This paper provides the technical advice from EFRAG FR TEG to the EFRAG FR Board, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FR Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Summary of changes proposed by EFRAG FR TEG
Issues Paper

Objective

1 The purpose of this issues paper is to inform EFRAG FR Board about changes proposed by EFRAG FR TEG to the EFRAG draft comment ('DCL') on the IASB's exposure draft ED/2021/10 *Supplier Finance Arrangements*.

Summary of proposed changes

2 EFRAG FR TEG has recommended the EFRAG final comment letter ('FCL') on supplier finance arrangements ('SFA') for approval by the EFRAG FR Board subject to the changes reflected in the table below:

General comments and Appendix 2	**No change proposed to the general direction of the EFRAG DCL on SFA** There was general support for the IASB project on SFA which improved transparency of reporting for these arrangements and comparability between reporting entities. Many constituents agreed with the narrow scope of the project because it addressed concerns raised by users of financial statements in a targeted and timely manner. Constituents agreed with EFRAG's position expressed in its DCL that the current project did not completely address the wider issue of providing necessary transparency on liquidity risk and leverage of reporting entities' working capital to effectively obtain finance. There was still a need for a more comprehensive project on accounting for SFA in the future. EFRAG makes further recommendations to the IASB in Appendix 2 of the EFRAG FCL.
Question 1 - Scope of disclosure requirements	**No change to initial position but the letter has been improved to strengthen the position and reflect comments received** Although, majority of constituents agreed with the IASB's approach to describe rather than define supplier finance arrangements, they indicated that further clarification about the proposed description in paragraph 44G of the ED was necessary. The description was considered to be rather difficult to understand and could be

	inaccurately interpreted considering the variety of SFA used in practice. *EFRAG FR TEG addressed these concerns by supporting to elevate the guidance in BC8 of the ED to paragraph 44G to clarify that all arrangements providing early payment terms to suppliers and arrangements providing extending credit terms to buyers should be within the scope of the project.* Constituents also raised concerns about the types of arrangements considered in the project scope: • it was not clear why some specific arrangements (i.e. receivable or inventory financing arrangements) were explicitly scoped out as they were also financing arrangements; • whether arrangements initiated by the supplier rather than the reporting entity were intended to be within scope of the project; • whether arrangements which did not provide extended credit to the reporting entity and did not affect its liquidity risk, should be considered in scope of the amendments. *EFRAG FR TEG acknowledged that conceptually different types of arrangements had different characteristics and might affect an entity in different ways. However, it was noted that distinguishing between these arrangements would be difficult in practice as it required judgement and could lead to structuring opportunities. Furthermore, there were benefits to provide disclosures about all types of SFA because there could be concentration of liquidity risk to one finance provider or a supplier providing extended credit terms as a result of the arrangement being in place. Consequently, members supported the narrow scope of the project as proposed by the IASB*. *EFRAG FR TEG also recommended that the IASB clearly stated that receivable financing arrangements in which the reporting entity was not involved were not part of the proposed scope.*
Question 2 - Disclosure objective and disclosure requirements	**No change to initial position but the letter has been improved to strengthen the position and reflect comments received** The feedback received from outreach and input from respondents to the EFRAG DCL shows broad support for the IASB's proposals to add an overall disclosure objective and specific disclosure requirements about SFA. Furthermore, constituents indicated potential areas for improvement, such as: • disclosures about the impact of SFA on an entity's cash flows; • terms and conditions of SFA – to require disclosure only of 'relevant' terms and conditions of SFA.

	Additionally, to ensure that entities provide disclosure of the entire SFA including any significant changes in terms and conditions with suppliers; • accounting policy disclosure – to consider whether disclosures of an entity's accounting policies on SFA would be helpful for users; • payments received by suppliers from finance providers – such disclosures could be difficult and costly to provide as well as contain sensitive or regulated information; • range of payment due dates – it would be more useful for users to have the weighted average payment terms under SFA rather than a range of payment due dates. *EFRAG FR TEG supported the proposed improvements by constituents and requested modification of the EFRAG FCL accordingly.*
Question 3 – Examples added to disclosure requirements	**No changes proposed** Constituents agreed with the IASB's proposals to add SFA as an example to certain existing disclosure requirements in IAS 7 and IFRS 7. Some constituent expressed doubts whether the proposed amendments to IAS 7 and IFRS 7 were useful and appropriate as disclosures about changes in liabilities arising from financing activities primarily concerned non-cash changes and adding SFA as an example in IFRS 7 might not trigger any additional disclosure by entities. One constituent disagreed with EFRAG's suggestion in paragraph 40 of its DCL to remove the word 'non-cash' from paragraph 44B(da) of the ED. This was because paragraphs 44A and 44B(a) of IAS 7 would already capture changes from cash flows. *EFRAG FR TEG agreed to remove the statement made in paragraph 40 of the EFRAG DCL. No more changes were made.*

Questions for EFRAG FR Board

3 Does EFRAG FR Board have any questions on the provided summary?

4 Does EFRAG FR Board agree to approve the EFRAG FCL on the IASB's ED *Supplier Finance Arrangements* for submission to the IASB?