

SUPPLIER FINANCE ARRANGEMENTS

17 February 2022

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WHAT IS THE PROJECT ABOUT

- In June 2021, the IASB tentatively decided to add a narrow-scope standard-setting project to address investor information needs related to supplier finance arrangements
- The IASB's exposure draft (ED) on supplier finance arrangements intends to enhance the transparency of reporting for such arrangements by complementing the requirements in existing IFRS Standards
- The ED proposes amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to require entities to disclose additional information about those arrangements

SCOPE OF THE IASB'S EXPOSURE DRAFT

THE IASB PROPOSAL

'A supplier finance arrangement is characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.'

EFRAG TENTATIVE POSITION

- EFRAG agrees with the project scope to focus on supplier finance arrangements
- EFRAG agrees with the proposal to explain the characteristics of the type of arrangements included in the project scope (instead of a definition)

SCOPE OF THE IASB'S EXPOSURE DRAFT

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

EFRAG is seeking views from its constituents on whether:

1. the proposed description of supplier finance arrangements will result in targeted arrangements being captured within the scope of the project
2. it is feasible for reporting entities to make the assessment of whether they are in scope of the ED considering the limited information that entities might have about arrangements between the finance provider and the supplier

DISCLOSURE OBJECTIVE AND REQUIREMENTS

THE IASB PROPOSAL

- The IASB's is proposing to add an overall disclosure objective and specific disclosure requirements to IAS 7 to disclose for each supplier finance arrangement:
 - the key terms and conditions
 - the carrying amount of liabilities and where they are presented
 - the carrying amount of liabilities for which suppliers have already been paid by finance provider
 - the range of payment due dates of liabilities under the arrangement
 - the range of payment due dates of liabilities not part of the arrangement

EFRAG TENTATIVE POSITION

- EFRAG supports to add an overall disclosure objective and specific disclosure requirements in IAS 7
- EFRAG further suggests that the disclosure objective is expanded to also include the effects of those arrangements on an entity's liquidity risk
- EFRAG recommends the IASB to consider further improvements to the proposed disclosure requirements

DISCLOSURE OBJECTIVE AND REQUIREMENTS

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

1. whether the proposed requirement to disclose information about the carrying amount of liabilities for which suppliers have already received payment from the finance providers is feasible to provide and what the practical difficulties are
2. aggregation of information: the IASB is proposing that an entity is only permitted to aggregate the information about supplier finance arrangements when terms and conditions are similar

EFRAG is seeking views from its constituents on:

- a) the appropriate level of aggregation, in particular, whether the IASB should consider the payment due dates of liabilities under supplier finance arrangements for an aggregation criterion
- b) alternative approach - due to concerns that too much detailed information would be disclosed in the notes - to require disaggregation when it is necessary in order to provide relevant information (e.g., when terms and conditions are not similar), which means to allow that the starting point be disclosing aggregated information (regardless of the terms and conditions of those arrangements)

EXAMPLES ADDED TO DISCLOSURE REQUIREMENTS

THE IASB PROPOSAL

The IASB's proposes adding supplier finance arrangements as an example:

- in paragraph 44B of the proposed amendments to IAS 7 - to highlight the importance of providing information about non-cash changes in liabilities arising from such arrangements
- within the liquidity risk disclosure requirements in IFRS 7 - to enable users to assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk and risk management

EFRAG TENTATIVE POSITION

- EFRAG agrees with the IASB proposal to add supplier finance arrangements as an example in paragraph 44B of IAS 7 and within the liquidity risk disclosure requirements in IFRS 7
- 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 makes further suggestions of how to improve the proposed improvements

EXAMPLES ADDED TO DISCLOSURE REQUIREMENTS

EFRAG IS SEEKING STAKEHOLDERS' VIEWS ON:

In preliminary discussions, some users considered that, the gross presentation of cash flows under supplier finance arrangements in the statement of cash flows may provide more relevant information to users.

EFRAG is seeking views from its constituents on whether:

1. gross presentation of cash flows under supplier finance arrangements will improve the transparency of reporting for such arrangements
2. gross presentation should be required for cash flows arising from such arrangements

EFRAG OUTREACH ON THE PROJECT

EFRAG's planned outreach activities to test the IASB's proposals on:

- Scope – in January, EFRAG launched an online [survey](#) to test the IASB's proposals on scope with preparers
- Closed consultation with Accountancy Europe – EFRAG discussed the proposals of the IASB's ED on supplier finance arrangements and the EFRAG tentative position on these proposals on 8 February 2022
- Specific disclosure requirements – to perform outreach with users of financial statements to assess the relevance of the proposed disclosure requirements

EFRAG OUTREACH ON THE PROJECT

Feedback received until now from outreach activities

- Suggest that the IASB is more specific in terms of disclosures on terms and conditions, including details on the arrangements with suppliers such as discounts and interest rates involved (not only timing but also amounts)
- Other types of arrangements (those that finance inventory and credit letters) are also becoming more and more relevant
- The IASB should clarify that the proposed disclosures only affect the entities that initiate the supplier finance arrangement (not the suppliers)
- The IASB should further discuss the right level of aggregation (not arrangement by arrangement nor complete aggregation)
- It is likely to be difficult to get information on the payments made by the finance provider to suppliers
- Gross vs. net presentation: Entities with supplier finance arrangements might not report any operating cash flows; the effects of supplier finance arrangements on an entities cash flows may not be apparent to users of financial statements and obscure the reported information about such arrangements - Conceptually participants did not support gross presentation in the SCF - Participants suggested that the IASB should open a future project on IAS 7 in this respect



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THANK YOU

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