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Supplier Finance Arrangements Issues Paper

Objective

- 1 The purpose of this session is to discuss with the EFRAG FR TEG-CFSS the consultation period of the draft of the endorsement advice letter to be sent to the European Commission 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 ('SFA').
- 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 Based on the feedback received in response to the ED, the IASB issued the Amendments in May 2023.
- 6 On 18 January 2023, EFRAG FR TEG discussed the IASB's tentative decisions made on this project (see agenda paper [here](#)). Nevertheless, we provide in Appendix 1 a summarised table that compare the provisions included in the Amendment with the proposals made by EFRAG in its comment letter.
- 7 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.

Consultation period

- 8 The EFRAG Secretariat will discuss the draft of the endorsement advice letter with EFRAG FR TEG and the EFRAG FRB and expect to publish and subject it to public consultation by mid-July. Along with this, the EFRAG Secretariat expects 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 (paragraph 44H(b)(ii) of the Amendments)
 - (b) 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.
- 9 Since the Amendments shall apply for annual reporting periods beginning on or after 1 January 2024 and entities might need to adopt processes in advance to gather some of the information requested by the Amendments, the EFRAG Secretariat envisages to have a shorter consultation period than usual to allow the EC sufficient time for their endorsement process. The EFRAG Secretariat intends to finish the consultation period within the first week of September.

Questions for EFRAG FR TEG CFSS

- 10 Does the EFRAG FR TEG-CFSS have any constraints on ending the consultation period on the draft of the endorsement advice letter by the beginning of September?

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</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; 	<p>effects of supplier finance arrangements on an entity's financial performance.</p> <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 highlight that the materiality principle and the usefulness of information are the leading ones when reporting for SFA; ➤ 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>