IFRS

STAFF PAPER

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IASB® meeting

Project	**Supplier Finance Arrangements**
Paper topic	Feedback Summary—Other comments

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Introduction and Structure

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

2. This paper includes:

   (a) summary of feedback (paragraphs 4–24); and

   (b) questions for the IASB.

3. Some respondents made wording suggestions, or suggestions about the placement or format of requirements in particular Accounting Standards, that we will consider in drafting but are not summarised in this paper.

Summary of feedback

Introduction

4. Many respondents comment on aspects of the supplier finance arrangements project that are not summarised in Papers 12B–12D. We have categorised these comments as follows:

   (a) transition (paragraphs 5–8);

   (b) additional or alternative disclosures (paragraphs 9–14);

(c) alternative project approach (paragraphs 15–21); and

(d) interactions with other projects and IFRS Accounting Standards (paragraphs 22–24).

Transition

5. The IASB proposed to require an entity to apply the amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Basis for Conclusions on the Exposure Draft explains the IASB's view that the benefits of requiring entities, on transition, to provide comparative information as if the amendments had always been applied would outweigh the costs. This is because (a) comparative information would help users of financial statements (investors) identify and assess changes and trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows and on its exposure to liquidity risk; and (b) the costs of obtaining the information are not expected to be excessive.

6. Some respondents provide comments on the proposed transition requirements. A few say they agree with retrospective application. For example, a university says providing disclosures in comparative and current periods would provide decision-useful information to assess an entity's supplier finance arrangement obligations over time, and the benefits of that disclosure outweigh the costs.

7. A few preparers and an accountancy body suggest that prospective application be allowed on transition. One of the preparers says the costs of obtaining the information required for retrospective application would outweigh any benefits to investors of such application. The accountancy body says there may be operational challenges in applying the amendments retrospectively, and the benefit of having an earlier effective date may outweigh the benefits of retrospective application.

8. A preparer and a standard-setter say, if retrospective application is required, entities need sufficient time for implementation because some of the information may be difficult to obtain at the level of granularity required. The preparer says entities need a significant

amount of time to invest in information technology enhancements to identify and accurately report information. However, the standard-setter says the implementation period should not be extended significantly because current diversity in reporting would continue to be present during that period.

Additional or alternative disclosures

9. Many respondents provide suggestions for additional or alternative disclosure requirements. Agenda Paper 12C summarises some of these suggestions. Other suggestions include:
   - (a) effect on working capital;
   - (b) accounting policies and judgements; and
   - (c) illustrative examples and educational material.

Effect on working capital

10. A few respondents suggest that the IASB focus on requiring disclosure of the effect of supplier finance arrangements on working capital. Some of these respondents suggest that, instead of proceeding with the proposals, the IASB consider whether there is evidence of the need for a standard-setting project dealing with working capital arrangements more broadly.

Accounting policies and judgements

11. A few respondents, including regulators, standard-setters, investors and preparers, suggest requiring accounting policy disclosures or disclosures about an entity's assumptions and judgements related to supplier finance arrangements. Suggestions include requiring disclosure of:
   - (a) the criteria and judgements used by management to assess and identify the existence of supplier finance arrangements. An investor suggests the disclosure include an affirmative statement about the existence of a supplier finance arrangement and qualitative statements about the entity's involvement in the

arrangement, including whether the arrangement is offered to all or only some suppliers.

(b) an entity's accounting policy for recognising the original liability and for determining its classification or reclassification in the statement of financial position (as a separate line item or as debt).

(c) an entity's accounting policies and significant criteria, judgements and assumptions applied to present amounts associated with supplier finance arrangements in the statement of financial position (for example, trade payables or financing liabilities) and in the statement of cash flows (for example, cash flows from operating or financing activities).

Illustrative examples and educational material

12. A few respondents, including regulators, accounting firms and an accountancy body, suggest that the IASB develop illustrative examples or educational material to assist entities in applying requirements related to supplier finance arrangements. For example, KPMG IFRG Limited (KPMG) says:

> Given the proposals' broad scope (based on the proposed paragraph 44G) may potentially include arrangements that provide a finance benefit to the supplier rather than the buyer, we ask the Board to consider providing illustrative examples of what the disclosure in paragraph 44H would look like for different arrangements and test that the proposed disclosures are fit for purpose and respond to users' needs….given the proposed disclosure requirements build upon and complement existing disclosure requirements in IAS 1, IAS 7 and IFRS 7, it would be useful to collate all relevant presentation and disclosure requirements (subject to materiality considerations) that apply to SFAs in a single document, possibly educational material….

13. Similarly, IOSCO says:

> …we believe some examples should be included in the final amendments in order to promote consistency among

> entities….These examples could include different fact patterns regarding how the liabilities stemming from SFAs should be classified and presented, thus clarifying those circumstances and indicators that issuers should consider…. Likewise we consider it useful to incorporate into the standard an example of the proposed quantitative information required by the ED similar to that included in the document *Investor Perspective: Supplier Finance Arrangements* published on the IFRS website.

14. An accounting firm observes that illustrative examples that accompany IAS 7 or IFRS 7 have not been updated by this amendment—for example, in IAS 7 section E, 'Reconciliation of liabilities arising from financing activities'. This respondent suggests updating the examples to include the effect of supplier finance arrangements in the cash flow-related disclosures—or at least clarifying that the illustrations do not involve an entity with supplier finance arrangements.

Alternative project approaches

15. As discussed in paragraph BC20 of the Basis for Conclusions on the Exposure Draft, the IASB considered whether to add requirements to IAS 1 *Presentation of Financial Statements* to help assess whether the nature of financial liabilities within the scope of the proposed requirements is similar to, or dissimilar from, that of trade payables or other financial liabilities. The IASB also considered adding requirements to IAS 7 to clarify how to identify when a cash flow has occurred (for example, to help assess when a finance provider acts as a paying agent on an entity's behalf). The IASB decided not to address classification and presentation in the statements of financial position and cash flows as part of this project—such a project would need to consider a wider range of liabilities and cash flows than only those related to supplier finance arrangements.

16. Many respondents nonetheless suggest alternative project approaches, including that the IASB (a) address presentation and classification; or (b) undertake a broader review of IAS 7.

Presentation and classification

17. Many respondents of all types suggest that the IASB either expand the scope of the current project or pursue a future project to address classification and presentation of liabilities and cash flows associated with supplier finance arrangements. Some of these respondents say the IASB should clarify or provide further requirements, while others say the IASB should provide educational material. These respondents say additional work is needed on classification and presentation to enhance transparency and consistency in application. For example, the European Securities and Markets Authority (ESMA) says:

> ESMA observes that the requirements in the Exposure Draft only address the disclosures on supplier finance arrangements and as such do not ensure sufficient transparency on this type of arrangements in the financial statements. ESMA considers it also important to provide clear guidance in IAS 1 on how an entity presents liabilities to pay for goods or services when the related invoices are parts of a supplier finance arrangement….the Board may consider including in IAS 1 (rather than in IAS 37) the guidance on which liabilities shall be presented as “trade and other payables” contained in the December 2020 Agenda Decision….

18. Similarly, KPMG says:

> We note that the Board’s proposals do not address the wider issue of presentation and classification of SFA in the primary financial statements….Investors will likely continue to express concerns that…some entities may inappropriately present inflated cash flows from operating activities. Depending on presentation judgements made by the entity presenting a single *financing* cash outflow may significantly affect the statement of cash flows – e.g. in an extreme case, if all of the entity’s payables were reverse factored, then there would be no operating cash *outflows* presented for purchases of goods or services. Neither the proposed amendments, nor the IFRIC agenda decision provide clarity on this aspect…

19. Some respondents suggest specific additional requirements including:

(a) accountancy bodies and standard-setters suggest it may be useful to (i) develop indicators as to when a liability represents borrowings and thus is no longer classified as trade payables, or (ii) require separate presentation of liabilities that are part of supplier finance arrangements. An individual suggests a comprehensive approach, including a discussion of principles regarding when an entity derecognises a trade payable and recognises a liability to a finance provider.

(b) an accountancy body says the amended standards should include a definition of trade payables, financing liabilities and supplier finance arrangements. It says, without these definitions, there is likely to be continuing confusion about the effect of supplier finance arrangements.

(c) a standard-setter suggests providing requirements not only on separate presentation but also labelling in the statement of financial position (for example, use of 'trade payables', 'other creditors', 'borrowings', 'short-term debt' or 'financial debt').

(d) an investor body suggests that entities reporting payments to supply chain finance providers through financing cash flows be required to disclose this in the statement of cash flows rather than permitting it to be aggregated as part of other financing cash flows.

Broader review of IAS 7

20. Some respondents, including accounting firms, regulators, standard-setters, a preparer and an investor body, suggest that the IASB undertake a broader review of IAS 7.

21. Some of these respondents provide suggestions for revisions to IAS 7 in the context of supplier finance arrangements, including:

(a) an investor body suggests the IASB prioritise further work on non-cash transactions that affect cash flow subtotals, either as a separate narrow-scope project or as part of a comprehensive review of the statement of cash flows.

(b) an accounting firm says IAS 7 would benefit from targeted updates to make it fit for purpose in the current economic environment and suggests that the IASB perform outreach with regulators and investors to identify areas of concern.

(c) a standard-setter suggests considering a research project on IAS 7 to address the relevance of the statement of cash flows when reporting supplier finance arrangements (for example, improving disclosures on non-cash transactions, and providing guidance on determining whether a cash flow exists and whether and when a finance provider could be considered the entity's paying agent).

Interactions with other projects and Standards

22. A few respondents say that adding mandatory requirements at this time seems inconsistent with the IASB's approach in other recent projects. For example, KPMG says given the level of granularity in the proposed disclosures and the IASB's efforts to discourage a checklist approach to disclosures and encourage more effective materiality judgements under its Disclosure Initiative projects, it recommends considering the interactions with related projects such as Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach* and ongoing deliberations on the Primary Financial Statements project.

23. A preparer body suggests the IASB consider whether any amendments to IAS 2 *Inventories* are needed. This respondent says the interpretation of 'normal credit terms' and the historic trend of increasing payment terms makes the application of paragraph 18 of IAS 2 particularly judgmental.

24. A few respondents, including accountancy bodies, investors, investor bodies and standard-setters, suggest that the IASB consider the US Financial Accounting Standards Board's project on *Disclosure of Supplier Finance Program Obligations*. The Accounting Standards Board of Japan says 'it would be desirable that the results of the initiatives of the IASB, including this ED, be ultimately consistent with the requirements under U.S. GAAP'.

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?