

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. 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 FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Supplier Finance Arrangements

Cover note

Objective

- 1 The objective of this session is to discuss and approve, the draft endorsement advice and the invitation to comment on *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* ('the Amendments') which were issued by the IASB on 25 May 2023.

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 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.
- 6 On 8 February 2023, the EFRAG FRB and EFRAG FR TEG jointly discussed the application date of the upcoming amendments and the latest IASB's tentative decisions. The agenda paper issued for that session can be found [here](#). Members provided the following comments:
 - (a) One EFRAG FRB member considered (similar to EFRAG FR TEG members earlier in the meeting) that disclosure of the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers - might be difficult to obtain. The member highlighted that - as a result of the proposed disclosures - it might be necessary for some preparers to renegotiate the contracts with their finance providers. Such renegotiation and/or adaptation of systems to get the information available needs a sufficient transition period.

- (b) A few members were in favour of an effective date for any period starting from 1 January 2025.
- (c) Several members highlighted that the topic was identified to the IASB by various stakeholders as important (because of related liquidity risk) and to be resolved as soon as possible. They emphasised that there is a significant benefit from the disclosures, even if no comparative information is attached. In addition, the timely reaction of the IASB to the problem addressed is welcome. In this respect, Europe should not be in the way to an early effective date.
- (d) Members were informed about the potential timeline of the endorsement process by the EC. Members discussed implications of an EU endorsement in 2024 only (first half) in case the effective date would be 1 January 2024. Members concluded that the impact of an endorsement within 2024 would be very limited. This is because the proposed amendment focuses on the disclosures and does not require separate or additional disclosures for condensed interim financial statements.
- (e) Members requested to address the topic of disclosure of the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers during the endorsement process.

Amendments issued

- 7 On 25 May 2023, the IASB issued the Amendments.
- 8 An entity shall apply the Amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. An entity is not required to disclose:
 - (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments;
 - (b) most of the information explicitly required as at the beginning of the annual reporting period in which the entity first applies the Amendments (the entity has to disclose the beginning carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement); and
 - (c) the information otherwise required for any interim period presented within the annual reporting period in which the entity first applies the Amendments.
- 9 The European Commission sent a letter on 26 May 2023 requesting EFRAG to provide advice on the endorsement of the Amendments (uploaded as paper 08-04). The letter does not identify specific additional issues to consider.
- 10 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](#)).
- 11 Appendix A attached to this document is for information purposes only. It shows that of most of the comments included in EFRAG's CL were addressed by the IASB.

Draft endorsement advice

- 12 The EFRAG Secretariat started some outreach activities on cost and benefits of the Amendments. In parallel, the EFRAG Secretariat has prepared a Draft Endorsement Advice (letter to the European Commission). This approach is taken to ensure timely endorsement. The amendments are applicable for any period starting on or after 1 January 2024. In the case an entity (exceptionally) would have a short reporting period, a fast endorsement process from EFRAG's side (the endorsement of the Amendments would not be subject to a 'fast track' procedure at the European Commission) would be needed to ensure that the

entity would provide the required information. The results of the outreach activities will be considered for the final endorsement advice.

- 13 The EFRAG Secretariat's initial assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation and that endorsing the Amendments is conducive to the European public good.
- 14 However, the EFRAG Secretariat has heard some concerns from constituents about the feasibility for an entity to disclose the information required under paragraph 44H(b)(ii) of the Amendments (the disclosure of the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment). The aforementioned concerns are related to the availability of the information from the finance providers, as SFA agreements might prohibit an entity from obtaining it, and to the costs of obtaining and auditing the information. The IASB has introduced transition provisions (see paragraph 8 above) to mitigate this and enable preparers to modify their SFA agreements and adopt internal processes to gather the information.
- 15 To ensure that the information is available from the finance providers and that the costs of implementing the Amendments do not outweigh their benefits from an EU perspective, the EFRAG Secretariat started/intends to conduct the following outreach activities:
 - (a) Survey addressed to the EFRAG FR CFSS to inquire on the costs and benefits of the Amendments as well as on constraints in their jurisdictions for preparers to obtain from the finance providers and disclose the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment;
 - (b) Consultation of the EFRAG User Panel to receive confirmation that the information required by the Amendments is useful; and
 - (c) Consultation to the EFRAG FIWG members (or other relevant persons within their companies/organisations) on the possibility for their organisations to provide entities with the data requested in paragraph 44H(b)(ii) when acting as a provider of finance in SFA covered by the scope of the Amendments.
- 16 On 5 July 2023, EFRAG FR TEG discussed and agreed to recommend to the EFRAG FRB for approval the Draft letter to the EC regarding endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) and the Invitation to comment (agenda papers 08-02 and 08-03).
- 17 On 4 July 2023, EFRAG FR TEG CFSS discussed the necessary consultation period for the DEA. To ensure a timely endorsement they consider a (short) consultation period until 11 September 2023 being sufficient.

Questions for EFRAG FRB

- 18 Does EFRAG FRB have any comments on agenda papers 08-02 and 08-03?
- 19 Does EFRAG FRB approve the DEA?
- 20 Does EFRAG FRB agree to consult on the DEA until 11 September 2023?

Agenda Papers

- 21 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 08-02 – Draft letter to the EC regarding endorsement of Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
 - (b) Agenda paper 08-03 – Invitation to comment; and

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Agenda paper 08-04 – EC letter requesting advice on the endorsement of the Amendments.

Background Information - Appendix A: Follow-up on EFRAG's comment letter recommendations

EFRAG views and recommendations	Amendments
SFA project approach	
<p>EFRAG observed that the project did not completely address the wider issue of providing necessary transparency on liquidity risk and how entities leverage their working capital to effectively obtain finance. This includes presentation and classification in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general.</p> <p>EFRAG suggested that further efforts are needed in terms of reporting of such arrangements in the primary financial statements and encouraged the IASB to consider possible improvements related to SFAs in the future.</p>	<p>The IASB decided to keep its initial approach to the SFA project as laid out in the ED. The IASB decided to keep the narrow scope of the project (disclosure-only project) and not to expand it by including presentation and classification of these arrangements in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general.</p> <p>Notwithstanding the above, EFRAG notes that in July 2022, the IASB added to its research pipeline a project on the statement of cash flows and related matters.</p>
Scope of SFA	
<p>In its comment letter, EFRAG constructively supported the IASB's project on SFA to timely enhance the transparency of reporting of SFA. EFRAG also supported a narrow-scope project to develop specific disclosure requirements.</p> <p>EFRAG recommended that the IASB elevate paragraph BC8 of the ED to become part of the proposed amendments. This would strengthen the description of SFA by clarifying that both SFA providing early payment terms to suppliers and SFA providing extending credit terms to buyers are within the scope of the project.</p>	<p>The EFRAG Secretariat observes that the IASB decided not to amend the description of SFA by elevating paragraph BC8 of the ED as suggested by EFRAG. The EFRAG Secretariat acknowledges that the proposed description of an SFA already includes the key elements of paragraph BC8 of the ED.</p> <p>In addition, the IASB decided to add examples to illustrate payment arrangements or instruments excluded from the scope.</p>
Disclosure objective and requirements	
<p>EFRAG was generally supportive of the direction of the project to enhance transparency about SFA. However, EFRAG observed that future efforts are needed to address also classification and presentation of those arrangements in the statement of financial position and in the statement of cash flows.</p> <p><i>Disclosure objective</i></p>	<p><i>Disclosure objective</i></p> <p>The IASB decided to add a reference to liquidity risk in order to improve the disclosure objective by referring to an entity's exposure to liquidity risk and risk management.</p> <p>The IASB decided to make no change to add a reference to 'materiality' or to the effects of supplier finance arrangements on an entity's financial performance.</p>

<p>EFRAG supported the IASB proposals to add an overall disclosure objective and specific disclosure requirements in IAS 7 to help users of financial statements assess the effects of SFAs on an entity's liabilities and cash flows. EFRAG further suggested that the disclosure objective be expanded to also include the effects of those arrangements on an entity's liquidity risk and financial performance.</p> <p><i>Level of aggregation</i></p> <p>EFRAG suggested the IASB to require entities to disclose aggregated information (when terms and conditions are similar) and require disaggregation at the level of a single arrangement when it is necessary in order to provide relevant information.</p> <p><i>SFA for which suppliers have been paid</i></p> <p>EFRAG observed that this information might not be available to entities in all cases or require incurring additional costs. EFRAG recommended to only require such disclosure when information is available without undue costs and efforts.</p> <p><i>Other suggestions</i></p> <p>EFRAG acknowledged that the IASB's proposals on disclosures would be beneficial for users. However, it recommended further improvements.</p> <ul style="list-style-type: none"> ➤ to require disclosures that would enable users to understand cash flows arising from SFA in the statement of cash flows; ➤ to clarify the linkage between the definition of trade payables in IAS 37 and the proposed disclosures which relate to financing arrangements; ➤ to provide guidance to entities regarding disclosure of their accounting policies about SFA in addition to general requirement in IAS 1 to disclose material accounting policies; ➤ to clarify whether the range of payment due dates refer to payment due date to the finance provider or payment due date to the supplier; ➤ to require 'relevant' terms and conditions instead of all terms and conditions; ➤ to highlight that the materiality principle and the usefulness of information are the leading ones when reporting for SFA; 	<p><i>Level of aggregation</i></p> <p>The IASB decided to require an entity to aggregate information provided about its SFAs and to disaggregate information - if required - to avoid omitting or obscuring material information.</p> <p><i>SFA for which suppliers have been paid</i></p> <p>The IASB decided to proceed with requiring an entity to disclose the carrying amount of financial liabilities that are part of SFAs for which suppliers have already received payment from the finance providers.</p> <p><i>Other decisions</i></p> <p>The IASB decided to make no change to the proposal to require an entity to disclose the terms and conditions, and, in particular, to make no change to add the word 'key' to the proposal.</p> <p>The IASB decided to add no requirement for an entity to disclose the line item(s) for the statement of cash flows in which changes in financial liabilities that are part of SFAs are presented.</p> <p>The IASB decided to clarify that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item, an entity would be required to disclose each line item and the associated carrying amount presented in that line item; and</p> <p>The IASB decided to clarify that when an entity discloses the range of payment due dates of financial liabilities that are part of a SFA and trade payables that are not part of such an arrangement, the financial liabilities and trade payables should be on a comparable basis.</p>
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<ul style="list-style-type: none"> ➤ to clarify the usage of the term ‘financial liability’ when applied to SFA (in particular about its presentation); and ➤ to elevate the explanation in paragraph BC19 of the ED. 	
<p>Examples added to disclosure requirements</p>	
<p>EFRAG agreed with the IASB proposal to add SFA as an example in paragraph 44B of IAS 7. This disclosure would emphasise that such disclosures are relevant for users to obtain better information about changes in liabilities arising from financing activities under SFAs.</p> <p>EFRAG agreed with the IASB proposal to add an example within the liquidity risk disclosure requirements in IFRS 7. This proposed disclosure would emphasise that such information is relevant for users to better assess the effects of SFAs on an entity’s exposure to liquidity risk and its risk management.</p> <p>However, EFRAG observed that the concentration of liquidity risk might vary and recommended the IASB 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.</p>	<p>The IASB decided against proceeding with the proposed amendments to add SFA as example within the disclosure requirements about changes in liabilities arising from financing activities in paragraph 44B of IAS 7.</p> <p>The IASB decided to proceed with the proposed amendments to add SFA as an example within the disclosure requirements about liquidity risk in paragraph B11F(j) and IG18 of IFRS 7- without making those proposed amendments more prescriptive. The IASB also decided against proceeding with the proposed amendments in paragraph B11F(a) because the wording may imply that all SFA are lines of credit.</p>