By email to: ukfrs@frc.org.uk
Accounting and Reporting Policy Team
Financial Reporting Council
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31 January 2024

Dear Sir/Madam

FRED 85 - Draft amendments to FRS 101 Reduced Disclosure Framework 2023/24 cycle

We appreciate the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on FRED 85, Draft amendments to FRS 101 Reduced Disclosure Framework 2023/24 cycle. Our responses to the specific questions in the invitation to comment are provided below:

Question 1 Do you agree with the proposed amendments to FRS 101? If not, why not?

We generally agree with the proposed approach to incorporating the 2022/23 amendments to IFRS accounting standards into FRS 101, although this is more on the basis of consistency with previous decisions than on matters of principle.

We agree that there should be no exemption from the new IAS 1 disclosures enabling users of financial statements to understand the risk that a liability could become repayable where that liability is subject to covenant tests within twelve months of the balance sheet date. Our reasoning is consistent with the FRC's statement in paragraph 11 of the exposure draft's Basis for Conclusions, that a qualifying entity with a liability subject to covenants is more likely to have users external to the group, and the new disclosures will be highly relevant to those users.

In our view, the disclosures about supplier finance arrangements are equally relevant to the users of FRS 101 financial statements since both sets of amendments provide information about liquidity, which is generally a focus for those users. The IASB happens to have added the disclosures about supplier finance to IAS 7, but the nature of the disclosure is such that almost all of it (except perhaps the disclosure of non-cash changes) could have been added to IAS 1 instead. If it had, we assume no exemption would have been proposed.

These differences between the proposed exemptions highlight the inconsistencies that can occur in FRS 101 depending on which IFRS accounting standard has been amended. It also implies that IFRS 7 liquidity disclosures are often relevant for qualifying entities beyond financial institutions; but we acknowledge that the decision to provide an exemption from IFRS 7 disclosures was agreed when FRS 101 was issued, and we will not seek to reopen that decision.

Accordingly, while we support the proposals in FRED 85 for reasons of consistency, we encourage the FRC to perform a more thorough review of FRS 101's principles, with a particular focus on who the users of FRS 101 financial statements are, what information they need, and how should those disclosure needs should be satisfied. See further our response to question 2.

Question 2 Do you agree that no other amendments to FRS 101 are required for the IASB projects outlined in paragraph 7 of the Basis for Conclusions?

We agree that no other amendments are required for the IASB projects outlined in the Basis for Conclusions.

We do, however, observe that the FRC and FRC Lab have been requesting disclosures about supplier finance arrangements 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*". Since qualifying entities are usually exempt from IAS 7's requirements and the IFRS 7 disclosure requirements for financial instruments, a large number of FRS 101 reporters will still not be required to acknowledge the existence of supplier finance arrangements in their financial statements. We wonder whether this is a missed opportunity to address this topic, and therefore urge the FRC to further reflect on the exemption avenues.

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 FRS 101 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. We assume that the FRC does not wish to disapply the IAS 7 and IFRS 7 exemptions in respect of these particular disclosures in order to retain consistency with previous decisions. However, the emergence of this issue provides further weight to the argument (which we made in our response to FREDs 82 and 84) that the FRC should perform a reasoned analysis of who the users of FRS 101 (and 102) financial statements generally (and qualifying entity financial statements in particular) might be, and therefore how their disclosure needs can be satisfied.

Question 3 Do you agree with the conclusion in the consultation stage impact assessment? If not, why not?

On the basis of the proposed amendments to FRS 101 and exemptions suggested in FRED 85, we agree with the conclusion in the consultation stage impact assessment.

If the FRC were to require the disclosures in IAS 7 and IFRS 7 regarding supplier finance arrangements, then we acknowledge that this would result in additional costs for preparers, as partly acknowledged by the FRC in FRED 84. There could also be logistical and practical challenges associated with acquiring the necessary data, although in many cases, subject to materiality, such information may be required for group reporting purposes anyway. Despite the costs involved, we still believe that the benefit to users of understanding the type of supplier finance arrangements and the potential implications for the liquidity position of the entity exceed the costs to preparers, but as we have commented above, we can support the proposals in FRED 85 on grounds of consistency with previous decisions.

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

Yours faithfully

PricewaterhouseCoopers LLP