30 Old Bailey
London
EC4M 7AU

Tel: +44 (0)20 7063 4000
www.mazars.co.uk

Accounting and Reporting Policy team
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

**Delivered to: ukfrs@frc.org.uk**

Date: 30 December 2023

Dear Accounting and Reporting Policy team,

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

Mazars LLP is pleased to comment on FRED 84 - *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arran*gements.

Mazars LLP is the UK firm of Mazars, an international, integrated and independent organisation specialising in audit, accountancy and advisory services. Mazars operates as a truly internationally integrated partnership in 95 countries and territories, with 47,000 professionals. In the UK, Mazars employs over 2,500 people in 15 locations.

**General remarks**

The proposed requirements have been developed based on the amendments made by the IASB in IAS 7 *Statement of Cash Flows*. We support the FRC's objective to provide better quality information about supplier finance arrangements in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* financial statements. However, in our view the proposed requirements do not strike the right balance between international consistency and providing a proportionate solution for UK businesses applying FRS 102.

It is our view that users' needs would be better served by alternative qualitative disclosure requirements that focus on the risks of supplier finance arrangements, specifically the liquidity risks arising should these arrangements be withdrawn. In addition, the consistency of the presentation of these arrangements in financial statements could be improved by better guidance for preparers and enhanced disclosures about the accounting policies adopted by an entity.

We also believe that the FRC may need to reconsider the basis for expected costs associated with the proposals as not all drivers of costs would appear to have been included in the estimates.

Please find our detailed responses to your questions in the Appendix to this letter.

Your sincerely,

[redacted]

Accounting Technical Partner – Mazars LLP mazars

**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?

In paragraph 27 of the *Consultation stage impact assessment* the FRC states its intention that the proposed amendments should provide better quality information in affected entities' financial statements to allow users to better understand the impact of supplier finance arrangements on an entity's financial position and cash flows.

Although we believe that additional and more consistent information about supplier finance arrangements in FRS 102 financial statements are needed and could be useful, the proposed disclosures are in our view not a proportionate and cost-effective solution in the context of FRS 102 financial statements.

Any new requirements in FRS 102 should be designed to provide users with information about the existence and risks associated with supplier finance arrangements. In addition, we recommend that the FRC adds guidance to FRS 102 in relation to the presentation of these arrangements to promote consistency and understandability in financial statements. Presentation and transparency are considered a key concern with respect to supplier finance arrangements.

*Placement of additional requirements in FRS 102 relating to supplier finance arrangements*

The FRC is proposing to incorporate the new disclosure requirements in Section 7 *Statement of Cash Flows* of FRS 102. The FRC considers supplier finance arrangements to be similar in nature to other forms of finance already covered by the statement of cash flows and the new disclosures should hence be presented alongside other information on the statement of cash flows. We disagree that Section 7 is the best location for the disclosures required by proposed paragraphs 7.20C(a) and (b).

As noted above, in our view, the new disclosure requirements should focus on information that explain the significance of these financial arrangements to an entity's financial position and cash flows. Hence these disclosures are more aligned with requirements in paragraph 11.42 of FRS 102 relating to the significance of financial instruments. Therefore, we believe disclosure requirements about the risks arising from supplier financial arrangements should be placed in Section 11 *Basic Financial Instruments* of FRS 102. We believe this would provide a more holistic approach to reporting on supplier financing arrangements.

We also consider that disclosure exemptions applicable to qualifying entities under paragraph 1.12 of FRS 102, should be extended to this disclosure requirement.

We note that proposed paragraph 7.20C(c) setting out disclosures of non-cash changes of financial liabilities associated with supplier finance arrangements should, if retained, be placed in Section 7, as part of the disclosures of the net debt reconciliation.

*Paragraph 7.20C(a) – qualitative disclosures abouts terms and conditions*

We concur with the disclosure. However, we consider that the disclosure requirement as drafted, would not allow a user to get a comprehensive understanding of the risks, especially the liquidity risk associated with these arrangements. As the use of these arrangements expands we consider that this information is becoming increasingly important. We recommend that qualitative disclosure requirements are added to explain why an entity is using supplier finance arrangements, the degree of reliance placed by an entity on these arrangements, information about headroom and covenants attached, as well as information about cancellation options. As noted above, we recommend that these disclosures are moved to Section 11 of FRS 102.

*Paragraph 7.20C(b) – quantitative disclosures about the carrying amounts and due dates*

In our view effective qualitative disclosure requirements (see above) can provide more relevant information to users than the quantitative disclosures proposed in paragraph 7.20C(b).

Instead of the requirements in sub-paragraphs 7.20C(b)(i) and (ii) to disclose carrying amounts, we recommend the FRC introduces guidance on the presentation of supplier finance arrangements in the statement of financial position and in the statement of cash flows, i.e. guidance on where and how the financial liabilities and related cash flows that are part of a supplier finance arrangements should be assessed and presented in the financial statements. The IFRS Interpretation Committee considered this issue in agenda decision *Supply Chain Financing Arrangements—Reverse Factoring* and we believe the FRC should use this as the basis to develop its guidance. This should be designed to help an entity develop appropriate accounting policies and provide more useful and consistent information to users of the financial statements. Accounting policies should then be disclosed in accordance with paragraphs 8.5(b) and 11.40 of FRS 102.

We also believe that the FRC reconsiders the proposed disclosure requirement in sub-paragraph 7.20C(b)(iii) regarding the payment due dates of arrangements subject to supplier finance and comparable trade payables. Maturity information of the financial liabilities is provided in accordance with paragraphs 4.2 and 4.2A on the face of the statement of financial position and further information may need to be provided in accordance with paragraph 11.42 of FRS 102. If information about the payment due dates of financial liabilities part of supplier finance arrangements is significant for an understanding of the arrangements, the due dates should, in our view, be disclosed as part of the terms and conditions under paragraph 7.20C(a). Paragraph 7.20C(a). could then explicitly refer to payment terms as one of relevant terms and conditions that may be disclosed. We have reservations around the usefulness and proportionality of disclosure of the payment due dates of comparable trade payables. In our view it is not particularly relevant for a user and the cost of obtaining the required disclosure information could be disproportionate. In line with our recommendations above we consider that the disclosure requirement should be moved to Section 11, rather than being included in Section 7.

*Paragraph 7.20C(c) – disclosure of non-cash changes*

In our view instead of requiring disclosure about non-cash changes of the carrying amounts of financial liabilities that are part of supplier finance arrangements, we would prefer for the FRC to develop more guidance for entities on the presentation of the cash flows associated with supplier finance arrangements and seek accounting policy disclosure about the adopted approach, as explained above. If so, the proposed disclosures could be removed.

Should the disclosure requirement be retained, we would recommend that the disclosure is instead incorporated into the analysis of changes in net debt under paragraph 7.22 of FRS 102 because the proposed disclosures are similar in nature. Any cash movements in the carrying amounts should be readily determinable as these movements are the 'balancing figure' between the opening and closing carrying amounts and the non-cash movements already determined under the proposed disclosure requirement.

**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?

As noted under Question 1 above, we do not support the proposed disclosure requirements of carrying amounts in sub-paragraphs 7.20C(b)(i) and (ii).

We doubt the relevance of this disclosure for users. In addition, whilst some preparers may have the necessary information available, we would expect that others may find it more onerous and potentially costly to extract.

A more proportionate solution in our view is for the FRC to provide guidance on the presentation of cash flows associated with supplier finance arrangements and seek adequate accounting policy disclosures, as discussed in more detail above.

**Question 3:**

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

We note that the FRC intends to finalise these amendments together with the amendments proposed in FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs*, but with an earlier effective date of 1 January 2025. In our view it is preferrable for these amendments to become effective at the same time as the other amendments, to allow preparers to consider all amendments together.

Given our reservations regarding the proposed amendments, the FRC may need to re-expose alternative requirements and if so, should reconsider the effective date as part of any re-exposure.

**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.

The basis for the estimation of the one-off costs for preparers and auditors is not entirely clear, but we acknowledge the significant estimation uncertainties involved. Without data about the number of entities that apply FRS 102 and use supplier finance arrangements, it does not seem possible to develop a reliable estimate. However, we think it is not unreasonable to assume that entities with these arrangements in place would likely incur more hours than estimated by the FRC to comply with the new disclosure requirements.

We also doubt that the FRC's estimated one-off costs for auditors are reasonable. The current estimate of four hours for smaller firms or two hours for larger firms would appear a significant underestimate. The FRC should consider in its estimate the time for audit firms to update their audit manuals and financial statements checklists as well as education and training of their auditors.