Supplier Finance Arrangements

Executive Summary

Project Type	Influencing
Project Scope	Disclosure project

Purpose of the paper

The IASB issued Exposure Draft *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7* (ED) during November 2021. This paper provides the Board with:

- a draft Project Initiation Plan,
- a Draft Comment Letter, and
- a Draft Invitation to Comment

for discussion and approval.

Summary of the Issue

The IASB ED proposes changes to the disclosure requirements in IAS 7[1] and IFRS 7[2] to improve the transparency of supplier finance arrangements and their effects on a company's liabilities and cash flows. The proposals are intended to address feedback from users of accounts that the information currently provided falls short of their information needs.

The IASB's comment period ends 28 March 2022.

Decisions for the Board

The Board is asked:

- Does the Board approve the draft Project Initiation Plan?
- Does the Board approve the Draft Comment Letter for public consultation and the related Invitation to Comment?

Recommendation

Subject to any comments raised at the Board meeting, we recommend the Board approves:

- the draft Project Initiation Plan, and
- the Draft Comment Letter, together with the related Invitation to Comment, for public consultation.

Appendices

Appendix 1 Draft Comment Letter
Appendix 2 Draft Invitation to Comment

[1] IAS 7 *Statement of Cash Flows*
[2] IFRS 7 *Financial Instruments: Disclosures*

Project Initiation Plan: Supplier Finance Arrangements

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[3] [4].

[3] 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

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

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.

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 the 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 (see Appendix 1).

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.

Questions for the Board

19. Given the curtailed timeline, the Board is asked to approve this PIP as well as providing comment on the Draft Comment Letter (see Appendix 1) and draft Invitation to Comment (see Appendix 2).

20. Does the Board approve the draft PIP?

21. Do Board members have any comments on the Draft Comment Letter included in Appendix 1 or the questions asked in our draft Invitation to Comment included in Appendix 2? In particular, we welcome Board views on draft question 2.

22.	Subject to any suggested amendments, does the Board approve the Draft Comment Letter and draft Invitation to Comment for public consultation?

Next steps

23. 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.

Dr Andreas Barckow
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London
E14 4HD

XX March 2022

Dear Dr Barckow

Invitation to Comment: Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS Standards[1]. In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option[2].

We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB) Exposure Draft *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7* (ED).

We support the proposals in ED as they will improve transparency about the use of supplier finance arrangements and enhance the ability of users of financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management.

One of the main concerns from users of financial statements was the lack of adequate disclosure of the cash flows related to supplier finance arrangements. We recommend that the proposals in the ED could be further enhanced by adding a specific requirement to disclose: an entity's accounting policy for the presentation of cash flows that are part of supplier finance arrangements; the amounts of those cash flows; and the line item(s) in the Statement of Cash Flows where they are presented. This information would enable users of

[1] UKEB calculation based on LSEG and Eikon data. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).
[2] UKEB estimation based on FAME, Companies Watch and other proprietary data.

financial statements to understand the magnitude of the entity's supplier finance arrangements throughout the period.

For detailed responses to the questions in the ED please see Appendix 1.

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix 1: Questions on Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*

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.

A1 We support the suggested approach of not defining supplier finance arrangements but describing the characteristics of an arrangement that would be in the scope of the ED. Disclosure requirements should be applied to the relevant transactions based on the substance of the arrangements as opposed to the terminology used to refer to them.

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.

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.

A2 We support the introduction of a disclosure objective and specific disclosure requirements to meet such disclosure objective. This is consistent with the UKEB's recommended hybrid approach in our response to the IASB Exposure Draft *Disclosure Requirement in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)*[3].

A3 We support the disclosure objective to enable users of financial statements to assess the effects that supplier finance arrangements have on an entity's liabilities and cash flows.

A4 In addition, we support the proposed specific disclosures in paragraph 44H.

A5 However, we believe the disclosure requirements should be enhanced to provide greater transparency for users of financial statements, as follows:

a) The proposed paragraph 44H(b)(i) requires disclosure of the carrying amount and the line item(s) in which financial liabilities that are part of supplier finance arrangements are presented in the entity's statement of financial position. We suggest clarifying that an entity should disclose *separately* the carrying amount of supplier finance arrangements presented in each relevant line item in the entity's statement of financial position.

b) In addition, the proposed paragraph 44H(b)(i) requires disclosure of the carrying amount of financial liabilities that are part of supplier finance arrangements. However, there is no proposed requirement to disclose the amount of related cash flows nor the line items in the Statement of Cash Flows in which those cash flows are presented.

One of the main concerns from users, as noted in the IASB's Investor Perspectives November 2021, is that "*without adequate disclosure it can be difficult for investors to differentiate between operating and financing cash flows, adjusting for the effects of amounts financed by a finance provider*". We consider an entity should be required to disclose its accounting policy for the presentation of cash flows that are part of supplier finance arrangements, the amounts of those cash flows and the line item(s) in the Statement of Cash Flows where they are presented. This information would enable users of financial statements to understand the magnitude of the entity's supplier finance arrangements throughout the period, as opposed to only disclosing balances at specific points in time (i.e. at the beginning and end of the reporting period).

c) We have concerns about the proposed disclosure requirement in paragraph 44H(b)(ii) as it is our understanding that in many cases the entity does not have access to that information, since it is a contractual transaction between the finance provider and the supplier to which the entity is not a party. We believe the IASB should carry out further work to determine whether in those circumstances the costs might outweigh the perceived benefit of this disclosure.

[3] The UKEB's response to IASB's ED/2021/3 can be found here: [Final Comment Letter - Disclosure Requirements in IFRS Standards—A Pilot Approach.pdf (kc-usercontent.com)]

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.

A6 We note that the introductory paragraphs to the ED state that '*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*'. We are supportive of this objective and therefore welcome the proposals to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities from financing activities and about an entity's exposure to liquidity risk, respectively, subject to the recommendations provided below.

A7 We welcome the proposed amendment to paragraph 44B(da) requiring the disclosure of non-cash changes arising from supplier finance arrangements. However, we note that this disclosure requirement is limited to changes in liabilities arising from financing activities. Some supplier finance arrangements are classified by entities as operating activities (for example, when balances are not reclassified and continue to be presented as trade payables in the statement of financial position). So, we recommend extending the disclosure requirement for non-cash transactions in IAS 7 paragraph 43[4] to supplier finance arrangements arising from operating activities.

A8 In addition, the disclosure of concentration of risk that an entity could be exposed to because of supplier finance arrangements is important for users of financial statements, for example, due to the potential impact of losing access to these arrangements. We recommend that the proposed amendment in IG18, currently only proposed for the Implementation Guidance, be incorporated as part of the specific disclosure requirements in the Standard, such as those in paragraphs 34c) and B8(b) of IFRS 7, in order to give appropriate prominence to such disclosure.

[4] IAS 7 paragraph 43 requires disclosure for non-cash transactions arising from investing and financing activities. Paragraph 43 is not currently being subject to amendments by the proposals in the ED.

Invitation to Comment:

Draft Comment Letter –Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*

Deadline for completion of this Invitation to Comment:

Close of business Thursday 3 March 2022

Please submit to: UKEndorsementBoard@endorsement-board.uk

UK Endorsement Board

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Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the UKEB's draft comment letter on the IASB's Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7.*

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts that apply IFRS.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return to UKEndorsementBoard@endorsement-board.uk by close of business on Thursday 3 March 2022.

We welcome responses providing views on individual questions as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through submitting this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[1].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published please provide UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other document submitted; therefore, only information that you wish to be published should be submitted in such responses.

1 These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

Questions

A Support for the IASB's Exposure Draft *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7*.

The UKEB's draft comment letter indicates that the UKEB supports the amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, proposed by the IASB ED. The UKEB also provides some recommendations to enhance the proposed amendments.

1.	Do you agree with the UKEB's support for, and proposed recommendations to enhance, the amendments to IAS 7 and IFRS 7 being proposed by the IASB in the ED? Please explain why or why not.

Response:

2. The UKEB's draft comment letter (paragraph A4c)) expresses concerns about the proposed amendment to IAS 7.44H(b)(ii) to require disclosure of the carrying amount of financial liabilities (related to supplier finance arrangements) for which suppliers have already received payment from the finance providers.

   Question 2.1.
   If you are responding on behalf of a user of financial statements:
   a) how relevant is the information required in IAS 7.44H(b)(ii) for your analysis of financial statements?
   b) If it is relevant, please provide examples of how you would use this information.

   Question 2.2.
   The Basis for Conclusions BC19 to the ED notes that for some supplier finance arrangements, entities do not currently obtain the information that would be disclosed in accordance with the proposed paragraph 44H(b)(ii). However, the IASB expects that
   a) Finance providers would generally be able to make this information available to a buyer (in certain cases on an aggregated and anonymised basis); and
   b) The benefit of the information for users of financial statements would outweigh the costs.

Do you agree with the IASB's expectations as noted in a) and b) above? If not, can you explain your rationale and views on any alternative disclosures you suggest instead?

Response:

B Impact of proposed amendments.

The UKEB is interested to hear feedback on the potential impact of the amendments to IAS 7 and IFRS 7 being proposed by the IASB in the ED.

3. If the amendments proposed in the IASB's ED are implemented: Question 3.1 How significant do you expect the impact on financial reporting by UK companies to be? Question 3.2 Do you consider the proposed amendments strike the right balance between costs for preparers and benefits for users of accounts?

Response:

C Any other comments.

The UKEB welcomes any other feedback on its draft comment letter or the IASB's ED.

4.	Do you have any additional feedback that the UKEB should consider when responding to the IASB's ED?

Response:

Thank you for completing this Invitation to Comment