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Dr Andreas Barckow
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UNITED KINGDOM
(submitted via the IASB website)

4 March 2022

Dear Dr Barckow,

AASB submission on the IASB invitation to comment on ED/2021/10 *Supplier Finance Arrangements*

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the International Accounting Standards Board (IASB) ED/2021/10 *Supplier Finance Arrangements*: Proposed amendments to IAS 7 and IFRS 7, issued in November 2021.

In formulating these comments, the views of Australian stakeholders were sought and considered. This included:

(a) consultation with the AASB User Advisory Committee, comprising a range of primary users of financial statements;

(b) consultation with the AASB Disclosure Initiative Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups; and

(c) other targeted consultations with financial statement preparers, auditors, professional bodies, regulators, academics, and users.

The AASB acknowledges the efforts of the IASB to assess the effect on stakeholders of the proposed changes to IAS 7 and IFRS 7 with respect to the disclosure of supplier finance arrangements.

Overall, our stakeholders have indicated that the proposed changes will provide useful information to users. Our detailed recommendations and responses to the three questions in the exposure draft are in the Appendix to this letter. However, while the AASB is supportive of the project objective, we recommend that the IASB consider:

(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 (Question 1);

(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 consider an alternative disclosure to meet this objective (Question 2);

(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 in a note (Question 3).

If you have any questions regarding this letter, please do not hesitate to contact me or Deputy Technical Director, Helena Simkova (hsimkova@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall
Chair – AASB

APPENDIX

AASB responses to questions raised in the IASB invitation to comment in ED/2021/10 *Supplier Finance Arrangements*.

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.

The AASB supports the IASB's proposal to describe the characteristics of a supplier finance arrangement in the scope paragraph. However, our stakeholders commented that the wording of the proposed scope could be difficult to apply in different circumstances, leading to inconsistent application and requests for guidance. For example, 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. In addition, the intermediary may facilitate funding through multiple finance providers. It should also be clarified that the finance provider is a third-party and not the financing entity of a group, joint venture, consortium, or similar.

To assist with clarifying these issues, we suggest the wording of the first sentence of paragraph 44G be changed 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 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:

Question 2—Disclosure objective and disclosure requirements
(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.

The AASB agrees that the objective of the proposed disclosures should be to provide sufficient information to allow users to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows and liquidity risk and risk management. Stakeholders confirmed that the proposed disclosures do provide this information in most cases. However, they questioned both the practicability and usefulness of paragraph 44H(b)(ii) (the requirement to disclose the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers). Specific comments are as follows:

1. Further to the discussion about paragraph 44H(b)(ii) in paragraph BC19, we understand that our stakeholders (preparers) do not currently have access to the information required by this paragraph. Although we agree with the IASB that finance providers could make this information available to a buyer that engages the finance providers' services, we note that there is no equivalent disclosure proposed in the United States Financial Accounting Standards Board (FASB) Exposure Draft *Liabilities—Supplier Finance Programs.* This could affect an entity's ability to use finance providers and intermediary platforms that mainly service the United States market;

2. We also ask the IASB to consider the auditability of the information required under paragraph 44H(b)(ii) as the evidence would not be obtainable from an entity's accounting records. Therefore, auditors may need to request confirmation of amounts from finance providers or an intermediary platform;

3. Concerning usefulness, we question whether the information disclosed under paragraph 44H(b)(ii) would significantly add to users' ability to understand the extent to which an entity has used supplier finance arrangements and the effect on an entity's liquidity if the arrangement ended (as stated in paragraph BC14(e)).

   More broadly, the proposed disclosures in paragraph 44H(b)(i) and (ii) require the disclosure of closing balances, so do not provide users with information about the extent (i.e. magnitude) of an entity's reliance on supplier finance during the period. For example, the requirement to disclose only closing balances does not preclude the possibility of an entity window dressing their balances at the reporting date.

   We suggest that the reconciliation proposed in the FASB exposure draft could replace paragraph 44H(b)(ii) and meet the stated objective better. The reconciliation also has the advantage of being available from an entity's accounting records. The FASB proposes a reconciliation of movements in the carrying amounts of liabilities subject to supplier finance arrangements, including gross amounts added to programs during the period and amounts paid to finance providers during the period (FASB Exposure Draft *Liabilities—Supplier Finance Programs* paragraph 405-50-50-3 (b)(2)).

For clarity, we also recommend the IASB change the wording in paragraphs 44H(b)(iii) and 44H(c) from 'payment due dates' to 'payment terms'. Stakeholders thought 'payment due dates' referred to the number of days invoices would fall due after the balance sheet date.

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.

The AASB agrees with the proposed examples added to the disclosure requirements in IAS 7 and IFRS 7. In particular, stakeholders 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 (as proposed in IAS 7 paragraph 44B).

However, stakeholders also wanted to understand the extent of cash payments made under supplier finance arrangements in the period. We note that IAS 7 (para. 21) requires that "an entity shall report separately [in the statement of cash flows] major classes of gross cash receipts and gross cash payments arising from investing and financing activities". As a 'major class' is not defined, we request clarification that material payments under supplier finance arrangements should be disclosed either as a separate line item in the statement of cash flows or as a note. The separate disclosure of cash payments in the statement of cash flows complements our recommendation for Question 2 to reconcile movements in the carrying amount of liabilities subject to supplier finance arrangements.