
IASB[®] meeting

Date	November 2022
Project	Supplier Finance Arrangements
Topic	Feedback Analysis—Cover paper
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Introduction

Purpose of the meeting

1. The purpose of this meeting is to provide the International Accounting Standards Board (IASB) with our analysis and recommendations on how to proceed on the project *Supplier Finance Arrangements* and ask the IASB whether it agrees with our recommendations.

Project history

2. In November 2021, the IASB published the *Exposure Draft Supplier Finance Arrangements*, which proposed amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The comment period ended on 28 March 2022.
3. At its July 2022 meeting (July Agenda Papers [12A](#), [12B](#), [12C](#), [12D](#) and [12E](#)), the IASB discussed a summary of feedback on the Exposure Draft but was not asked to make any decisions at that stage.

Structure of the papers

4. This agenda paper (Agenda Paper 12B) includes a summary of our recommendations and an overview of the Exposure Draft. The overview includes:
 - (a) the proposals;
 - (b) summary of stakeholder input; and
 - (c) our AlphaSense search.
5. Agenda Papers 12C–12F for this meeting include our analysis and recommendations about the:
 - (a) project approach (Agenda Paper 12C);
 - (b) scope (Agenda Paper 12D);
 - (c) disclosure objective and requirements (Agenda Paper 12E); and
 - (d) examples added to disclosure requirements and other comments (Agenda Paper 12F).

Summary of recommendations

6. We recommend that the IASB proceed with its proposals in the Exposure Draft with the following changes:
- (a) *for scope*—revise one aspect of the scope and consider in drafting whether to add examples to illustrate the types of payment arrangements or instruments that are outside the scope of the disclosure requirements;
 - (b) *for the disclosure objective*—add a reference to liquidity risk and risk management;
 - (c) *for the level of aggregation*—change the proposed level of aggregation to require an entity to aggregate information provided about its supplier finance arrangements (SFAs) and disaggregate particular information—when required—to not omit or obscure material information;
 - (d) *for the disclosure requirements*—refine the requirements to disclose terms and conditions, the carrying amount and presentation of financial liabilities that are part of SFAs, and the range of payment due dates of trade payables that are not part of these arrangements; and
 - (e) *for examples added to IAS 7 and IFRS 7*—
 - (i) not proceed with adding an example of a non-cash change to IAS 7 and instead require disaggregation of particular information (see recommendation (c) above) including the effect of non-cash changes; and
 - (ii) not proceed with adding an example to paragraph B11F(a) of IFRS 7.
7. Agenda Papers 12C–12F for this meeting include more detail about our recommendations and our questions for the IASB.
8. Developing our recommendations, we considered the IASB’s decisions in October 2022 in its project *Disclosure Initiative: Targeted Standards-level Review of Disclosures* (TSLR).

Overview of the Exposure Draft

The proposals

9. The proposed disclosure requirements in the Exposure Draft, together with existing disclosure requirements in IFRS Accounting Standards¹, are intended to result in an entity reporting information that will enable users of financial statements (investors) to assess the effects of SFAs on the entity’s liabilities, cash flows, liquidity risk and risk management.

¹ The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* explains the existing requirements in IFRS Accounting Standards that apply to these arrangements. The Agenda Decision is included in Agenda Paper 12C.

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10. The IASB proposed targeted amendments to IAS 7 to require disclosure of information about an entity's SFAs. The Appendix to this paper includes an extract of the IASB's main proposals.
 11. The IASB also proposed to add SFAs as an example:
 - (a) in paragraph 44B of IAS 7 to highlight the importance of providing information about non-cash changes in liabilities that arise from SFAs; and
 - (b) within the liquidity risk disclosure requirements in IFRS 7 to highlight the importance of an entity providing liquidity risk information about these arrangements.
 12. We include more details about the IASB's proposals and rationale in Agenda Papers 12C–12F.

Summary of stakeholder input

Feedback on the Exposure Draft

13. We received feedback on the proposals in the Exposure Draft from 94 comment letters and outreach meetings with the Accounting Standards Advisory Forum, the Capital Markets Advisory Committee, the Global Preparers Forum, two preparers, an investor body, two accountancy bodies, and two investors.
14. Most respondents agreed there is a need to add disclosure requirements for SFAs. Many respondents supported aspects of the proposals, while also suggesting that the IASB require additional or alternative disclosures.
15. After the July 2022 IASB meeting, we held discussions with a few respondents, in particular to understand their comments on the practical challenges for entities to disclose the carrying amount of financial liabilities that are part of an SFA for which suppliers have already received payment from the finance providers.
16. Agenda Papers 12C–12F provide more detail about respondents' comments on the proposals.

Our AlphaSense search

17. In [Agenda Paper 12A](#) for the June 2021 IASB meeting, we reported findings from using the financial search engine, AlphaSense, on the amount and nature of information that entities provide about SFAs. We performed the search twice—in March 2020 and again in April 2021. We saw a wide range of disclosure practices, from those that mention only that an SFA exists to those that provide detailed qualitative and quantitative information.
18. We performed a third search in October 2022, covering financial reports published after December 2021. The search revealed that there remains a wide range of disclosure practices, with a few entities disclosing particular qualitative and quantitative information about their SFAs.

Other standard-setting work

19. In September 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-04—Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations (FASB ASU). Agenda Papers 12B–12E include, where relevant, references to the FASB ASU.

Appendix—Extract of proposals

Proposed amendments to IAS 7 *Statement of Cash Flows*

Supplier finance arrangements

[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.

[Scope]

44G 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.

[Disclosure requirements]

44H To meet the objective in paragraph 44F, an entity shall disclose:

- (a) the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided);
- (b) for each supplier finance arrangement, 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 the arrangement and the line item(s) in which those financial liabilities are presented;
 - (ii) the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and
 - (iii) the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i); and
- (c) 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.

[Additional information and level of aggregation]

44I An entity shall disclose additional information about its supplier finance arrangements necessary to meet the disclosure objective in paragraph 44F (for example, additional information about the range of payment due dates disclosed under paragraph 44H(b)(iii) or paragraph 44H(c), when that

range is wide). 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.