

# UKEB FEEDBACK STATEMENT

Exposure Draft: *Supplier Finance Arrangements*

March 2022

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 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 endorsement and 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 Exposure Draft (ED) is intended to improve transparency about the use of supplier finance arrangements. It aims to enable 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.

The ED does not define such arrangements but describes the characteristics of an arrangement that would be in its scope.

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 the range of payment due dates. It also proposes additional guidance via examples in IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*.



# 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 took a proportionate and targeted approach to outreach on the IASB proposals and the UKEB's Draft Comment Letter.

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

Stakeholder type	Number of meetings
Preparers (including 1 Representative Organisation)	2
Auditors & Accounting Firms	6
Regulators/Standard Setters	4
Users	1
Professional Accountancy Bodies	1

Representative Organisations / Professional Accountancy Bodies represent the views of multiple members, often encompassing a variety of stakeholder types.

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"> <li>• The description may encompass arrangements that have no effect on the entity's liabilities or cash flows.</li> <li>• The description seems to extend to many factoring arrangements as well as reverse factoring arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• 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. Others, however, feel strongly that the scope should <i>not</i> encompass arrangements that have no impact on the entity's working capital.</li> <li>• Stakeholders requested clearer drafting of the scope to avoid inconsistency in interpretation.</li> </ul>	<ul style="list-style-type: none"> <li>• All supplier finance arrangements should be captured in the scope as they could have a potential impact on an entity's liquidity risk.</li> <li>• In addition, the UKEB notes the scope is not clear and we recommend the IASB clarifies what is intended to be in the scope.</li> </ul>
<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>Consistent with UKEB draft position but also suggested to expand the disclosure objective to encompass the effects of these arrangements on an entity's liquidity risk profile.</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 on 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"> <li>• Recommend extending the disclosure requirement for non-cash transactions in IAS 7 to supplier finance arrangements arising from operating activities.</li> <li>• Giving appropriate prominence to the disclosure requirement of concentration of liquidity risk.</li> </ul>	<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"> <li>• Accounting policy for the presentation of cash flows that are part of supplier finance arrangements.</li> <li>• Amounts of those cash flows.</li> <li>• The line item(s) in the Statement of Cash Flows where they are presented.</li> </ul> <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 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 the 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.

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