

## **EFRAG's Letter to the European Commission Regarding the Endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)**

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European Commission  
1049 Brussels

4 October 2023

Dear Mr Berrigan

### **Endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)**

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* ('the Amendments'), which were issued by the IASB on 25 May 2023. An Exposure Draft of the Amendments was issued on 26 November 2021. EFRAG provided its comment letter on that Exposure Draft on 28 March 2022.

The objective of the Amendments is to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk.

The Amendments shall be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted. If entities apply the Amendments earlier, they shall disclose that fact. A description of the Amendments is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, lead to prudent accounting and are not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

### **Do the Amendments meet the IAS Regulation technical endorsement criteria?**

Based on the above reasoning, EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting.

EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required.

*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*  
*EFRAG's Endorsement Advice*

Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2 to this letter.

**Are the Amendments conducive to the European public good?**

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

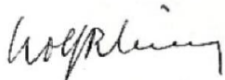
**Our advice to the European Commission**

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement.

We note that the Amendments modify the Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*. As this guidance has not been endorsed in the EU, we have excluded these amendments from our analysis.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,



Wolf Klinz,  
**Chair of the EFRAG FRB**

## Appendix 1: Understanding the changes brought about by the Amendments

### Background of the Amendments

- 1 The IFRS Interpretations Committee published an Agenda Decision on [Supply Chain Financing Arrangements-Reverse Factoring](#) in December 2020 in response to a submission received from a credit rating agency about the information to be provided in financial statements about supply finance arrangements ('SFAs').
- 2 Stakeholders informed the IASB that without targeted amendments to the current disclosure requirements described in the aforementioned Agenda Decision, users of financial statements might not be able to obtain some of the information they need to understand the effects of the arrangements from financial statements and might, therefore, be hindered in comparing one entity with another.

### The issue and how it has been addressed

- 3 The Amendments complement the existing disclosure requirements that were applicable to SFAs in response to feedback from users of financial statements about the limitation of those requirements. The targeted amendments are intended to enhance the transparency of SFAs and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The Amendments require an entity to provide information that would enable users of financial statements to assess the effects of SFAs rather than require an entity to calculate and disclose the specific effects of its SFAs.

### What has changed?

- 4 The Amendments introduce additional disclosure requirements related to SFAs. According to the Amendments, SFAs are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements 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. SFAs are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.

#### IAS 7 Statement of Cash Flows

- 5 Paragraph 44F is added to IAS 7 to incorporate two disclosure objectives which provides users with information to enable them: 1) to assess how SFAs affect an entity's liabilities and cash flows and 2) to understand the effect of SFAs on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- 6 Paragraph 44G is added to IAS 7 to explain the characteristics of arrangements that are within the scope of the Amendments. It also clarifies that arrangements that are solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed are not SFAs.

*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*  
*EFRAG's Endorsement Advice*

- 7 Paragraph 44H is added to IAS 7 to list some information an entity shall disclose in aggregate for its SFAs to meet the objective in paragraph 44F. Specifically:
- (a) the terms and conditions of its SFAs. If there are arrangements that have dissimilar terms and conditions, an entity shall disclose them separately.
  - (b) the carrying amounts, and associated line items of the financial liabilities in the statement of financial position that are part of SFAs at the beginning and at the end of the reporting period.
  - (c) the carrying amounts of the financial liabilities disclosed under 7(b) for which suppliers have already received payments from finance providers.
  - (d) the range of payment due dates for both the financial liabilities disclosed under 7(b) and comparable trade payables that are not part of SFAs. The Amendments explain what comparable trade payables are. It is also clarified that if the ranges are wide, an entity shall provide additional information.
  - (e) the type and effect of non-cash changes in the carrying amount of the financial liabilities disclosed under 7(b).

*IFRS 7 Financial Instruments: Disclosures*

- 8 Paragraph B11F(j) is added to Appendix B of IFRS 7 to outline that access to facilities under SFAs is a factor that an entity might consider when providing the information required in paragraph 39(c) of IFRS 7 on how it manages the liquidity risk linked to the maturity of its financial liabilities.

**When do the Amendments become effective?**

- 9 The Amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.
- 10 The Amendments allow an entity in the first annual reporting period of application:
- (a) not to disclose comparative information;
  - (b) not to disclose information required under paragraphs 7(c) and 7(d) above as at the beginning of that annual reporting period; and
  - (c) not to provide the disclosures under paragraphs 5 and 7 above for any interim financial reports.

## Appendix 2: EFRAG's technical assessment on the Amendments against the endorsement criteria

### Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

- 11 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation), in other words that the Amendments:
  - (a) are not contrary to the principle set out in Article 4(3) of Council Directive 2013/34/EU (The Accounting Directive); and
  - (b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.
- 12 Article 4(3) of the Accounting Directive provides that:

*The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.*
- 13 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive'* (Recital 9 of the IAS Regulation).
- 14 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.
- 15 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.
- 16 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:
  - (a) relevance: paragraphs 17-23;
  - (b) reliability: paragraphs 24-39;

- (c) comparability: paragraphs 40-43;
- (d) understandability: paragraphs 44-47;
- (e) whether overall they lead to prudent accounting: paragraphs 48-49; and
- (f) whether they would not be contrary to the true and fair view principle: paragraphs 50-53.

## **Relevance**

- 17 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.
- 18 EFRAG considered whether the Amendments would result in the provision of relevant information - in other words, information that has predictive value, confirmatory value or both - or whether it would result in the omission of relevant information.
- 19 EFRAG notes that the Amendments are triggered by a submission to the IFRS Interpretation Committee ('IFRS IC') from a credit rating agency. Despite the fact that the IFRS IC issued an agenda decision explaining the requirements applicable to SFAs, the IASB was informed that targeted improvements were necessary to enable users to obtain the information they need to understand the effects of SFAs and improve comparability across entities.
- 20 EFRAG assesses that the Amendments (e.g., the requirement to disclose the carrying amounts and associated line items in the entity's statement of financial position of the financial liabilities that are part of a SFA as well as the amounts for which suppliers have already received payment from the finance providers) would result in information that can help users of financial statements to assess the amount of financial liabilities that are part of a SFA. This information can support users to understand the financial position of an entity including the nature of its liabilities, specifically when the SFA provides the reporting entity with extended payment terms. This information is helpful for evaluating past and present performance, e.g., by allowing users of financial statements to determine whether an amount should be included in certain financial ratios (e.g., ratios that would only include trade payables but not other types of debt). As the entity's past and present performance is also used to estimate future performance, the information can also help users in that respect.
- 21 EFRAG also assesses that the Amendments (e.g., the requirement to disclose the carrying amounts of the financial liabilities for which suppliers have already received payment from the finance providers and the requirement to disclose the range of payment due dates for both the financial liabilities that are part of a SFA and comparable trade payables that are not part of a SFA) would result in information that can help users understand the effect of SFAs on the entity's exposure to liquidity risk and how the entity would be affected if the arrangements would no longer be available to it. This information can, specifically when the SFA provides the reporting entity with extended payment terms, be useful when assessing risk, and is therefore relevant for assessing management's stewardship and the risk related to past, present and future performance.
- 22 In addition, EFRAG assesses that the Amendments will ensure that users can assess the nature of an entity's aggregate debt-like liabilities. This information might allow them to take a narrower or wider definition of leverage which could have an impact, for example, on covenant ratios. Moreover, improved disclosures on SFAs

will allow users to bridge the gap between the point at which payment is made to the supplier versus the later point at which payment is made by the customer as well as to assess their differentiated impacts and risks.

- 23 EFRAG accordingly assesses that the Amendments will result in the provision of relevant information and therefore satisfy the relevance criterion.

### **Reliability**

- 24 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 25 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 26 When assessing the Amendments, EFRAG has first performed an assessment of whether the requirements of the Amendments would result in errors or bias.
- 27 This is followed by two assessments of the aspects: faithful representation and completeness. First an absolute assessment of whether the provision of the required note disclosures, for the arrangements covered by the scope of the Amendments, will result in a faithful representation and complete information on the effects and exposures for which the Amendments are requiring disclosure. Secondly, a relative assessment on whether the Amendments will result in an improvement to the faithful representation and completeness of information provided in financial statements.
- 28 The two-step approach for assessing faithful representation and completeness is applied in this case as the Amendments introduce new disclosure requirements that are not replacing existing requirements. The Amendments were introduced to complement the disclosure requirements portrayed in the IFRS IC Agenda Decision published in December 2020 in response to feedback from users of financial statements about the limitations of those requirements. Accordingly, the relative assessment of the Amendments on the two aspects is strengthened by the absolute assessment. This is because if new information is a faithful representation and complete, it will generally enhance the faithful representation and completeness of financial statement information.

#### *Freedom from material error and bias*

- 29 EFRAG assesses that the information to be provided by the disclosures would not be overly complex to collect and provide that the Amendments could be expected to lead to financial information that contains material errors.
- 30 EFRAG similarly assesses that compliance with the requirements included in the Amendments would not result in biased information.

#### *Faithful representation and completeness - absolute assessment*

- 31 EFRAG assesses that the information required would be complete and result in a faithful representation of the effects and exposures considered by the Amendments. EFRAG thus considers that the Amendments will result in disclosures that provide a faithful representation of the arrangements and complete information for users to assess:
- (a) the effects of SFAs on the entity's liabilities (see paragraphs 32 - 35 below);
  - (b) the effects of SFAs on the entity's cash flows (see paragraph 36 below); and

- (c) the entity's exposure to liquidity risks following from the SFAs covered by the scope of the Amendments (see paragraph 37 below).
- 32 EFRAG thus considers that complete information that faithfully reflects the effects of the supplier finance arrangements on the entity's liabilities is provided by all the disclosure requirements in IAS 7. That is, the requirements to disclose:
- (a) the terms and conditions of SFAs (amendments IAS 7, paragraph 44H (a));
  - (b) the carrying amounts of financial liabilities related to SFAs, and associated line items - both at the beginning and end of the reporting period (amendments IAS 7, paragraph 44H (b)(i));
  - (c) the carrying amounts of financial liabilities, and associated line items for which suppliers have already received payment from the finance providers (amendments IAS 7, paragraph 44H (b)(ii));
  - (d) the range of payment due dates together with the due dates for comparable trade payables (amendments IAS 7, paragraph 44H (b)(iii)); and
  - (e) the type and effect of non-cash changes in the carrying amount of the financial liabilities related to SFAs (amendments IAS 7, paragraph 44H (c)).
- 33 EFRAG acknowledges that based on the information required by the Amendments, it may not be possible for users to assess the exact effect of SFAs on an entity's liabilities. For example, if an entity is involved with various SFAs with different terms and conditions, the Amendments do not require an entity to specify the carrying amounts of financial liabilities that are part of supplier finance arrangement for each group of different SFAs separately. However, EFRAG notes that the purpose of the Amendments is not to ensure that entities provide a single (or a number of) figure(s) on the impact of the SFAs. The purpose is to enable users to assess the effects of SFAs. In this regard, EFRAG assesses that the information required is not false or generally misleading. The fact that it may not be possible for users to assess the precise effect of SFAs on an entity's liability does thus not affect the conclusion that the information is a faithful representation and complete.
- 34 EFRAG also recognises that the disclosures of due dates for comparable trade payables (see paragraph 32(d) above) will require judgement and it may not be possible to identify the perfect comparable trade payables. EFRAG, however, notes that judgement is generally required when preparing financial statements and the fact that judgement will be needed when identifying comparable trade payables does not result in the information being false or misleading.
- 35 EFRAG thus assesses that the Amendments result in information to assess the effects of SFAs on the entity's liabilities that is complete and a faithful representation.
- 36 Information on the effects of SFAs on the entity's cash flows is also provided through all the disclosure requirements the Amendments add to IAS 7. Through this information users will be able to derive the effects on cash flows of the SFAs. EFRAG assesses that the required information result in a faithful representation of the effects on the cash flows. In relation to completeness, EFRAG observes that the Amendments do not require information on which line item(s) in the statement of cash flows is/are affected by the cash flows related to SFAs. EFRAG considers that such information could have been beneficial for users to understand the effects of SFAs not only on cash flows - but also on the statement of cash flows. EFRAG does, however, not assess that this omission cause information provided to be false or misleading and thus result in information that is not reliable. Accordingly, this omission does not affect the conclusion that the information is complete.



- 37 Information on the effect of the arrangements covered by the scope of the Amendments on the entity's exposure to liquidity risk is provided by the amendments to IFRS 7 and the requirements in paragraphs 44H (a) and 44H(b) of the amendments to IAS 7. EFRAG assesses that the required information provides a faithful representation of the exposure to liquidity risks and the requirements would not result in omissions that can cause the information to be false or misleading and thus unreliable.

*Faithful representation and completeness - relative assessment*

- 38 EFRAG assesses that the Amendments would generally result in a better faithful representation and enhance completeness of information on SFAs compared to the status quo. This is because, as explained in paragraphs 31-37 above, the Amendments would provide additional/complementary information (that is complete and a faithful representation) on the effects of SFAs on the entity's liabilities and cash flows (including the substance of the entity's liabilities and cash flows) and on the entity's exposure to liquidity risk.

*Conclusion on reliability*

- 39 Following the assessments described above, EFRAG's overall assessment is that the Amendments result in reliable information.

**Comparability**

- 40 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 41 EFRAG notes that the Amendments are only considering disclosure requirements. The amendments will therefore not result in changes with regards to whether:
- (a) economically similar transactions being recognised, measured, and/or presented differently; or
  - (b) transactions that are economically different being recognised, measured, and/or presented as if they are similar.
- 42 EFRAG, however, notes that the disclosures will inform users of financial statements on how SFAs are presented in the statement of financial position. This will allow users of financial statements to compare entities using SFAs with those that do not and to make their own corrections to the statement of financial position if they consider that SFAs are economically different from arrangements they are presented with. In addition, and more specifically, the disclosures will contribute to the objective of credit rating agencies to accurately rate companies based on their credit quality.
- 43 In relation to comparability between entities of the disclosures required by the Amendments, EFRAG notes that the disclosures are only required for arrangements that would be covered by the description of SFAs in the Amendments. Other arrangements could be economically similar to these SFAs but would not result in the same disclosures. Accordingly, different disclosures could be provided for arrangements that would be economically similar. However, as the amendments do not affect recognition, measurement and presentation in the financial statements, but only require additional disclosures for certain arrangements, EFRAG assesses that the information could generally be expected to be comparable. EFRAG does thus not consider that comparability is significantly negatively affected by the fact that additional disclosures are required for certain

arrangements but not for others. Therefore, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

### **Understandability**

- 44 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.
- 45 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.
- 46 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.
- 47 EFRAG assesses that the information provided will not be unduly complex. EFRAG notes that if SFAs covered by the scope of the Amendments are complex, the description of the terms and conditions of these arrangements can also appear complex. This is, however, complexity that cannot be avoided if the information should also be a faithful representation and be complete. Accordingly, EFRAG does not assess the Amendments to be unduly complex. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

### **Prudence**

- 48 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.
- 49 The Amendments only introduce new disclosure requirements. As the Amendments do not affect recognition and measurement, EFRAG has therefore concluded that they raise no issues in relation to prudence as defined above.

### **True and Fair View Principle**

- 50 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:
- (a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and
  - (b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.
- 51 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards as the Amendments only introduce additional disclosure requirements for certain SFAs. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.
- 52 It follows from the assessment of reliability in paragraphs 24-39 above that EFRAG considers that the disclosures provide a complete and reliable depiction of the

effects on liabilities and cash flows and exposures to liquidity risks following from the arrangements covered by the Amendments.

- 53 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

### **Conclusion**

- 54 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

## Appendix 3: Assessing whether the Amendments are conducive to the European public good

### Introduction

- 1 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:
  - (a) Whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how it/they fit into IFRS Standards as a whole;
  - (b) The costs and benefits associated with the Amendments; and
  - (c) Whether the Amendments could have an adverse effect to the European economy, including financial stability and economic growth.
- 2 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

### EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

- 3 The Amendments are the result of a submission to the IFRS Interpretation Committee ('IFRS IC') from a credit rating agency. Despite the fact that the IFRS IC issued an agenda decision explaining the requirements applicable to SFAs, the IASB was informed that targeted improvements were necessary to enable users to obtain the information they need to understand the effects of SFAs and improve comparability across entities.
- 4 EFRAG notes that the Amendments are designed to provide information that enables users of financial statements to assess the effects of SFAs (covered by the scope of the Amendments) on the entity's liabilities and cash flows, and on the entity's exposure to liquidity risk.
- 5 As it appears from Appendix 2, EFRAG assesses this information to be relevant and the required disclosures to provide reliable and comparable information that is understandable to users.
- 6 EFRAG has therefore concluded that Amendments are likely to improve the quality of financial reporting.

### EFRAG's analysis of the costs and benefits of the Amendments

- 7 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. Therefore, as explained more fully in the paragraphs 13 to 27 below, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the Amendments in the EU, to consult on the results of those initial assessments, and to finalise those

assessments in light of the comments received. In addition, EFRAG undertook the following outreach activities:

- (a) Survey addressed to National Standard Setters to inquire on:
    - (i) EFRAG's preliminary assessment of the costs and benefits of the Amendments;
    - (ii) Constraints for finance providers to provide the reporting entity with information about the amount of financial liabilities that are part of SFAs for which suppliers have already received payment (see paragraph 7(c) of Appendix 1).
  - (b) Consultations with finance providers<sup>1</sup> on the possibility for their organisations to provide reporting entities with information on amount for which suppliers have already received payment (see paragraph 7(c) of Appendix 1).
  - (c) Consultation with IT platforms facilitating SFAs<sup>2</sup> on the possibility for their organisations to provide reporting entities with information on amount for which suppliers have already received payment (see paragraph 7(c) of Appendix 1).
  - (d) Consultation with an academic.
  - (e) Consultation with a credit rating agency on the usefulness of the information required by the Amendments.
- 8 EFRAG published its initial assessment on 18 July 2023. It invited comments on the material by 11 September 2023. In response, EFRAG received four comment letters. Two respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. One respondent generally agreed with the assessment, and one did not agree. Concerns was expressed in relation to:
- (a) The availability of the information required on the amount for which suppliers have already received payment. EFRAG requested, but did not receive, further information related to this concern and performed the additional consultations listed in paragraph 7 above.
  - (b) Usefulness of the information and the risk of information overload. EFRAG had consulted its User Panel and a credit rating agency on the usefulness of the information and noted that the general materiality threshold would apply to the disclosures. EFRAG also assessed, as described in Appendix 2, that the information would have been more useful had additional details been required.
  - (c) The clarity of the scope of the Amendments. EFRAG assessed that aspects of the scope description could have been clearer but assessed that the description of SFAs covered by the Amendments was sufficiently clear to ensure comparability as assessed in Appendix 2.
  - (d) The need of judgement when considering comparable payables. EFRAG's assessment of reliability included in Appendix 2 considers this issue.

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<sup>1</sup> Finance providers were consulted by means of a survey and in a meeting organised by the Supply Chain Finance Community.

<sup>2</sup> IT platforms facilitating SFAs were consulted in a meeting organised by the Supply Chain Finance Community.

- 9 EFRAG received three replies to the survey issued to National Standard Setters. All of these respondents supported EFRAG's initial costs and benefits assessment. One National Standard Setter considered that reporting entities would generally be able to obtain the information on amounts for which suppliers have already received payment (see paragraph 7(c) of Appendix 1) from the finance providers. Two National Standard Setters did not have any information on this.
- 10 EFRAG received five written responses to the consultation with finance providers mentioned in paragraph 7(b) above. All respondents would be able to provide the requested information by the end of 2024 at the latest. One noted that there might be a need to amend the contracts for confidentiality purposes. Similar feedback was received orally from participants in a meeting with finance providers.
- 11 The provider of an IT platform facilitating SFAs (see paragraph 7(c) above) similarly confirmed that it would be possible to provide the information by the end of 2024, but the suppliers would first have to allow the IT platform to provide the reporting entities with the information.
- 12 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendment is presented in the paragraphs below.

*Cost for preparers*

- 13 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.
- 14 EFRAG assesses that there will be initial cost related to:
  - (a) Assessing whether, and if so which, of an entity's arrangements would be covered by the scope of the Amendments.
  - (b) Collecting and drawing up the terms and conditions of the arrangements covered by the scope of the Amendments. EFRAG assesses that this information should generally be readily available. The entity would have to assess whether the terms of the various arrangements are similar and can be presented in aggregate, or some arrangements are dissimilar and should be disclosed separately.
  - (c) Cost of tracing the carrying amounts of liabilities covered by arrangements within the scope of the Amendments in the line items presented in the entity's statement of financial position. EFRAG assesses that the information should generally be readily available.
  - (d) Cost of collecting information on the amount of the liabilities for which suppliers have already received payment from the finance providers. EFRAG understands that this information is currently not readily available in all cases. Establishing procedures to collect this information, including by amending contractual terms and conditions, could result in some cost. The costs related to generating the information and amending contractual terms and conditions may not only be borne by preparers, but also by suppliers, finance providers and platforms offering supplier finance arrangements.
  - (e) Cost of collecting and drawing up the range of payment due dates for liabilities covered by the Amendments and comparable trade payables. This would include cost related to determining what comparable trade payables would be and cost in assessing whether the ranges of due dates is "wide" and if so, what ranges or explanatory information should be provided. EFRAG assesses that the information should generally be readily available.

- 15 To the extent that liabilities from the arrangements covered by the scope of the Amendments are considered financing activities under IAS 7, paragraph 44A of IAS 7 already requires an entity to provide disclosures that enable users of financial statements to evaluate changes in the liabilities. This includes both changes arising from cash flows and non-cash flow changes. To the extent an arrangement is covered by the scope of the Amendments and is not considered relating to financing activities, disclosing the type and effect of non-cash changes in the carrying amounts of the relevant liabilities may result in additional cost of collecting and drawing up the disclosures.
- 16 EFRAG does not consider adding SFAs as an example, clarifying existing requirements, within the liquidity risk disclosure requirements in paragraph B11F of IFRS 7 to result in cost for the assessment of cost of applying the Amendments.
- 17 Ongoing cost would be incurred when updating the information mentioned in paragraph 14 and 15 and having the information audited.
- 18 EFRAG assesses that the cost mentioned in paragraphs 14(a), 14(b) 14(c), 14(e) and paragraph 15 would generally be limited. The costs mentioned in paragraph 14(d) could be more substantial. In order for entities to have time to change contractual terms and conditions, EFRAG notes that although the Amendments apply for annual reporting periods beginning on or after 1 January 2024, the transition requirements would generally mean that the information mentioned in paragraph 14(d) would only have to be collected as of 31 December 2024.
- 19 EFRAG is aware that some participants in SFAs are concerned that the Amendments could reduce the use of SFAs. These SFA participants have noted that information about the existence of SFAs at an entity may result in investors viewing the entity as a riskier investment (which could increase the entity's cost of capital). Concern has particularly been expressed that users could estimate the effects of SFAs wrongly because the information provided is insufficiently granular and precise (see EFRAG's assessment of this in paragraphs 33 to 35 of Appendix 2). EFRAG, however, notes that entities can provide additional information about their SFAs if they are concerned that users would estimate the effects of SFAs wrongly based on the information required by the Amendments.
- 20 Overall, EFRAG's assessment is that the Amendments are likely to result in moderate one-off costs and insignificant ongoing costs for preparers.

*Costs for users*

- 21 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.
- 22 EFRAG assesses that there may be initial cost related to changes to the user valuation models, so they can incorporate the data resulting from the new disclosure requirements. Since the Amendments might trigger additional adjustments to figures reported on the entity's statement of financial position and operating and financing cash flows, there might be initial cost related to the reconsideration of financial ratios that, for example, distinguish debt related to trade payable from bank loans or other types of debt.
- 23 EFRAG assesses that ongoing cost will be related to:
  - (a) collecting and incorporating the data into the users' valuation models;
  - (b) assessing the effects of financial liabilities that are part of SFAs on an entity's liabilities and on its operating and financing cash flows and doing additional accounting adjustments, if necessary; and

- (c) assessing an entity's exposure to liquidity risk and how it might be affected if the SFAs were no longer available (e.g., through financial ratios).
- 24 Overall, EFRAG's assessment is that the Amendments are likely to result in limited costs for users related to both initial changes to their valuation model and ongoing efforts to collect and assess the data resulting from the new disclosure requirements.

*Benefits for users*

- 25 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.
- 26 EFRAG notes that currently financial statements (including accompanying notes) do not provide comparable information on SFAs<sup>3</sup>, if any. Accordingly, users are likely to benefit from the information resulting from the increased disclosures that will provide them with a better understanding of SFAs. Specifically, the disclosure requirements included in the Amendments will improve the ability of users to:
- (a) assess how SFAs affect an entity's liabilities and cash flows; and
  - (b) understand the effect of SFAs on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- 27 As described in paragraphs 20 and 21 of Appendix 2, the Amendments can be helpful in contributing to the evaluation of an entity's past, present and future performance as well as management stewardship. Thus, the Amendments will likely increase the relevance of financial statements. As described in paragraphs 24-39 of Appendix 2, the information provided will result in a better faithful representation and enhance completeness of information on SFAs compared to the current information provided. Users are also likely to benefit from the increased comparability provided by the Amendments.

*Conclusion on the costs and benefits of the Amendments*

- 28 For preparers, EFRAG assesses that the Amendments will result in additional cost as stated in paragraphs 13-20.
- 29 For users, EFRAG assesses that the benefits listed in paragraphs 26-27 will outweigh the cost listed in paragraphs 21-24. EFRAG thus notes that the costs for users only arise if users want to make use of the additional disclosures provided by the Amendments. Accordingly, if a user would assess that the costs related to taking the additional disclosures into account would outweigh the benefits, the user would not incur those costs.
- 30 Overall, EFRAG assesses that the benefits of the Amendments outweigh the costs. EFRAG thus notes that with the exception of the information listed in paragraph 14(d) above, the information required by the Amendments should be readily

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<sup>3</sup> An academic study (Elliot, V., Gelsomino, L., Paananen, M. & Papadopoulos, S. 2023. Reverse factoring: *Accounting practices in a regulatory vacuum*. Working paper University of Gothenburg) found that among 105 EU companies that were among the Forbes 1000 companies in 2017, 61 (58%) had SFAs (this information was collected from e.g., news articles, corporate press releases and reports, and other Internet sources such as blog). 21 (34%) of these companies disclosed information about SFAs in their financial reports. Of these companies, in the period 2012 - 2021, 12 (57%) did not disclose information the academics assessed would provide information that could help the reader understand the extent of the program. Compared to a sample including companies outside the EU, the academics found that a larger proportion of EU firms have SFAs and a larger proportion disclose these programs.



available. The costs of the Amendments are therefore assessed to be limited while information about SFAs can be very important for users of financial statements.

## **Conclusion**

- 31 EFRAG believes that the Amendments will generally result in improved financial reporting when compared to current guidance. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.
- 32 EFRAG has not identified circumstances in which the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.
- 33 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.
- 34 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.