IFRS® Foundation

Supplier Finance Arrangements

Capital Markets Advisory Committee (CMAC)

Agenda Paper AP3

November 2021

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Contents

Purpose of this session

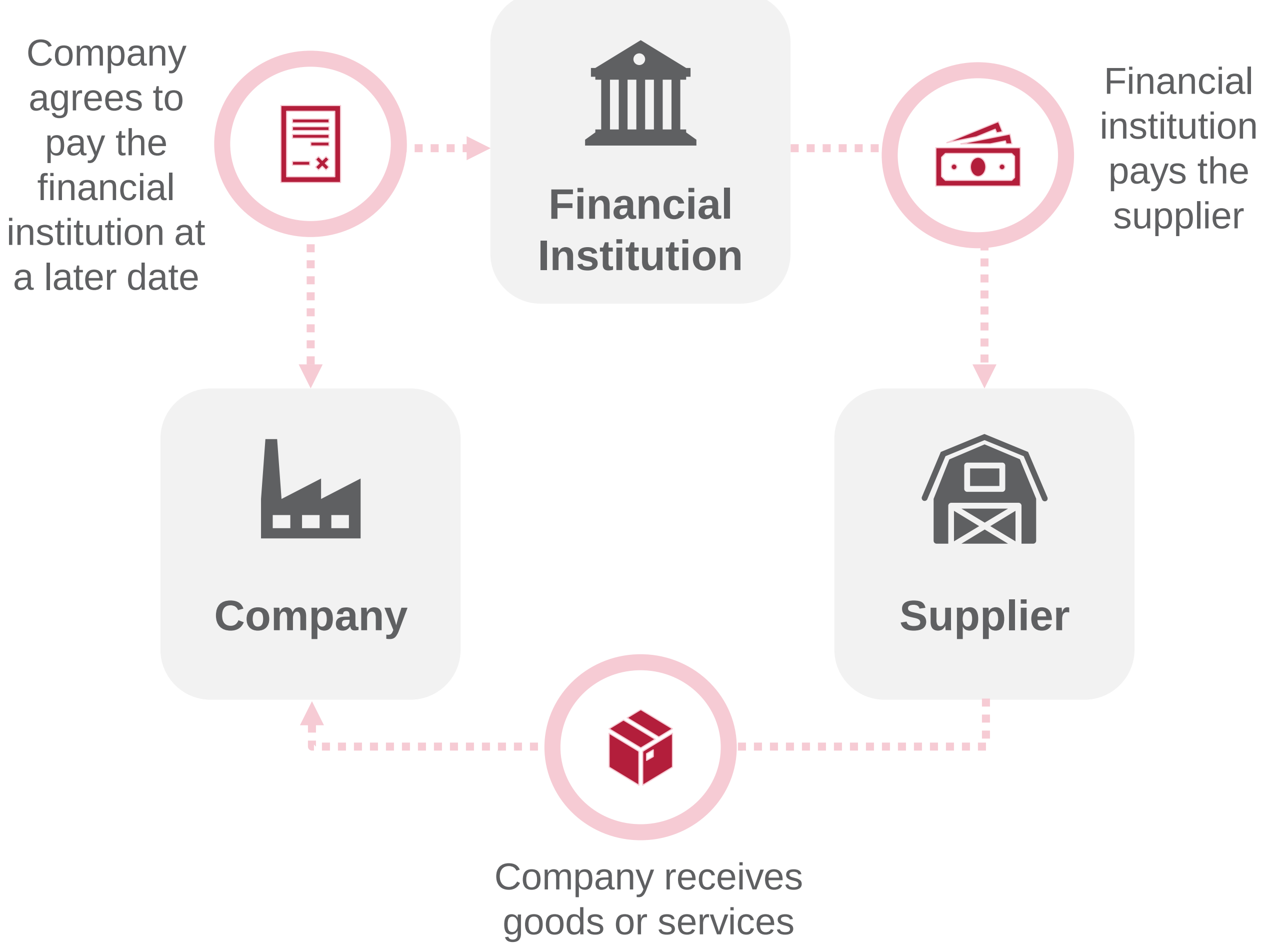
Purpose

- to provide an overview of the disclosure-only, narrow-scope, standard-setting project about supplier finance arrangements
- to request feedback on the tentative decisions of the Board which will be reflected in an upcoming exposure draft

Background

Work of the IFRS Interpretations Committee

Reverse factoring arrangement (Supply chain finance)



Questions

How does a company present liabilities to which reverse factoring arrangements relate?

What information about reverse factoring arrangements is a company required to disclose in its financial statements?

Project timeline

We are here

Dec 2020	Q1-Q2 2021	Q2 2021	Expected: Q4 2021	Expected: H1 2022
Interpretations Committee published an Agenda Decision	Staff analysed investor information needs and developed recommendations	Board added a narrow-scope disclosure project	Board publishes Exposure Draft for public comment for 120 days	Comment period ends in H1 and Board determines next steps

Information on how supplier finance affects:

- an entity's total debt
- operating and financing cash flows
- liquidity risk and risk management

New disclosure requirements with a proposed scope that explain the characteristics of the arrangements that give rise to the particular information needs of investors.

See next section

Tentative decisions of the Board

Proposed amendments

IAS 7 *Statement of Cash Flows*	• Describe typical characteristics of a supplier finance arrangement • Add requirements to disclose information 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 (see next slide) • Add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities
IFRS 7 *Financial Instruments: Disclosures*	• Add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to liquidity risk

Proposed disclosure objective and requirements to be added to IAS 7

Disclosure objective: To enable users of financial statements to assess the effects of supplier finance arrangements on the entity's liabilities and cash flows.

An entity would be required to disclose:

(a) The terms and conditions of each supplier finance arrangement.

(b) 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 each supplier finance arrangement and the line item(s) in which they are presented;
- ii) the carrying amount of the financial liabilities disclosed under i) for which suppliers have already received payment from the finance providers;
- iii) the range of payment due dates of financial liabilities disclosed under i); and
- iv) the range of payment due dates of trade payables that do not form part of a supplier finance arrangement.

An entity would be permitted to aggregate the information for different arrangements when the terms and conditions are similar.

An entity would be required to disclose additional information about its supplier finance arrangements if necessary to meet the disclosure objective.

Example of *quantitative* information

Annual financial statements for the reporting period ended 31 December 20X1

For each supplier finance arrangement

	At 31 December 20X0	At 31 December 20X1
(i) Carrying amount of liabilities that are part of the arrangement presented in 'trade and other payables'	CU1,000	CU1,500
(ii) Carrying amount of liabilities under (i) for which suppliers have been paid by finance providers	CU800	CU1,050
(iii) Range of payment due dates of liabilities that are part of the arrangement	80-90 days after invoice date	85-90 days after invoice date
(iv) Range of payment due dates of trade payables that are not part of an arrangement	60-65 days after invoice date	60-70 days after invoice date

Questions for CMAC members

Questions for CMAC members

Questions

- Do you have any questions about the Board’s tentative decisions?
- What are your views on the proposals?
    - Do you agree with the proposed disclosure objective?
    - Do you think the proposed disclosures (see slide 9) would enable users of financial statements to assess the effects supplier finance arrangements have on an entity’s liabilities and cash flows?
    - Which of the proposed disclosures do you expect will be most useful to you? Which would be least useful to you, particularly if cost is raised as a concern by preparers?

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