

Representation 26/2023

Accounting and Reporting Policy Team
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[by email to ukfrs@frc.org.uk]

To whom it may concern

Subject: FRED 84 – Draft amendments to FRS 102 – Supplier Finance Arrangements

We, the Financial Reporting Technical Committee of Chartered Accountants Ireland (FRTC), welcome the opportunity to respond to this Financial Reporting Exposure Draft (FRED).

FRTC support the suggested disclosures. Our detailed response is set out in the following pages with reference to the questions raised.

Please refer to Appendix 1 for our responses to the questions included in the “Invitation to comment”. If you would like to discuss any of the comments in more detail, please do not hesitate to contact me at

Yours sincerely

Secretary to the Financial Reporting Technical Committee of Chartered Accountants Ireland

Appendix 1

Question 1

Do you agree with the introduction of the proposed disclosure requirements in relation to supplier finance arrangements into FRS 102? If not, why not?

FRTC supports the introduction of disclosures relating to Supplier Finance Arrangements into FRS 102 as they are becoming more prevalent and there is diversity of treatment.

We believe the disclosures are helpful in increasing transparency in relation to finance obtained under such arrangements and please see, in particular, our comments in relation to the disclosures in 7.20C(b)(ii).

FRTC does however have a number of points to raise in relation to the disclosure requirements. These are set out below:

1. *Terms and conditions of the arrangements (7.20C(a))*

The requirement is to disclose the ‘terms and conditions of the arrangements’, FRTC considers that this should be the ‘**key** terms and conditions of the arrangements’. FRTC also considers that the interest cost charged should be included as an example of what a key term encompasses. FRTC considers that it is very relevant information for users to understand the cost of such financing in order to be able to compare this to the cost of other financing arrangements used by the entity. It will also permit a better analysis of what cash flows are related to operating activities and which are related to financing activities.

2. *Existing treatment in the cash flow statement*

FRTC considers that it would be helpful to require entities to disclose how they currently account for such arrangements in the cash flow statement. Currently, FRTC understands there are three potential approaches generally used in the cash flow statement. These are (i) where the cash flows are presented ‘gross’ with an operating outflow and a financing inflow when the supplier’s account is settled, followed by a financing outflow when the finance provider is settled; (ii) a net operating cash outflow when the finance provider is settled; or (iii) a net financing cash outflow when the finance provider is settled. Given sophisticated analytical tools, it is possible for users to use the information currently proposed in 7.20C (particularly that in 7.20C(b)(ii)) to infer the treatment adopted and to estimate the impact of the arrangements on both operating and financing cash flows. However, FRTC considers that users of FRS 102 financial statements do not always have access to such tools and, therefore, we consider that it is important that preparers are clear regarding how such arrangements are presented in the cash flow statement and the particular line items affected. This will assist users in better understanding the impact such arrangements have had on operating and financing cash flows and to assess the likely impact on future cash flows.

3. *Clarity as to whether or not Supplier Finance Arrangements should form part of ‘net debt’*

FRS 102.7.22 requires a reconciliation of ‘net debt’. The term ‘net debt’ is defined as including the ‘borrowings’ of an entity, together with other specified amounts. FRTC considers that the meaning of ‘borrowings’ is unclear and particularly as the term used in 7.20C refers to a ‘finance arrangement’, it is unclear whether Supplier Finance Arrangements should be included in the reconciliation or not. FRTC considers that it would be preferable to be clear

on whether or not it is intended that net debt should include such arrangements. FRTC suggest these arrangements should be included in the net debt reconciliation.

4. *Where the level of drawdown under Supplier Finance Arrangements varies in the year*

Certain entities may be more dependent on Supplier Finance Arrangements at certain times of the year than at others and this may not align with the reporting year end date. Because the disclosures are required only for the beginning and end of the reporting period, it may not be clear to users, the extent to which an entity is reliant on such funding at other times of the year. FRTC wishes to raise the question as to whether or not there should be disclosure of the maximum level of drawdown under such arrangements during the year if the reporting date amounts are not representative of the use of the facility during the reporting period. This is in the context that FRS 102 does not require disclosure of liquidity risk or management of liquidity risk by non-financial institutions. If movements under Supplier Finance Arrangements were included in the net debt reconciliation required by 7.22, this additional disclosure would not be required.

Question 2

Do you believe that the disclosure required by sub-paragraph 7.20C(b)(ii) will provide useful information to users, proportionate to the cost and effort involved for preparers?

FRTC considers that the disclosure required by 7.20C(b)(ii) is necessary for users to understand the impact of Supplier Finance Arrangements on entities since it indicates the extent to which the entity is availing of financing from financial providers as distinct from ordinary suppliers. It also provides users with an indication of the extent to which the entity at the reporting date has concentrated its liquidity risk in a single provider. Without this information it will be unclear as to the exact dependency of the entity on such finance as it will be unclear the extent to which the entity has availed of extended credit terms or foregone discounts available for early settlement.

FRTC considers that entities that participate in Supplier Finance Arrangements are normally reasonably sizeable entities that have the necessary resources to obtain this information from finance providers. There are likely to be additional costs of obtaining the information. However, FRTC considers that the disclosure is critical to making the disclosures around Supplier Finance Arrangements transparent.

Question 3

Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?

FRTC is in agreement with the effective date of the amendments.

Question 4

Do you have any comments on the consultation stage impact assessment, including those relating to assumptions, sources of relevant data, and the costs and benefits that have been identified and assessed? Please provide evidence to support your views.

In particular, feedback is invited on the assumptions about the prevalence of supplier finance arrangements amongst entities applying FRS 102.

FRTC has nothing to say in relation to this.