



Need to know

FRC amends FRS 102 to address supplier finance arrangements

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This *Need to know* outlines the amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* in relation to Section 7 *Statement of Cash Flows*, published by the Financial Reporting Council (FRC) in March 2024 to introduce disclosure requirements regarding supplier finance arrangements.

- The amendments introduce requirements in Section 7 of FRS 102 for entities to provide qualitative and quantitative information about their supplier finance arrangements
- The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information
- The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with early application permitted
- The amendments contain specific transition reliefs for the first annual reporting period in which an entity applies the new requirements
- A qualifying entity preparing its accounts under FRS 102 is exempted from these requirements provided the entity is included in equivalent disclosures in the consolidated financial statements
- For entities preparing their accounts under FRS 101 *Reduced Disclosure Framework*, similar amendments are under review by the FRC as part of their *Draft amendments to FRS 101 Reduced Disclosure Framework 2023/24 cycle*. However, FRS 101 has not yet been amended for the new disclosure requirements on supplier finance arrangements.

For more information please see the following websites:

www.ukaccountingplus.co.uk

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Background

In December 2020, the IFRS Interpretations Committee published an agenda decision on supply chain financing arrangements which explained the requirements in IFRS Accounting Standards that apply to such arrangements. Feedback on the draft agenda decision suggested that the information an entity is required to provide about this form of financing falls short of meeting user information needs. In May 2023, the International Accounting Standards Board (IASB) amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to require entities to provide qualitative and quantitative information about their supplier finance arrangements.

The FRC considered that this topic should also be addressed in FRS 102. In September 2023, the FRC issued **FRED 84** *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements*, an exposure draft proposing changes to FRS 102 in relation to disclosures on supplier finance arrangements.

In March 2024, based on the feedback received on FRED 84, the FRC amended Section 7 of FRS 102 to require entities to provide qualitative and quantitative information about their supplier finance arrangements.

The amendments

The objective of the amendments is to provide users of financial statements with sufficient information about an entity's use of supplier finance arrangements and the effect of such arrangements on the entity's financial position and cash flows.

Observation

The amendments to FRS 102 are based on, and broadly similar to, *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*, issued by the IASB in May 2023. However, there are some differences in that FRS 102 does not require disclosure of amounts settled by finance providers with suppliers. Additionally, under FRS 102, there are no disclosure requirements based on those introduced into IFRS 7 as they relate to the requirements on liquidity risk, a topic which is not specifically addressed in FRS 102 other than for financial institutions.

The amendments to Section 7 explain that supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance provider(s) according to the terms and conditions of the arrangements at the same date as, or at a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements may also be referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (such as financial guarantee contracts) or instruments used to settle the amounts owed directly with a supplier (such as credit cards) are not supplier finance arrangements.

The amendments require an entity to disclose in aggregate for its supplier finance arrangements:

- a. the key terms and conditions of the arrangements (for instance, extended payment terms, interest charges, and security or guarantees provided). However, where an entity has arrangements that have dissimilar key terms and conditions, it should disclose the key terms and conditions of those arrangements separately
- b. as at the end of the reporting period:
 - (i) the carrying amounts and associated line items presented in the entity's statement of financial position of the financial liabilities that are part of a supplier finance arrangement
 - (ii) the range of payment due dates (for instance, 30–40 days after the invoice date) for both the financial liabilities disclosed under sub-paragraph (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables within the same line of business or jurisdiction as the financial liabilities disclosed under sub-paragraph (i). If ranges of payment due dates are wide, an entity should disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges)
- c. the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under sub-paragraph (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

Observation

The FRC's exposure draft, **FRED 84** *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements*, included a proposal to require disclose the carrying amounts and associated line items for which suppliers have already received payment from the finance providers. However, respondents had mixed views on whether this requirement would be cost-beneficial so the FRC concluded on proportionality grounds that it should be omitted.

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Section 1 of FRS 102 has also been amended to exempt a qualifying entity from these requirements provided the entity is included in equivalent disclosures in the consolidated financial statements. In summary, a qualifying entity is a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view and that member is included in the consolidation. Qualifying entities can take certain disclosure exemptions, including but not limited to exemption from presenting a statement of cash flows, as permitted by Section 1 of FRS 102.

Observation

The FRC originally proposed in FRED 84 that qualifying entities would be exempt from all the requirements of Section 7. However, in response to stakeholder feedback, qualifying entities are only exempt from the supplier finance arrangements disclosure requirements if equivalent disclosures are included in the consolidated financial statements.

For qualifying entities preparing their accounts under FRS 101, similar amendments are under review by the FRC as part of their *Draft amendments to FRS 101 Reduced Disclosure Framework 2023/24 cycle*. However, FRS 101 has not yet been amended for the new disclosure requirements on supplier finance arrangements.

Effective date and transition

Entities applying FRS 102 are required to apply the amendments to Section 7 of FRS 102 for accounting periods beginning on or after 1 January 2025, with early application permitted.

In the reporting period in which an entity first applies the disclosure requirements related to supplier finance arrangements, entities are not required to disclose the related comparative information for the preceding reporting period.

Observation

The amendments related to supplier finance arrangements were published as part of the FRC's *Amendments to FRS 102 and other FRSs – Periodic Review 2024* (the 2024 periodic review). While the effective date for most of the amendments set out in the 2024 periodic review is accounting periods beginning on or after 1 January 2026 (with early application permitted provided all amendments are applied at the same time), an earlier effective date applies to the disclosures about supplier finance arrangements in Section 7 (periods beginning on or after 1 January 2025, with early application permitted).

Further information

If you have any questions about the amendments to FRS 102, please speak to your usual Deloitte contact.

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