Staff paper

Agenda reference: 12A

IASB® meeting

Date	**January 2023**
Project	**Supplier Finance Arrangements**
Topic	**Transition, Effective Date and Due Process**
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Introduction and purpose

1. In November 2022, the International Accounting Standards Board (IASB) decided to proceed with its project *Supplier Finance Arrangements*, with some changes to the proposals in the November 2021 Exposure Draft. The proposals will amend IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* by adding disclosure requirements for an entity's supplier finance arrangements.

2. The purpose of this paper is to:

   (a) ask the IASB whether it agrees with our recommendations with respect to the effective date and transition requirements for the amendments;

   (b) set out the steps in the IFRS Foundation *Due Process Handbook* (Due Process Handbook) that the IASB has taken in developing the amendments;

   (c) ask the IASB to confirm it is satisfied that it has complied with the due process requirements; and

   (d) ask whether any IASB member intends to dissent from the amendments.

Structure of the paper

3. This paper includes:

   (a) a summary of the amendments (paragraphs 5–6);

   (b) effective date (paragraphs 7–12);

   (c) transition requirements (paragraphs 13–21);

   (d) due process steps and permission for balloting (paragraphs 22–29):

      (i) re-exposure;

      (ii) intention to dissent;

      (iii) confirmation of due process steps; and

      (iv) proposed timetable for balloting and publication.

4. There are two appendices to this paper:

   (a) Appendix A—Extracts from the Due Process Handbook; and

   (b) Appendix B—Actions taken to meet the due process requirements.

Summary of the amendments

5. The proposed disclosure requirements in the Exposure Draft, together with existing disclosure requirements in IFRS Accounting Standards[1], are intended to result in an entity reporting information that will enable users of financial statements (investors) to assess the effects of supplier finance arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.

6. In response to input and feedback, the IASB tentatively decided in November 2022 to proceed with the amendments including making the following changes to the proposals in the Exposure Draft:

[1] The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* explains the existing requirements in IFRS Accounting Standards that apply to these arrangements.

Proposals in the Exposure Draft	IASB's tentative decisions
Scope	
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.	Specify that a supplier finance arrangement is characterised by the entity 'agreeing to pay according to the terms and conditions of the arrangement' and consider in drafting whether to add examples to the scope paragraph to illustrate the types of payment arrangements or instruments that are outside the scope of the disclosure requirements.
Disclosure objective	
An entity shall disclose information about its supplier finance arrangements (as described in the scope above) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows.	Add a reference to an entity's exposure to liquidity risk.

Proposals in the Exposure Draft	IASB's tentative decisions
Disclosure requirements	
The terms and conditions of supplier finance arrangements (including, for example, extended payment terms and security or guarantees provided).	No change.
The carrying amounts of the financial liabilities recognised in an entity's statement of financial position that are part of supplier finance arrangements and the line items in which those liabilities are presented.	Clarify that if the carrying amount of financial liabilities that are part of supplier finance arrangements is presented in more than one line item in the statement of financial position, an entity would disclose each line item and the associated carrying amount presented in that line item.
The carrying amount of financial liabilities recognised in an entity's statement of financial position that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers.	No change.
The range of payment due dates of both financial liabilities that are part of supplier finance arrangements and	Clarify that when an entity discloses the range of payment due dates of financial liabilities that are part of such arrangements and trade payables that are not, the

Proposals in the Exposure Draft	IASB's tentative decisions
trade payables that are not part of such arrangements.	financial liabilities and trade payables should be on a comparable basis, such as within the same business line.
Level of aggregation	
An entity shall disclose additional information about its supplier finance arrangements if necessary to meet the disclosure objective (for example, additional information about the range of payment due dates when that range is wide); and is permitted to aggregate the information for different arrangements only when the terms and conditions of those arrangements are similar.	Change the proposed level of aggregation to require an entity to aggregate information provided about its supplier finance arrangements and disaggregate the following particular information: (a) unusual or unique terms and conditions of individual arrangements; (b) the effect of particular transactions or reclassifications that cause the carrying amount of financial liabilities that are part of arrangements to not be on a comparable basis at the beginning and end of the reporting period; and (c) explanatory information about the range of payment due dates when that range is wide (an example already included in the Exposure Draft).

Proposals in the Exposure Draft	IASB's tentative decisions
Examples	
Add supplier finance arrangements as an example in: (i) a new sub-paragraph to paragraph 44B of IAS 7 about changes in liabilities arising from financing activities; (ii) within sub-paragraph B11F(a) and a new sub-paragraph B11F(j) in IFRS 7 that list the other factors that an entity might consider in providing a description of how it manages liquidity risk; and (iii) an amended paragraph IG18 of IFRS 7.	Proceed with changes to paragraphs B11F(j) and IG18 of IFRS 7 and not proceed with changes to paragraph 44B of IAS 7[2] or paragraph B11F(a) of IFRS 7.

Effective date

7. Paragraph 6.35 of the Due Process Handbook explains that the effective date of any amendments is set so that (a) jurisdictions have sufficient time to incorporate the new requirements into their legal systems; and (b) those applying IFRS Accounting Standards have sufficient time to prepare for the new requirements.

8. The IASB generally allows at least 12–18 months between the issuance of a new IFRS Accounting Standard or amendment and its effective date. If the IASB agrees with our recommendations set out in this paper, we expect the IASB to issue the amendments towards the end of the second quarter of 2023.

[2] Non-cash changes would be required to be disclosed as part of the disaggregated information summarised in the 'level of aggregation' section of the table above.

9. We recommend an effective date of annual reporting periods beginning on or after **1 January 2025**—that is, 18 months after the end of the second quarter of 2023.

10. In our view entities would have sufficient time to prepare for the new requirements if the IASB were to set this as an effective date because:

    (a) the amendments are disclosure-only and do not affect the measurement, classification or presentation of the financial liabilities that are part of supplier finance arrangements;

    (b) feedback did not contradict the IASB's expectation expressed in paragraph BC18 of the Basis for Conclusions on the Exposure Draft that the information to be disclosed—excluding the information discussed in paragraph (c) below—is already readily available to entities;

    (c) we expect entities would be able to obtain access to the information about the carrying amount of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers based on feedback that:

        (i) the amendments affect the contracts only for supplier finance arrangements;

        (ii) the information is typically available from the information technology systems used to facilitate such arrangements; and

        (iii) if changes to supplier finance arrangement contracts are necessary to allow an entity access to the information, those changes could be completed with sufficient time to meet our recommended effective date—including retrospective application (see paragraph 18).

11. Further, such an effective date would allow jurisdictions sufficient time to incorporate the new requirements into their legal systems.

12. The IASB received no feedback on its proposal to permit earlier application. We therefore recommend permitting such earlier application, with a requirement to disclose the fact that the amendments have been applied early when that is the case.

Question 1 – Effective date
Does the IASB agree with our recommendation to require entities to apply the amendments for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted?

Transition requirements

IASB's proposals and rationale

13. The IASB proposed requiring an entity to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—with earlier application permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

14. Paragraph BC24 of the Basis for Conclusions on the Exposure Draft explains the IASB's rationale. The benefits of requiring entities, on transition, to provide comparative information as if the amendments had always been applied would outweigh the costs because:

    (a) the comparative information would help users of financial statements 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.

Summary of respondents' comments

15. Agenda Paper 12E of the July 2022 IASB meeting summarises the comments from respondents that commented on the proposed transition requirements. A few said they agree with retrospective application. A few respondents suggested that prospective

application be allowed on transition; one said the costs of retrospective application would outweigh the benefits, and another said there may be operational challenges with retrospective application and therefore the benefit of having an earlier effective date may outweigh the benefits of retrospective application.

Staff analysis and recommendations

Entities already applying IFRS Accounting Standards

16. Feedback did not contradict the IASB's view that the comparative information would enable investors to 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. Feedback did identify that some entities may need to make changes to contracts to obtain access to information about the carrying amount of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers.

17. If the IASB agrees with our recommended effective date of annual reporting periods beginning on or after 1 January 2025, retrospective application of the amendments means that for a set of financial statements with one comparative period, an entity provides the disclosures as at:

    (a) the end of the period it first applies the amendments (eg 31 December 2025);

    (b) the end of the comparative period (eg 31 December 2024); and

    (c) the start of the comparative period (eg 1 January 2024).

18. Therefore, if retrospective application is required, an entity would need to be able to collect information for required disclosures for periods beginning from 1 January 2024—that is, within 6 months after the IASB is expected to issue the amendments. In

our view, an entity would be able to obtain access to this information by this time for the reasons set out in paragraph 10.[3]

19. We considered and do not recommend a modified retrospective approach. Under such an approach, an entity would be required to provide disclosures about supplier finance arrangements as at 31 December 2025 but not for the comparative period. In our view, a modified retrospective approach would not meet investors' needs to assess trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows and its exposure to liquidity risk.

20. We therefore recommend that the IASB proceed with requiring an entity to apply the amendments retrospectively in accordance with IAS 8 and with no exception to the requirements of IAS 34 *Interim Financial Reporting* for interim financial statements issued in the year the amendments become effective.

First-time adopters

21. Paragraph 20 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* says: '[t]his IFRS does not provide exemptions from the presentation and disclosure requirements in other IFRSs.' The disclosure-only nature of the amendments, therefore, does not necessitate any specific transition exemption for first-time adopters.

Question 2 – Transition requirements
Does the IASB agree with our recommendations to: (a) require entities to apply the amendments retrospectively in accordance with IAS 8; and (b) provide no specific transition exemption for first-time adopters?

[3] Paragraphs 23–27 of IAS 8 include sufficient requirements to the extent that retrospective application is impracticable.

Due process steps and permission for balloting

Re-exposure

22. As noted in paragraph 6 of this paper, the IASB has tentatively decided to proceed with the amendments including making some changes to the proposals.

23. In the light of these changes, we considered the requirements in paragraphs 6.25–6.29 of the Due Process Handbook (reproduced in Appendix A to this paper) to assess whether the IASB should re-expose the amendments.

24. In our view, the changes set out in paragraph 6 of this paper respond to feedback without fundamentally changing the proposed amendments that were included in the Exposure Draft. The changes either clarify the information an entity would be required to disclose or make the proposals more practical to apply. Therefore, in our view it is unlikely that re-exposure would reveal new information or feedback not already considered by the IASB.

25. Accordingly, we recommend finalising the amendments without re-exposure.

Question 3 – Re-exposure
Does the IASB agree with our recommendation not to re-expose the amendments?

Intention to dissent

26. In accordance with paragraph 6.23 of the Due Process Handbook, we are asking whether any IASB member intends to dissent from the amendments.

Question 4 – Dissent
Does any IASB member intend to dissent from the amendments?

Confirmation of due process steps

27. In our view the IASB has undertaken all the due process steps identified as being required in the Due Process Handbook and, thus, is able to finalise the amendments. Appendix B to this paper summarises the due process steps taken in developing the amendments. The applicable due process steps to date for issuing the amendments have been completed.

28. We request permission to start the balloting process if the IASB is satisfied that (a) it has been provided with sufficient analysis, and (b) has undertaken appropriate consultation and due process to support issuing the amendments.

Question 5 – Permission to ballot
Is the IASB satisfied it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments?

Proposed timetable for balloting and publication

29. The balloting process for the amendments will commence in the near term, with the amendments planned for issue towards the end of the second quarter of 2023.

Appendix A—Extracts from the Due Process Handbook (August 2020)[4]

6.25 In considering whether there is a need for re-exposure, the Board:

(a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

(b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

6.26 It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the Board to re-expose the proposals. The Board needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the Basis for Conclusions accompanying the Exposure Draft. The Board also needs to consider whether it will learn anything new by re-exposing the proposals. If the Board is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

6.27 The more extensive and fundamental the changes from the Exposure Draft and current practice the more likely the proposals should be re-exposed. However, the Board needs to weigh the cost of delaying improvements to financial reporting against the relative urgency for the need to change and what additional

[4] In this extract, 'Board' refers to the International Accounting Standards Board.

steps it has taken to consult since the Exposure Draft was published. The use of consultative groups or targeted consultation can give the Board information to support a decision to finalise a proposal without the need for re-exposure.

6.28 The Board should give more weight to changes in recognition and measurement than disclosure when considering whether re-exposure is necessary.

6.29 The Board's decision on whether to publish its revised proposals for another round of comment is made in a Board meeting. If the Board decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. However, because it is not the first exposure of the proposed IFRS Standard, it may be appropriate to have a shortened comment period, particularly if the Board is seeking comments on only specific aspects of the revised exposure draft, while recognising that respondents may not limit their comments to these aspects. The public comment period for such documents will normally be at least 90 days.

Appendix B—Actions taken to meet the due process requirements

Step	Required / Optional	Actions
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required	All comment letters received by the IASB (94 comment letters) have been posted on the project website here: IFRS - Exposure Draft and comment letters: Supplier Finance Arrangements
IASB and IFRS Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	At its July 2022 meeting, the IASB discussed a summary of feedback on the Exposure Draft. In November 2022, the IASB considered staff analysis and recommendations having considered feedback and discussed how the project should proceed. The IASB decided to finalise its proposed amendments to IAS 7 and IFRS 7 with some changes. All staff papers above are publicly available. The project page on our website has up-to-date information about all technical papers related to the project.

Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	The IASB considered the likely effects of the amendments at each stage of their development. The Basis for Conclusions on the amendments will include the IASB's views on these effects.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Agenda Paper.
Need for re-exposure of a Standard is considered.	Required	This Agenda Paper discusses re-exposure. We recommend that the IASB not re-expose the amendments.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	This Agenda Paper discusses the effective date. We recommend an effective date of annual reporting periods beginning on or after 1 January 2025, with earlier application permitted.
Drafting		
Drafting quality assurance steps are adequate.	Required	To be completed in due course. The Translations, Taxonomy and Editorial teams will review the pre-ballot draft. We intend to send a draft of the amendments to external parties for review before finalisation.

		This process provides us with feedback on the clarity and understandability of the new requirements.
Publication		
News release to announce the final Standard.	Required	To be completed in due course. A news release will be published with the amendments.
A Feedback Statement is provided for a new IFRS Accounting Standard or a major amendment to a Standard, which provides an executive summary of the Standard and explains how the IASB has responded to the comments received.	Required	Not considered necessary because these amendments are narrow in scope. The Basis for Conclusions on the amendments will explain how the IASB has responded to comments received.
Standard is published.	Required	The amendments will be made available on our website when published.