

Invitation to Comment

Call for comments on Draft Endorsement Criteria Assessment of *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7)

Deadline for completion of this Invitation to Comment:

Close of business, Wednesday 18 October 2023

Please submit to:

UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) (the Amendments), published by the International Accounting Standards Board (IASB) in May 2023. The Amendments aim to provide users of financial statements with the information that enables them to assess the effect of supplier finance arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management. The Amendments will be effective for annual periods beginning on or after 1 January 2024. Earlier application is permitted. The information collected from this Invitation to Comment is intended to help with the endorsement assessment.

UK endorsement and adoption process

The requirements for UK adoption are set out in Statutory Instrument 2019/685¹.

The powers to formally adopt international accounting standards for use in the UK were delegated to the UK Endorsement Board in May 2021².

¹ The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: <https://www.legislation.gov.uk/uksi/2019/685/made>

² The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021: <https://www.legislation.gov.uk/uksi/2021/609/contents/made>

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with IFRS Accounting Standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it to UKEndorsementBoard@endorsement-board.uk by close of business on Wednesday 18 October 2023.

Brief responses to individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)³.

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

³ These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

Assessment against endorsement criteria

Our draft assessment [tentatively] concludes that:

- the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c));
- application of the Amendments is not contrary to the principle that an entity's accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)); and
- that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)), having considered:
 - whether they will generally improve the quality of financial reporting;
 - the costs and benefits that are likely to result from their use; and
 - whether they are likely to have an adverse effect on the economy of the UK, including on economic growth.

Our assessment of the Amendments is set out in **Section 2** of the DECA on the pages indicated below:

	Page
Rationale for the Amendments	10-12
Technical accounting criteria assessment	13-14
True and fair view	14-15
UK long term public good (including costs and benefits for preparers and users)	15-18

Questions

Technical accounting criteria assessment

1. Do you agree with our assessment of comparability, and in particular the view that the principle-based approach (not defining but describing the characteristics of supplier finance arrangements in scope of the Amendments) is on balance workable and allows for the application of judgement, thereby assisting preparers (and their auditors) in ensuring the disclosure objectives are met? (please select one option)

Yes	<input checked="" type="checkbox"/>	No	<input checked="" type="checkbox"/>
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2. Please include any comments you may have in response to question 1:

We are in agreement with the principle-based approach.

We also note the absence of comparable prior year data in the first year of implementation, however, given that the implementation date is relatively close on 1st January, 2024, we think is acceptable.

However, the proposed continuing absence of any disclosures to reflect usage of supplier finance through the year is very disappointing. We believe that this allows companies, particularly those with seasonal cash-flows and a year-end balance sheet date typically set at a time when cash receipts are high, to continue to hide the true extent to which they depend on supplier finance during other points of the year. We believe that this will render the proposed amendments to IFRS7 only partially effective in their stated aim of providing proper transparency on the extent of use of supply chain finance by companies.

To provide investors with this information would require additional year-end disclosure of either:

- (i) an average balance from supplier finance arrangements over the year, or
- (ii) the total interest costs and average interest rate under supplier finance arrangements over the year or perhaps
- (iii) a maximum balance from supplier finance arrangements at any point in the financial year.

3. Do you agree with the draft assessment of the Amendments against the technical accounting criteria? (please select one option)

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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4. Please include any comments you may have in response to question 3:

We refer to our answer to question 2 above and note that there is no way of telling from the proposed disclosures the extent to which supplier finance has been utilised by a company during its financial year. This will allow supply chain finance to continue to be used by certain companies who aim to hide the full extent of their financial indebtedness from public view.

The extent to which supplier finance has been drawn down during the year and repaid before the following year-end will not be disclosed or detectable from the accounts - unless the company elects to make additional disclosures, as might be considered necessary in order to achieve compliance with IAS 1 paragraph 31. As these disclosures will not be specifically required, we suspect such disclosure will be atypical, particularly in cases where it is important, absent any guidance from the FRC requiring such companies to do so. We therefore urge the FRC to provide guidance to set expectations of how preparers should disclose the extent of their ongoing use of supply chain finance.

Even if the FRC do decide to provide such guidance, we can see the pressures on many UK companies to not make such further disclosures notably if other equivalent bodies in overseas jurisdictions do not make similar pronouncements. Why should UK companies be disadvantaged versus their overseas peers by making these disclosures when their peers are not so required? Also, will UK-based multinationals want to make such disclosures in respect of their overseas operations (and therefore by extension in their consolidated accounts) if it would be unusual and also consequently costly to do so.

True and fair view

5. Do you agree with the draft assessment that the Amendments **are not contrary to the true and fair view requirement**? (please select one option)

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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6. Please include any comments you may have in response to question 5:

They faithfully represent the economic substance of transactions and events outstanding as at the balance sheet year-end, but only those as at the balance sheet year-end. We consider that interim statements may continue to not represent the economic substance of transactions and events outstanding at the interim period-end.

UK long term public good

7. If you are responding on behalf of an organisation that offers supplier finance arrangements, do you currently provide to your clients the relevant information required by the Amendments including the amounts for which suppliers have already received payment from your organisation? If not, have you identified any restrictions or challenges (such as legal or IT systems) that could prevent you from sharing such information? (please select one option)

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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8. Please include any comments you may have in response to question 7, including if relevant a description of the challenges your organisation faces in sharing relevant information with your clients:

Non-applicable.

9. Do you agree with the initial assessment of **costs** for preparers, in particular in relation to the accessibility of all the required information, including the carrying amounts of the financial liabilities for which suppliers have already received payment from the finance providers? (please select one option)

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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10. Please include any comments you may have in response to question 9, including if any costs have been omitted or any challenges your organisation faces accessing the information required by the Amendments.

No comment.

11. Do you agree with the initial assessment of **benefits** likely to arise from the Amendments? (please select one option)

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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12. Please include any comments you may have in response to question 11, including if any benefits have been omitted:

We agree that the Amendments proposed will improve the transparency of corporate accounts and will be beneficial in that users can identify the extent of supplier finance outstanding at year-end and follow any trends in this data after year-2.

The Amendments would be far more beneficial if they somehow included disclosure requirements to capture the usage of supplier finance arrangements throughout the year. Besides making these disclosures mandatory in interim statements, we describe three additional ways of making this possible in the year-end statements in our response to question 2 above.

13. Do you agree with the initial **overall assessment of costs and benefits** likely to arise from the Amendments? (please select one option)

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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14. Please include any comments you may have in response to question 13:

For users we agree that the consequential costs of the Amendments will be negligible.

However, we would note further that because the Amendments do not go far enough, and do not require companies to make any disclosures about the extent to which they make use of supply chain finance during the year:

- knowledgeable and well-resourced users of accounts will still need to make further enquiries of many companies about the extent of their use of supply chain finance between year-ends
- those users of accounts who are either (i) unfamiliar with the impact of supply chain finance on corporate financial statements or (ii) unable to access sufficient information by other means, could make incorrect and costly decisions.

15. Do you agree with the draft assessment that the Amendments are likely to be conducive to the **long term public good in the UK**? (please select one option)

Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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16. Please include any comments you may have in response to question 15:

We agree that the impact will probably be neutral or positive and is overall unlikely to be negative.

We believe, however, that the disclosures should go further as explained in our response to question 2.

We believe it would be helpful if the FRC were to provide further guidance on what further disclosures they would expect to see for those preparers that make extensive use of supply chain finance during the financial year, but typically not over year-end.

We believe that the Amendments should be subject to an automatic review by the IASB 24 months after implementation to (i) determine their real effectiveness and (ii) address the question of whether the disclosure regime needs to be further extended in one of those ways which we describe in our answer to question 2. above. On the basis that the UKEB decides to adopt the proposed Amendments, we would hope that the UKEB will advocate strongly for such a review.

In the absence of both (i) FRC further guidance and (ii) an effectiveness review after 24 months, we believe the proposed amendments will prove to be fundamentally flawed and fail to serve their intended objective in some cases.

17. Do you have **any other comments** you would like to add?

We are responding to this consultation as we are very disappointed with the end outcome of these proposals despite significant outreach work by many investor organisations, including CFA Institute, on this topic. Whilst we appreciate that the UKEB did advocate for a stronger set of amendments that would have provided investors with more information about the extent of use of supplier finance by preparers between their year-ends, we regard the failure of the IASB to propose a more effective set of amendments as very disappointing.

Large investors and banks with strong corporate relationships will likely continue to benefit from superior information about the extent to which corporates access supply chain finance. Small and retail investors, who either lack such access or fail to appreciate the risks and extent to which supplier finance can be used, and especially those who rely on corporate financial information service providers for their balance sheet analysis, will continue to be disadvantaged, most especially in relation to companies in seasonal industries.

This reform will only be seen as having been worthwhile if it is ultimately only an interim step and duly strengthened by the IASB after an effectiveness review. The stable door, which was wide open for companies to deceitfully conceal their debts if they wished, is closing slightly; but to be fair to all investors and to provide for fairer markets, this door needs to be closed. Whilst supplier finance is a legitimate and useful financial tool for many companies, its use needs to be made properly transparent.

Thank you for completing this Invitation to Comment

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