

IFRS in Focus

IASB proposes amendments to IAS 7 and IFRS 7 to address supplier finance arrangements

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This *IFRS in Focus* outlines the proposals included in Exposure Draft ED/2021/10 *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)*, published by the International Accounting Standards Board (Board) in November 2021.

- The Board proposes to amend IAS 7 to introduce a disclosure objective requiring entities to provide information in the notes that enables users of financial statements to assess the effects of supplier finance arrangements on their liabilities and cash flows
- The ED also specifies the qualitative and quantitative disclosures an entity would need to provide to meet the proposed disclosure objective
- The term 'supplier finance arrangements' would not be defined and instead the proposed amendments describe the characteristics of an arrangement for which an entity would be required to provide the proposed information
- In addition, amendments are proposed to IFRS 7 to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk
- The amendments would be applied retrospectively (applying IAS 8). The ED does not propose an effective date. Earlier application is proposed to be permitted
- The comment period for the ED ends on 28 March 2022

Background

In December 2020, the IFRS Interpretations Committee published an agenda decision on supply chain financing arrangements that explains the requirements in IFRS Standards that an entity applies to such arrangements. Feedback on the draft agenda decision suggested that the information an entity is required to provide about this form of financing falls short of meeting user information needs. The Board considered this feedback and decided to address the issue by proposing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*.

The proposed amendments

Amendments to IAS 7

The Board proposes to add a disclosure objective to IAS 7 that would require an entity to provide information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows.

The amendments would describe supplier finance arrangements as arrangements where one or more finance providers offer to pay amounts an entity owes its suppliers and the entity agrees to pay the finance providers at the same date, 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.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Observation

Instead of attempting to develop a detailed definition of a supplier finance arrangement, the Board decided to describe supplier finance arrangements in a manner that would capture all arrangements that provide financing of amounts an entity owes its suppliers in a similar way to reverse factoring arrangements. Variations in the form or labelling of the arrangement would not affect whether the disclosure requirements apply. All arrangements with the characteristics of supplier finance arrangements as described in the ED are, therefore, subject to the proposed new disclosure requirements described below, irrespective of where and how an entity presents and classifies the related liabilities and cash flows in its statements of financial position and cash flows.

To meet the proposed disclosure objective an entity would disclose:

- (a) The terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided)
- (b) For each supplier finance 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
 - (iii) The range of payment due dates (for example, 30 to 40 days after the invoice date) 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

An entity would disclose additional information about its supplier finance arrangements necessary to meet the proposed disclosure objective (for example, additional information about the range of payment due dates when that range is wide). An entity would be permitted to aggregate the information provided to meet the proposed disclosure objective for different arrangements only when the terms and conditions of those arrangements are similar.

The ED proposes to add supplier finance arrangements as an example of the arrangements that are reflected in an entity's reconciliation of changes in liabilities arising from financing activities required by IAS 7:44A. Accordingly, an entity would disclose non-cash changes arising from supplier finance arrangements as part of that reconciliation, for example when future cash outflows will be classified as cash flows from financing activities.

Amendments to IFRS 7

Under the existing requirements in IFRS 7, an entity discloses a description of how it manages the liquidity risk resulting from financial liabilities. The amendments would specify that supplier finance arrangements are a factor the entity might consider in providing that disclosure, particularly if they provide the entity with extended payment terms or its suppliers with early payment terms.

In the Guidance on implementing IFRS 7, the Board proposes to add that concentrations of liquidity risk may arise from supplier finance arrangements resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers.

Transition, effective date and comment period

The ED proposes retrospective application of the amendments, applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Board does not propose an effective date. The effective date will be decided after the exposure of the proposals. Earlier application is proposed to be permitted.

The comment period for the ED ends on 28 March 2022.

Further information

If you have any questions about supplier finance arrangements, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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