

# FRED 84 Draft Amendments to FRS 102 Invitation to Comment

A public consultation issued by the Financial Reporting Council  
Comments from ACCA to the Financial Reporting Council

**14 December 2023**

**REF: TECH-CDR-2088**

## **About ACCA:**

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **247,000** members and **526,000** future members based in **181** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in Accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that Accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities. And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at [accaglobal.com](https://accaglobal.com).

## **For further enquiries please contact:**

Glenn Collins FCCA  
Head Technical and Strategic Engagement

[glenn.collins@accaglobal.com](mailto:glenn.collins@accaglobal.com)

Jessica Bingham ACA FRSA  
Regional Lead, Policy & Insights (UK, Europe,  
Eurasia, Middle East & Americas)

[jessica.bingham@accaglobal.com](mailto:jessica.bingham@accaglobal.com)

## GENERAL COMMENTS

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ACCA welcomes the opportunity to respond to the FRC's invitation to comment on the draft amendments to FRS 102. ACCA is supportive of the proposed amendments. ACCA has consistently been an advocate for improved reporting on poor payment practices.<sup>1</sup>

We believe in jurisdictional alignment to international standards, where possible, we therefore applaud the refining of FRS 102 to mirror IAS 7. This alignment is seen as instrumental in achieving more consistent and comparable reporting across supply chains, contributing to enhanced international coherence.

This increased reporting action by the FRC aligns with addressing issues related to late payments and, in certain cases, unfair contracts. ACCA welcomes this comprehensive approach, as it provides clearer insights into supply chain dependencies and strengthens the connection with ongoing efforts to combat late payment practices and promote fair business practices. This, in turn, may lead to potential improvements in access to finance, a critical aspect given the complex and challenging marketplace for SMEs. It increases the accountability of larger organisations as late payment remains a persistent problem across the UK economy. ACCA previously highlighted the fear that SMEs face with regard to the consequences of complaining about a larger, more powerful, customer.<sup>2</sup>

We approach these changes with a cautious yet optimistic outlook, we believe that the increase in transparency of reporting will have wide reaching benefits. Given the relief that supplier finance arrangements offer from the detrimental impacts of delayed payments, ACCA stresses that these amendments will not only enable a more holistic view of cash flow and firm liquidity but will also establish a vital link with existing late payment reporting.

ACCA recognises the need to balance the clarity provided by FRS 102 with careful consideration of implementation costs and the additional complexity introduced by any enhanced requirements. The timeliness of the final requirements, in light of current challenges faced by SMEs in accessing finance and recent announcements on late payment made in the

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<sup>1</sup> [Microsoft Word - Late Payment Consultation\\_final \(accaglobal.com\)](https://www.accaglobal.com/microsofword-late-payment-consultation-final)

<sup>2</sup> [Strengthen measures to tackle late payments say SME advisors | ACCA Global](https://www.accaglobal.com/strengthen-measures-to-tackle-late-payments-say-sme-advisors)

Autumn Statement 22 November 2023, will be crucial in ensuring a smooth transition. We seek to emphasise the importance of additional guidance and support from the FRC for a smooth transition.

**Question 1. Do you agree with the introduction of the proposed disclosure requirements in relation to supplier finance arrangements into FRS 102? If not, why not?**

ACCA agrees with the proposed amendments, and we have historically supported amendments that increase transparency in reporting, which we consistently advocate for.<sup>3</sup> Improving alignment with IAS 7 is a positive step to maintain the quality of accounting, provide national and international comparability between companies, enhance understandability of financial statements and reduce complexity for preparers and auditors.

Our work as a professional body has provided us with insights such as late payment practices being a consistent problem across the UK. FRS 102 offers clarity, simplified and standardised practices for SME financial reporting. Standards should be user-friendly and maintaining relevance to evolving business landscapes is crucial. Previous reforms on FRS 102 have made progress toward this objective, such as updating accounting requirements to align with changes in IFRS Accounting Standards—an initiative we actively supported.<sup>4</sup>

In this context, ACCA believes that the proposed update of the accounting standard related to supplier finance arrangements aligns with best practice. We have previously outlined our view that there are seven characteristics of good corporate reporting: relevance and materiality; completeness; reliability; comparability; verifiability; timeliness; and understandability. These factors play a crucial role in shaping financial practices, especially as certain outsourced supply chain payments lack transparency, with many currently falling outside of financing arrangements.

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<sup>3</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/Consultation-amends-payment-practices-performance-regs-2017.html>

<sup>4</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/consultation-FRED82-draft-amendments-FRS102-2023.html>

The amendments to FRS 102 will enable the users of accounts to understand an entity's financial position and risk management measures, including payment practices through the use of intermediaries. This offers stakeholders the necessary input for more informed decision-making. Including accessible payment performance data in disclosed information can help smaller firms make informed decisions about their customers.<sup>5</sup>

Effective regulation such as increased clarity of reporting will enhance accountability, as ACCA have previously noted, there are considerable negative impacts of payment practices where larger firms are able to claim 30-day payment periods despite SME's being unable to access the funds without charge until after 60-90 days. The increased transparency for supplier finance arrangements represents a crucial measure in acknowledging the prevailing challenges associated with late payments and enables safeguards to be put into place. Despite numerous initiatives<sup>6</sup>, the persistence of late payment issues, especially for SMEs, remains a concern.<sup>5</sup> Problems securing prompt payment increased sharply in the second quarter of 2023 and are high compared to the historical average.<sup>7</sup> Maximising the information available to small firms through payment performance disclosures can strengthen the late payment landscape to create the best environment to enable the economy to flourish and support the financial health of small and medium-sized businesses.

**Question 2. Do you believe that the disclosure required by sub-paragraph 7.20C(b)(ii) will provide useful information to users, proportionate to the cost and effort involved for preparers?**

ACCA does believe that the disclosure will provide useful information to users. Specifically, the inclusion of details about terms and conditions, along with the impact on financial liabilities, as

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<sup>5</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/consultation-satutory-review-small-business-commissioner.html>

<sup>6</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/consultation-satutory-review-small-business-commissioner.html>

<sup>7</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/september/Call-evidence-Industry-Regulatory-Government-Policy-Issues-access-finance.html>

set out in the proposed amendments, will provide a comprehensive view of an entity's financial health and risk exposure.

Whilst we are in favour of the broadest possible transparency around payment practices, this must be balanced against the ease with which the reforms can be implemented, and the additional complexity introduced by any enhanced requirements such as increased capacity and training at a time of high costs and financial pressure to businesses. The cost and effort involved needs to be balanced with other regulatory demands that are associated with the timing of the amendments to FRS 102, such as Making Tax Digital (MTD). Disclosure of supplier finance arrangements will introduce complexity not only because of the aggregate disclosure, but because it might require new reporting processes to be put in place.

As we have stated in previous consultations, firms' increased focus on supply chain integrity, including capture of data analysis and reporting, will enable ever faster and easier data analysis.<sup>8</sup> At the same time, this fast-changing space would need more frequent review of the specification of reporting requirements by the FRC, so this balance is protected. ACCA therefore emphasises the importance of the FRC honouring its commitment to additional guidance and support and that this must be available in a timely manner.

**Question 3. Do you agree with the proposed effective date for these amendments? If not, what difficulties do you foresee?**

ACCA agrees with the effective date for these amendments though we do foresee some hinderance in successful implementation. The timeframe must accommodate necessary adjustments and provide sufficient time to address potential hurdles, including the need for training and system updates. The challenges associated with gathering and reporting the required information, particularly for entities that have not previously disclosed this information, should be considered.

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<sup>8</sup> <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2023/april/Consultation-amends-payment-practices-performance-regs-2017.html>

However, ACCA agrees that a one-year period is reasonable, subject to the timely finalisation and publication of these amendments and the provision of prompt and appropriate guidance from the FRC to ensure a smooth transition.

**Question 4. Do you have any comments on the consultation stage impact assessment, including those relating to assumptions, sources of relevant data, and the costs and benefits that have been identified and assessed? Please provide evidence to support your views.**

While the assumptions, sources of data and identified costs and benefits provide a thorough foundation, we would note that there might be additional costs and difficulties not currently being considered. The increasing demand for businesses to collect data on a variety of metrics, coupled with existing capacity constraints, should be considered.

ACCA has noted a dissonance between the increasing complexity and volume of financial reporting standards and functions and the static nature of financial teams. The proposed amendments under consideration will introduce additional complexity, amplifying the workload for finance teams and potentially hindering their ability to respond adapt to these new requirements in the timely manner expected by the FRC.

ACCA will continue to support the upskilling of finance teams by providing resources and guidance, though as previously mentioned, as stated above the FRC should proactively offer guidance and assistance to businesses and finance teams seeking clarification on the impending changes, recognising the need for a collaborative approach.

ACCA received no significant feedback indicating that this would impose a disproportionate burden.

While the current impact assessment seems to capture the expected number of companies utilising supplier finance arrangements, it is crucial to acknowledge the potential for shifts in circumstances, particularly in response to changing economic conditions.

Late payments or challenges in accessing finance may drive more companies toward adopting supplier finance arrangements, broadening the scope of these amendments in the short term. This aspect should be factored into the analysis of the complexity and burden associated with the proposed reporting requirements. Given the rising significance of supplier finance arrangements, is opportunity for future improvement of the assumptions on implementation for companies following FRS 102. An example of how this updated cash flow statement should look, could prove of assistance to businesses.

Recent initiatives aimed at addressing late payment issues<sup>9</sup> could further influence the prevalence of supplier finance arrangements. Businesses seeking to navigate new requirements might explore alternative financial arrangements. For instance, companies bidding for government contracts now need to demonstrate compliance with stricter payment periods throughout their supply chain, potentially impacting the landscape of supplier finance.

In general, ongoing initiatives addressing late payment issues should be closely monitored to ensure that regulations remain up-to-date and grounded in accurate assumptions related to prevalence, costs, and benefits.

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<sup>9</sup> Autumn Statement. These measures include a condition, from April 2024, that any company bidding for large government contracts should demonstrate that they pay their own invoices within an average of 55 days. This was part of a range of measures published today in the Prompt Payment and Cashflow Review, published on November 22, 2023.