



Project:	Supplier Finance Arrangements	Meeting:	June 2023 (M196)
Topic:	Ballot Draft AASB 2023-Z Amendments to Australian Accounting Standards – Supplier Finance Arrangements for Board Voting	Agenda Item:	8.1
		Date:	6 June 2023
Contact(s):	Helena Simkova hsimkova@asb.gov.au	Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Ballot draft for Board voting

Objective of this paper

- 1 The objective of this paper is to provide the Board with:
 - (a) an update on the IASB's Supplier Finance Arrangements project; and
 - (b) a ballot draft version of amending Standard AASB 2023-X *Amendments to Australian Accounting Standards – Supplier Finance Arrangements* for voting.

Attachments

Agenda paper 8.2 Ballot Draft: AASB 2023-Z *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*

Background

- 2 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. Based on the feedback received, the IASB decided to undertake a standard-setting project and in November 2021 issued ED/2021/10 *Supplier Finance Arrangements*, which proposed narrow-scope amendments to IAS 7 (AASB 107) *Statement of Cash Flows* and the implementation guidance in IFRS 7 (AASB 7) *Financial Instruments: Disclosures* to improve the disclosure of these arrangements.
- 3 The proposed amendments explained the type of supplier finance arrangements in scope and proposed adding qualitative and quantitative disclosure requirements to existing standards.
- 4 In December 2021, the Board issued an equivalent Exposure Draft [AASB ED 317 Supplier Finance Arrangements](#), to gauge Australian stakeholders' feedback on the proposals. Staff received feedback on the proposals in the Exposure Draft from:
 - (a) AASB Disclosure Initiative Project Advisory Panel members;
 - (b) consultation with the User Advisory Committee, comprising a range of primary users of financial statements;

- (c) consultation with the Australian Institute of Company Directors (AICD); and
 - (d) a joint meeting arranged by CAANZ and CPA Australia to obtain the views of their members.
- 5 Based on the feedback received from Australian stakeholders, the AASB submitted a [comment letter to the IASB](#) on ED/2021/10 in March 2022. Whilst the AASB was overall supportive of the project objective, it recommended the IASB considers:
- (a) A suggested amendment to the scope of the proposed disclosures 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;
 - (b) Whether requiring entities to disclose the carrying amount of liabilities for which suppliers have already received payment provides users with information about the extent of an entity's use of supply chain finance and instead considers an alternative disclosure to meet this objective; and
 - (c) Whether material payments made under supplier finance arrangements should be disclosed either as a separate line item in the statement of cash flows or a note.

Project update

- 6 After considering stakeholder feedback on ED/2021/10, in May 2023, the IASB finalised its proposals and issued *Supplier Finance Arrangements* (Amendments to IFRS 7 and IAS 7).
- 7 Respondents to ED/2021/10 raised concerns about the clarity of the suggested description of supplier finance arrangements (SFA), which involved 'finance providers offering to pay amounts an entity owes its suppliers'. This definition could inadvertently narrow the scope.
- 8 In response to this feedback, the IASB changed the description so that SFAs are characterised by 'the entity agreeing to pay according to the terms and conditions of the arrangement'.
- 9 Some respondents also raised concerns about the commercial sensitivity of the information that would be required to be disclosed. The IASB therefore changed the proposal and the standard now requires an entity to aggregate the information provided about its SFAs. However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.
- 10 The IASB also clarified that if the carrying amount of financial liabilities that are part of SFAs is presented in more than one line item of the financial statements, an entity would disclose each line item and the associated carrying amount presented in that line item.
- 11 The standard is effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.
- 12 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) certain quantitative disclosures at the beginning of the annual reporting period in which the entity first applies those amendments;
 - (c) the information for interim period presented within the annual reporting period in which the entity first applies those amendments.

Due process requirements

- 13 As per the *AASB For-Profit Entity Standard-Setting Framework*, “In accordance with the Financial Reporting Council’s broad strategic directions to the AASB, the AASB sets Standards that:
- (a) enable ‘publicly accountable’ private sector entities to maintain IFRS compliance;
 - (b) for other entities, use IFRS Standards (where they exist) and the principle of transaction neutrality (modified as necessary), or develop Australian-specific Standards and guidance ...”.¹
- 14 Additionally, per the *AASB For-Profit Entity Standard-Setting Framework*, “differences between Accounting Standards issued in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman.”²
- 15 Staff note that, “Only in rare and exceptional circumstances will additions to IFRS Standards be justified. The AASB disagreeing with the IASB’s treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.”³

Staff recommendation

- 16 Staff recommend that Board members vote to make *AASB 2023-X Amendments to Australian Accounting Standards – Supplier Finance Arrangements* (including any revisions agreed by the members).
- 17 If Board members vote to make the proposed amending Standard, the content of the Standard will be finalised by replacing “AASB 2023-X” with the next Standard number in the sequence and the various dates formally inserted into the Standard as indicated. The Standard would then be registered on the Federal Register of Legislation and published on the AASB website.
- 18 Although the Board suggested in its comment letter that the IASB considers changing certain requirements in the proposal, and these suggestions have not been reflected in the amending Standard, staff do not consider the amendments to AASB 107 and AASB 7 to be significant enough to warrant a departure from the IFRS Standards.

Question to Board members

Q1: Do Board members have any questions or comments?

Q2: Do Board members vote in favour of making *AASB 2023-X Amendments to Australian Accounting Standards – Supplier Finance Arrangements*?

1 *AASB For-Profit Entity Standard-Setting Framework* paragraph 3.

2 *AASB For-Profit Entity Standard-Setting Framework* paragraph 27.

3 *AASB For-Profit Entity Standard-Setting Framework* paragraph 37.