

Project Initiation Plan: Supplier Finance Arrangements

Project Type	Influencing
Project Scope	Narrow Scope Amendment – Disclosures

Background

1. The IFRS Interpretations Committee (IFRS IC) considered a question about the information an entity is required to provide in its financial statements about supply chain finance (reverse factoring) arrangements. In December 2020 the IFRS IC published the Agenda Decision *Supply Chain Financing Arrangements – Reverse Factoring* to explain the applicable requirements in IFRS Standards.
2. Although those requirements go some way towards meeting the information needs of users of financial statements, feedback on the draft Agenda Decision – including from investors and analysts – suggested that the information an entity is required to provide about this form of financing falls short of meeting user information needs. Users of financial statements want to understand the effects of these arrangements on an entity's liabilities and cash flows, as well as on liquidity risk and risk management.
3. As a result of the above, in November 2021 the International Accounting Standards Board (IASB) published its Exposure Draft *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*.
4. The ED uses the term 'supplier finance arrangement' to refer to a reverse factoring or other similar arrangement. The proposals in the ED are intended to complement the IFRS requirements that apply to reverse factoring and similar arrangements. The proposed amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* would require entities to disclose additional information in the notes about those arrangements. The IASB decided not to address the measurement, the classification or the presentation of such arrangements as part of this ED.
5. The IASB's objective is to ensure users of financial statements are able to obtain the information that enables them to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management.
6. The IASB's comment period ends 28 March 2022.

7. This Project Initiation Plan (PIP) provides some background information and sets out how the UKEB response will develop its response to the IASB ED, in accordance with its statutory functions^{1 2}.

Proposed amendments to IAS 7 and IFRS 7

8. Entities in scope of the proposed amendments are buyers that enter into one or more supplier finance arrangements, under which the entity, or its suppliers, can access financing for amounts the entity owes its suppliers. The IASB decided against including within the project's scope arrangements that are linked directly to financing receivables or inventory as it considered that a wider scope might result in delaying the improvements to the required disclosures for supplier finance arrangements.
9. The IASB's ED does not define supplier finance arrangements. Instead, it proposes to amend IAS 7 to describe the characteristics of an arrangement for which an entity would be required to provide the additional disclosures proposed in the ED.
10. The ED proposes introduction of a disclosure objective in IAS 7 that would require disclosure in the notes about such arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.
11. To meet the above disclosure objective, the ED proposes to amend IAS 7 to require an entity to disclose:
- a) The terms and conditions for 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).
 - 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.

¹ The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No 685: <https://www.legislation.gov.uk/uksi/2019/685/made>

² The International Accounting Standards (Delegation of Functions (EU Exit) Regulations 2021 No 609: <https://www.legislation.gov.uk/uksi/2021/609/contents/made>

12. An entity would be permitted to aggregate the information listed in paragraph 12 for different arrangements only when the terms and conditions of the arrangements were similar.
13. In addition, the ED proposes to introduce additional guidance via examples in IAS 7 and IFRS 7 to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively.

Other international standard-setting work

14. The US Financial Accounting Standards Board (FASB) has a similar project on Disclosure of Supplier Finance Program Obligations. In December 2021, the FASB published an Exposure Draft with the objective of developing disclosure requirements that enhance transparency about the use of supplier finance programs. The proposed amendments would not affect the recognition, measurement or financial statement presentation of obligations covered by supplier finance programs.
15. The FASB's comment period ends 21 March 2022.

Outreach

16. Due to the short timeline for this project, we have already commenced desk-based research and outreach activities. We received feedback from two of the larger accounting firms and it has been reflected in our Draft Comment Letter.
17. Subject to Board review and approval, the Draft Comment Letter will be published on the UKEB website for wider stakeholder input and advertised via the usual channels.
18. During the public consultation period for the Draft Comment Letter, we will perform the following targeted outreach activities with UK stakeholders:
 - a) Seek the views of preparers through membership organisations, such as the Association of Corporate Treasurers.
 - b) Contact users of accounts to gather their views.
 - c) Further meetings with accounting firms.
 - d) Seek feedback from UK regulators, including in particular the FRC.
 - e) Consider analysis by EFRAG and other National Standard Setters (e.g. AASB, AcSB).

Next steps

19. The proposed high-level project timeline is as follows:

Date	Milestones
20 January Board meeting	Approve PIP, Draft Comment Letter and Invitation to Comment.
25 January	Publish Draft Comment Letter and Invitation to Comment.
3 March	Deadline for responses to Draft Comment Letter (5 weeks + 2 days from publishing).
18 March Board meeting	Review and approve Final Comment Letter and draft Feedback Statement.
28 March	Submit Final Comment Letter to IASB. Publish Final Comment Letter and Feedback Statement on website.