Staff paper

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IASB® meeting

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Project	**Supplier Finance Arrangements**
Topic	**Feedback Analysis—Disclosure objective and requirements**
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Introduction

Purpose of the paper

1. As discussed in Agenda Paper 12B for this meeting, this paper sets out our analysis and recommendations having considered comments received on the proposed disclosure objective and requirements in the Exposure Draft *Supplier Finance Arrangements*.

Background

2. The International Accounting Standards Board (IASB) developed the proposed disclosure objective and requirements to address the information needs of users of financial statements (investors) about an entity's supplier finance arrangements (SFAs). We reproduce the proposals within the relevant sections of the paper.

Structure of the paper

3. In this paper, we provide our analysis and recommendations in response to feedback on the proposed:
   (a) disclosure objective;
   (b) level of aggregation;
   (c) disclosure of:
      (i) the terms and conditions of SFAs;
      (ii) the carrying amount and presentation of financial liabilities that are part of SFAs;
      (iii) the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers; and
      (iv) the range of payment due dates of both financial liabilities that are part of SFAs and trade payables that are not; and
   (d) requirement to provide comparative information.

4. We include in the discussion of each of these topics:

   (a) the IASB's proposals and rationale;

   (b) a summary of respondents' feedback[1]; and

   (c) our analysis and recommendations.

5. Our recommendations are summarised in paragraph 6. The question for the IASB is included after paragraph 79.

Summary of recommendations

6. We recommend that the IASB:

   (a) *for the disclosure objective*—

      (i) not add a reference to 'materiality';

      (ii) add a reference to liquidity risk and risk management;

      (iii) not add a reference to the effects of SFAs on an entity's financial performance; and

      (iv) proceed with requiring disclosure of information to be used by investors to calculate effects, rather than requiring disclosure of the effects;

   (b) *for the level of aggregation*—require an entity to aggregate information provided about its SFAs and disaggregate particular information—when required—to not omit or obscure material information;

   (c) *for disclosure of the terms and conditions*—add the word 'key' to the requirement to disclose the terms and conditions, and not prescribe a list of terms and conditions to be disclosed;

   (d) *for disclosure of the carrying amount and presentation of financial liabilities that are part of SFAs*—

      (i) *for the statement of financial position*—clarify that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item, an entity would disclose each line item and the associated carrying amount presented in that line item; and

      (ii) *for the statement of cash flows*—not add a requirement for an entity to disclose the line items in which changes in financial liabilities that are part of SFAs are presented;

   (e) *for disclosure of the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers*—proceed with requiring disclosure of this information;

[1] Agenda Paper 12C for the IASB's July 2022 meeting summarised respondents' feedback on the proposed disclosure objective and requirements.

(f) *for disclosure of the range of payment due dates*—clarify that when an entity discloses the range of payment due dates of trade payables that are not part of an SFA—in comparison to the range of payment due dates of financial liabilities that are part of an SFA—the trade payables and financial liabilities should be on a comparable basis, such as within the same business line or jurisdiction; and

(g) *for comparative information*—proceed with requiring disclosure of quantitative information as at the beginning and end of each reporting period.

Disclosure objective

IASB's proposals and rationale

7. The IASB described the disclosure objective as:

> an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows.

8. Paragraph BC14 of the Basis for Conclusions on the Exposure Draft explains that the IASB intended the information to enable investors to understand the effect of the entity's SFAs on its:

(a) 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) 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.

Respondents' feedback

9. Most respondents agreed (or did not disagree) with the proposed disclosure objective.

Materiality judgements

10. A few respondents suggested that the IASB include a reference to 'materiality' to avoid entities providing excessive information. A preparer said the disclosure objective requires entities to predict what information investors may need and this 'second-guessing' imposes undue burden on entities. One respondent questioned why the IASB proposed to make use of a disclosure objective and requirements when it had not finalised the project *Disclosure Initiative: Targeted Standards-level Review of Disclosures* (TSLR).

11. Another preparer agreed with the overall disclosure objective but said the prescriptive list of disclosure requirements is too detailed, introduces a checklist-type approach and could result in lengthy disclosures obscuring more relevant information.

Liquidity risk and risk management and financial performance

12. A few respondents suggested that the disclosure objective include the effects of SFAs on an entity's exposure to liquidity risk and risk management. A few other respondents suggested that the disclosure objective include the effects of SFAs on an entity's financial performance.

Effects vs information to calculate effects

13. A few respondents, including investors, suggested that the IASB require an entity to disclose particular effects of SFAs rather than provide information to be used to calculate those effects. These respondents suggested, for example, that an entity disclose the effect of SFAs on its operating cash flows, or on the component of trade payables that is akin to bank debt and the associated effect on operating cash flows. Respondents said this approach would simplify the proposals and would avoid providing investors with 'raw data' and expecting them to do their own calculations.

Staff analysis and recommendations

Materiality judgements

14. Materiality is a pervasive concept in IFRS Accounting Standards. Paragraph 31 of IAS 1 *Presentation of Financial Statements* states:

> Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

15. The IASB tentatively decided at its October 2022 (Agenda Paper 11B) meeting not to include a reference to paragraph 31 of IAS 1 at the beginning of the disclosure section of each IFRS Accounting Standard.

16. The approach in the Exposure Draft of setting out a disclosure objective accompanied by specific disclosure requirements is not new. A number of IFRS Accounting Standards (for example, IFRS 7 *Financial Instruments: Disclosures*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*) set out disclosure objectives and require the disclosure of specified information to meet the objectives.

17. We therefore recommend that the IASB make no change to add a reference to 'materiality' within the disclosure objective.

Liquidity risk and risk management

18. We are persuaded by respondents' suggestion to improve the disclosure objective by referring to an entity's exposure to liquidity risk and risk management. As stated in paragraph 8, the IASB intended the information an entity provides to enable investors to understand the effect of SFAs on the 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. We therefore recommend that the IASB add to the disclosure objective a reference to liquidity risk and risk management.

Financial performance

19. During the development of the proposals, the IASB was informed that investors are mainly interested in the effects of SFAs on an entity's statements of financial position and cash flows, and exposure to liquidity risk. The IASB therefore proposed disclosure requirements to meet those needs. Feedback from investors suggested no specific need for the IASB to develop disclosure requirements about the effects of SFAs on an entity's financial performance. To the extent fees and costs of an SFA are significant, these may be considered to be key terms and conditions to be disclosed as discussed in paragraphs 34–39. We recommend that the IASB not add to the disclosure objective a reference to the effects of SFAs on an entity's financial performance.

Effects vs information to calculate effects

20. If the IASB were to require an entity to disclose particular effects of SFAs rather than providing information to be used to calculate those effects, the information provided in our view would be unlikely to meet investor needs. We were informed that different investors employ different models in evaluating the effects of SFAs on, for example, an entity's operating cash flows and debt. Investors therefore need the information, or 'raw data', to make their own calculations. Although there is a cost to investors to make such calculations, we think investors would derive greater benefit from disclosure of the proposed data points than from the entity's calculation of the effects of its SFAs—without the data points.

21. Additionally, a different approach may require that the IASB address the classification and presentation of financial liabilities that are part of SFAs and associated cash flows. As explained in paragraph BC20 of the Basis for Conclusions on the Exposure Draft, the IASB decided not to address classification and presentation in this project.

22. We therefore recommend that the IASB proceed with requiring the disclosure of information to be used by investors to calculate effects rather than requiring the disclosure of the effects themselves.

Level of aggregation

IASB's proposals and rationale

23. The IASB proposed to require an entity to disclose particular information for *each* SFA. An entity would be permitted to aggregate the information for different SFAs only when the terms and conditions of those arrangements are similar. The proposed disclosure requirements are:

> (a) the terms and conditions;
>
> (b) the carrying amount of financial liabilities recognised in an entity's statement of financial position that are part of the arrangement and the line item(s) in which those liabilities are presented;
>
> (c) the carrying amount of financial liabilities disclosed under (b) for which suppliers have already received payment from the finance providers; and
>
> (d) the range of payment due dates of financial liabilities disclosed under (b) and of trade payables that are not part of a supplier finance arrangement.

24. The IASB also proposed paragraph 44I of IAS 7 to require an entity to 'disclose additional information about its supplier finance arrangements necessary to meet the disclosure objective … for example, additional information about the range of payment due dates … when that range is wide'.

Respondents' feedback

25. Some respondents agreed with the IASB's proposed level of aggregation. A few respondents suggested that the IASB explain the term 'similar'. Some respondents disagreed because, in their view, information about *each* SFA is unnecessary for investors to assess the effects of SFAs on an entity's liabilities and cash flows. They also said providing the information could be burdensome and may result in clutter in the financial statements.

26. A few respondents suggested that the IASB require an entity to disaggregate information:

    (a) only when needed to meet the disclosure objective;

    (b) based on the type of SFA (for example, arrangements used to manage working capital and those used to assist suppliers); or

    (c) for individually material SFAs.

27. A few respondents said investors need disaggregated information about changes in the carrying amount of financial liabilities arising from, for example, obtaining or losing control of businesses and foreign exchange differences. Without this information, investors would be unable to understand the cash flow effect of the change in the carrying amounts of these liabilities.

28. A few respondents also said providing the terms and conditions of *each* SFA could reveal commercially sensitive information about an entity's trading terms. From our outreach meetings after the comment period, we learned from finance providers that some arrangements include only a few suppliers of an entity—and even aggregation of that information could possibly reveal commercially sensitive information.

Staff analysis and recommendations

29. Having considered the feedback, we are persuaded that in most cases aggregated information will satisfy the disclosure objective and meet investor information needs. SFAs share similar characteristics that give rise to particular investor information needs.

30. However, requiring aggregated information for an entity's SFAs would in our view require more specificity to be added to proposed paragraph 44I of IAS 7. An entity may need to provide disaggregated information to not omit or obscure material information, including:

    (a) unusual or unique terms and conditions of individual SFAs;

    (b) the effect of particular transactions or reclassifications that cause the carrying amount of financial liabilities that are part of SFAs to not be on a comparable basis at the beginning and end of the reporting period—for example, because of business combinations, foreign exchange differences or non-cash changes due to reclassifications in the statements of financial position and cash flows; and

    (c) explanatory information about the range of payment due dates when that range is wide (an example already included in proposed paragraph 44I of the Exposure Draft).

31. We expect this disaggregated information to be available to entities and thus providing it would not involve significant additional costs.

32. If the IASB were to require an entity to aggregate information about its SFAs, this change would help to mitigate respondents' concerns that an entity might otherwise have been required to disclose commercially sensitive information about its trade terms with individual suppliers.

33. We therefore recommend that the IASB require an entity to aggregate information provided about its SFAs and disaggregate particular information—when required—to not omit or obscure material information.

Terms and conditions

IASB's proposals and rationale

34. The IASB proposed that an entity disclose:

> the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided).

35. Paragraph BC14(a) of the Basis for Conclusions on the Exposure Draft explains that disclosure of the terms and conditions of each SFA would identify that an entity has entered into these arrangements and explain their nature.

Respondents' feedback

36. Some respondents suggested adding 'key', 'relevant', 'significant' or 'material' before the phrase 'terms and conditions' to avoid entities providing irrelevant information. A few respondents suggested that the IASB prescribe a list of terms and conditions that an entity would be required to disclose.

Staff analysis and recommendations

37. We are persuaded by respondents' suggestion that the proposal to disclose terms and conditions of SFAs could be clarified by specifying that an entity is required to disclose 'key' terms and conditions of SFAs. The inclusion of the word 'key' could assist entities in identifying for disclosure the appropriate aggregated terms and conditions of its SFAs—and avoid providing irrelevant information. It could also assist entities in identifying any unusual or unique terms and conditions of individual SFAs. We note that other IFRS Accounting Standards—for example, paragraph B52(b) of IFRS 16 *Leases*—also refer to 'key terms and conditions' so this would not be a new concept for those applying the Standards.[2]

38. In our view, the variety of SFAs—both in existence now and to be developed in the future—makes it difficult for the IASB to prescribe a list of terms and conditions to be disclosed that would remain relevant over time. An entity needs to apply judgement to identify the key terms and conditions to satisfy the disclosure objective.

39. We therefore recommend that the IASB add the word 'key' to the requirement to disclose the terms and conditions of SFAs and make no change to provide a prescriptive list of terms and conditions that would be required to be disclosed.

[2] The Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2022-04—Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations requires an entity to disclose: 'The key terms of the program.'

The carrying amount and presentation of liabilities

IASB's proposals and rationale

40. The IASB proposed to require an entity to disclose:

> 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.

41. Paragraph BC14(b) of the Basis for Conclusions on the Exposure Draft explains that the disclosure of the carrying amount of financial liabilities that are part of each SFA and the line items in which those liabilities are presented—together with the entity's accounting policies—would indicate the size of the arrangement and enable investors to identify where in its statement of financial position an entity presents financial liabilities that are part of an SFA. Paragraph BC14(c) says disclosure of the carrying amount of financial liabilities that are part of each SFA would help investors analyse the entity's debt and consequential effects on operating and financing cash flows.

Respondents' feedback

Line items in the statements of financial position and cash flows

42. A few respondents suggested clarifying that an entity needs to disclose the carrying amount of liabilities that are part of SFAs presented within *each* relevant line item in the statement of financial position. Many respondents asked for the same type of information for the statement of cash flows.

Reconciliation of carrying amount

43. Some respondents suggested requiring disclosure of a reconciliation of the carrying amount of financial liabilities that are part of SFAs. They said this would indicate the extent to which an entity used arrangements during the reporting period, avoid 'window dressing' at reporting dates and enable investors to better understand the cash flow effects of the arrangements. For similar reasons, another respondent suggested requiring disclosure of the average carrying amount of financial liabilities that are part of SFAs over the reporting period.

Staff analysis and recommendations

Line items in the statements of financial position and cash flows

44. We agree with respondents that it would be helpful to clarify that an entity disclose (a) the carrying amount of financial liabilities recognised in its statement of financial position that are part of SFAs; and (b) the line items in which those financial liabilities are presented. It was the IASB's intention that if the carrying amount is presented in more than one line item, the entity would disclose each line item and the associated carrying amount presented in that line item.

45. We considered recommending that the IASB add a disclosure requirement for an entity to disclose similar information related to the statement of cash flows. We agree with respondents that this information could be useful. In our view, however, disclosure of the carrying amounts and line items in the statement of financial position—as described in paragraph 44—is sufficient to satisfy the disclosure objective. That disclosure would provide information as at the beginning and end of the reporting period, which would—together with other information in the package of disclosures about SFAs—enable investors to calculate the cash flow effects of SFAs.

46. We therefore recommend that the IASB:

    (a) *for the statement of financial position*—clarify that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item, an entity would disclose each line item and the associated carrying amount presented in that line item.

    (b) *for the statement of cash flows*—not add a requirement for an entity to disclose the line items in which changes in financial liabilities that are part of SFAs are presented.

Reconciliation of carrying amount

47. Feedback from investors suggests that, on balance, they do not view an entity's reconciliation of the carrying amount of financial liabilities that are part of SFAs to be critical to their analysis. Feedback from preparers was mixed about whether it would be costly to prepare such a reconciliation. We therefore recommend that the IASB not add a requirement to disclose a reconciliation of the carrying amount of financial liabilities that are part of SFAs.

48. As discussed in paragraph 30, an entity may need to provide some disaggregated information about its SFAs, including the effect during a period of particular transactions or reclassifications on the change in the carrying amount of financial liabilities that are part of SFAs. These transactions might involve business combinations or foreign currency exchange; there might be non-cash changes due to reclassifications in the statements of financial position and cash flows of financial liabilities that are part of SFAs. Investors will need such information if the carrying amounts of these liabilities at the beginning and end of the reporting period are not on a comparable basis.

The carrying amount of financial liabilities for which suppliers have already received payment from the finance providers

IASB's proposals and rationale

49. The IASB proposed to require an entity to disclose:

the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement for which suppliers have already received payment from the finance providers.

50. Paragraph BC14(c) of the Basis for Conclusions on the Exposure Draft explains that disclosure of the carrying amount of liabilities for which suppliers have already received payment from the finance providers would enable investors to analyse the entity's debt and consequential effects on operating and financing cash flows. Paragraph BC14(e) explains that this amount also provides investors with information about the extent to which the entity has used extended payment terms or its suppliers have used early payment terms and how the entity might be affected if the SFA were no longer available to it.

51. Paragraph BC19 explains that the IASB is aware that, for some SFAs, entities do not currently obtain this information. However, the IASB expects that:

    (a) finance providers would generally be able to make this information available to a buyer that engages the finance providers' services; and

    (b) the benefit of the information would outweigh the costs because feedback from investors emphasised the importance of transparency about SFAs—and, in particular, this data point—to enable them to analyse the amount and nature of an entity's debt and consequential effects on operating and financing cash flows.

Respondents' feedback

52. Some respondents, mainly investors, investor bodies and regulators, agreed with this proposed disclosure and with the IASB's view in paragraph BC19 that it would generally be possible for entities to obtain this information to provide the proposed disclosure. Many respondents, mainly preparers, preparer bodies and standard-setters, questioned the usefulness of this proposed disclosure. Many of these respondents—as well as accounting firms and accountancy bodies—raised concerns about the cost and an entity's ability to obtain the information.

Importance of the information for investors

Investor feedback

53. We received input and feedback from 20 investors or investor bodies, including buy-side analysts; credit rating agencies; investor advisory and sell-side research groups; investment industry professional

groups; and mixed groups of investors, buy-side and sell-side analysts. These respondents expressed support for requiring disclosure of this information—the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers—with varying degrees of strength:

(a) some investors said this is the most important item of information for their analysis of the effects, and an entity's use, of SFAs;

(b) some investors said it would be valuable and useful information as part of the proposed package of disclosures about SFAs; and

(c) a few investors said it would be helpful to obtain this information even though they view other elements of the proposed package of disclosures to be more important.

54. Three investors specifically explained (through their comment letters and follow-up meetings) how they would use this item of information. Some would use it to analyse an entity's debt and consequential effects on operating and financing cash flows, for example, when a SFA results in the entity obtaining extended payment terms. Others would use it to help assess an entity's exposure to liquidity risk. Consider the following example:

> An entity purchased goods from suppliers for CU100 and, through an SFA, has 60 days to pay. The entity normally pays suppliers after 60 days.
>
> If the entity disclosed only the carrying amount of CU100 and the payment due dates of those financial liabilities and comparable trade payables as 60 days, an investor understands that the arrangement has not significantly extended the time the entity takes to pay for goods or services received.
>
> However, the investor has no information to assess the entity's exposure to suppliers that have used the SFA and may have received payment earlier than 60 days. Should the arrangement be withdrawn at short notice, either the entity or its suppliers may be unable to react quickly to fill the cash flow gap that finance providers provided and to which suppliers have become accustomed. By also disclosing the amount of financial liabilities for which suppliers have received early payment (for example, CU90), an investor understands the risk that the entity may need to agree to shorter payment terms at short notice.

Other feedback

55. Other respondents questioned whether this information is useful for investors. They said:

(a) the information is not relevant for all types of SFAs, particularly when an entity's payment due dates under SFAs do not extend beyond its normal payment terms. Should an SFA be withdrawn, the entity would then pay future invoices under normal payment terms.

(b) the information is not relevant to understanding an entity's financial position because it involves business activities of suppliers that are outside of the reporting entity.

(c) other information in the proposed package of disclosures satisfies the disclosure objective—particularly the terms and conditions, carrying amount of financial liabilities that are part of SFAs and liquidity risk information as required by IFRS 7. Some said the carrying amount of financial liabilities that are part of SFAs is an entity's "maximum" exposure should an SFA be withdrawn.

(d) the information is not necessarily representative of suppliers' use of SFAs—and therefore an entity's exposure to (or through) SFAs—throughout a reporting period. Some suppliers may choose to accelerate payments from finance providers during quarter- or year-end periods.

(e) the information may lead investors to make inappropriate conclusions by assuming the amount represents debt.

(f) the FASB considered but decided not to propose requiring disclosure of the information. The FASB was of the view that the cost of providing the information would outweigh the perceived marginal benefit.

Costs to obtain the information

56. We spoke to respondents to gather additional feedback on the costs associated with producing or obtaining this information. Respondents said:

(a) entities currently do not ask for this information from their finance providers (or intermediaries)[3].

(b) existing SFA agreements between entities and finance providers neither permit nor restrict access to this information—contracts are silent on this point. Parties to SFAs are not aware of specific legal or regulatory restrictions (for example, privacy-of-information laws) that prohibit an entity from obtaining the information, but some are concerned that restrictions might exist. To make this information available, one finance provider said they would expect to ask for changes to SFA contracts to avoid any legal uncertainty and would expect to bear the costs of changing the contracts.

(c) entities are concerned that changes to SFA contracts might result in costs associated with updating their SFA accounting analyses and discussing with their auditor, even though the financial reporting outcome may not change. Entities expect to incur additional costs to have the information audited—particularly because the information would be generated by, or reside on a system of, an external party—that may require audit of the controls around the systems that produce the information.

[3] Within this section of the paper, 'finance providers' include intermediaries.

57. Some investors said if an entity did not disclose the information, they would incur costs to either attempt to obtain the information directly from the entity or to make an estimate, for example by estimating a supplier utilisation rate. A few investors said they cannot ‘fill the gap’ with other information. Costs for investors may vary depending on their experience with supplier finance markets.

58. We did not identify conclusively any entity that currently provides this information in our 2022 AlphaSense search.

Staff analysis and recommendations

59. The IASB’s proposals aim to balance implementation costs for entities and others with the benefits of the information for investors. We consider the feedback through that lens.

Importance of the information for investors

60. In our view, it is clear that this information is important for investors and completes the package of information required to satisfy the disclosure objective. Some investors identified this as the most important item of information for their analysis of an entity’s use of SFAs—they said they cannot fill the gap if this information is not provided. Investors confirmed they use this information to assess the effects of SFAs on an entity’s solvency and liquidity—that is, the extent to which an entity’s working capital and liquidity are tied to the existence and use of its SFAs. Therefore, the feedback confirms that investors would benefit from entities providing this information.

61. Arrangements in the scope of the project are characterised by an entity financing its payables. In our view, entities or suppliers that make use of this source of financing become dependent on the entity’s ability to finance its payables through finance providers. Suppliers’ decisions to access financing provided under SFAs could influence the entity’s solvency and liquidity if an SFA is unexpectedly withdrawn. The entity’s use of extended payment terms or its suppliers use of early payment terms under SFAs is therefore important information.

Costs to obtain the information

62. We agree with respondents that entities are likely to incur costs in obtaining and disclosing this information. The more SFAs an entity has on different platforms, the higher any costs are likely to be. Feedback suggested that costs are likely to be higher when initially adopting the new requirement (if finalised); thereafter, costs might not be so significant. We see no reason for this disclosure requirement (if finalised) to cause an entity to re-assess its accounting treatment for SFAs.

Other considerations

63. Without information about the carrying amount of financial liabilities for which suppliers have already received payment, investors could make incorrect assumptions, especially if the use of SFAs differs significantly across jurisdictions or industries. We disagree with respondents that suggest the information should not be provided because it might be misunderstood. The IASB develops disclosure

requirements based on an expectation that investors that use the information have a reasonable knowledge of business and economic activities and diligently review and analyse the information.

64. We agree with respondents who said the carrying amount of financial liabilities that are part of SFAs represents the entity's 'maximum' exposure to liquidity risk. In our view, information about that maximum exposure would fail to fully satisfy the disclosure objective. Without knowing the carrying amount of liabilities for which suppliers have already received payment, investors would be unable to understand the effect SFAs have on an entity's liabilities and cash flows because they would not know the amount of liabilities that finance providers have financed. If that information is not disclosed, investor feedback suggests that investors would incur costs in analysing and interpreting the other information entities provide or in seeking to obtain additional information from entities.

65. Some respondents said information about utilisation at the reporting date may not reflect the utilisation rate or rates throughout the reporting period, and suggested requiring additional information in this respect. We recommend not doing so. Such a change would require the IASB to add to the proposed disclosure objective. The information proposed for disclosure is a point-in-time measure that satisfies the disclosure objective for investors to understand the nature of financial liabilities reported in the statement of financial position. By providing the information at the start and at the end of the reporting period, investors can calculate the cash flow effects for the period.

Conclusion

66. Therefore, we recommend that the IASB proceed with requiring disclosure of the carrying amount of financial liabilities for which suppliers have already received payment from finance providers. Having considered the feedback, we conclude that this information is important for investors. Without this data point, the package of information about SFAs would be incomplete and fail to fully satisfy the disclosure objective. We acknowledge entities may incur costs in disclosing the information; however, not disclosing it would result in costs for investors. In our view, the benefits of requiring disclosure of this information outweigh the costs.

Information about payment due dates

IASB's proposals and rationale

67. The IASB proposed that an entity disclose:

> the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities that are part of an arrangement and the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

68. Paragraph BC14(d) of the Basis for Conclusions on the Exposure Draft explains that information about the range of payment due dates of both financial liabilities that are part of an SFA and trade payables

that are not would help investors assess the effect of each SFA 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 SFAs because due dates differ for liabilities that are part of SFAs and trade payables that are not.

Respondents' feedback

69. Some respondents—including investors—agreed with the proposed requirements for the reasons set out in the Basis for Conclusions. They said the information is useful because it would enable investors to consider a more entity-specific threshold when making their adjustments, if any, to amounts reported in an entity's financial statements.

70. Many respondents disagreed with the proposed requirements—most notably with the proposal to require disclosure of payment due dates for trade payables that are not part of an SFA. Respondents said:

    a) the information would be irrelevant for lines of business for which SFAs are not used and could be misleading because liabilities that are part of SFAs 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. Respondents asked the IASB to clarify that the trade payables referred to are those within the same business line or jurisdiction as financial liabilities that are part of SFAs; and

    b) there is overlap with, or an effect on, the maturity analysis required in paragraph 39 of IFRS 7.

Alternative disclosures

71. Some respondents suggested alternatives to disclosing the range of payment due dates. Some entities suggested an entity disclose the 'original payment due dates' of financial liabilities that are part of SFAs, or provide a narrative description explaining whether cash flows were improved, or payment terms with suppliers were extended, because of an entity's arrangements.

72. Some respondents suggested an entity disclose the weighted average payment due dates because a range of payment due dates may not be useful, especially if the range is wide. A few of these respondents acknowledged that calculating weighted average payment due dates may be more complex than disclosing a range of payment due dates. This example illustrates the difference between the two approaches:

An entity has trade payables with a carrying amount of CU1,000 that are not part of an SFA. CU500 have payment due dates of 20 days, CU350 of 30 days and CU150 of 60 days. The range of payment due dates is 20–60. The weighted average payment due date is 29.5 days (((500 x 20) + (350 x 30) + (150 x 60)) ÷ 1,000).

Staff analysis and recommendations

73. The feedback—particularly from investors—suggests that the proposed disclosure of the range of payment due dates is useful. We agree with respondents' suggestion to clarify that when an entity discloses the range of payment due dates of trade payables that are not part of an SFA—in comparison to the range of payment due dates of financial liabilities that are part of an SFA—the trade payables and financial liabilities should be on a comparable basis, such as within the same business line or jurisdiction. We will consider ways to clarify this in drafting final amendments.

74. In our view, the feedback provided no compelling evidence that an alternative disclosure—such as original or weighted average payment due dates—would provide better information for investors at equal or lower cost. As noted by some respondents, weighted average payment due dates are likely to be more complex to calculate. Disclosure of 'original' or 'normal' or 'industry' payment due dates would require application of judgement to assign meaning to those terms—or would require the IASB to define those terms. As discussed in paragraph 30, when the range of payment due dates is wide, proposed paragraph 44I would require an entity to provide additional information to the extent needed to meet the disclosure objective.

75. In our view, the proposed disclosure of the range of payment due dates does not overlap with or effect the maturity analysis requirements in paragraph 39 of IFRS 7. The IFRS 7 maturity analysis is prepared for the liabilities at the reporting date and generally shows the earliest time that an entity could be contractually required to repay financial liabilities. Information about the payment due dates of financial liabilities that are part of SFAs and comparable trade payables shows the potential effect that SFAs have on the time it takes an entity to pay for goods or services.

Comparative information

IASB's proposals and rationale

76. The IASB proposed to require an entity to disclose quantitative information as at the beginning and end of the reporting period. This implies that for a set of financial statements with one comparative period, an entity discloses quantitative information as at:

    (a) the end of the current period (eg 31 December 20X1);

    (b) the end of the comparative period (eg 31 December 20X0); and

    (c) the start of the comparative period (eg 1 January 20X0).

77. Paragraph BC14(f) of the Basis for Conclusions on the Exposure Draft explains that information at the beginning and end of each reporting period would help investors identify and assess changes and trends in the effect of each SFA on an entity's liabilities and cash flows.

Respondents' feedback

78. A few respondents, including investors, agreed and said requiring information at the beginning and end of each reporting period would help investors identify and assess changes and trends in the use of SFAs. A few respondents disagreed because the short-term nature of the amounts limits the usefulness of the information, and IAS 1 already contains requirements about comparative information.

Staff analysis and recommendations

79. The feedback supports the view that investors would benefit from obtaining information about an entity's SFAs at the three points in time described in paragraph 76 for their analyses. We therefore recommend that the IASB proceed with requiring disclosure of quantitative information as at the beginning and end of each reporting period.

Question for the IASB

Does the IASB agree with our recommendations set out in paragraph 6 to:

(a) *for the disclosure objective*—

- (i) not add a reference to 'materiality';
- (ii) add a reference to liquidity risk and risk management;
- (iii) not add a reference to the effects of SFAs on an entity's financial performance; and
- (iv) proceed with requiring disclosure of information to be used by investors to calculate effects, rather than requiring disclosure of the effects;

(b) *for the level of aggregation*—require an entity to aggregate information provided about its SFAs and disaggregate information—when required—to not omit or obscure material information;

(c) *for disclosure of the terms and conditions*—add the word 'key' to the requirement to disclose the terms and conditions, and not prescribe a list of terms and conditions to be disclosed;

(d) *for disclosure of the carrying amount and presentation of financial liabilities that are part of SFAs*—

- (i) *for the statement of financial position*—clarify that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item, an entity would disclose each line item and the associated carrying amount presented in that line item; and
- (ii) *for the statement of cash flows*—not add a requirement for an entity to disclose the line item(s) in which changes in financial liabilities that are part of SFAs are presented;

(e) *for disclosure of the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers*—proceed with requiring disclosure of this information;

(f) *for disclosure of the range of payment due dates*—clarify that when an entity discloses the range of payment due dates of trade payables that are not part of an SFA—in comparison to the range of payment due dates of financial liabilities that are part of an SFA—the trade payables and financial liabilities should be on a comparable basis, such as within the same business line or jurisdiction; and

(g) *for comparative information*—proceed with requiring disclosure of quantitative information as at the beginning and end of each reporting period.