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Supplier Finance Arrangements

Cover note

Objective

- 1 The objectives of this session are to:
 - (a) provide a summary of the feedback received in response to the consultation on EFRAG's Draft Letter to the EC regarding endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) ('the Amendments');
 - (b) provide a summary of the outreach events carried out by the EFRAG Secretariat; and
 - (c) Discuss and agree to recommend to the EFRAG FRB the endorsement advice letter on the Amendments.

Background

- 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').
- 3 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 SFAs and increased conformity with existing disclosure requirements in IFRS Accounting Standards.
- 4 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.
- 5 On 25 May 2023, the IASB issued the final Amendments. A link to the IASB publication, on EFRAG's website, is provided under permission of the IASB and is only valid until the publication of the Amendments in the official journal ([here](#)).
- 6 Appendix A of agenda paper 03-01 discussed at EFRAG FR TEG meeting 5 July 2023 ([here](#)) shows that most of the comments included in EFRAG's comment letter were addressed by the IASB.
- 7 The European Commission sent a letter on 26 May 2023 requesting EFRAG to provide advice on the endorsement of the Amendments ([here](#)). The letter does not identify specific additional issues to consider.

Draft endorsement advice

- 8 On 18 July 2023, EFRAG published its draft endorsement advice (DEA) on the Amendments. EFRAG's initial assessment was that the Amendments met the technical requirements for EU endorsement as set out in the IAS Regulation and that endorsing the Amendments was conducive to the European public good.
- 9 In parallel to the consultation of the DEA, EFRAG has conducted limited outreach activity due to the concern from some constituents about the challenges for an entity to disclose the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment. EFRAG has also consulted national standard-setters and users on its preliminary costs and benefits assessment and on the usefulness of the Amendments. A summary of the outreach activities and the comment letters received is included in agenda paper 01-02.

Questions for EFRAG FRB

- 10 Does EFRAG FR TEG have any comment on agenda papers 01-02 and 01-03?
- 11 Does EFRAG FR TEG agree to recommend the endorsement advice letter contained in agenda paper 01-02, to the EFRAG FRB for approval?

Agenda Papers

- 12 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 01-02 – Comment letters & outreach analysis; and
 - (b) Agenda paper 01-03a – Letter to the EC regarding endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) (changes marked from DEA);
 - (c) Agenda paper 01-03b – Letter to the EC regarding endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) ('clean').