Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Supplier finance arrangements**	**Meeting:**	AASB February 2022 (M185)
Topic:	**Staff analysis of the feedback received on AASB ED 317**	**Agenda Item:**	12.1
		Date:	**7 February 2022**
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		Decision-Making:	High
		Project Status:	Comment letter drafting

The objective of this paper

1 At its November 2021 meeting, the Board agreed to make a submission to the IASB on its exposure draft ED/2021/10 *Supplier Finance Arrangements* (ED/2021/10), subject to receiving feedback from stakeholders. Accordingly, in December 2021, the Board issued AASB ED 317 *Supplier Finance Arrangements*.

2 The objective of this staff paper is for the Board to consider the feedback received and decide its response to the proposals in ED/2021/10 and matters for inclusion in the cover letter.

Background

3 In December 2020, the IFRS Interpretations Committee issued the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring*, clarifying how entities should present and disclose supplier finance arrangements under existing standards. ED/2021/10 proposes narrow scope amendments to improve the disclosure of these arrangements in IAS 7 (AASB 107) *Statement of Cash Flows* and the implementation guidance in IFRS 7 (AASB 7) *Financial Instruments: Disclosures*.

Outreach activities

4 Staff conducted the following outreach activities to gather views from stakeholders:

(a) 4 November 2021 – User Advisory Committee (UAC). Six UAC members provided feedback to AASB staff;

(b) 16 December 2021 – AASB Disclosure Initiative Project Advisory Panel (DIPAP) outreach. Four DIPAP members provided feedback to AASB staff;

(c) 13 January 2022 – Australian Institute of Company Directors (AICD) meeting. One AICD representative provided feedback to AASB staff;

(d) 3 February 2022 – AASB staff attended a joint meeting arranged by CAANZ and CPA Australia to obtain the views of their members. Three members provided feedback on the exposure draft; and

(e) other targeted consultations. One preparer provided feedback to AASB staff.

Staff summarised the feedback received in the staff paper *Summary of stakeholder feedback on AASB ED 317* in the supplementary folder item 12.2.

Summary of the feedback received from stakeholders, staff analysis and recommendations

5 ED/2021/10 includes three numbered questions, the wording of the proposed amendments to IAS 7 and IFRS 7, and the IASB's basis for conclusions. Staff have considered all feedback received in providing their recommendations to the Board.

Question 1—Scope of disclosure requirements
The [Draft] Amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the [Draft] Amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in this Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the Board's proposals. Paragraphs BC5–BC11 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Summary of stakeholder feedback and staff analysis

6 The wording of the proposed scope paragraph 44G is:

> *A supplier finance arrangement is characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers 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.*

7 An alternative to a descriptive scope can be seen in the current United States Financial Accounting Standards Board (FASB) exposure draft *Liabilities—Supplier Finance Programs* which proposes:

> *A supplier finance program is an arrangement that has all the following characteristics: (a) An entity enters into an agreement with a finance provider or an intermediary, (b) the entity confirms supplier invoices as valid to the finance provider or intermediary under the agreement described in (a), and (c) the entity's supplier has the option to request early payment from a party other than the entity for invoices that the entity has confirmed as valid. [Further], although not determinative, an indicator that an entity may have a supplier finance program is the commitment to pay a party other than the supplier for a confirmed invoice.*

8 Three stakeholders [preparers] thought the scope should be clarified, including for supplier-initiated financing arrangements and intermediary platforms where the entity or the supplier might have initiated the transaction. A fourth preparer questioned whether some financing arrangements between consortium members and suppliers in a public-private partnership (PPP) would be in scope. Staff agree that the first sentence of paragraph 44G could state more clearly that "A supplier finance arrangement is characterised by an entity (as the buyer) entering into an arrangement with one or more third-party finance providers or an intermediary….". Staff think the scope should recognise that supplier finance arrangements may be between a buyer and an intermediary, who may or may not be a finance provider, and may facilitate funding

through multiple finance providers. It should also be clarified that the finance provider is a third-party, that is, not the financing entity of a group, joint venture, or consortium etc.

9 A stakeholder [professional body] thought the proposed amendments may be better as guidance because they do not favour introducing more rules within standards and questioned whether this could lead to more rules-based disclosures in other standards.

Staff recommendation on the AASB response to IASB

10 Staff recommend the Board should agree with the descriptive nature of the scope but suggest an amendment to the wording of the first sentence to clarify that a supplier finance arrangement is characterised by an entity (as the buyer) entering into an arrangement with one or more third-party finance providers or an intermediary. The proposed wording in the exposure draft would change as follows:

> A supplier finance arrangement is characterised by an entity (as the buyer) entering into an arrangement with one or more third-party finance providers or an intermediary that offers~~ing~~ to pay amounts an entity owes its suppliers and the entity agrees~~ing~~ to pay the finance providers 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.

Question 1 for Board members:

Do Board members agree with the staff analysis and staff recommendation in paragraph 10? If not, what does the Board suggest?

Question 2—Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] Amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:

(a) the terms and conditions of each arrangement;

(b) for each arrangement, as at the beginning and end of the reporting period:

> (i) the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;
>
> (ii) the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and
>
> (iii) the range of payment due dates of financial liabilities disclosed under (i); and

(c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Question 2—Disclosure objective and disclosure requirements
Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar. Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

11 Below is an example of the quantitative disclosures proposed in ED/2021/10 from the IASBs November 2021 Investor Perspectives newsletter.

Example 1—Quantitative information[3]		
	Supplier Finance Arrangement with Finance Provider A	
Carrying amount of liabilities	Reporting date 20X1	Reporting date 20X0
Presented within trade and other payables	CU1,500	CU1,000
– of which suppliers have received payment	CU1,050	CU800
Range of payment due dates		
Liabilities that are part of the arrangement	85–90 days after invoice date	80–90 days after invoice date
Trade payables that are not part of an arrangement	60–70 days after invoice date	60–65 days after invoice date

12 Six stakeholders [users] noted that, overall, the proposed disclosures would provide useful information. They said that their main priorities were to (1) know the location in the balance sheet and amounts that are subject to supplier finance arrangements, (2) understand changes to the timing of cash payments because of the arrangements, and (3) be able to identify any change in the classification of cash payments in the statement of cash flows. Staff confirm the proposed disclosures provide this information. Paragraph 44H(b)(i) proposes to require disclosure of the line item and amounts subject to supplier finance arrangements in the balance sheet, and paragraphs 44H(b)(iii) and 44H(c) propose to require the disclosure of payment due dates or ranges of dates, for payables that are and are not part of supplier finance arrangements, which is about the timing of the payments. Item 3 on the stakeholders [users] list is addressed in Question 3 of ED 317.

13 A stakeholder [preparer] commented that paragraph 44H(b)(ii) that requires disclosure of the carrying amount of liabilities for which suppliers have already received payment seems reasonable if the entity has a possible debt obligation to suppliers.

14 A stakeholder [regulator] questioned whether the proposed amendments meet the objectives, for example, for amounts already paid to suppliers (para. 44H(b)(ii)).

15 Four stakeholders [preparers] thought they might have difficulty obtaining the information required under paragraph 44H(b)(ii) if they could only get this information by asking their suppliers. Staff note that, in a typical supplier finance arrangement, the entity (as the buyer) confirms to the finance provider or intermediary that the invoices are valid. The supplier then

has *the option* to request early payment from the finance provider.[1] The early payment is approved or not approved by the finance provider without further input from the entity. However, staff think that the information could be made available to entities by finance providers or intermediaries if it was required by future reporting standards, although it may involve additional investment into the systems of the financier or intermediary. Staff note that the current FASB exposure draft *Liabilities—Supplier Finance Programs* does not have a similar proposed disclosure.

16 One stakeholder [preparer] said there is a lot of focus on whether suppliers have received payment and was unsure if this information would be useful to users of financial statements even if the information was available from suppliers. Six stakeholders [users] were asked what they thought was the purpose of information provided by 44H(b)(ii). A stakeholder [user] said they would like to understand changes [over time] in the quantum of such arrangements for forecasting purposes. In addition, if the finance provider takes any additional collateralisation, it should be disclosed. Staff think that the information required by paragraph 44H(b)(ii) may not add significantly to the ability of users to understand "the extent to which an entity has used supplier finance arrangements to either extend its payment terms or allow its suppliers to access early payment terms" and the effect on an entity's liquidity if the arrangement ended.[2]

Staff suggest the related disclosure in the FASB exposure draft might better meet this objective and has the advantage that the information should be available from entities' accounting records. FASB proposes to require entities to show the movement between their opening and closing financed amounts, including gross amounts added to the program in the period and amounts paid (to the finance provider or intermediary).

17 Three stakeholders [preparers] noted that paragraphs 44H(b)(iii) and 44H(c) ask for the range of "payment due dates" for financed and unfinanced trade payables, but the IASB's disclosure example shows payment terms. Staff agree the wording is unclear in the exposure draft questions. However, in the draft wording on page 9 of the exposure draft, paragraph 44H(b)(iii) refers to "the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i)". Paragraph 44H(c) would be interpreted in the same way. Therefore, staff recommend changing the wording to 'payment terms' to improve clarity.

18 One stakeholder [preparer] said the disclosure of payment due dates per paragraphs 44H(b)(iii) and 44H(c) are the most critical of the quantitative disclosures. Staff agree that, where payment terms for financed amounts are longer than payment terms for non-financed amounts, or where payment terms for both appear extended, it informs users of the financial statements about the financing component of the arrangement and its effect on the operating cycle.

Staff recommendation on the AASB response to IASB

19 Staff recommend that the Board should agree with the proposed disclosures but request the IASB to consider:

(a) whether section 44H(b)(ii), requiring entities to disclose the carrying amount of liabilities for which suppliers have already received payment, meets the objective of providing users

1 See the FASB definition of a supply chain finance arrangement in paragraph 7 of this document.

2 ED/2021/10 Paragraph BC14(c) says the purpose of proposed paragraph. 44H(b)(ii) is to "help users of financial statements analyze the entity's debt and consequential effects on operating and financing cash flows." Paragraph BC14(e) states more specifically that "the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers … would provide information about the extent to which the entity has used extended payment terms, or its suppliers have used early payment terms. That information would help users of financial statements understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

with information about the extent of entities' use of supply chain finance, and whether the reconciliation proposed in the FASB exposure draft might be more useful;

(b) changing the wording in paragraphs 44H(b)(iii) and 44H(c) from 'payment due dates' to 'payment terms.'

Question 2 for Board members: Do Board members agree with the staff analysis and staff recommendation in paragraph 19? If not, what does the Board suggest?

Question 3—Examples added to disclosure requirements
Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] Amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively. Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

20 Five stakeholders [users] said the ability to identify changes in the classification of cash payments in the statement of cash flows (i.e. from operating activities to financing activities) within a period is critical. Two of the users supported the inclusion of material cash payments made under supplier finance arrangements as a separate line item in the statement of cash flows. One user suggested the location of payments in the statement of cash flows could be provided in the note (in Question 2 of the ED).

21 A stakeholder [regulator] questioned whether the proposed amendments meet the objectives, as the priority should to identify and give visibility over cash flows that are affected by the arrangements.

22 Staff note that paragraph 44B of the proposed amendments to IAS 7 adds supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities. Specifically, "non-cash changes arising from supplier finance arrangements (as described in para. 44G), for example when future cash outflows will be classified as cash flows from financing activities". However, there is no disclosure if payments remain as operating cash flows.

23 Further, IAS 7 (para. 21) requires that "an entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities". As a "major class" is not defined, it may be helpful to clarify that material payments under supplier finance arrangements that are financing cash outflows should be disclosed either as a separate line item in the statement of cash flows, or in the note. This would correspond to the staff proposal for Question 2 of the ED, to replace the proposed paragraph 44H(b)(ii) with a reconciliation of changes in the carrying amount of liabilities subject to a supplier finance arrangement.

Staff recommendation on the AASB response to IASB

24 Staff recommend that the Board should agree with the proposed examples added to disclosure requirements in IAS 7 and IFRS 7 and ask the IASB to consider requiring material payments under supplier finance arrangements that are financing cash outflows to be disclosed either as a separate line item in the statement of cash flows, or in the note.

Question 3 for Board members:
Do Board members agree with the staff analysis and staff recommendation in paragraph 23? If not, what does the Board suggest?

Next steps

25 The comment period to IASB ED/2021/10 closes on 28 March 2022. As there is no further AASB meeting before the comment period close date, staff suggest a comment letter reflecting the Board's decisions from this meeting be finalised out-of-session by the Chair.

26 The proposed timing is:

During week beginning	Deliverable
28 February 2022	Staff circulate a draft comment to the Chair for review.
7 March 2022	The Chair provides comments on the draft submission letter.
14 March 2022	Staff address the comments and circulate a revised comment letter to the Chair for further/final comments.
21 March 2022	The Chair reviews/approves the comment letter.
28 March 2022	The comment letter is signed by AASB Chair and submitted by 28 March 2022.

Questions for Board members:

Q4 Do Board members agree with the staff recommendation that the AASB submission is finalised out-of-session by the Chair?

Q5 Do Board members have any comments or concerns about the proposed timing of the finalisation of the AASB comment letter?