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## **Supplier Finance Arrangements Cover Note**

### **Objective**

- 1 The purpose of the session is to discuss and obtain EFRAG TEG-CFSS views on the IASB's exposure draft [ED/2021/10 Supplier Finance Arrangements](#) and the EFRAG's tentative position included in its draft comment letter on the project.
- 2 Agenda paper 01-02 includes an EFRAG presentation on supplier finance arrangements which will be used to guide the discussion during the meeting.
- 3 An illustrative example on the IASB's proposed *quantitative* disclosure requirements on supplier finance arrangements is included in Appendix 1.
- 4 The EFRAG draft comment letter (EFRAG DCL) is included in agenda paper 01-03 and is open for comments until 9 March 2022.

### **Background of the IASB project**

- 5 In early 2020, the IFRS Interpretations Committee (IFRS IC) received a request about reverse factoring arrangements, more specifically:
  - (a) how an entity presents liabilities to which reverse factoring arrangements relate (i.e. how it presents liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement); and
  - (b) what information about reverse factoring arrangements an entity is required to disclose in its financial statements.
- 6 In December 2020, the IFRS IC published an agenda decision which concluded that current principles and requirements in IFRS Standards provide sufficient guidance for entities to apply to reverse factoring arrangements.
- 7 However, in June 2021, after discussing the feedback received from investors and analysts, the IASB tentatively decided to add a narrow-scope standard-setting project to address investor information needs related to supplier finance arrangements, in particular:
  - (a) to explain the type of arrangements within the scope, rather than include specific definitions;
  - (b) to add qualitative and quantitative disclosure requirements to IAS 7 *Statement of Cash Flows*; and
  - (c) to highlight existing disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

## Questions for EFRAG TEG/CFSS

### *Question 1 Scope of disclosure requirements*

- 8 The IASB proposes not to define supplier finance arrangements but instead, to describe the characteristics of the arrangements for which an entity would be required to provide the information proposed in the Exposure Draft. 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 Questions to Constituents on Scope*

- 9 Do you consider that the proposed description of supplier finance arrangements will result in targeted arrangements being captured within the scope of the project? Have you identified any situations where supplier finance arrangements are not captured by the project scope, however, in your view, they should be?
- 10 The ED's proposals assume that the entity has access to information about supplier finance arrangements to which the entity does not necessarily participate, such as arrangements between the finance provider and the supplier. Do preparers consider that the assessment to be made by entities to determine whether they are within the ED's scope would be feasible, considering the limited information that entities might have about supplier finance arrangements between the finance provider and supplier, in particular?

### *Question 2 Disclosure objective and disclosure requirements*

- 11 The IASB proposes to 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. 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 Questions to Constituents on Disclosure requirements*

- 12 Do you consider that the proposed requirement in paragraph 44H(b)(ii) of the ED to disclose information about the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers is feasible to achieve for reporting entities? Are you aware of any practical difficulties with respect to collecting the information to meet this disclosure requirement?
- 13 The IASB is proposing that an entity is permitted to aggregate the information about each supplier finance arrangement when terms and conditions are similar.
- (a) Which level of aggregation would you consider appropriate? Should the IASB mention explicitly the payment due dates of liabilities disclosed under supplier finance arrangements as an aggregation criterion?
- (b) Do you agree with the alternative approach in paragraph 29 of the EFRAG DCL, i.e. to allow that the starting point is disclosing aggregated information (regardless of the terms and conditions of those arrangements) and require disaggregation at level of a single arrangement only when it is necessary in order to provide relevant information (e.g., when terms and conditions are similar)?

### *Question 3 Examples added to disclosure requirements*

- 14 The IASB proposes 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.

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 Questions to Constituents on Examples added to disclosure requirements*

- 15 Do you consider that gross presentation of cash flows under supplier finance arrangements will improve the transparency of reporting for those arrangements? In your view, should gross presentation be required for cash flows arising from those arrangements?

**Next steps**

- 16 EFRAG Secretariat is planning to present the feedback from outreach activities and discuss a draft version of the EFRAG final comment letter ('FCL') on the project with EFRAG TEG on 23 March 2022.
- 17 In order to meet the IASB comment deadline, EFRAG Board will consider the EFRAG FCL on this topic for approval at its webcast meeting on 28 March 2022.

**Agenda Papers**

- 18 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 01-02 – EFRAG presentation on supplier finance arrangements; and
  - (b) Agenda paper 01-03 – EFRAG draft comment letter on supplier finance arrangements.

## Appendix 1: Example on quantitative information

Annual financial statements for the reporting period ended 31 December 20X1

<b><u>For each supplier finance arrangement</u></b>	<b>At 31 Dec 20X0</b>	<b>At 31 Dec 20X1</b>
<i>Carrying amount of liabilities part of the arrangement</i>		
Presented as Trade or Other payables	CU1,000	CU1,500
- Of which supplier have been paid by the finance provider	CU800	CU1,050
<i>Range of payment due dates</i>		
Liabilities that are part of the arrangement	80-90 days after invoice date	85-90 days after invoice date
Trade payables that are not part of the arrangement	60-65 days after invoice date	60-70 days after invoice date