

Accounting and Reporting Policy Team
Financial Reporting Council
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Ref: DT/FRED84

Email: 

Dear Sirs

FRED 84 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Supplier finance arrangements

Ernst & Young LLP welcomes the opportunity to comment on FRED 84.


We have responded to your specific questions in the appendix to this letter.

We are supportive of the introduction of specific disclosures on supplier finance arrangements, and we believe this will improve the information provided about the use of such arrangements, which will prove beneficial to users of the financial statements.

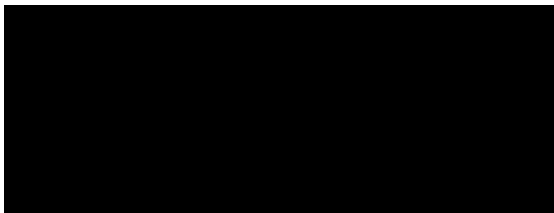
We note that a limited number of preparers will be in the scope of these disclosures, and this raises the question of whether the scope sufficiently accommodates other entities which may be participating in supplier finance arrangements. Specifically these would include entities with a parent outside the UK, which will be eligible for exemption from preparing a cash flow statement, but where there may be no comparable disclosures in the accounts of the overseas group in which they are included.

We have a specific concern about the relevance of the disclosure in paragraph 7.20C(b)(ii) for two reasons; firstly, the difficulty of obtaining the relevant data from a third party and secondly, the relevance of the data obtained. We believe that this disclosure should be removed from the proposed disclosure requirements.

We consider that the proposed effective date is appropriate, notwithstanding that the proposed effective date of the suite of amendments proposed in FRED 82 has been put back to 1 January 2026.

If you have any matters arising concerning the content of our response, please contact me at 

Yours sincerely



Partner – UK Head of the Financial Reporting Group
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Appendix

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?

We welcome the FRC's efforts to introduce specific disclosures on supplier finance arrangements in order to provide sufficient information about the entity's use of supplier finance arrangements and the effect of such arrangements on the entity's financial position and cash flows.

Limited number of users affected by the disclosures

As small entities and qualifying entities will have an exemption from preparing a cash flow statement in individual financial statements, this amendment will only be applicable to a subset of FRS 102 reporters. We note that the proposed requirements, per the Consultation stage impact assessment, are estimated to affect c.414 entities (although that reflects an assumption of a low incidence of supplier finance arrangements amongst medium entities). This is a much smaller group than the entities brought into scope of the comparable amendments to IAS 7. Nonetheless, we can see the benefits of disclosure for that small group to whom supplier finance arrangements are material.

Possibility of wrong population of preparers being identified

As noted above, this amendment will be relevant only to a small subset of entities: in this context, we question whether the subset is sufficient to capture all companies with significant supplier finance arrangements. We consider that there may be entities with significant operations in the UK which do not prepare consolidated accounts as they are included in the consolidated accounts of their overseas parent. Such entities will be eligible for the exemption from preparing a cash flow statement. The parents of such entities may report under GAAPs other than IFRS, e.g., US GAAP, and therefore will have no equivalent disclosures in their publicly available group accounts. An equivalence restriction might address this – i.e., only companies whose publicly available group accounts give equivalent information should be eligible for the exemption from these specific disclosures, notwithstanding that such companies may not be required to prepare a cash flow statement.

Difficulty in obtaining third party data

We have a specific concern about the practicality and usefulness of obtaining the information required by proposed paragraph 7.20C(b)(ii) – please see our response to Question 2 below about obtaining information from third parties for the purposes of the disclosure.

Differences in terms agreed between suppliers and finance providers and suppliers and a reporting entity

Linked to the point above, we have a related concern that information about settled amounts by the finance provider to the supplier may not actually be a relevant indicator of what the entity's trade creditor or cash balances would have been without the SFA arrangement – please see our response to Question 2 below.

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 are concerned that obtaining the information necessary to meet the proposed requirement in paragraph 7.20C(b)(ii) could be challenging for preparers, because they will need to establish a system for collecting, and relying on, information obtained from third parties (the finance providers). It is possible that the finance provider may not be permitted, or willing, to share this information. Additionally, as the information can only be verified by a third party, this will pose challenges in auditing the proposed disclosure. We are not convinced that the associated benefits to users of having access to the information will outweigh the cost and effort involved, given the small pool of preparers for whom this disclosure will be relevant.

Furthermore, we understand that the purpose of the disclosure is to highlight any liquidity risk – i.e., to flag how an entity may be affected from a liquidity perspective, were the arrangement not in place. However, we note that the terms agreed between the finance provider and the supplier may typically differ from the terms that would have been agreed between the entity and the supplier without the SFA arrangements. For example, the finance provider may pay the supplier on receipt of the invoice, whereas had the supplier negotiated directly with the entity, it may have offered different terms – say 30 days. Therefore, information about settled amounts by the finance provider to the supplier may not shed light on what the reporting entity's trade payables or cash balances would have been, had the supplier finance agreement not been in place.

Considering these points, it is our view that the benefits of providing the information proposed by 7.20C(b)(ii) do not outweigh the costs and should be removed from the proposed draft disclosure.

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

The current proposed effective date is 1 January 2025, with earlier adoption permitted. We note that the effective date of the significant changes to FRS 102, set out in FRED 82, has been put back to not before 1 January 2026. However, we acknowledge that the disclosures in FRED 84 are important for users of the financial statements and can be implemented separately from amendments proposed in FRED 82. Given this, we consider that the proposed effective date of 1 January 2025 is appropriate.

An alternative view would be that, considering both the stated aim of limiting changes between periodic reviews and the potential scoping issues (e.g., what types of arrangements are likely to fall within the scope of 'supplier finance arrangements'), it may be beneficial for the preparers affected by the proposed disclosure amendments to observe the experience of those implementing the IAS 7 comparable amendment, before bringing this into FRS 102. However, on balance, we believe that it is appropriate for the amendment to have the same effective date as the comparable IFRS requirements, given the benefit of earlier reporting of these 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.

We believe it is best left for preparers to comment on this aspect.