Supplier Finance Arrangements
Issues Paper

Objective

1 To provide an update and seek EFRAG FRB and EFRAG FR TEG views on the application date of the expected amendments - project *Supplier Finance Arrangements*

Background

a) IASB proposals

2 In November 2021, the IASB published its Exposure Draft on *Supplier Finance Arrangements* ('the ED'), which proposed amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* that would require entities to disclose additional information in the notes about supplier finance arrangements ('SFAs'). The ED comment period ended on 28 March 2022.

3 At its July 2022 meeting, the IASB received a summary of the feedback obtained on the proposals included in the ED. No decisions were taken during that meeting.

4 In November 2022, the IASB considered the feedback received from respondents together with the IASB staff analysis and recommendations on how to proceed on the project and took a number of tentative decisions related to the proposed disclosure requirements in the ED. An overview on the decisions taken by the IASB can be found in the following EFRAG FR TEG paper (EFRAG FR TEG paper 18 January 2023).

5 The IASB will discuss the project in its February meeting and decide about an application date. The effective date, as usual, was left open in the ED (see paragraph 62). The IASB now is considering an effective date of annual reporting periods beginning on or after 1 January 2025 (with voluntary earlier application permitted).

b) EFRAG´s position/ discussions

6 EFRAG published its comment letter on the ED on 28 March 2022. In its comment letter, EFRAG broadly supported the IASB's project which enhanced the transparency of reporting for supplier finance arrangements ('SFAs') and increased conformity with existing disclosure requirements in IFRS Accounting Standards.

7 However, EFRAG considered that the IASB's proposals did not completely address the wider issue of presentation and classification of such arrangements in the primary financial statements, the necessary transparency on liquidity risk and working capital leverage. EFRAG also considered that, at a later stage, further efforts were needed in terms of reporting for such arrangements and encouraged the IASB to consider possible improvements related to SFAs in other cross-related projects.

8 [EFRAG FR TEG received an update](#) on the latest tentative decisions of the IASB in its meeting in January 2023.

9 In the meeting EFRAG FR TEG members acknowledged a broad spectrum of SFAs in practice and the following information about these arrangements was important:

(1) the amount drawn under the SFA;

(2) the undrawn amount under the SFA which had been secured by the entity; and

(3) the quantitative impact of the SFA on the entity's statement of cash flows.

10 Members further made the following comments on:

(1) disclosure of the carrying amount and presentation of financial liabilities in an entity's statement of financial position that are part of SFAs – members were supportive of the proposed requirement. It was noted that there were already requirements in IAS 1 to cater for such disclosure.

(2) disclosure of the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers – members generally supported the IASB's proposed disclosure requirement and observed that for SFAs initiated by the buyer the data generally would be easily available. Members further noted that it was an important piece of information without which the information provided for SFAs would be incomplete. Two members expressed concerns about the availability of this information for other types of SFAs and the costs associated with obtaining and auditing the data.

(3) disclosure of the range of payment due dates – two members were not sure how this disclosure requirement would be useful to users of financial statements. It was explained by the IASB representative that knowing the range of payment due dates would allow users to estimate the effects of SFAs on the entity's cash flows. The IASB representative also elaborated that having a weighted average of due dates would be more useful, however, setting up such a disclosure requirement would trigger questions about the actual calculation or the need to prescribe such a process. and potentially result in higher costs for preparers.

(4) relevance of the SFA project for the statement of cash flows – members expressed regrets that the IASB did not require entities to provide information about the effects of these arrangements on the statement of cash flows. In particular, there were no specific IFRS requirements to provide the necessary information about non-cash movements in the statement of cash flows and access the liquidity risks associated with the reporting entity.

(5) materiality concept - members also discussed how the disclosures would apply under the materiality concept which is pervasive in IFRS Accounting Standards. Members observed that for SFAs auditors would take a smaller materiality threshold if the use or increased use of SFAs is considered material also from a qualitative angle, i.e. the information provided under SFA could be considered immaterial only if a small amount of the financial liabilities is covered under the arrangement.

(6) Members considered it beneficial to be informed about the project in comparison to the FASB project.

c) Next steps

11 Durings its meeting in February 2023, the IASB is expected to discuss and decide on the application date of the amendments after an initial discussion in January

2023. Thereafter, it is expected that the IASB will issue the final amendments related to the SFA project in Q2/2023.

12 EFRAG Secretariat will follow up with some targeted outreach with financial institutions about the availability of data for the disclosure of the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers (as requested during the EFRAG FR TEG meeting in January). EFRAG FIWG was informed about the request of FR TEG, had initially no comments and will give written input on the topic.

13 In its comment letter on the ED, EFRAG observed that information about the carrying amounts of financial liabilities that are part of SFAs for which suppliers have already received payment from finance providers might not be available to entities in all cases or require incurring additional costs. EFRAG recommended that the proposed disclosure requirement in paragraph 44H(b)(ii) to only require such disclosure when information is available without undue cost or effort. The IASB tentatively decided to require this information.

Application date and transitional provisions

ED proposals

14 As usual, an effective date was not proposed in the ED (see paragraph 62).

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

16 According to BC24 of the Basis for Conclusions on the Exposure Draft , the benefits of requiring entities, on transition, to provide comparative information as if the amendments had always been applied would outweigh the costs because:

(1) the comparative information would help users of financial statements identify and assess changes and trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows, and on its exposure to liquidity risk; and

(2) the costs of obtaining the information are not expected to be excessive.

Summary of IASB respondents' comments

17 A few respondents said they agree with retrospective application. Further, a few respondents suggested that prospective application be allowed on transition; one respondent said the costs of retrospective application would outweigh the benefits, and another said there may be operational challenges with retrospective application and therefore the benefit of having an earlier effective date may outweigh the benefits of retrospective application.

18 The IASB considered not to have received feedback on the proposal to allow earlier application. Hence, the staff suggested to allow such earlier application, with a requirement to disclose the fact that the amendments have been applied early when that is the case.

EFRAG FCL

19 EFRAG highlighted the need for the amendments and some problems with retrospective information requirements. If retrospective information is required, the IASB should provide sufficient implementation period for preparers as some of the information may be difficult to obtain, particularly the aggregate amounts proposed.

20 However, the implementation period for the project should not be significantly extended as current diversity in practice would continue to be present. Following the

publication of the IFRS IC's agenda decision in December 2020, entities had sufficient time to adjust their reporting for supplier finance arrangements, however, no significant changes in reporting were observed.

IASB Staff analysis and recommendations

21 Entities already applying IFRS Accounting Standards Feedback did not contradict the IASB's view that the comparative information would enable investors to identify and assess changes and trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows, and on its exposure to liquidity risk. Feedback did identify that some entities may need to make changes to contracts to obtain access to information about the carrying amount of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers.

22 At the January 2023 IASB meeting, staff proposed an <u>effective date of annual reporting periods beginning on or after 1 January 2025</u>. They explained in the staff paper the consequences of retrospective application. If the IASB agrees with the recommended effective date of annual reporting periods beginning on or after 1 January 2025, retrospective application of the amendments means that for a set of financial statements with one comparative period, an entity provides the disclosures as at:

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

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

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

23 Therefore, if retrospective application is required, an entity would need to be able to collect information for required disclosures for periods beginning from 1 January 2024 - that is, within 6 months after the IASB is expected to issue the amendments. In the IASB staff´s view, an entity would be able to obtain access to this information by this time for the following reasons:

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

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

(3) the IASB expect entities would be able to obtain access to the information about the carrying amount of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers based on feedback that: (i) the amendments affect the contracts only for supplier finance arrangements; (ii) the information is typically available from the information technology systems used to facilitate such arrangements; and (iii) if changes to supplier finance arrangement contracts are necessary to allow an entity access to the information, those changes could be completed with sufficient time to meet our recommended effective date—including retrospective application.

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

25 The IASB staff considered and do not recommend a modified retrospective approach. Under such an approach, an entity would be required to provide disclosures about supplier finance arrangements as at 31 December 2025 but not for the comparative period. In their view, a modified retrospective approach would

not meet investors' needs to assess trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows and its exposure to liquidity risk.

26 Therefore, it was recommended that the IASB proceed with requiring an entity to apply the amendments retrospectively in accordance with IAS 8 and with no exception to the requirements of IAS 34 *Interim Financial Reporting* for interim financial statements issued in the year the amendments become effective.

27 The analysis was included in the papers for the January 2023 meeting of the IASB. During the meeting IASB members requested to inquire further earlier application. The IASB requested from the staff to receive further input. At its January 2023 meeting, the IASB discussed the effective date and transition for those proposed disclosure requirements. Given informal feedback received from some investors, the IASB members asked the staff to consider alternatives for an earlier effective date and to informally test those alternatives with jurisdictional endorsement bodies. Therefore, the IASB seek input as to whether an earlier effective date of 1 January 2024 would allow sufficient time to incorporate new disclosure requirements into standards or legal regimes in your jurisdiction, as applicable.

28 The paper with updated staff recommendation will be uploaded to the February IASB meeting and the posting deadline for the papers **is 9 February**.

Impact on interim reporting – application date of 1 January 2024

29 One point to consider, when discussing the topic is impact on interim reporting. It is EFRAG staff understanding that the amendments are related to disclosures only and therefore there is usually no impact on interim reporting from the amendments. There may be situations when an entity may be required to disclose the information under the amendments within in a set of interim financial statements presented in 2024. This could be the case, for example, if an entity elects to present a complete set of financial statements in that interim financial report.

30 The IASB staff considers whether an exemption for an entity from providing the disclosures under the amendments for any interim period presented within the annual period in which the entity first applies the amendments could be a helpful transition requirement to accompany an effective date of annual reporting periods beginning on or after 1 January 2024.

EU Endorsement

31 The time until endorsement depends partly on the endorsement request from the EC. Normally EFRAG has to work on an impact study. Such work should be based on the impact of the amendments. Which means usually it starts with the publication of the IFRS standards or the amendments. The result would be part of the consultation on the endorsement advice. EFRAG would address questions on impact to investors and preparers. Preparation, responses and analysis of responses take time. We skip such impact analysis in rare situations (like IBOR, where we have sufficient support on the urgent need of the amendments).

32 After issuing the endorsement request by EFRAG, the usual timeline would be 6 month until endorsement.

EFRAG Staff Analysis

33 Under the given timeline of the IASB (publication Q2/2023), the amendments will not be endorsed in Europe as of 1 January 2024. Depending on the impact analysis the endorsement could be expected between March and June 2024.

34 Users in Europe expressed a clear interest to receive transparency on such type of transactions. As stated in EFRAG´s comment letter, following the publication of the

IFRS IC's agenda decision in December 2020, entities had sufficient time to adjust their reporting for supplier finance arrangements, however, no significant changes in reporting were observed.

35 Users would be interested in an application date as of 1 January 2024. An exemption for an entity from providing the disclosures under the amendments for any interim period presented within the annual period in which the entity first applies the amendments would be a helpful transition requirement to accompany an effective date of annual reporting periods beginning on or after 1 January 2024.

36 The IASB decided to make no major changes compared to the proposals in the ED.

37 Even if users are interested in the amendment, there is a problem with a timely endorsement. Even if it is "only" disclosures, careful consideration must be given to whether EFRAG expresses a preference for an earlier effective date.

Question for EFRAG FRB and FR TEG

38 Does EFRAG FRB and EFRAG FR TEG members have any preference?