

STAFF PAPER

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IASB® meeting

Project	Supplier Finance Arrangements	
Paper topic	Feedback Summary—Disclosure objective and requirements	
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Objective and structure

1. As discussed in Agenda Paper 12A, this paper summarises respondents' comments on the proposed disclosure objective and requirements within the Exposure Draft *Supplier Finance Arrangements*.
2. This paper includes:
 - (a) background (paragraphs 4–8);
 - (b) summary of feedback (paragraphs 9–38); 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 44F of the proposed amendments to IAS 7 *Statement of Cash Flows* requires an entity to disclose information about its supplier finance arrangements that enables users of financial statements (investors) to assess the effects of those arrangements on an entity's liabilities and cash flows.

5. To meet the disclosure objective in paragraph 44F, proposed paragraph 44H requires an entity to disclose—for each supplier finance arrangement—qualitative and quantitative information as at the beginning and end of the reporting period. The feedback summary below includes details about each requirement and the reasons for proposing it (as set out in the Basis for Conclusions on the Exposure Draft).
6. Proposed paragraph 44I also:
 - (a) requires an entity to disclose additional information about its supplier finance arrangements necessary to meet the disclosure objective; and
 - (b) permits an entity to aggregate the information provided to meet the disclosure objective for different arrangements only when the terms and conditions of those arrangements are similar.
7. Paragraphs BC12–BC15 of the Basis for Conclusions explain the IASB’s rationale for developing the proposed new disclosure requirements. Those requirements are designed to complement the current requirements in IFRS Accounting Standards and are intended to enable investors to:
 - (a) assess how supplier finance arrangements affect an entity’s liabilities and cash flows—both in terms of the amount of financial liabilities subject to those arrangements and the effect on key financial ratios, such as free cash flows or days payable; and
 - (b) understand the effect of supplier finance arrangements on an entity’s exposure to liquidity risk through the concentration of funding sources and how the entity would be affected if the arrangements were no longer available to it.
8. Paragraphs BC17–BC19 explain the IASB’s consideration of the costs to comply with the proposed requirements. The IASB’s aim is to provide the greatest benefit to investors without asking entities to provide an excessive amount of additional information—in other words, the proposals are intended to balance implementation costs for entities and others with the benefits of the information for investors.

Summary of feedback

9. The summary is organised as follows:
- (a) the disclosure objective (paragraphs 10–12);
 - (b) general comments about the disclosure requirements (paragraphs 13–15);
 - (c) terms and conditions (paragraphs 16–18);
 - (d) liabilities that are part of the arrangement (paragraphs 19–25);
 - (e) liabilities for which suppliers have already received payment (paragraphs 26–31);
 - (f) payment due dates of liabilities that are part of each arrangement and trade payables that are not part of an arrangement (paragraphs 32–35); and
 - (g) level of aggregation (paragraphs 36–38).

The disclosure objective

44F An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity’s liabilities and cash flows.

10. Most respondents agree (or do not disagree) with the proposed disclosure objective. A few of these respondents agree to the extent it applies to specific types of supplier finance arrangements. (See Agenda Paper 12B for a summary of respondents’ comments on whether all supplier finance arrangements should be subject to the same requirements.)
11. A few respondents say, in addition to the effects on an entity’s liabilities and cash flows, the disclosure objective needs to include the effects of supplier finance arrangements on the entity’s liquidity risk and risk management and on its financial performance.
12. A few respondents suggest that the IASB include a reference to ‘materiality’ to avoid entities providing excessive information. A preparer says the disclosure objective requires entities to predict what information investors may need and this ‘second-guessing’

imposes undue burden on preparers; this respondent suggests rewording the objective to enable ‘a reasonable understanding’ of the effects of supplier finance arrangements.

General comments about the disclosure requirements

13. Many respondents—across all types of respondents and including many investors and investor bodies—generally agree with the proposed disclosure requirements, noting that investors specifically asked for transparency about supplier finance arrangements. They say the information would enhance understandability and comparability when assessing performance and liquidity across different entities. For example, the University of California says, based on a recent academic study:

We agree with this proposal. Providing these disclosure will allow users of financial statements to understand the effect of SFP programs on the financial statements. Our study documents that entities using SFPs tend to exhibit stronger fundamentals, compared to entities that do not use SFPs. However, without appropriate disclosures about SFPs, financial statement users cannot understand the reasons for the difference in fundamentals.

14. A few respondents—including investors, an investor body, an accountancy body and a preparer—suggest requiring entities to disclose (a) the effect of supplier finance arrangements on operating cash flows, or (b) the component of trade payables that is akin to bank debt and by how much operating cash flows have been affected during the period. They say this would simplify the proposals significantly, rather than providing investors with raw data and expecting them to do their own calculations. The Footnotes Analyst says:

While the disclosures may, in theory, give investors the necessary information, if the complexity means that most investors do not make the effort to do the appropriate calculations, the practical benefit for capital markets may be limited.

15. A preparer says, while agreeing with the overall disclosure objective, the prescriptive list of disclosure requirements is too detailed, introduces a checklist-type approach and could result in lengthy disclosures obscuring more relevant information.

Terms and conditions

The requirement:

44H(a) To meet the objective in paragraph 44F, an entity shall disclose... the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided).

The reason it enables investors to assess the effect of the arrangements:

BC14(a) the terms and conditions of each supplier finance arrangement...would identify the existence of supplier finance arrangements and explain their nature.

16. A few respondents, including accountancy bodies, a preparer body and investor bodies, agree with the proposed requirement as written. For example, the Japan Foreign Trade Council Inc. says:

...we have no objection to disclosing information that meets the information needs of financial statement users, and agree with paragraphs 44H(a) and 44H(b)(i) as items satisfy users' objective of understanding regarding the effects of supplier finance arrangements on an entity's liabilities and cash flows as well as liquidity risk.

17. However, a few respondents, including accountancy bodies and a preparer body, disagree with requiring the information for *each* supplier finance arrangement because it could be commercially sensitive. (See paragraphs 36–38 of this paper for additional comments about the level of aggregation.) A preparer says when the finance providers act solely as the entity's paying agent with no extended payment terms, disclosure of the terms and conditions provides no relevant information to investors.

18. Some other respondents suggest changing the proposed requirement:
- (a) some accounting firms, a few accountancy bodies, a few standard-setters and a preparer suggest adding the word ‘key’, ‘relevant’, ‘significant’ or ‘material’ before the phrase ‘terms and conditions’ to avoid entities providing irrelevant information.
 - (b) a few respondents, including regulators, investors, investor bodies, a preparer body and an accounting firm, suggest requiring the disclosure of specific terms and conditions—for example:
 - (i) the credit limit and available undrawn amounts at the end of the reporting period.
 - (ii) in the event an entity is unable to settle the invoice, whether the finance providers have recourse against the supplier.
 - (iii) the interest rates (cost of funding), the level of discount suppliers are required to accept in order to receive early payment or the cost of the premium an entity incurs for any financing it receives, and any commissions or rebates an entity is entitled to receive from finance providers.
 - (iv) whether an entity is involved in a supplier’s decision to receive payments early, selecting the finance providers or pricing the offer from finance providers to suppliers.
 - (v) information about security interests granted as part of—or outside—the arrangement.

Liabilities that are part of the arrangement

The requirement:

44H(b)(i) To meet the objective in paragraph 44F, an entity shall disclose... for each supplier finance arrangement, as at the beginning and end of the reporting period...the carrying amount of financial liabilities recognised in the entity’s statement of financial position that are

part of the arrangement and the line item(s) in which those financial liabilities are presented.

The reasons it enables investors to assess the effect of the arrangements:

BC14(b) ...the carrying amount of the financial liabilities recognised in an entity's statement of financial position that are part of each arrangement and the line item(s) in which those liabilities are presented..., together with the entity's accounting policies..., would indicate the size of the arrangement and enable users of financial statements to identify where in its statement of financial position an entity presents financial liabilities that are part of an arrangement.

BC14(c) ...the carrying amount of financial liabilities recognised in an entity's statement of financial position that are part of each arrangement...would help users of financial statements analyse the entity's debt and consequential effects on operating and financing cash flows.

19. A few respondents, including accountancy bodies and investor bodies, agree with this proposed requirement for the reasons explained in the Basis for Conclusions. S&P Global Ratings says:

...we typically view payments made by customers to financial intermediaries for trade payables after 90 days as a form of borrowing and seek to make adjustments to debt and operating cash flows unless amounts are clearly trivial. Accordingly, the following enhanced disclosure items will be particularly useful for these adjustments where we currently must frequently rely on undisclosed information: a. the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented; b. the range of payment due dates of the above financial liabilities.

20. However, a few respondents—including a preparer and an individual—disagree because, in their view, the information is irrelevant or potentially misleading before the liability is derecognised applying IFRS 9 *Financial Instruments* or the supplier has received payment from the finance provider.

21. A few respondents, including standard-setters and an accounting firm, suggest clarifying that an entity needs to disclose the carrying amount of the liabilities that are part of the arrangement presented within *each* relevant line item in the statement of financial position.

Reconciliation of the carrying amount of liabilities

22. Some respondents, including an investor, an investor body and standard-setters, suggest requiring disclosure of (a) a reconciliation of the opening to closing carrying amount of financial liabilities that are part of the arrangement, or (b) changes to the carrying amount of those liabilities arising from—for example—business combinations, business disposals and exchange differences. They say this would indicate the extent to which an entity used the arrangement during the reporting period, avoid ‘window dressing’ at reporting dates and enable investors to better understand the cash flow effects of the arrangements. A few of these respondents suggest considering the reconciliation proposed by the US Financial Accounting Standards Board (FASB) in its project *Disclosure of Supplier Finance Program Obligations*. For similar reasons, another investor body suggests requiring disclosure of the average carrying amount of financial liabilities that are part of the arrangement over the reporting period.
23. Respondents that suggest adding a reconciliation say providing the information should not be costly for entities. For example, a preparer (Liberty Global plc) says:

...we believe a rollforward of the supplier finance obligation...is relevant and provides transparency as to the nature, timing and amounts of how entities finance their businesses. Given the requirements to track invoices and payments to finance providers, we do not believe that providing such information is overly costly nor time consuming. We provide a reconciliation of the beginning and ending balances of our supplier finance obligations, which we refer to as vendor financing obligations, in our interim and annual financial statements. The rollforward is beneficial for financial statement users to have the ability to (1) reconcile the cash repayments to the cash flow statement and (2) understand any

significant fluctuations in the obligations during the period. The use of supplier finance programs is supported by technology that makes the information to provide the rollforward readily available.

24. Another preparer, however, says the opposite—it says the statement of cash flows already provides information about whether trade payables are a source or use of cash during the reporting period, which in its view is the most useful information. This respondent adds that it would need to incur significant costs to prepare a reconciliation of the liabilities that are part of the arrangement.

Beginning and end of the reporting period

25. A few respondents, including investors and standard-setters, say requiring information at the beginning and end of each reporting period would help investors identify any changes and trends in the use of supplier finance arrangements and their effects on an entity’s liabilities and cash flows. In contrast, a standard-setter says disclosures should consider effects throughout the reporting period and not just at particular points in time. Two accounting firms disagree with requiring information at the beginning and end of the reporting period because they say the short-term nature of the amounts limits the usefulness of the information, and IAS 1 *Presentation of Financial Statements* already contains requirements about comparative information.

Liabilities for which suppliers have already received payment

The requirement:

44H(b)(ii) To meet the objective in paragraph 44F, an entity shall disclose... for each supplier finance arrangement, as at the beginning and end of the reporting period...the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.

The reasons it enables investors to assess the effect of the arrangements:

BC14(c) ...the carrying amount of...liabilities for which suppliers have already received payment from the finance providers...would help users of

BC14(e)	<p>financial statements analyse the entity’s debt and consequential effects on operating and financing cash flows.</p> <p>the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers...would provide information about the extent to which the entity has used extended payment terms or its suppliers have used early payment terms. That information would help users of financial statements understand the effect of supplier finance arrangements on the entity’s exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.</p>
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26. Some respondents, including investors and investor bodies and a regulator, agree with this proposed requirement. They say:

- (a) the information improves transparency about an entity’s financial position. It would help investors analyse an entity’s debt and provide information that would enable investors to assess—using the information within their own calculations—the effects of the arrangement on the entity’s operating and financing cash flows.
- (b) the information enables an understanding of the use of different supplier finance arrangements (those that extend payment terms, those that offer suppliers early payment terms and those that offer a combination of both).

27. The International Organization of Securities Commissions says:

In particular, we would like to highlight the disclosure of the carrying amount of financial liabilities recognised in the entity’s financial position statement that are part of an SFA for which suppliers have already received payment from the finance providers, which would considerably improve the transparency of the entities’ financial situation.

28. Some respondents agree with the IASB’s view in paragraph BC19 of the Basis for Conclusions on the Exposure Draft that it would generally be possible for entities to obtain and provide this information.

29. However, many respondents—including an accounting firm, preparers, preparer bodies, standard-setters and a technology services company—disagree with this requirement.

They say:

- (a) this information is not relevant for *all* supplier finance arrangements (as discussed in Agenda Paper 12B);
- (b) the proposed requirement to disclose the carrying amount of the liabilities that are part of the arrangement and the liquidity risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* already address the investor information needs explained in paragraph BC14(e);
- (c) this information may lead investors to incorrectly include some trade payables within debt because they assume that this amount represents debt;
- (d) this information provided only at the reporting date does not necessarily represent suppliers' use of the arrangement;
- (e) aggregating and anonymising data is only possible for arrangements with a large number of suppliers; and
- (f) the FASB did not propose this as a requirement as part of its similar project on supplier finance arrangements.

30. Many respondents, including accounting firms, accountancy bodies, preparers, preparer bodies and standard-setters, raise concerns about the cost, and an entity's ability, to obtain the information. They say:

- (a) not all entities currently obtain the information from finance providers. Entities will confirm that supplier invoices are valid and make subsequent payments when due but, for some arrangements, may have no information regarding the timing of finance providers' payments to suppliers. Entities may need to develop additional internal controls to verify the information received from finance providers.
- (b) an entity (or its auditors) may not be legally entitled to receive the information because of local business practices or applicable laws and regulations in

particular jurisdictions. A preparer says IFRS Accounting Standards ‘should not create an obligation for an entity to publish information which the entity cannot be accountable for and which is not auditable by the entity’s auditors, especially when this information is going to be used to rate the entity’.

- (c) obtaining the information may require contract renegotiations with finance providers, changes in legislation or changes in the platform used by finance providers.
- (d) auditing the information requires audit evidence, which may be difficult to obtain.

31. The Autorité des Normes Comptables suggests an alternative:

...we expect many entities to be able to disclose the related item of information—most notably because we expect entities to monitor the use of their credit facilities when they are the party to... arrangements. However, not all entities might necessarily be able to do so. Consequently, we recommend an entity disclose the carrying amount of financial liabilities for which suppliers have already received payments from the finance providers when that information is reliably available without undue cost or effort.

Payment due dates of liabilities that are part of each arrangement and trade payables that are not part of an arrangement

The requirements:

44H(b)(iii) To meet the objective in paragraph 44F, an entity shall disclose... for each supplier finance arrangement, as at the beginning and end of the reporting period...the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i); and

44H(c) To meet the objective in paragraph 44F, an entity shall disclose... as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

The reason it enables investors to assess the effect of the arrangements:

BC14(d) ...the range of payment due dates of both financial liabilities that are part of each arrangement and trade payables that are not...would help users of financial statements assess the effect of each arrangement on the entity's days payable and cash flows. For example, it would help in assessing the extent to which operating cash flows improve from increased use of supplier finance arrangements because due dates differ for liabilities that are part of an arrangement and trade payables that are not.

32. Some respondents, including investors, agree with the proposed requirements for the reasons set out in the Basis for Conclusions. They say the information is useful because:
- (a) of the diversity of changes in payment terms due to supplier finance arrangements (for example, payment terms may increase by 30 days for one entity and by 100 days for another); and
 - (b) investors currently adjust an entity's debt when payment terms are longer than a standard threshold (for example, 90 days). The information would enable investors to consider a more entity-specific threshold.
33. Many respondents, including accountancy bodies, preparers, preparer bodies, standard-setters and technology services companies, disagree with the proposed requirements—most notably with the requirement to disclose payment due dates for trade payables that are not part of an arrangement. They say:
- (a) there is overlap between the proposed requirement in paragraph 44H(c) and the requirement in paragraph 39 of IFRS 7 to disclose a maturity analysis for financial liabilities together with a description of how it manages the liquidity risk inherent in the analysis. Others, however, disagree—they say the requirement would extend an entity's liquidity analysis from, for example, a year-by-year basis to monthly. In their view, this may reveal competitive information.
 - (b) the information would be irrelevant for lines of business for which supplier finance arrangements are not used and could be misleading. Liabilities that are part of supplier finance arrangements in one business line or jurisdiction may

have shorter due dates than trade payables that are not part of such arrangements in another business line or jurisdiction.

- (c) the FASB did not propose this as a requirement as part of its similar project on supplier finance arrangements.

34. For example, BusinessEurope says:

...we remain concerned that there is a potential for misinterpretation when users compare the information in accordance with ED 44H (b)(iii) and 44H (c). Members have reported that regional differences exist in terms of payment due dates and situations may occur, where trade payable subject to supplier finance arrangements have shorter due dates than trade payables that not part of such arrangements. It could give the impression that supplier finance arrangements would even lead to a shortening of due dates.

35. Some respondents, including standard-setters and investors, suggest alternatives, for example:

- (a) disclosing the ‘original payment due dates’ of financial liabilities that are part of the arrangement.
- (b) providing a narrative description explaining whether cash flows were improved, or payment terms were extended, because of supplier finance arrangements.
- (c) clarifying that the trade payables referred to in paragraph 44H(c) refers to those within the same business line or jurisdiction as liabilities that are part of the arrangement.
- (d) disclosing the weighted average payment due dates or the average number of days’ increase in credit. A few of the respondents suggesting this disclosure acknowledge that calculating weighted average payment due dates would be more complex than disclosing a range of payment due dates.

- (e) if the range of payment due dates is wide, disclosing a more granular breakdown of those dates, such as through a maturity analysis.
- (f) encouraging, but not requiring, entities to disclose an estimate of the effect on working capital of an increase in the average number of days.

Level of aggregation

The requirement

44I An entity is permitted to aggregate the information provided to meet the disclosure objective in paragraph 44F for different arrangements only when the terms and conditions of those arrangements are similar.

- 36. Some respondents—including accountancy bodies and investor bodies—agree with the proposed requirement. They say it is understandable and operable as written, and investors would obtain no benefit from entities disaggregating information about arrangements with similar characteristics. A few respondents suggest that the IASB explain the term ‘similar’.
- 37. Some respondents—including accountancy bodies, an individual, preparers, preparer bodies and standard-setters—disagree with the proposed requirement. They say information about each arrangement is unnecessary for investors to assess the effects of supplier finance arrangements on an entity’s liabilities and cash flows. They also say providing the information could be burdensome and may result in clutter in the financial statements.
- 38. A few respondents—including standard-setters and regulators—suggest that, instead of the proposed requirement in paragraph 44I, an entity be required to disaggregate information:
 - (a) only when needed to meet the disclosure objective;
 - (b) based on the type of supplier finance arrangement (for example, arrangements used to manage working capital and those used to assist suppliers); or

- (c) for individually material arrangements.

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?