IFRS

STAFF PAPER

July 2021

IASB Meeting

Project	Supplier Finance Arrangements		
Paper topic	Transition, Early Application and Due Process		
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Introduction

1. At its meeting in June 2021, the International Accounting Standards Board (Board) decided to add a narrow-scope, disclosure-only, standard-setting project to its workplan related to supplier finance arrangements (for example, reverse factoring or similar arrangements). The project involves the Board proposing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*.

2. Appendix B to this paper reproduces excerpts from the June 2021 IASB *Update* summarising the Board's tentative decisions with respect to the proposed amendments.

3. The objective of this paper is to:

   (a) ask the Board whether it agrees with our recommendations on transition and early application of the proposed amendments;

   (b) set out the steps in the IFRS Foundation *Due Process Handbook* that the Board has taken in developing the proposed amendments;

   (c) ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements; and

   (d) ask whether any Board member intends to dissent from the publication of the Exposure Draft.

Structure of the paper

4. This paper is structured as follows:

   (a) Summary of staff recommendations (paragraph 6);

   (b) Background and summary of the proposed amendments (paragraph 7–9);

   (c) Transition, effective date and early application (10–15); and

   (d) Due process steps and permission for balloting (paragraphs 16–21).

5. This paper includes two appendices:

   (a) Appendix A—Due process steps taken in developing the proposed amendments; and

   (b) Appendix B—Excerpts from the June 2021 IASB *Update*.

Summary of staff recommendations

6. We recommend that the Board:

   (a) require entities to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) (paragraphs 10–11);

   (b) not provide an exemption for first-time adopters (paragraph 12);

   (c) permit an entity to apply the amendments earlier than their effective date (paragraphs 13–15); and

   (d) allow a comment period of no less than 120 days (paragraphs 16–18).

Background and summary of the proposed amendments

7. The IFRS Interpretations Committee (Committee) published the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* in December 2020, which explains the existing IFRS requirements applicable for an entity that has entered into a supplier finance arrangement. However, input received indicated that information an entity provides applying existing requirements would not meet all investor needs. Investors may be unable to obtain the information they need about the terms of supplier finance arrangements and how the arrangements affect the entity's liabilities and cash flows. Accordingly, the Board decided to add to its work plan a narrow-scope standard-setting project related to supplier finance arrangements.

8. The Board tentatively decided that, to meet the proposed disclosure objectives, entities be required to disclose:

    (a) the key terms and conditions of a supplier finance arrangement; and

    (b) at the start and end of the reporting period:

        (i) the aggregate amount of payables that are part of the arrangement;

        (ii) the aggregate amount of the payables disclosed under (i) for which suppliers have already received payment from the finance provider;

        (iii) the range of payment terms, expressed in time, of payables disclosed under (i); and

        (iv) the range of payment terms, expressed in time, of trade payables that do not form part of the arrangement.

9. The Board also tentatively decided to propose adding supplier finance arrangements as an example within the liquidity risk disclosure requirements in IFRS 7.

Transition, effective date and early application

Transition

10. IAS 8 requires an entity to apply a change in accounting policy retrospectively upon the initial application of an IFRS Standard that does not include specific transition requirements, except to the extent it is impracticable to do so.

11. We recommend that the Board require entities to apply the proposed amendments retrospectively in accordance with IAS 8. We considered whether the benefits of requiring entities, on transition, to provide comparative information as if the amendments had always been applied would outweigh the costs. In our view, the benefits of retrospective application would outweigh the costs because:

    (a) the comparative information would help users of financial statements identify and assess changes and trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows.

    (b) we would expect the costs of obtaining the information to not be excessive.

12. Because of the disclosure-only nature of the proposed amendments, we see no reason to provide an exemption for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*)[1].

Effective date and early application

13. We will discuss the effective date at the time of finalising the amendments, should the Board decide to proceed with them.

14. The amendments, if finalised, will enhance the information entities provide about supplier finance arrangements. We therefore see no reason to prohibit an entity from applying the proposed amendments earlier than the effective date.

15. We recommend permitting an entity to apply the amendments earlier than their effective date.

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[1] Paragraph 20 of IFRS 1 states that the Standard does not provide exemptions from the presentation and disclosure requirements in other IFRS Standards.

Due process steps and permission for balloting

Comment period

16. Paragraph 6.7 of the *Due Process Handbook* states that the Board 'normally allows a minimum period of 120 days for comment on an exposure draft'. However, if the matter is narrow in scope and urgent, the Board may consider a shorter comment period.

17. The proposed amendments are narrow in scope but, in our view, not sufficiently urgent that they would warrant a comment period of less than 120 days. Although the proposed amendments would improve the information entities provide about supplier finance arrangements, we note that there are already requirements in IFRS Standards applicable to these arrangements (set out in Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring*). Applying the existing requirements would already meet some investors needs in the period until the amendments are effective, should the Board decide to finalise them.

18. We therefore recommend a comment period of no less than 120 days for the Exposure Draft on the proposed amendments.

Intention to dissent

19. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the publication of the Exposure Draft.

Proposed timetable for balloting and publication

20. We plan to begin the balloting process in the near future and expect the Exposure Draft to be published in the fourth quarter of 2021.

Confirmation of due process steps

21. Appendix A sets out the required due process steps in developing and publishing an Exposure Draft together with the status of, and any planned action for, these steps. We

note that the applicable due process steps to date for balloting of the Exposure Draft have been completed.

Questions to the Board
1. **Transition**—does the Board agree with our recommendation to: a. require entities to apply the proposed amendments retrospectively in accordance with IAS 8; and b. not provide an exemption for first-time adopters? 2. **Early application—**does the Board agree with our recommendation to permit an entity to apply the proposed amendments earlier than the effective date? 3. **Comment period**—does the Board agree with our recommendation to allow a comment period of no less than 120 days for the Exposure Draft? 4. **Dissent**—does any Board member intend to dissent from publication of the Exposure Draft? 5. **Permission to ballot**—is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?

Appendix A—Due process steps taken in developing the proposed amendments

A1. The following table summarises the required due process steps taken in developing the proposed amendments. The table does not list all the optional steps.

Step	Actions
Board meetings are held in public, with papers available for observers. All decisions are made in public sessions	• The Board discussed the matter at its meetings in June 2021 (see Agenda Paper 12A) and July 2021 (this Agenda Paper). • The IFRS Interpretations Committee (Committee) discussed the matter at its meetings in April 2020, June 2020, and December 2020.
Consultation with the Trustees and the Advisory Council	• The Trustees and Advisory Council will be updated on the project as part of their discussions of the Board's technical activities.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs	• The proposed amendments would provide information (both quantitative and qualitative) that helps users of financial statements determine the effects of supplier finance arrangements on the entity's liabilities and cash flows. • We expect the benefits of the proposed amendments for users of financial statements to outweigh the costs for preparers of providing the additional information proposed. We note that the proposals ask for relatively few additional pieces of information. • Because the amendments are narrow in scope, we see no need to have a separate effects analysis.
Outreach meetings with stakeholders	• During 2020 and 2021 to date, we obtained input from (a) investors and analysts, (b) financial institutions that act as the finance provider in supplier finance arrangements, (c) an entity that enters into these arrangements, (d) Committee members, and (e) 22 respondents to the Committee's tentative agenda decision.
Finalisation	
Due process steps reviewed by the IASB	• This paper asks the Board to review the due process steps for the project.

The Exposure Draft has an appropriate comment period	• This paper seeks the Board's approval for a comment period of no less than 120 days. The proposed comment period is in line with the minimum period specified in paragraph 6.7 of the *Due Process Handbook* and, therefore, no special approval is required from the Due Process Oversight Committee.
Drafting	
Drafting quality assurance steps are adequate	• The translations, editorial and taxonomy teams will review drafts during the balloting process.
Publication	
Exposure Draft published	• The Exposure Draft will be made available on the project website when published.
Press release to announce publication of the Exposure Draft	• A press release will be published on our website with the Exposure Draft.

Appendix B—Excerpts from June 2021 IASB *Update*

B1. This appendix reproduces excerpts from the June 2021 IASB *Update* summarising the Board's tentative decisions with respect to the proposed amendments.

Supplier Finance Arrangements: Whether to undertake narrow-scope standard-setting (Agenda Paper 12A)

The Board discussed what it had heard from investors and analysts, the Committee and other stakeholders about investor information needs related to supplier finance arrangements (such as reverse factoring and similar arrangements).

Whether to undertake narrow-scope standard-setting

The Board tentatively decided to add a narrow-scope standard-setting project to its work plan to meet these investor information needs.

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Disclosure scope, objectives and requirements

The Board tentatively decided that the project would develop disclosure requirements for supplier finance arrangements, but not go beyond such arrangements (that is, the project would not develop requirements for arrangements an entity enters into to fund either receivables from customers or inventories).

The Board tentatively decided to explain the type of arrangements to be included within the project's scope, instead of proposing detailed definitions.

The Board tentatively decided to propose amending IAS 7 *Statement of Cash Flows* to add:

a. an overall disclosure objective: to help users of financial statements understand the nature, timing, and uncertainty of cash flows arising from supplier finance arrangements; and
b. specific disclosure objectives:
    i. to provide quantitative information that helps users of financial statements determine the effects of supplier finance arrangements on an entity's financial position and cash flows; and

ii. to provide qualitative information to help users of financial statements understand the risks that arise from supplier finance arrangements.

The Board tentatively decided to propose that, to meet the proposed disclosure objectives, entities be required to disclose:

a. the key terms and conditions of a supplier finance arrangement; and
b. at the start and end of the reporting period:
   i. the aggregate amount of payables that are part of the arrangement;
   ii. the aggregate amount of the payables disclosed under (i) for which suppliers have already received payment from the finance provider;
   iii. the range of payment terms, expressed in time, of payables disclosed under (i); and
   iv. the range of payment terms, expressed in time, of trade payables that do not form part of the arrangement.

The Board tentatively decided to propose adding supplier finance arrangements as an example within the liquidity risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

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