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Supplier Finance Arrangements Comment letters & outreach analysis

Objective

- 1 The objective of this session is to provide a summary of the outreach activities the EFRAG Secretariat has undertaken and of the comment letters received on EFRAG's Draft Endorsement Advice on *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) ('the Amendments') which were issued by the IASB on 25 May 2023.

Outreach activities

- 2 The EFRAG Secretariat has undertaken the following outreach activities:
 - (a) Survey addressed to National Standard-Setters (NSS) to inquire on EFRAG's preliminary assessment of the costs and benefits of the Amendments. The survey also inquired on jurisdiction-related constraints for preparers to obtain from the finance providers the amount of financial liabilities that are part of Supplier Finance Arrangements (SFAs) for which suppliers have already received payment (paragraph 44H(b)(ii) of the Amendments);
 - (b) Consultation with finance and IT platform providers on the possibility for their organisations to provide entities with the data requested in paragraph 44H(b)(ii) of the Amendments (see above) when acting as a provider of finance in SFAs under the scope of the Amendments;
 - (c) Consultation with the EFRAG User Panel¹ and a credit rating agency on the usefulness of the Amendments; and
 - (d) Consultation with academics involved in supply chain finance communities.

Survey addressed to National Standard-Setters

- 3 Three NSS have replied to the survey issued by EFRAG. All respondents supported EFRAG's preliminary assessment of the costs and benefits included in the Draft Endorsement advise (DEA). They also agreed with EFRAG's assessment that the benefits to be derived from implementing the Amendments in the EU, are likely to outweigh the costs involved.
- 4 One NSS considered that preparers could generally obtain in its jurisdiction from the finance providers the amount of financial liabilities that are part of SFAs for

¹ The EFRAG User Panel took place on 12 July 2023 and the input obtained from the meeting was already included in the DEA.

which suppliers have already received payment. The others NSS did not have any information on this.

Consultation with finance providers (and academics)

- 5 The EFRAG Secretariat has received five responses in response to a request for information issued at the end of June 2023 on the possibility to provide the information requested under paragraph 44H(b)(ii) of the Amendments. All respondents had the information already available or did not raise any concern to provide it to entities before the end of 2024. One of them noted that there might be a need to amend the contracts for confidentiality purposes.
- 6 The EFRAG Secretariat also reached out to a few banking organisations (organisations representing many financial entities). Two of them notified the EFRAG Secretariat that they had distributed EFRAG's request for information among their members, but they did not receive any feedback from them.
- 7 In addition, the EFRAG Secretariat had a meeting hosted by the Supply Chain Finance Community² where over twenty participants including financial providers of SFAs, technology platforms (intermediaries) and supply chain organisations liaised with the EFRAG Secretariat. During the meeting EFRAG gained a better understanding of the business model of the technology platforms (intermediaries). The following conclusions were obtained from the meeting:
 - (a) SFAs arranged by technology platforms are of diverse nature. A conclusion cannot be drawn on whether these SFAs are generally within the scope of the Amendments. An assessment must be done on a case-by-case basis;
 - (b) Both IT platforms and finance providers can provide the requested data by the end of 2024. In some cases, the IT platforms might need to amend the contracts or obtain permission from the suppliers to share the requested data to cater for any confidentiality matters; and
 - (c) The requested disclosures could result in users misinterpreting the information (i.e., they might think that there are more debts than what it should be according to the finance providers) which might lead to a reduction in the use of SFAs.
- 8 Lastly, the EFRAG Secretariat met an academic involved in a community of preparers that arrange SFAs. The feedback received from this academic was similar to the feedback received from other respondents.

Consultation with users

- 9 The EFRAG Secretariat met the EFRAG User Panel and a credit rating agency. The main takeaways are as follows:
 - (a) Users assessed the information required by the Amendments was 'good enough';
 - (b) The information would still require users to make estimates but at this stage it was difficult to assess the quality of the information. Hence, the information might be used more for a qualitative assessment (for example to assess the entity's governance);

² The Supply Chain Finance Community is a non-for-profit institution whose aim is to promote and accelerate the understanding, development and implementation of supply chain models. [SCF Community - Home](#)

- (c) It was noted that the information on the amounts the supplier had already received was necessary in particular in cases where the SFA was used by the reporting entity to postpone its payments. If the SFA was only used to provide the supplier with an earlier (but reduced) payment, the information was seen as not essential; and
- (d) On whether the Amendments would result in higher or lower finance cost for reporting entities, users noted that providing additional transparency should generally result in a positive effect.

Comment letters

- 10 EFRAG received five comment letters from respondents representing two National Standard-Setter, one preparer's organisation and two preparers (see list of respondents and links to the comment letters in Appendix 1). One of these comment letter was received after EFRAG's consultation deadline and was only discussed verbally at the 21 September EFRAG FR TEG meeting. Another National Standard-Setter notified by email that they had not received any feedback on EFRAG's consultation.
- 11 Three respondents fully agreed with EFRAG's assessment although a National Standard-Setter notified a concern raised in its jurisdiction. A preparer generally agreed with some reservations on the assessment of the technical criteria for endorsement. Lastly, the remaining preparer did not agree with the assessment of costs and benefits, and the assessment that the endorsement of the Amendments is conducive to the European public good. Respondents had the following concerns:
 - (a) The information requested under paragraph 44H(b)(ii) of the Amendments is likely not to be available;
 - (b) Lack of understanding of the logic behind asking the entity/buyer involved in the reverse factoring arrangement to report the account receivables from which the supplier have decided to anticipate payments;
 - (c) Doubts that the Amendments will be very important for a broad range of users of financial statements – only certain users of the financial statements may have an interest in the disclosures;
 - (d) Users need to apply judgment to decide whether liabilities related to SFAs should be considered as trade payables or as debt;
 - (e) With regard to the description of SFAs (paragraph 44G of the Amendments), there might be a need of additional guidance to reinforce the distinction from what is meant by solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed;
 - (f) There might be a need to provide additional information on the comprehensive implications of SFAs on liquidity risk concentration to ensure that the user can really compare the different entities and their specific SFA architecture;
 - (g) Disclosures might not be readily understandable by all groups of users (i.e., they need to understand first the mechanism of SFAs and their potential KPIs);

- (h) The volume and complexity of growing disclosure information might lead to an information overload. Hence, some users could be distracted from other more significant information;
- (i) The term “comparable payables” in paragraph IAS 7.44H(b)(iii) of the Amendments requires significant judgement. It might be appropriate to narrow down more precisely what constitutes “comparable payables” since the criteria “same line of business or jurisdiction” could lead to different interpretations of that term; and
- (j) An entity shall provide the requested disclosures even in two-way arrangements where the supplier factors its receivables towards an entity with a bank and the entity has negotiated extended payment terms with the supplier but the entity is not involved in the factoring arrangement. The IASB should clarify that an entity should not provide disclosures for such arrangements.

EFRAG Secretariat Analysis

- 12 The EFRAG Secretariat analyses below all the concerns raised by respondents during the consultation. In some instances, similar concerns are grouped.

Concerns from preparers to disclose the information requested under paragraph 44H(b)(ii) of the Amendments

- 13 All finance providers or technology platforms the EFRAG Secretariat engaged with indicated either that they had the information available or that they would have it available by the end of 2024. A few of them might need to amend some confidentiality clauses of the arrangements or obtain permission from the suppliers before sharing the information with the preparers (buyers).
- 14 The preparer (non-financial entity) that indicated in its comment letter that in its view the possibility of financial providers to have the information already available was remote did not provide further information of its statement (after being requested by EFRAG).

Misinterpretation or lack of context for users to understand the information disclosed

- 15 The EFRAG Secretariat 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 will not provide information on the relative importance of these different arrangements. Hence, the estimate made by users to determine the impacts of SFAs in the entity's liabilities may not be fully accurate.
- 16 However, the EFRAG Secretariat considers that an entity might provide information on top of the disclosure requirements included in the Amendments to ensure that users fully understand the effects of SFAs on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. For example, an entity might indicate the number of finance providers of SFAs to provide an insight of liquidity risk concentration. An entity might also provide additional information that help users determine if the liabilities that are part of SFAs should be considered as trade payables or debt.

Need of additional guidance of arrangements that are not SFA (44G)

- 17 EFRAG FRB TEG already discussed at its 5 July 2023 meeting about the examples (specifically the instruments, like credit cards, used by the entity to settle directly

with a supplier the amounts owed) included in paragraph 44G that are not SFA. EFRAG FR TEG indicated that transactions covered by the credit cards example were normally two-way arrangements that had a direct settlement while transactions under the scope of SFAs were three-way arrangements and the settlement was through a contractual obligation. It was also noted that the reference to 'settle directly' in the explanation of SFAs covered by the amendments, might not be the best way to describe what are SFAs and what are not. However, although the scope might not be perfect, the Amendments would result in improvements for those SFAs that would be covered by the scope.

- 18 It is also worth noting that the project is driven by the urgency from users to obtain additional information on SFAs that complement the current disclosure requirements. Additional guidance might have been developed, but then users would not have received additional information on SFAs as timely as under the Amendments.

Term 'comparable payment' in paragraph IAS 7.44H(b)(iii) of the Amendments open to interpretations

- 19 The EFRAG Secretariat considers that disclosure of due dates for comparable trade payables will require judgement and it may not be possible to identify the perfect comparable trade payables. The EFRAG Secretariat notes that IFRS are principle-based standards and judgement is generally required when preparing financial statements.

Doubts behind the underlying reasons of the Amendments

- 20 An entity might enter into arrangements with varying structures. For example, an entity does not obtain extended payment terms from the finance providers, but the entity might have negotiated extended payment terms with its suppliers in the light of supplier finance arrangements being in place. Users indicated that if an entity agrees on extended payment terms in exchange of the SFA being in place, it is essential to have disclosures about these arrangements. Absent the SFA being in place, the supplier could revert to the previous payment terms and the entity could have a liquidity issue. However, if the entity does not obtain extended payment terms, then the importance of these arrangement for users is reduced.
- 21 The EFRAG Secretariat is cognisant that the scope of the Amendments encompasses a wide range of arrangements and that depending on the terms and conditions the degree to which the information is important to users varies (different SFAs have different impact on the entity's exposure to liquidity risk). However, we also consider that it would be challenging and judgmental for the IASB to identify different categories of SFAs based on its terms and conditions and request different disclosures for the different categories. For instance, in the examples discussed in the paragraph 20 above, the terms and conditions of the SFA would likely be similar regardless of having negotiated extended payment terms in place as the negotiation between the entity and the supplier would not likely be reflected in the contract. Yet, having negotiated extended payment terms would have a great impact on the entity's exposure to liquidity risk.

Disclosures might lead to information overload

- 22 The EFRAG Secretariat considers that an entity should consider the materiality principle when assessing how the disclosure requirements included in the Amendments should be fulfilled. When preparing financial statements, an entity should not reduce its understandability by obscuring material information with immaterial information.

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Concern that entities should provide disclosures for factoring arrangements between a supplier and a finance provider

- 23 The EFRAG Secretariat consider that an entity should only provide disclosures for tripartite arrangements (entity, supplier and finance provider) that meet the characteristics of SFA included in paragraph 44G of the Amendments. BC32 (c) indicates that an entity is not required to identify other actions its suppliers might have taken to finance their receivables (for example, factoring of receivables).

Conclusion

- 24 Based on the feedback received, the EFRAG Secretariat considers that the Amendments meet the technical criteria for endorsement in the EU and that the Amendments are conducive to the European public good. The EFRAG Secretariat has made some amendments in the DEA to reflect the comments received during the outreach activities.

Appendix 1: List of respondents

- 1 The comment letters were received from the following organisations (links to the letters are provided with the respondents' names):

Respondent	Type	Country
Deutsche Bahn Group	Preparer	Germany
The German Insurance Association (GDV)	Preparers' organisation	Germany
Repsol Group	Preparer	Spain
ICAC (Spanish Accounting Standard Setter)	National Standard Setter	Spain
OIC (Organismo Italiano di Contabilita)	National Standard Setter	Italy