

Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures

[AASB 1060]



Australian Government

**Australian Accounting
Standards Board**

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ACCOUNTING STANDARD

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ARRANGEMENTS: TIER 2 DISCLOSURES**

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BASIS FOR CONCLUSIONS

Australian Accounting Standard AASB 2024-1 <i>Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures</i> is set out in paragraphs 1–6. All the paragraphs have equal authority.
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Preface

Standards amended by AASB 2024-1

This Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main features of this Standard

Main requirements

AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements* (June 2023) amended AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to introduce the requirement for an entity to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.

This Standard amends AASB 1060 to require a Tier 2 entity to include in its financial statements the same specific disclosures that AASB 2023-1 requires in the financial statements of Tier 1 entities. Accordingly, Tier 2 entities will be required to disclose the terms and conditions of supplier finance arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.

Application date

This Standard applies to annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024, with earlier application permitted.

Accounting Standard AASB 2024-1

The Australian Accounting Standards Board makes Accounting Standard AASB 2024-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated 7 March 2024

Keith Kendall
Chair – AASB

Accounting Standard AASB 2024-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures*

Objective

- 1 This Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to require a Tier 2 entity to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.
- 2 These amendments reflect the issuance of AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*, which amended AASB 107 *Statement of Cash Flows* (August 2015) and AASB 7 *Financial Instruments: Disclosures* (August 2015), to extend the disclosure requirements to Tier 2 entities.

Application

- 3 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1060 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 4 This Standard applies to annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024. Earlier application is permitted.

Amendments to AASB 1060

- 5 Paragraphs 119A–119C and a related heading are added.

Supplier finance arrangements

- 119A Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.
- 119B An entity shall disclose in aggregate for its supplier finance arrangements:
 - (a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions;

- (b) as at the beginning of and the end of the reporting period:
 - (i) the 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;
 - (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and
 - (iii) the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges); and
 - (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 86).
- 119C In applying paragraphs 119A–119B, 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 requirements; and
 - (b) the information otherwise required by paragraph 119B(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those requirements.

Commencement of the legislative instrument

6 For legal purposes, this legislative instrument commences on 29 June 2024.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2024-1 Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Background

Tier 1 amendments

- BC2 In June 2023, the AASB issued AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*. The Standard amends AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements.
- BC3 The additional information will enable users of financial statements to assess how supplier finance arrangements affect an entity’s liabilities, cash flows and exposure to liquidity risk. The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.
- BC4 These amendments arose from the issuance of International Financial Reporting Standard *Supplier Finance Arrangements* (Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*) by the International Accounting Standards Board (IASB) in May 2023.
- BC5 The amendments made by AASB 2023-1 introduced disclosure requirements for entities applying Tier 1 reporting requirements. Therefore, it was appropriate for the Board to consider whether similar amendments to the Tier 2 Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* were required.

Issue of Exposure Draft ED 328

- BC6 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in December 2023 through Exposure Draft ED 328 *Supplier Finance Arrangements: Tier 2 Disclosures*.
- BC7 The significant issues considered by the Board in developing ED 328 are addressed in the following section.

Relevance of the amendments to AASB 1060

- BC8 The *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-For-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board for considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards.
- BC9 The standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Accounting Standard. If they do not, the standard-setting frameworks state that no further action is required unless:
- (a) the disclosures address a matter of public policy;
 - (b) the disclosures are of particular relevance in the Australian environment; or
 - (c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

- BC10 The Board noted that the disclosure requirements were added to IFRS Standards to address users' need for information relating to an entity's liquidity position and cash flow. The feedback from Australian users reinforced the need for these disclosures.
- BC11 Although the Board had not received any feedback on whether these disclosures were of similar importance to users of Tier 2 financial statements, in deciding whether to propose adding disclosures about supplier finance arrangements to AASB 1060 the Board considered the principles it used when developing AASB 1060 and subsequently when considering whether to add to or amend the disclosure requirements.
- BC12 When developing and considering amendments to AASB 1060, the Board considers that information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements would be particularly important to the users of Tier 2 financial statements.
- BC13 Therefore, the Board proposed amendments to AASB 1060 to require Tier 2 entities to disclose information relating to their supplier finance arrangements. The amendments would require a Tier 2 entity to include in its financial statements the same specific disclosures that AASB 2023-1 requires in the financial statements of entities applying Tier 1 reporting requirements. The Board considered the proposed disclosures would provide additional information about the cash flows, liquidity and solvency of Tier 2 entities.

Finalisation of ED 328 proposals

- BC14 Following the consultation period and after considering the comments received, the Board decided to proceed with issuing this Standard, with minimal changes from the proposals in ED 328. The Board noted the disclosures would need to be made only where material to the entity.

Feedback from respondents on ED 328 and international alignment

- BC15 The Board received one formal comment letter on ED 328. The feedback received indicated that, in general, the stakeholder was supportive of the proposals. However, the stakeholder provided additional feedback.
- BC16 The stakeholder suggested that the disclosure objective in proposed paragraph 119A in ED 328 was unnecessary. The stakeholder observed that the IASB has not generally included disclosure objectives in the *IFRS for SMEs Accounting Standard* and, therefore, the Board generally has also not previously included disclosure objectives in AASB 1060. It also observed that not including disclosure objectives is consistent with the approach proposed by the IASB in its *Subsidiaries without Public Accountability: Disclosures* project.
- BC17 The Board noted that the IASB has tentatively decided not to include the disclosure objective in its proposed amendments to add supplier finance arrangement disclosures to the *IFRS for SMEs Accounting Standard*.
- BC18 The Board considered this feedback and decided that, for consistency with the IASB's tentative approach, it would not add the disclosure objective proposed in ED 328 to this Standard. As AASB 1060 was developed based on the requirements in the *IFRS for SMEs Accounting Standard*, the Board considered that following the IASB's tentative approach was appropriate. However, the Board noted its intention to monitor future IASB decisions about supplier finance arrangement disclosures in the *IFRS for SMEs Accounting Standard* and consider whether further amendments are required to AASB 1060 at that time.
- BC19 In considering the IASB's tentative approach and proposed amendments to the *IFRS for SMEs Accounting Standard* and the forthcoming *Subsidiaries without Public Accountability: Disclosures* Standard, the Board observed that the IASB is not proposing to include:
- (a) transition relief in the *IFRS for SMEs Accounting Standard*. The IASB does not consider transition relief necessary as it expects to issue the amendments at least two years before their application date. (The IASB has not yet considered whether transition relief may be required in the *Subsidiaries without Public Accountability: Disclosures* Standard.) The Board, however, considered that it is necessary to add transition relief to AASB 1060 given the short time frame between the issue of these amendments and their application date. Consequently, the transition reliefs proposed in ED 328 are included in paragraph 119C of this Standard; and
 - (b) the final sentence in paragraph 119A of this Standard in the *IFRS for SMEs Accounting Standard*. However, the IASB has tentatively decided to include this sentence in proposed amendments to the *Subsidiaries without Public Accountability: Disclosures* Standard. The Board considered the additional information about some finance arrangements that are outside the scope of supplier finance arrangements is useful for Tier 2 entities and decided to retain this information.

Effective date

- BC20 The Board decided that the amendments should be made effective for annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024, with earlier application permitted, as proposed in ED 328. This is consistent with the effective date of AASB 2023-1 for most Tier 1 entities.