

FRED 84 issued (Lecture A838 – 1.52 minutes)

On 28 September 2023, the Financial Reporting Council (FRC) published FRED 84 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Supplier finance arrangements*.

A 'supplier finance arrangement' is one where a finance provider offers to pay an entity's suppliers and the entity then agrees to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, the suppliers are paid. Effectively, this provides the entity with extended credit terms which serves to improve cash flow. It can also work the other way, whereby the entity's suppliers are paid earlier than the related due date of the invoice.

Currently, FRS 102 provides no disclosure requirements on these sorts of arrangements. Consequently, the FRC recognises that users are not informed about the entity's use of supplier finance arrangements and the impact these have on the entity's financial position and cash flows.

The amendments proposed in FRED 84 are based on the IASB's® amendments to IAS® 7 *Statement of Cash Flows* which was issued in May 2023. These amendments added disclosure requirements to IAS 7 and IFRS® 7 *Financial Instruments: Disclosures*. However, the FRC have not proposed to include additional disclosure requirements based on those introduced in IFRS 7 on the grounds that these relate to the requirements on liquidity risk. Liquidity risk is not specifically addressed in FRS 102, other than for financial institutions.

As the amendments are proposed to be made to FRS 102, Section 7 *Statement of Cash Flows*, small entities and qualifying entities taking advantage of the disclosure exemption from the requirements of Section 7 will not be impacted by the proposed changes.

1.1 Proposed changes

The FRC propose to introduce paragraph 7.20B which provides a description of what is, and what is not, a supplier finance arrangement. The paragraph recognises that arrangements which are credit enhancements, such as financial guarantee contracts, or financial instruments which are used to settle directly with a supplier (such as a credit card) are not supplier finance arrangements.

Paragraph 7.20C is then proposed which sets out the disclosure requirements as follows:

An entity shall disclose in aggregate for its supplier finance arrangements:

- (a) *the terms and conditions of the arrangements (eg extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions;*

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para 7.20C*

(b) *as at the beginning and 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 financing arrangement;*
 - (ii) *the carrying amounts, and associated line items, of the financial liabilities disclosed under sub-paragraph (i) for which suppliers have already received payment from the finance providers; and*
 - (iii) *the range of payment due dates (eg 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 shall disclose explanatory information about those ranges or disclose additional ranges (eg stratified ranges); and*
- (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 (see paragraph 7.18).*

1.2 Proposed effective date and transition

The FRC propose to bring these requirements in for accounting periods commencing on or after 1 January 2025. The FRC does not expect that entities will need a significant amount of time to prepare the required information and early adoption of the amendments will be permissible.

It should also be noted that FRED 84 proposes relief from providing comparative information in the first year of adoption, including in respect of the opening balance information for the amounts which suppliers have received payments and the range of due dates.