



By email to: ukfrs@frc.org.uk  
Accounting and Reporting Policy Team  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

18 December 2023

Dear Sir/Madam

**Re: Consultation document: Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Supplier finance arrangements (“SFA”)**

We appreciate the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on FRED 84. We agree that transparent disclosure of the use of supplier finance arrangements is important for users of financial statements, given the reliance on these arrangements by certain entities. However, we consider that the effective date of these proposals should be aligned with the amendments to be made as a result of FRED 82 as they do not appear to be of such significance to merit fast tracking outside of the periodic review process.

Our responses to the specific questions in the invitation to comment are provided below:

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?

With the exception of the proposed sub-paragraphs 7.20C(b)(ii) and 7.20C(c), we agree with the proposed amendments being introduced to sections 1 and 7 of FRS 102. We believe that specific disclosures about an entity’s use of supplier finance arrangements are important for users of the financial statements, given the use of such facilities by certain entities. We note that the amendments are largely in line with the changes made within IFRS in this regard.

We believe that the scope of the proposed disclosure amendments is largely appropriate, given the available exemptions in FRS 102 for *small* and *qualifying* entities. We note there will still be some burden for subsidiaries reporting to FRS 102 parents that prepare accounts outside of the reduced disclosure framework, albeit to a higher materiality threshold.

We do, however, observe that the FRC and FRC Lab have been requesting disclosures similar to those now proposed in FRED 84 for several years (e.g. in the 2018/19 and 2019/20 annual reviews of corporate reporting and other reports). This included requesting disclosure of “*the existence of any concentrations*



*of liquidity risk which could arise from losing access to the facility*". We acknowledge that qualifying entities are usually exempt from the requirements of Section 7 and the disclosure requirements for financial instruments, but wondered whether this is a missed opportunity since, at the moment, a large number of FRS 102 (and FRS 101 reporters based on the proposals in FRED 85) will still not be required to acknowledge the existence of supplier finance arrangements in their financial statements. We therefore urge the FRC to further reflect on the exemption avenues in light of the above.

We will return to this subject when we comment on FRED 85, but we note that while the IASB introduced these disclosures with respect to supplier finance arrangements by means of an amendment to IAS 7, the disclosures actually have very little to do with the cash flow statement. They are more about liquidity risk - a subject which, in our view, is of paramount importance to users of qualifying entity financial statements. Indeed, the FRC acknowledged during its 2016/17 cycle of amendments to FRS 101 that users of FRS 101 financial statements might find a maturity analysis of lease liabilities useful for this very reason. While we understand the FRC's reasons for including the proposed disclosures in Section 7 of FRS 102, to mirror the IASB's approach, we believe this provides further weight to the argument (which we made in our response to FRED 82) that the time is right for the FRC to perform a reasoned analysis of who the users of FRS 102 financial statements generally (and qualifying entity financial statements in particular) might be, and therefore how their disclosure needs are to be satisfied.

Our thoughts on sub-paragraph 7.20C(b)(ii) are highlighted in our response to Question 2 below.

With reference to 7.20C(c), we believe that the disclosure requirements surrounding non-cash items are already sufficiently stipulated within the extant FRS 102, particularly in paragraph 7.18. In our view, the proposed paragraph 7.20C(c) is not proportionate for FRS 102 preparers in the absence of a general requirement to reconcile the opening and closing balances to be disclosed in accordance with 7.20C(b)(i). There is limited information value to be derived from a specific disclosure requirement for changes in supplier finance balances arising from business combinations and foreign exchange differences. Accordingly, we recommend that the proposed paragraph 7.20C(c) is removed from the final amendment.

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?

We note that this information is intended to enable users to understand the position of the entity, in respect of the amounts owed to a finance provider rather than trade suppliers as at period end, but in the absence of any explanation in FRS 102 to explain why this is useful, the information value is much reduced.

Furthermore, we believe that the proposed disclosure requirement does not provide added benefits to users since it only shows the position at the period end and not the total utilised amount of facilities during the year. We are also not convinced that the costs of providing the proposed disclosure will be justified given the limited benefit to the users of the financial statements.

If the FRC decides to keep 7.20C(b)(ii) - which we do not support - we suggest that paragraph BC13 in FRED 84 is enhanced to link paragraph 7.20C to the disclosure of liquidity risk; by including some



explanatory text based on paragraph BC58E of IFRS 7; for example “*Paragraph 11.42 of FRS 102 requires disclosure of information on the risks to which an entity is exposed in relation to its financial instruments. This should include concentration of liquidity risk, when relevant, and therefore, no amendments to FRS 102 are required in this regard beyond the disclosures required by 7.20C which will provide users with information to enable them to assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk.*”

Question 3: Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?

We understand that this subject has been an area of focus for the FRC and therefore, appreciate why this may be seen as a key standalone change. We note that sections A.44 and A.45 of FRS 102 draw a distinction between major changes in IFRS that will be considered on a case-by-case basis and minor changes that will be incorporated into the periodic review process.

We consider this proposal to fail the ‘major change’ test and, thus, we recommend that the effective dates for amendments arising out of both FRED 84 and FRED 82 are aligned. We believe this would reduce the transition burden and costs for preparers.

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.

Our understanding is that larger groups (UK or IFRS reporters) would typically enter into supplier finance arrangements at the group level and then extend the arrangements to their significant subsidiaries.

The exposure draft acknowledges potential costs associated with acquiring the necessary data, however, this may not have been made explicit within the cost analysis later in the exposure draft (e.g. charges from the finance providers were not added in the cost analysis). In addition, there could be logistical and practical challenges associated with acquiring the necessary data in this regard, which could make compliance with the proposed amendment difficult.

If you have any questions or would like to discuss any of the comments provided in this letter, please contact [REDACTED].

Yours faithfully

*PricewaterhouseCoopers LLP*