

Dr Andreas Barckow
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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).

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. We support the IASB's decision to capture all supplier finance arrangements, including those in which an entity does not obtain an extension of credit from the finance providers, as all supplier finance arrangements could have a potential impact on an entity's liquidity

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.

risk. However, we noted during our outreach that the description of Supplier Finance Arrangements in paragraph 44G is not clear to stakeholders, who appear to have differing views on its application. We recommend the IASB clarifies the intended scope of this ED and have included some recommendations in paragraph A2 in the Appendix to this letter.

2. Users of financial statements are concerned about the lack of adequate disclosure of the cash flows related to supplier finance arrangements. We recommend that the proposals in the ED are 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 and their effect on reported cash flows.
3. 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 disclosure objective in IAS 7 *Statement of Cash Flows* should be expanded to encompass the effects of these arrangements on an entity's liquidity risk. We also recommend that the proposed amendment in paragraph IG18 of IFRS 7 *Financial Instruments: Disclosures*, 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 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 We also support the IASB's decision to capture all supplier finance arrangements (as noted in BC10), including those in which an entity does not obtain an extension of credit from the finance providers, as all supplier finance arrangements could have a potential impact on an entity's liquidity risk. However, we are concerned that the description in paragraph 44G is not clear. During our outreach activities we noted that stakeholders appear to have different views on the types of arrangement captured by the description in paragraph 44G. We therefore recommend the IASB clarifies what is intended to be in scope. For example, this should address whether the scope encompasses arrangements where a supplier chooses to factor its receivables with a finance provider, with the entity's involvement being limited to confirming that it regards the invoice as valid for payment to an account nominated by the supplier. Providing greater clarity, perhaps by way of application guidance, would facilitate consistent application.

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

<p>(iii) The range of payment due dates of financial liabilities disclosed under (i); and</p> <p>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.</p> <p>Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.</p> <p>Paragraphs BC12-BC15 and BC17-BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.</p> <p>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.</p>

- 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)*³.
- 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. However, we believe the disclosure objective should also encompass the effects of these arrangements on an entity's liquidity risk profile. Overall, these disclosures should consider both qualitative and quantitative assessments of the effects that supplier finance arrangements have on an entity's liabilities, cash flows and liquidity risk throughout the year (not just at particular points in time), including cost implications, where relevant to meeting the disclosure objective.
- 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 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).
 - 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

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 \(kc-usercontent.com\)](#)

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.

- 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 43⁴ 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 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.