THE 100 GROUP

Stakeholder Communications and Reporting Committee

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

21 March 2022

Dear Andreas Barckow,

Please find enclosed our response to your Exposure Draft: Supplier Finance Arrangements (ED/2021/10).

This response has been prepared by the 100 Group Stakeholder Communications and Reporting Committee and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 90% of the FTSE100 market cap as well as a number of equally significant sized unlisted businesses.

We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

In general, while we understand the purpose of the proposals, and appreciate that investors seek greater clarity over the classification of supplier payments between operating and financing cash flows, and the associated change in the risk profile, we do not feel that the level of disclosure proposed is commensurate with the associated risk to the business. We therefore propose that a more targeted and risk-based approach to disclosure would be more suitable to the needs of the users.

Our detailed responses to the questions outlined in the Discussion Paper are included as an appendix. We have sought to be clear and constructive in our feedback, providing where possible, practical solutions and alternatives to the issues and requirements identified. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Cat Hoad at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,

Iain MacKay,
Chair of the 100 Group Stakeholder Communications and Reporting Committee

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

APPENDIX 1 – Questions

Question 1 — Scope of disclosure requirements

The [Draft] Amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the [Draft] Amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in this Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the Board's proposals.

Paragraphs BC5–BC11 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

100G response — We agree with the proposal to use a description of the characteristics of an arrangement which would be classed as a supplier finance arrangement rather than attempting to define it. In particular, this allows for the description to remain valid as supplier financing arrangements inevitably evolve.

However, we note that the current definition of supplier financing is very broad and likely to capture a wide range of arrangements, from reverse factoring to letters of credit, which are commonly used in our membership base. A definition which is too broad risks driving significant volume of disclosure not aligned to the risk relating to these activities.

Question 2 — Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] Amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:

(a) the terms and conditions of each arrangement;

(b) for each arrangement, as at the beginning and end of the reporting period:

  i. the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;

  ii. the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and

  iii. the range of payment due dates of financial liabilities disclosed under (i); and

(c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.

Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

100G response — While we understand the desire for information expressed by investors and analysts, and accept that this proposed disclosure would meet their perceived needs, we have a few concerns.

Firstly, we see benefit in considering whether this is information which is truly useful to all or many users, or whether perhaps it is desirable to just a small vocal subset. If this were the case, then perhaps it could be more simply addressed through local regulatory frameworks.

Further, we have significant concerns around the high volume of disclosure that it will generate at a time when there is general agreement that financial statements need to be rationalised rather than lengthened. In the case of some businesses there could be hundreds of supplier financing arrangements, which may have complex and diverse elements but in most cases are very unlikely to have any significant risk associated with them. This would generate large amounts of reporting, in an area of relatively low risk for most businesses.

We would propose a more targeted risk-based approach to disclosure. Perhaps targeting outliers in terms of size as a proportion of supplier spend; volume of suppliers being financed through one institution; or where one supplier leverages multiple institutions; or length of time between payments on each end of the contract.

More specifically we see significant practical constraints to the requirements proposed in paragraph 44H(b)(ii). In our experience of a typical supplier finance arrangement, this information would not typically be available and would only become available through contractual, and possibly regulatory, changes. In general, the liability holder (the buyer) simply make payments on the due date to the collection agent without any visibility as to what the supplier has done at their end. Even if the buyer takes advantage of extended payment terms, that would not automatically provide them with more information about the supplier's relationship with the financing entity.

A possible solution may be to simplify the requirement somewhat, by rewording paragraph 44H(b)(ii) to require disclosure of the amounts scheduled to have been received under the terms of the agreement however the vagueness of this information does highlight it's lack of relevance to the disclosing entity.

Finally, regarding item (b)iii we note that some jurisdictions may have standard terms of several years for payment which could lead to significantly distorted outputs here.

Question 3 Examples added to disclosure requirements

Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] Amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively.

Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

100G response We agree with this proposal in so far as we believe that supplier finance arrangements should be considered when disclosing changes in liabilities arising from financing activities, and exposure to liquidity risk. However, we note that where the reporting entity enters into such arrangements solely for the benefit of the suppliers, then there is no concentration nor liquidity impact on the reporting entity and in fact, by providing suppliers with better arrangements to manage their own liquidity, the overall risk to the reporting entity is in fact reduced.

Finally, we feel that there may be an opportunity missed here with too much focus paid to the impact on financing and debt, and arguably not enough on the role of supplier financing arrangements within the working capital cycle and the associated risks to liquidity.