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Summary and analysis of the comment letters received

- 1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 05-04.

Structure of the paper

- 2 This comment letter analysis contains:
 - (a) Background;
 - (b) Summary of respondents;
 - (c) Summary of respondents' views;
 - (d) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter and questions to EFRAG FR TEG; and
 - (e) Appendix 2 – list of respondents.

Background

- 3 The IASB published the Exposure Draft ED/2021/10 *Supplier Finance Arrangements* ('ED') in November 2021. The ED proposes disclosure requirements for supplier finance arrangements ('SFA') in order to enhance the transparency of reporting for such arrangements by complementing the already existing requirements in IFRS Standards. The ED's comment period ends on 28 March 2022.
- 4 EFRAG published its draft comment letter ('DCL') on the ED in January 2022. In its DCL, EFRAG broadly supports the IASB's proposals on this project which increase conformity with current disclosure requirements in IFRS Standards. However, EFRAG considers that the project does not completely address the wider issue of providing necessary transparency on liquidity risk and leverage of reporting entities. Therefore, at a later stage, EFRAG anticipates that further efforts are needed in terms of reporting of SFA in the primary financial statements and encourages the IASB to consider possible improvements related to accounting for SFA in the future in other cross-related projects. EFRAG DCL's comment period ended on 9 March 2022.

Summary of respondents

- 5 At the time of writing (Monday 14 March 2022, 6pm), six comment letters have been received which includes four draft comment letters. The letters are summarised below in Appendix 1. Appendix 2 provides a list of the respondents including by country and type of respondent. Four out of the six respondents are National Standard Setters.
- 6 The four draft comment letters received have been considered in the summary of responses included in Appendix 1. These letters will be published to the EFRAG website once their final versions are received.

Summary of respondents' views

7 The EFRAG Secretariat uses the following to summarise the respondents' views.

Term	No of comment letters	Corresponding %
All	6	100%
Almost all	5	83%
Majority	4	67%
Many	3	50%
Some	2	33%
One	1	17%

General comments

- 8 All respondents welcomed the IASB's project on SFA which improved transparency of reporting for these arrangements and comparability between reporting entities. The project was a consequence of users of financial statements asking for more prescriptive disclosure requirements on SFA to meet their information needs.
- 9 Majority of respondents supported the position expressed in the EFRAG DCL that the current project did not completely address the wider issue of providing necessary transparency on liquidity risk and how entities leverage their working capital to effectively obtain finance. It was noted that there was a need for a more comprehensive project on accounting for SFA in the future.
- 10 Many respondents generally agreed with the proposed narrow scope of the project as it addressed concerns raised by users of financial statements in a targeted and timely manner. However, respondents suggested that at a later stage the IASB should:
- (a) consider a research project on IAS 7; and
 - (b) a broader project on SFA and receivable financing arrangements.
- 11 Some respondents acknowledged that classification and presentation of SFA in an entity's statement of financial position and statement of cash flows were not part of the project, however, encouraged the IASB to consider including in the final amendments of the ED the analysis set out in the IFRS Interpretations Committee's agenda decision published in December 2020.
- 12 Many respondents expressed concerns about the relevance of the statement of cash flows when payments via finance providers to suppliers remained outside the cash flow from operating activities. There was also a general need for improving disclosures on non-cash transactions and providing guidance on determining whether a cash flow existed, specifically, whether and when a finance provider could be considered as a paying agent of the entity. Those respondents considered that a broader project on IAS 7 *Statement of cash flows* was needed.

*Scope of disclosure requirements*Description of the characteristics of SFA as opposed to detailed definition

- 13 All respondents considered that the proposed description of SFA was adequate for the reasons explained in paragraph BC6 of the ED.

- 14 Majority of respondents suggested that further clarification about the proposed description of SFA in paragraph 44G of the ED was necessary. The description was considered to be rather difficult to understand and might be inaccurate in some circumstances considering the different types of SFA used in practice. In particular they suggest:
- (a) to clarify the characteristics of the SFA described in paragraph BC8 of the ED and elevate those examples in the main text of the ED's proposals;
 - (b) to provide guidance on whether arrangements initiated by the supplier rather than the reporting entity were intended to be within scope of the project to avoid any interpretation difficulties.

Scope could be broader

- 15 Majority of respondents raised various concerns with respect to the types of arrangements considered in scope of the project. In particular:
- (a) it was not clear why some specific arrangements (i.e. receivable or inventory financing arrangements) were explicitly scoped out. Some respondents disagreed with the scope exclusions (paragraph BC 11 of the ED) because there was a large economic similarity between SFA and direct factoring arrangements;
 - (b) there were also lack of transparent disclosures for other types of financing arrangements related to entities' working capital (e.g. inventory financing, receivables financing).

Not all the agreements in scope increase liquidity risk

- 16 Some respondents noted that different types of SFA might not trigger the same information needs of users and therefore not all SFA warranted the same type of disclosure objectives and requirements. The following suggestions were made:
- (a) an entity should only be subject to the proposed disclosures when it was affected from extended payment terms or there was a derecognition of a trade payable combined with the recognition of a financial liability or a concentration in terms of liquidity risk existed;
 - (b) it was acknowledged that distinguishing between different types of arrangements in order to provide different disclosures could be challenging in practice. Therefore, the IASB could assess the feasibility of refining the proposed disclosures by considering which party (i.e. the entity or the supplier) obtained the in-substance financing under the arrangement.

Other comments

- 17 Respondents made the following suggestion of how to improve the transparency of reporting for different types of arrangements:
- (a) all arrangements providing finance should be adequately considered when defining new disclosure requirements. The IASB should analyse their characteristics simultaneously to avoid economically similar transactions being disclosed in different ways;
 - (b) the IASB should closely monitor reporting of those other arrangements and consider developing similarly robust disclosures at a future date.

Disclosure objective and disclosure requirements

Disclosure objective

- 18 Almost all respondents supported the IASB's proposal to add a disclosure objective in paragraph 44F of the ED that enables users of financial statements to assess the effects of SFA on the entity's liabilities and cash flows. Furthermore, many

respondents suggested that the proposed disclosure objective should be expanded to also consider the effects of SFA on:

- (a) an entity's liquidity risk together with a possible cross reference to IFRS 7;
- (b) an entity's financial performance as the entity might incur costs to set up those arrangements or benefit from discounts received from prompt settlement of invoices.

- 19 Almost all respondents generally agreed with the IASB's proposals to add specific disclosure requirement about an entity's SFA.
- 20 Some respondents doubted whether the most logical location of the proposed disclosure requirements on SFA was IAS 7 instead of IFRS 7.
- 21 One respondent observed that transparency about SFA could be achieved not only by establishing a disclosure objective but also by setting a "transparency objective" which would be more comprehensive and preferably be met by appropriate presentation accompanied by adequate disclosures.

Terms and conditions of SFA

- 22 Majority of respondents considered that the requirement in paragraph 44H(a) of the ED to require entities to disclose the terms and conditions of each supplier finance arrangement could:
- (a) be quite onerous, particularly where an entity entered into a large number of such arrangements;
 - (b) be burdensome and conflict with confidentiality agreements;
 - (c) should be amended to require disclosure of the '*relevant*' terms and conditions of each SFA;
 - (d) was not necessary as the materiality principle IAS 1 was the pervasive one.

Payments received by suppliers from finance providers

- 23 Many respondents raised concerns about the proposed requirement in paragraph 44H(b)(ii) to require entities to disclose the carrying amounts of financial liabilities that are part of a SFA for which suppliers have already received payment from finance providers. In particular:
- (a) there were concerns about the availability and auditability of this information;
 - (b) providing accurate information on these proposals might require incurring additional costs;
 - (c) the information might be also sensitive and finance providers might not be able to freely exchange such information;
 - (d) the proposed disclosure could be used to analyse the cash flows of the entity, as long as payment terms remain unchanged regardless of whether or not the suppliers used such an arrangement;

Range of payment due dates

- 24 Many respondents considered that disclosing the weighted average payment dates rather than a range of payment due dates would generally result in more useful information. One respondent mentioned that the range of payment due dates, without any information about amounts (for each due date) and about regional or industry-specific conventions or habits (IAS 7.44H(b)(iii) and (c)) lacks decision usefulness.
- 25 It was commented that information about the change in payment terms for suppliers would be difficult to provide and as the information might be commercially sensitive or regulated.

- 26 It was observed that there was a potential for misinterpretation when comparing information provided under paragraph 44H(b)(iii) and 44H(c) of the ED about payment due dates under SFA and ordinary trade payables because of existing regional differences related to payment due dates.

Level of aggregation

- 27 Many respondents observed that the proposed requirement in paragraph 44I of the ED (to disclose information about each supplier finance arrangement and permit aggregation only when the terms and conditions of arrangements are similar) lacked clarity and might result in excessive detail.
- 28 One respondent agreed with EFRAG's position that disclosures about concentrations of liquidity risk should be made for specific finance provider(s) instead of supplier finance arrangements in general.

Suggestions of how to improve the proposed disclosure requirements under SFA:

- (a) *Amount of liabilities* – disclosing information about the amount of liabilities under SFA should be provided on an aggregated level instead of on an arrangement-by-arrangement basis;
- (b) *Roll-forward of liabilities* - reporting entities should provide a reconciliation between the opening and closing balances of financial liabilities under SFA in order to help investors determine which changes should be included in their cash flow adjustments;
- (c) *Disclosure of cash flows* – some respondents suggested that the ED should explicitly require specific disclosure requirements of the actual cash flows to the finance provider under SFA. In particular, such disclosures might include:
- (i) guidance on classification of cash flows under SFA in the statement of cash flows;
 - (ii) the amounts of cash flows reported as part of operating and financing activities;
 - (iii) sufficiently detailed information about non-cash transactions as part of the requirements in paragraphs 43 and 44 of IAS 7;
 - (iv) to separately disclose the cash outflows relating to SFA that are reported as part of cash flows from financing activities;
 - (v) elevate the observations in paragraph BC16 of the ED (effects of SFA on an entity's operating and financing cash flows) in the final amendment;
- (d) *Payment dates* – it was suggested that weighted average payment dates should be disclosed in addition to the range of payment due dates;
- (e) *Transparency objective* – transparency about SFA could be achieved not only by establishing a disclosure objective but also by more comprehensive appropriate presentation, accompanied by adequate disclosures;
- (f) *Simplification of disclosures* - suggestion was made to simplify the disclosures by providing information in aggregate for all schemes.

Examples added to disclosure requirements

- 29 Almost all respondents agreed with the IASB's proposals to add SFA as an example to certain existing disclosure requirements in IAS 7 and IFRS 7.
- 30 However, some doubts were expressed whether the proposed amendments to existing disclosure requirements in IAS 7 and IFRS 7 were useful and appropriate because:

SFA – Comment letter analysis

- (a) disclosures about changes in liabilities arising from financing activities in paragraph 44B(da) primarily concerned non-cash changes and secondly related to (future) cash flows in relation to presentation of cash flows;
 - (b) adding SFA as an example to a list of factors in paragraph B11F of the ED might not trigger any additional disclosure by entities.
- 31 Furthermore, suggestion was made to retain the observations in paragraph BC21 of the ED in the final amendments of the ED to help users understand how SFA might increase liquidity risk and what is the outstanding total amount under SFA which is still available to the entity.
- 32 One respondent disagreed with EFRAG’s suggestion in paragraph 40 of its DCL to remove the word ‘non-cash’ from paragraph 44B(da) of the ED. This was because paragraphs 44A and 44B(a) of IAS 7 would already capture changes from cash flows.

Question to EFRAG FR TEG

- 33 Does EFRAG FR TEG have comments or questions on the EFRAG Secretariat’s summary in *Appendix 1: Analysis and Summary of Comments* received?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter

Question 1

The proposed amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the proposed amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in the Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the IASB's proposals.

Paragraphs BC5–BC11 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

EFRAG's tentative position

EFRAG supports a narrow-scope project to develop clear and specific disclosure requirements for supplier finance arrangements that aims at enhancing transparency of reporting for such arrangements and increasing conformity with existing IFRS Standards. However, EFRAG observes that the IASB's approach to this topic tends to be rather rules-based, while a more principle-based approach would benefit the proposed improvements.

EFRAG considers that the proposed new disclosure requirements provide application guidance when dealing with supplier finance arrangements rather than complementing the current requirements in existing IFRS Standards (IFRS 7, IAS 7, IAS 1). Therefore, EFRAG recommends the IASB to amend paragraph 44F of the ED to remind entities that there are already existing disclosure requirements that apply to some types of financing arrangements and that the materiality principle is the overarching principle for entities to consider when deciding what information would be relevant for users of financial statements. Furthermore, EFRAG notes that there is a risk of a possible narrow interpretation of the scope of IFRS 7 when applied to supplier finance arrangements.

EFRAG agrees with the project scope to focus on supplier finance arrangements. Such arrangements are increasingly used in practice and they can significantly affect an entity's ability to settle its liabilities when they become due, particularly when an entity significantly relies on supplier finance arrangements and concentrates its liabilities in a few finance providers.

EFRAG also agrees with the ED's proposal to explain the characteristics of the type of arrangements included in the project scope. Furthermore, EFRAG recommends the IASB to strengthen the description of supplier finance arrangements in paragraph 44G of the ED by clarifying that both supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extending credit terms to buyers are within the scope of the project.

Notwithstanding its support for this project, EFRAG considers that the ED's proposals do not completely address the wider issue of providing necessary transparency on liquidity risk and how entities leverage their working capital to effectively obtain finance. Appendix 2 provides additional suggestions to the IASB of how to holistically approach the reporting for supplier finance arrangements.

Summary of constituents' comments

- 34 All respondents considered that the proposed description of SFA was adequate for the reasons explained in paragraph BC6 of the ED.

Narrow-scope project

35 Many respondents generally agreed with the proposed narrow scope of the project as it addressed the issue raised by users of financial statements in a targeted and timely manner. However, considered that as a second stage the IASB should:

- (a) consider a research project on revisiting IAS 7; and
- (b) a broader scope project on SFA and receivable financing arrangements.

Characteristics of SFA

36 Majority of respondents, however, suggested that further clarification about the proposed description was necessary considering the different types of SFA used in practice. In particular:

- (a) paragraph BC8(a) of the ED - the example provided under paragraph BC8(a) of the ED seemed to be oversimplified. An entity and its supplier might have created the ability for the supplier to sell or otherwise finance its receivables against the entity, but the entity had no knowledge of the actual usage of that option;
- (b) paragraph BC8(b) of the ED - the IASB should clarify whether direct payment by finance providers to suppliers was sufficiently evident to conclude that there was a SFA than two separate transactions (obtaining a credit facility on the one hand and the purchase of goods or services on the other hand);
- (c) SFA in which an entity aimed to achieve other objectives than improving its working capital such as providing support to suppliers through alternative and more affordable financing or streamlining administrative processes;
- (d) further guidance was needed on whether arrangements instigated by the supplier rather than the reporting entity were intended to be within scope of the project to avoid any interpretation difficulties. For instance, the IASB's proposals might be understood to require disclosure about standard account receivable factoring arrangements used by suppliers and for which disclosures had so far applied to the suppliers only;
- (e) the proposed description of SFA in paragraph 44G of the ED was considered to be rather difficult to understand and might be inaccurate in some circumstances. It was recommended that the IASB modify the wording by elevating paragraph BC8 of the ED, supporting the view expressed in the EFRAG DCL, and including circumstances to compare the invoice due date with the due date that would have existed applying payments terms before the renegotiations.

37 Conversely, one respondent did not find it necessary for the IASB to clarify the description of scope in the ED as suggested in paragraph 13 of the EFRAG DCL (to clarify that both supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extending credit terms to buyers are within the scope of the project). This is because paragraph 44G of the ED already captured these characteristics.

Types of SFA

38 It was observed that a broad description of SFA might cover a wide range of existing arrangements to be within the scope of the ED. Majority of respondents raised various concerns with respect to the types of arrangements considered in scope of the project. In particular:

- (a) some respondents were not clear why some specific arrangements (i.e. receivable or inventory financing arrangements) were explicitly scoped out;

- (b) some respondents disagreed with the scope exclusions in paragraph BC 11 of the ED based on the large economic similarity to direct factoring arrangements between a supplier and a finance provider. In their view, both arrangements should be adequately considered when defining new disclosure requirements and suggested the IASB to analyse both aspects simultaneously to avoid economically similar transactions being disclosed in different ways;
 - (c) some respondents noted that there were other types of financing arrangements related to entities' working capital (e.g. inventory financing, receivables financing) for which transparent disclosures might be lacking. Therefore, the IASB should closely monitor reporting of such other arrangements and consider developing similarly robust disclosures at a future date.
- 39 One respondent commented that the proposed disclosures about SFA should not apply to all arrangements given that they had different effects on the reporting entity. The respondent disagreed (did not consider necessary) to provide additional disclosures about SFA when there was no recognition of a financial liability instead of a trade payable. It was explained that additional disclosures should only encompass transactions that would lead to a modification and/or the recognition of a financial liability instead of a trade payable. The respondent suggested that an entity should only be subject to the proposed disclosures when it itself was affected from extended payment terms or there was a derecognition of a trade payable combined with the recognition of a financial liability or a concentration in terms of liquidity risk existed.
- 40 One respondent commented that different types of SFA might not trigger the same information needs of users and therefore not all SFA warrant the same type of disclosure objectives and requirements. The respondent acknowledged that distinguishing between different types of arrangements could be challenging in practice and on a cost-benefit basis supported the IASB's approach. However, encouraged the IASB to assess the feasibility of refining the proposed disclosures objective and requirements giving consideration to the party (i.e. the entity or the supplier) that obtains in-substance financing from under SFA which was an important factor to understand the substance and implications of the arrangements.
- 41 One respondent did not identified any examples of arrangements which were incorrectly included in or excluded from the project scope.

Question 2

Paragraph 44F of the proposed amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet that objective, paragraph 44H of the proposed amendments to IAS 7 proposes to require an entity to disclose:

- (a) the terms and conditions of each arrangement;
- (b) for each 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 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.

Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.

Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

EFRAG's tentative position

EFRAG supports to add an overall disclosure objective in paragraph 44F and specific disclosure requirements in paragraph 44H of IAS 7 to help users of financial statements assess the effects of supplier finance arrangements on an entity's liabilities and cash flows. EFRAG further suggests that the disclosure objective is expanded to also include the effects of those arrangements on an entity's liquidity risk.

EFRAG observes that providing a comprehensive package of disclosures that includes all disclosures related to supplier finance arrangements would be helpful to users. Additionally, EFRAG recommends the IASB to consider further improvements to the proposed disclosure requirements such as to disclose management's decision on presentation of liabilities and cash flows related to such arrangements, to require a designated note on supplier finance arrangements and use of consistent terminology, clarify the proposal on range of payment due dates and aggregation of information for liabilities under supplier finance arrangements. Further recommendations are included in paragraph 28 of the EFRAG DCL.

Summary of constituents' comments

- 42 Almost all respondents supported the IASB's proposal to add a disclosure objective in paragraph 44F of the ED that enables users of financial statements to assess the effects of SFA on the entity's liabilities and cash flows. Furthermore, many respondents suggested that the proposed disclosure objective should be expanded to also consider the effects of SFA on:
- (a) an entity's liquidity risk together with a possible cross reference to IFRS 7;
 - (b) an entity's financial performance as the entity might incur costs to set up those arrangements or benefit from discounts received from prompt settlement of invoices.
- 43 Almost all respondents generally agreed with the IASB's proposals to add specific disclosure requirement about an entity's SFA. One respondent found the proposed disclosures in paragraph 44H of the ED to be rather rules-based, however, considered that the information was specifically requested by users of financial statements.
- 44 Some respondents doubted whether the most logical location of the proposed disclosure requirements on SFA was IAS 7 instead of IFRS 7. It might be better to make the existing disclosures about liquidity risk in IFRS 7 more granular to ensure that the necessary information was provided rather than creating new, standalone disclosures about SFA.

Terms and conditions of SFA

- 45 Majority of respondents considered that the requirement in paragraph 44H(a) of the ED to require entities to disclose the terms and conditions of each supplier finance arrangement could:

- (a) be quite onerous, particularly where an entity entered into a large number of such arrangements. It should be clarified that aggregation of this information was acceptable but that this should only be done where the terms and conditions of such arrangements are similar;
- (b) be burdensome and conflict with confidentiality agreements as entities might enter in a variety of different arrangements which could lead to extensive disclosure that would not result in better information for users;
- (c) be amended to require disclosure of the ‘*relevant*’ terms and conditions of each SFA;
- (d) there was no need to add the requirements in paragraph 44H(a) of the ED as the materiality principle IAS 1 was the pervasive one.

Payments received by suppliers from finance providers

- 46 Many respondents raised concerns about the proposed requirement in paragraph 44H(b)(ii) to require entities to disclose the carrying amounts of financial liabilities that are part of a SFA for which suppliers have already received payment from finance providers. In particular:
- (a) some respondents expressed concerns about the availability and auditability of information on amounts already paid by the finance provider to suppliers for certain arrangements;
 - (b) one respondent commented that entities might struggle to accurately disclose such amounts without incurring additional costs. Although entities knew when such payments were due, they would not necessarily know whether payments were actually executed by the finance provider;
 - (c) one respondent considered that the information might be also sensitive and finance providers might not be able to freely exchange such information, especially, when the entity did not benefit from extended payment terms;
 - (d) the proposed disclosure could be used to analyse the cash flows of the entity, as long as payment terms remain unchanged regardless of whether or not the suppliers used such an arrangement.

Range of payment due dates

- 47 Many respondents considered that disclosing the weighted average payment days rather than a range of payment due dates would generally result in more useful information.
- 48 One respondent consider that while the information about an entity’s payment due dates would be available to disclose, assessing the change in payment terms for the supplier would be much more difficult if not impossible to provide as this information might be commercially sensitive or an exchange of such information could be regulated.
- 49 One respondent observed that there was a potential for misinterpretation when comparing information provided under paragraph 44H(b)(iii) and 44H(c) of the ED about payment due dates under SFA and ordinary trade payables. This is because regional differences existed in terms of payment due dates and there might be situations, where trade payables subject to SFA had shorter due dates than trade payables that were not part of such arrangements.

Level of aggregation

- 50 Many respondents observed that the proposed requirement to disclose information about each supplier finance arrangement and permit aggregation only when the terms and conditions of arrangements are similar, might result in excessive detail.

- 51 One respondent considered that the requirement in paragraph 44I of the ED to provide additional information about SFA necessary to meet the overall disclosure objective in paragraph 44F of the ED lacked clarity. Entities would have to apply judgement which would result in reduced comparability between entities.
- 52 One respondent suggested to require disaggregation at the level of a single (or subgroup of) arrangement(s) when that is relevant to understand of the effects of SFA on the entity's liabilities and cash flows, however, considered that providing aggregated disclosure was not appropriate when the concentration of liquidity risk was material. The respondent agreed with EFRAG's position that disclosures about concentrations of liquidity risk should be made for specific finance provider(s) instead of supplier finance arrangements in general.

Suggestion to improve proposed disclosure requirements under SFA:

- (a) *Amount of liabilities* – disclosing information about the amount of liabilities that were reclassified from trade payable to financial liabilities or incurred instead of trade payables was useful, however, it should be provided on an aggregated level instead of on an arrangement-by-arrangement level;
- (b) *Roll-forward of liabilities* - two respondents suggested that reporting entities should provide a reconciliation between the opening and closing balances of financial liabilities that are part of a SFA, in order to help investors determine which changes should be included in their cash flow adjustments. An alternative to such a reconciliation could be to disclose significant changes in those liabilities due to business combinations, loss of control events, exchange differences, etc.;
- (c) *Disclosure of cash flows* – two respondents suggested that the ED should explicitly require specific disclosure requirements of the actual cash flows to the finance provider under SFA. In particular, such disclosures might include:
- (i) guidance on classification of cash flows under SFA in the statement of cash flows;
 - (ii) the amounts of cash flows reported as part of operating and financing activities;
 - (iii) sufficiently detailed information about non-cash transactions as part of the requirements in paragraphs 43 and 44 of IAS 7;
 - (iv) to separately disclose the cash outflows relating to SFA that are reported as part of cash flows from financing activities because the proposed amendment to paragraph 44B of IAS 7 to disclose 'non-cash changes arising from SFA' might not capture any cash outflow from operating activities when the amounts due were settled by the finance providers to the supplier;
 - (v) elevate the observations in paragraph BC16 of the ED (effects of SFA on an entity's operating and financing cash flows) in the final amendment because those observations were useful to understand the proposed amendment to paragraph 44B(da) of IAS 7;
- (d) *Payment days* – one respondent suggested that weighted average payment days was disclosed in addition to the range of payment due dates;
- (e) *Transparency objective* – transparency about SFA could be achieved not only by establishing a disclosure objective but also by more comprehensive appropriate presentation, accompanied by adequate disclosures.
- 53 One respondent agreed with the recommendations made in paragraph 28 of EFRAG DCL of how to improve the information disclosed by entities.

- 54 One respondent observed that the proposed disclosures would provide users with the necessary raw data to perform their analysis to calculate how cash flow and leverage were affected by SFA and to adjust metrics accordingly. However, these calculations were quite complicated and would differ depending on whether the liability was classified as trade or other payables or as financing. Suggestion was made to simply provide users with the information they want by disclosing information in aggregate for all schemes.

Availability of information about SFA

- 55 One respondent considered that the required information about supplier finance arrangements was typically available or relatively easy to obtain except for the information about amounts already paid by the finance provider to suppliers for certain arrangements as required by paragraph 44H(b)(ii) of the ED.

Question 3

Paragraph 44B of the proposed amendments to IAS 7 and paragraphs B11F and IG18 of the proposed amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively.

Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

EFRAG's tentative position

EFRAG agrees with the IASB proposal to add an example within the liquidity risk disclosure requirements in IFRS 7. This proposed disclosure will emphasise (particularly to preparers) that such information is relevant for users as it will enable users to better assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk and its risk management.

However, EFRAG observes that the concentration of liquidity risk varies depending on whether an entity has established supplier finance arrangements with only one finance provider or with a few different finance providers. Therefore, EFRAG recommends the IASB to consider adding an explicit proposal that would require disclosure of concentration of risk to specific supplier finance provider(s) instead of supplier finance arrangements in general.

EFRAG also agrees with the IASB proposal to add supplier finance arrangements as an example in paragraph 44B of IAS 7. This disclosure will emphasise that such disclosures are relevant for users as it will enable them to obtain better information about changes in liabilities arising from financing activities under supplier finance arrangements.

EFRAG suggests the IASB to include a cross-reference between paragraph 44F and paragraph 44B(da) of the ED as non-cash information is key for understanding changes in the statement of cash flows. Furthermore, EFRAG observes that the changes arising from supplier finance arrangements may be both cash and non-cash changes, therefore, EFRAG suggests the IASB to delete the word 'non-cash' in paragraph 44B(da) of the ED.

Summary of constituents' comments

- 56 Almost all respondents agreed with the IASB's proposals to add SFA as an example to certain existing disclosure requirements in IAS 7 and IFRS 7.

SFA – Comment letter analysis

- 57 One respondent suggested to elevate the observations in paragraph BC21 of the ED in any final amendments as these observations were helpful to understand how SFA might increase liquidity risk. It would be also useful to explain situations under which finance providers deduct the amounts for which suppliers already received payment from the total amount those finance providers might be willing to lend to the entity.
- 58 One respondent disagreed with EFRAG's suggestion in paragraph 40 of its DCL to remove the word 'non-cash' from paragraph 44B(da) of the ED. This was because paragraphs 44A and 44B(a) of IAS 7 would already capture changes from cash flows.
- 59 One respondent doubted whether the proposed amendments to existing disclosure requirements in IAS 7 and IFRS 7 were useful and appropriate. This is because:
- (a) disclosures about changes in liabilities arising from financing activities in paragraph 44B(da) primarily concerned non-cash changes and secondly related to (future) cash flows in relation to presentation of cash flows;
 - (b) adding SFA as an example to a list of factors in paragraph B11F of the ED might not trigger any additional disclosure by entities.

Appendix 2 – List of respondents

No	Respondent	Country	Type of respondent
CL01	DASB	The Netherlands	National Standard Setter
CL02	ICAC	Spain	National Standard Setter
CL03 ¹	ESMA	Europe	Regulator
4 Draft comment letters received			

¹ CL03 was received after finalising the CL analysis. The feedback is included in the outreach paper as feedback from a meeting.