IFRS

STAFF PAPER

July 2022

IASB® meeting

Project	Supplier Finance Arrangements	
Paper topic	Feedback Summary—Scope	
CONTACT(S)	Dennis Deysel Jenifer Minke-Girard	ddeysel@ifrs.org jminke-girard@ifrs.org

Objective and structure

1. As discussed in Agenda Paper 12A, this paper summarises respondents' comments on the proposed scope of the proposals in the Exposure Draft *Supplier Finance Arrangements*.

2. This paper includes:

   (a) background (paragraphs 4–5);

   (b) summary of feedback (paragraphs 6–20); and

   (c) questions for the IASB.

3. Some respondents made wording suggestions that we will consider in drafting but are not summarised in this paper.

Background

4. Paragraph 44G of the proposed amendments to IAS 7 *Statement of Cash Flows* states:

   > A supplier finance arrangement is characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or

the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

5. Paragraphs BC5–BC11 of the Basis for Conclusions on the Exposure Draft explain that the IASB decided:

   (a) to use the term 'supplier finance arrangements' to reflect the scope of its proposals, which comprises arrangements that finance amounts an entity owes its suppliers;

   (b) to describe supplier finance arrangements in a manner that:

      (i) would capture all supplier finance arrangements, irrespective of the reason the entity entered into the arrangement or where and how it presents and classifies the related liabilities and cash flows in its statements of financial position and cash flows.

      (ii) aims to avoid the description becoming outdated as new practices and arrangements develop.

      (iii) captures the characteristics of the arrangements that give rise to particular investor information needs.

      (iv) excludes arrangements that finance receivables or inventories. A wider scope might result in delaying improvements to the required disclosures for supplier finance arrangements and, among other requirements already in IFRS Accounting Standards, paragraphs 42A–42H of IFRS 7 apply to some types of receivables financing arrangements.

Summary of feedback

General comments

6. Many respondents agree with describing—rather than attempting to develop a detailed definition for—supplier finance arrangements along the lines of the proposed description in paragraph 44G, for the reasons set out in the Basis for Conclusions. Some of these

respondents, including accountancy bodies, investors, preparers, standard-setters and regulators, say a description is flexible and practical, and reduces structuring opportunities. An accounting firm says it found the description to be helpful and complete—that is, it identified no arrangement that an entity uses to finance amounts owed to suppliers that would not be captured by the description.

7. Many respondents ask questions about, or suggest clarifications to, aspects of the description of supplier finance arrangements—these comments are discussed further in paragraphs 9-20 of this paper.

8. A few respondents suggest alternative approaches. For example:

   (a) an investor suggests 'defining the supplier finance arrangements in accounting terms, with descriptions of other services that are also used by the debtor beyond commercial settlement, including descriptions of any other agreements with banks or finance agents that are linked to the provision of commercial settlement services'; and

   (b) a preparer body and an individual suggest developing a description that is the same as that proposed by the US Financial Accounting Standards Board (FASB) in its project *Disclosure of Supplier Finance Program Obligations*.

'A supplier finance arrangement is characterised by…'

9. A few respondents, including mainly accounting firms and standard-setters, suggest adding characteristics to the proposed description in paragraph 44G, such as:

   (a) the entity proactively participates in the establishment or design of the arrangement. These respondents suggest the IASB consider whether it is appropriate and relevant for an entity—that is a passive debtor within an arrangement—to provide the proposed disclosures.

   (b) the entity confirms to the finance providers that a supplier invoice is valid. This characteristic is reflected within the FASB's proposals.

(c) the entity issues an undertaking to pay an amount in favour of the finance providers. This characteristic is also reflected within the FASB's proposals.

(d) the finance cost associated with the arrangement is calculated with reference to the entity's credit rating.

10. A few, mainly accountancy bodies, also suggest clarifying that a supplier finance arrangement may include a range of contractual agreements between some or all of the parties involved (the entity, finance providers and suppliers).

'…one or more finance providers…'

11. A few respondents, including accountancy bodies, an accounting firm, standard-setters, an investor and a regulator, suggest clarifying the term 'finance providers' by, for example:

(a) defining or describing 'finance providers' because it is unclear whether the term refers only to financial institutions or would include any type of entity or natural person.

(b) expanding the description to include an 'intermediary'—in addition to a finance provider—because a supplier finance arrangement may be between a buyer and an intermediary that is not a finance provider (for example, an entity that offers supply chain management services). A preparer suggests limiting the description to 'finance providers acting as intermediaries'.

(c) changing 'finance providers' to 'parties' to avoid any possible misunderstanding of who is considered to be a finance provider.

(d) limiting the term to finance providers of the entity (and thus excluding finance providers of suppliers).

'…offering to pay amounts an entity owes its suppliers…'

12. Paragraph BC7 of the Basis for Conclusions on the Exposure Draft explains that an entity buys goods and services from suppliers on agreed payment terms. The buyer then enters

into a supplier finance arrangement typically characterised by the finance providers offering to pay the buyer's suppliers on a date before the buyer pays the amount it owes for the goods or services. 'Offering to pay…' implies a choice for either the entity or the suppliers to obtain financing. A few respondents raise questions about this aspect of the description of a supplier finance arrangement and suggest clarifying whether particular arrangements are within the description—for example:

(a) an accounting firm says some supplier finance arrangements do not allow suppliers to choose to be paid earlier with a discount. Another accounting firm questions whether an arrangement is in scope if the entity (buyer) has a right to obtain financing but has not exercised the option during the reporting period.

(b) a few accounting firms say 'amounts an entity owes its suppliers' could be read to exclude from the scope arrangements in which the finance providers become the legal owner of the trade receivables (amounts owed to suppliers).

(c) an investor body says paragraph 44G needs to be clarified to reflect the discussion in paragraph BC7 that helps to distinguish between reverse factoring arrangements and those in which 'a buyer arranges for a finance provider to offer conventional but slightly more advantageous factoring terms to suppliers (should they wish to use them) at no additional cost to the buyer and with no contractual obligation on the part of the buyer'.

'…the entity agreeing to pay the finance providers at the same date as, or a date later than, suppliers are paid…arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date…'

13. Paragraph BC8 of the Basis for Conclusions on the Exposure Draft explains that the IASB considered different types of supplier finance arrangements, such as:

(a) *an arrangement in which the entity does not obtain an extension of credit from the finance providers*—the entity settles invoices that are part of the arrangement on the due date as negotiated with its suppliers. However, suppliers (that are part of the arrangement) can choose to be paid earlier than the invoice due date by the finance providers, at a discount. It may (or may not) be that the entity has negotiated extended payment terms with its suppliers in the light of the supplier finance arrangement being in place.

(b) *an arrangement in which the entity obtains extended credit from the finance providers*—the entity pays the finance providers at a date later than the invoice due date for an amount that is more than the invoice amount; the finance providers pay suppliers the amounts they are owed by the entity on the invoice due date.

14. A few respondents, including accounting firms, an individual, a preparer and a standard-setter, suggest adding the wording from paragraph BC8 to the description in paragraph 44G to clarify that both of these types of supplier finance arrangements are within the scope of the proposals. A preparer body, however, says an entity and its suppliers may have agreed that the suppliers can sell or otherwise factor their receivables against the entity without the entity having knowledge of that activity. It says the examples in paragraph BC8 are oversimplified.

15. A few respondents comment on the payment terms in supplier finance arrangements:

(a) a preparer says it would be reasonable to describe a supplier finance arrangement as one in which payments are made (i) to any third-party finance provider or intermediary for goods or services provided by the supplier, regardless of payment terms; and (ii) directly to a supplier for goods or services for which terms exceeded ‘ordinary’ payment terms (which may be defined as those typically exceeding 90 days).

(b) an accounting firm suggests clarifying that an entity is either paying at the same time as the ‘ordinary’ terms or later than this term.

(c) a few respondents, including an accounting firm, a standard-setter and a law firm, say the proposed description could be read to imply an arrangement is in scope only if invoice payment terms have been extended. They suggest clarifying whether ‘ordinary’ payment terms need to be affected by the arrangement to be within the scope of the proposals.

16. A few respondents, including standard-setters, an individual and a regulator, say ‘agreeing to pay the finance providers’ may be too narrow because an arrangement may allow or require an entity to pay its suppliers, instead of the finance providers.

Types of supplier finance arrangements

All supplier finance arrangements are subject to the same requirements

17. Paragraph BC9 of the Basis for Conclusions on the Exposure Draft says:

> An entity may enter into supplier finance arrangements for different reasons. Typically, these arrangements aim to improve working capital (for example, through extended payment terms) and, additionally or alternatively, to assist the entity’s suppliers (for example, through alternative and more affordable financing).

18. Many respondents, including many preparers and preparer bodies and some standard-setters, question whether all the proposed disclosure requirements need to apply to all types of supplier finance arrangements because different types of arrangements may have different effects on an entity’s liabilities, cash flows and liquidity risk. These respondents suggest—as an alternative—that the disclosure requirements apply only:

(a) when the supplier finance arrangement affects the entity’s working capital, cash flows, debt levels or concentration of liquidity risk (and not, for example, when arrangements are only used to achieve an entity’s environmental, social and corporate governance strategies and objectives);

(b) when the trade payable is derecognised applying IFRS 9 *Financial Instruments* and a new financing liability is recognised;

(c) to ‘outlier’ arrangements in terms of: (i) the size as a proportion of the total supplier spend; (ii) the volume of suppliers being financed through one institution; (iii) when one supplier leverages multiple finance providers; or (iv) the length of time between payments being made by the finance providers and by the entity;

(d) when the arrangement changes the 'original' terms and conditions negotiated between the entity and its suppliers; or

(e) after considering particular indicators, for example:

   (i) do the 'ordinary' payment terms change and, if so, was it because of negotiations between the entity, suppliers or finance providers?

   (ii) is the entity involved in negotiations between suppliers and the finance providers?

19. Two standard-setters say, from a conceptual perspective, different types of supplier finance arrangements need different disclosure requirements. However, they acknowledge the challenges of distinguishing between arrangements. In the absence of a better cost-benefit solution, they agree with the proposal to have the same disclosure objective and requirements apply to all supplier finance arrangements.

Arrangements excluded from the scope of the proposals

20. Some respondents, including accountancy bodies, accounting firms, an investor body, preparers and preparer bodies and standard-setters, raise concerns about the proposed description capturing arrangements that, in their view, it should not. They suggest either changing the description or explicitly listing arrangements that are outside the scope of the proposals. For example:

(a) *credit cards*—a supplier is paid before the buyer pays the credit-card company.

(b) *letters of credit*—a bank guarantees that a buyer's payment to a supplier will be received on time and for the correct amount. If the buyer is unable to make a payment, the bank will be required to cover the full or remaining amount. Letters of credit are commonly used for international trade.

(c) *bank acceptance bills and negotiable certificates of deposit*—negotiable short-term securities issued by trading banks used to effect short-term financing for periods typically between 30–180 days.

(d) *supplier factoring arrangements or an equitable assignment*—a supplier receives early payment from the finance provider, but the buyer is not involved and may be unaware of the arrangement.

(e) *financial guarantee*—the finance provider agrees to pay a supplier if the buyer fails to settle the trade payable by a specified date. The finance provider then seeks recovery by collecting the defaulted amount from the buyer.

(f) *other forms of short-term financing*—for example, import loans and overdraft facilities.

Questions for the IASB

Does the IASB have any questions on the feedback presented in this Agenda Paper? Are there any topics on which IASB members would like more details in future meetings?