p> <p><i>b) Disclosure of cash flow information</i> Disclosures about cash flows likely to be more meaningful than the information currently proposed in the ED.</p> <p><i>c) Disclosure of carrying amount of liabilities for which suppliers have already received payment from finance providers</i> Disclosure not achievable as entities have no access to this information. In many countries regulations wouldn't allow entities to request this information. Relying on information provided by finance providers would create challenges in relation to the internal controls on financial reporting (such as those required by Sarbanes-Oxley). In addition, questioned the usefulness of this information for users of accounts.</p>
Auditors & Accounting Firms	<p><i>a) Level of aggregation</i> Concerns about the extent and level of detail of information required and practicalities around aggregation.</p> <p><i>b) Disclosure of cash flow information</i> Some explicitly agreed with the UKEB's recommendation on disclosure of cash flow information as that is a main concern for users.</p> <p><i>c) Disclosure of carrying amount of liabilities for which suppliers have already received payment from finance providers</i> Concerns on this disclosure requirement as the information might not be available for the entity and potential effects on auditability. Some questioned the relevance of this information for users of accounts.</p> <p><i>d) Other recommendations</i> One firm suggested rather than providing users with raw data, provide the relevant adjustments to debt numbers. Potential additional disclosures: number of facilities, amounts of each facility utilised (drawn/undrawn), plus the notice period for withdrawal of facilities.</p>

Professional Bodies	<p>a) <i>Level of aggregation</i> The standard should make it clear that it is acceptable to aggregate this information where terms and conditions are similar.</p> <p>b) <i>Disclosure of cash flow information</i> The final standard should explicitly require companies to disclose the actual cash flow to the provider of the supplier finance arrangement and whether this cash flow is presented in operating or financing cash flows. More than anything else, providing this information would help users to better understand how such arrangements are accounted for.</p> <p>c) <i>Disclosure of carrying amount of liabilities for which suppliers have already received payment from finance providers</i> Expressed concerns and notes that entities may struggle to accurately disclose such amounts without incurring additional costs.</p> <p>d) <i>Other recommendations</i> Potential additional disclosures: 1) A mid-point in the range could be used but a weighted average would provide more useful information. This information should be disclosed in addition to the range of payment terms. 2) A roll-forward of the liabilities arising from supplier finance arrangements.</p>
Regulators	<p>b) <i>Disclosure of cash flow information</i> Agreement with the importance of disclosure of cash flows but questioned whether this would be in the scope of the ED.</p> <p>c) <i>Disclosure of carrying amount of liabilities for which suppliers have already received payment</i> Finance providers would be able to easily provide this information to entities and therefore this wouldn't be a significant concern.</p>

ED's question 3 – Examples added to disclosure requirements

No specific feedback received on this question.