AASB Exposure Draft

ED 317
December 2021

Supplier Finance Arrangements

Proposed amendments to AASB 107 and AASB 7

Comments to the AASB by 3 February 2022

Australian Government
Australian Accounting Standards Board

How to Comment on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 3 February 2022. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 28 March 2022.

Formal Submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

ISSN 1030-5882

AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRS Standards) into Australian Accounting Standards. Accordingly, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

    (a) not-for-profit entities; and

    (b) public sector entities, including GAAP/GFS implications;

2. whether the proposals would create any auditing or assurance challenges;

3. whether, overall, the proposals would result in financial statements that would be useful to users;

4. whether the proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

November 2021

IFRS® Standards
Exposure Draft ED/2021/10

Supplier Finance Arrangements

Proposed amendments to IAS 7 and IFRS 7

Comments to be received by 28 March 2022

IASB®

IFRS®

Exposure Draft

Supplier Finance Arrangements

Proposed amendments to IAS 7 and IFRS 7

Comments to be received by 28 March 2022

Exposure Draft ED/2021/10 *Supplier Finance Arrangements* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 28 March 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

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Contents

Introduction

Why is the Board publishing this Exposure Draft?

The IFRS Interpretations Committee (Committee) considered a question about the information an entity is required to provide in its financial statements about supply chain finance (reverse factoring) arrangements. The credit rating agency that submitted the question said, based on its experience, entities provide little information in their financial statements about those arrangements. In response to that question, in December 2020 the Committee published the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* to explain the applicable requirements in IFRS Standards.

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.

Proposals in this Exposure Draft

The proposals in this Exposure Draft are intended to complement the requirements in IFRS Standards that apply to reverse factoring and similar arrangements (as explained in the Agenda Decision). 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 Exposure Draft uses 'supplier finance arrangement' to refer to a reverse factoring or other similar arrangement. Proposed paragraphs 44F–44I of IAS 7 set out the main proposals that would apply to all supplier finance arrangements (as described in proposed paragraph 44G).

Who would be affected by the proposals?

The proposed amendments would affect an entity that, as a buyer, enters into one or more supplier finance arrangements (as described in the proposals), under which the entity, or its suppliers, can access financing for amounts the entity owes its suppliers.

Users of financial statements would be able to obtain from financial statements 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.

Next step

The International Accounting Standards Board (Board) will consider the comments it receives on the proposals in this Exposure Draft before deciding whether and how to proceed with the proposed amendments.

Other standard-setting work

The US Financial Accounting Standards Board has a project on Disclosure of Supplier Finance Program Obligations with the objective of developing disclosure requirements that enhance transparency about the use of supplier finance programs.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

Questions for respondents

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.

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.

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.

Deadline

The Board will consider all written comments received by **28 March 2022**.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Amendments to IAS 7 *Statement of Cash Flows*

Paragraph 44B is amended. Paragraphs 44F–44I and their related heading and paragraph 62 are added. Deleted text is struck through and new text is underlined. Paragraphs 44A, 44C and 44D are not amended, but are included for ease of reference.

Changes in liabilities arising from financing activities

44A **An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.**

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) the effect of changes in foreign exchange rates;

(d) changes in fair values;~~ and~~

(da) non-cash changes arising from supplier finance arrangements (as described in paragraph 44G), for example when future cash outflows will be classified as cash flows from financing activities; and

(e) other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

...

Supplier finance arrangements

44F **An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows.**

44G A supplier finance arrangement is characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing 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.

44H To meet the objective in paragraph 44F, an entity shall 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; and

  (iii) the range of payment due dates (for example, 30 to 40 days after the invoice date) 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.

44I An entity shall disclose additional information about its supplier finance arrangements necessary to meet the disclosure objective in paragraph 44F (for example, additional information about the range of payment due dates disclosed under paragraph 44H(b)(iii) or paragraph 44H(c), when that range is wide). An entity is permitted to aggregate the information provided to meet the disclosure objective in paragraph 44F for different arrangements only when the terms and conditions of those arrangements are similar.

...

Effective date

...

62 *Supplier Finance Arrangements*, which amended IAS 7 and IFRS 7, issued in [Month, Year], added paragraphs 44F–44I and amended paragraph 44B. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure] retrospectively in accordance with IAS 8. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

[Draft] Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 44II is added. In Appendix B, paragraph B11F is amended. Deleted text is struck through and new text is underlined.

Effective date and transition

...

44II *Supplier Finance Arrangements*, which amended IAS 7 and IFRS 7, issued in [Month, Year], amended paragraph B11F. An entity shall apply those amendments when it applies the amendments to IAS 7.

...

Appendix B
Application guidance

...

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

...

Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

...

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

(a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities or supplier finance arrangements (as described in paragraph 44G of IAS 7)) that it can access to meet liquidity needs;

(b) holds deposits at central banks to meet liquidity needs;

(c) has very diverse funding sources;

(d) has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) has internal control processes and contingency plans for managing liquidity risk;

(f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);

(g) has instruments that could require the posting of collateral (eg margin calls for derivatives);

(h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; ~~or~~

(i) has instruments that are subject to master netting agreements; or

(j) has supplier finance arrangements (as described in paragraph 44G of IAS 7) that provide the entity with extended payment terms or that provide the entity's suppliers with early payment terms.

Approval by the Board of Exposure Draft *Supplier Finance Arrangements* published in November 2021

The Exposure Draft *Supplier Finance Arrangements*, which proposes amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*, was approved for publication by all 12 members of the International Accounting Standards Board.

Andreas Barckow	Chair
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Zach Gast	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Thomas Scott	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

[Draft] Amendments to Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

Paragraph IG18 is amended. Deleted text is struck through and new text is underlined.

...

Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

...

Quantitative disclosures (paragraphs 34–42 and B7–B28)

IG18 Paragraph 34 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

(a) industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.

(b) credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.

(c) geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.

(d) a limited number of individual counterparties or groups of closely related counterparties.

Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities, ~~or~~ reliance on a particular market in which to realise liquid assets, or supplier finance arrangements (as described in paragraph 44G of IAS 7) resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

Basis for Conclusions on Exposure Draft *Supplier Finance Arrangements*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Supplier Finance Arrangements. *It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.*

Background

BC1 The IFRS Interpretations Committee (Committee) considered a question from a credit rating agency about the information required to be provided in financial statements about supply chain finance (reverse factoring) arrangements. The Committee was asked:

(a) how an entity is required to present liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement; and

(b) what information about reverse factoring arrangements an entity is required to disclose in its financial statements.

BC2 In response to that question, in December 2020 the Committee published the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring*. Although IFRS Standards do not make any explicit reference to supply chain finance (or reverse factoring) arrangements, the Agenda Decision explains the requirements applicable to such arrangements for the:

(a) presentation of liabilities in the statement of financial position;

(b) presentation of cash flows in the statement of cash flows; and

(c) disclosure of financing activities, liquidity risk and risk management in the notes.

BC3 As the Agenda Decision explains, IFRS Standards already include requirements that meet some of the information needs of users of financial statements with respect to reverse factoring arrangements. To the extent that doing so is relevant to an understanding of its financial statements, an entity is already required to present separately liabilities that are part of reverse factoring arrangements, and disclose the accounting policy it applies to such liabilities. An entity is also required to disclose information in the notes about its exposure to liquidity risk arising from those arrangements that enables users of financial statements to evaluate the nature and extent of risks to which the entity is exposed.

BC4 The Board expects the Agenda Decision to help entities in providing relevant information about reverse factoring arrangements when applying the current requirements in IFRS Standards. The Board has been informed, however, that without targeted amendments to the current disclosure requirements, users of financial statements may be unable to obtain from financial statements some of the information they need to understand the effects of the arrangements and may, therefore, be hindered in comparing one entity with another. The Board proposes to amend IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to add disclosure requirements related to reverse factoring and similar arrangements to meet user information needs in a way that complements the current requirements in IFRS Standards.

Proposed amendments to IAS 7

The scope of the disclosure requirements

BC5 In practice, the term 'supply chain finance' can refer to a broad range of financing arrangements related to an entity's working capital. Although supply chain finance is usually confined to arrangements that finance amounts an entity owes its suppliers (such as payables finance or reverse factoring arrangements), the term can also be used more broadly to refer to arrangements that finance receivables and inventories (see paragraph BC11). The Board, therefore, decided to use the term 'supplier finance arrangements' to reflect the scope of its proposals, which is confined to arrangements that finance amounts an entity owes its suppliers.

BC6 The Board decided to explain the type of arrangements that are within the scope of the proposed disclosures instead of attempting to develop a detailed definition of a supplier finance arrangement. Supplier finance practices and arrangements may evolve over time. A detailed definition risks becoming outdated as new practices and arrangements develop. The Board's approach of explaining rather than defining the arrangements in scope enables the proposals to be framed in a manner that captures the characteristics of such arrangements that give rise to particular information needs of users of financial statements.

Supplier finance arrangements

BC7 An entity buys goods and services from suppliers on agreed payment terms. The buyer then enters into an arrangement with one or more finance providers that is typically characterised by the finance providers offering to pay the buyer's suppliers on a date before the buyer pays the amount it owes for the goods or services.

BC8 The Board considered different types of supplier finance arrangements and noted that they can be structured in different ways. For example:

(a) an arrangement can be one in which the entity does not obtain an extension of credit from the finance providers—the entity settles invoices that are part of the arrangement on the due date as negotiated with its suppliers. However, suppliers (that are part of the arrangement) can choose to be paid earlier than the invoice due date by the finance providers, at a discount. It may (or may not) be that the entity has negotiated extended payment terms with its suppliers in the light of the supplier finance arrangement being in place.

(b) an arrangement can be one in which the entity obtains extended credit from the finance providers—the entity pays the finance providers at a date later than the invoice due date for an amount that is more than the invoice amount; the finance providers pay suppliers the amounts they are owed by the entity on the invoice due date.

BC9 An entity may enter into supplier finance arrangements for different reasons. Typically, these arrangements aim to improve working capital (for example, through extended payment terms) and, additionally or alternatively, to assist the entity's suppliers (for example, through alternative and more affordable financing).

BC10 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 paragraph 44G of IAS 7) are, therefore, subject to the proposed new disclosure requirements, 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.

Arrangements that finance receivables or inventories

BC11 The Board considered whether to include within the project's scope arrangements that are linked directly to financing receivables or inventory but decided not to do so. Including within the project's scope receivables and inventory financing arrangements would require an assessment of the possible targeted information needs of users of financial statements about those arrangements. Those information needs are unlikely to align fully with user information needs about supplier finance arrangements. A wider scope might, therefore, result in delaying improvements to the required disclosures for supplier finance arrangements, which the Board has been informed are needed by investors and analysts. Additionally, among other requirements in IFRS Standards, paragraphs 42A–42H of IFRS 7 apply to some types of receivables financing arrangements—those paragraphs include disclosure requirements for transfers of financial assets that are not derecognised in their entirety and for any continuing involvement in a transferred asset.

Disclosure objective and disclosure requirements

BC12 Users of financial statements have highlighted information needs that require standard-setting. Without additional information about an entity's supplier finance arrangements, users of financial statements find it difficult to:

(a) analyse the total amount and terms of an entity's debt, especially when financial liabilities that are part of the arrangement are classified as trade and other payables;

(b) identify operating and financing cash flows arising from supplier finance arrangements, influencing their understanding of how the arrangement affects an entity's cash flows and associated financial ratios;

(c) understand the effect supplier finance arrangements have on an entity's exposure to liquidity risk; and

(d) compare the financial statements of an entity that uses supplier finance arrangements with those of an entity that does not.

BC13 To require entities to provide information about supplier finance arrangements that meets user information needs, the Board developed the disclosure objective and requirements set out in proposed paragraphs 44F and 44H. The proposed new disclosure requirements are designed to complement the current requirements in IFRS Standards. The Board's aim is to provide the greatest benefit to users of financial statements without asking entities to provide an excessive amount of additional information—in other words, the proposals are intended to balance implementation costs for entities and others with the benefits of the information for users of financial statements.

BC14 The Board identified two objectives when developing the disclosure proposals. Firstly, the information is intended to enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities and cash flows—both in terms of the amount of financial liabilities subject to those arrangements and the effect on key financial ratios, such as free cash flows or days payable. Secondly, the information is intended to enable users of financial statements to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk through the concentration of funding sources and how the entity would be affected if the arrangements were no longer available to it. Specifically, disclosure of:

(a) the terms and conditions of each supplier finance arrangement (see proposed paragraph 44H(a)) would identify the existence of supplier finance arrangements and explain their nature.

(b) the carrying amount of the financial liabilities recognised in an entity's statement of financial position that are part of each arrangement and the line item(s) in which those liabilities are presented (see proposed paragraph 44H(b)(i)), together with the entity's accounting policies (see paragraph BC3), would indicate the size of the arrangement and enable users of financial statements to identify where in its statement of financial position an entity presents financial liabilities that are part of an arrangement.

(c) the carrying amount of financial liabilities recognised in an entity's statement of financial position that are part of each arrangement (see proposed paragraph 44H(b)(i)), together with the carrying amount of these liabilities for which suppliers have already received payment from the finance providers (see proposed paragraph 44H(b)(ii)), would help users of financial statements analyse the entity's debt and consequential effects on operating and financing cash flows.

(d) the range of payment due dates of both financial liabilities that are part of each arrangement and trade payables that are not (see proposed paragraphs 44H(b)(iii) and 44H(c)), together with the terms and conditions of each arrangement (see proposed paragraph 44H(a)), would help users of financial statements assess the effect of each arrangement on the entity's days payable and cash flows. For example, it would help in assessing the extent to which operating cash flows improve from increased use of supplier finance arrangements because due dates differ for liabilities that are part of an arrangement and trade payables that are not.

(e) the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers (see proposed paragraph 44H(b)(ii)) would provide information about the extent to which the entity has used extended payment terms or its suppliers have used early payment terms. That information would help users of financial statements understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

(f) information at the beginning and end of each reporting period would help users of financial statements identify and assess changes and trends in the effect of each supplier finance arrangement on an entity's liabilities and cash flows.

BC15 The Board considered but decided not to propose the disclosure of:

(a) an entity's reasons for entering into an arrangement. The Board expects that entities, if required to provide such disclosure, would provide uniform (or generalised) information that would be unlikely to be useful.

(b) the extent to which an entity is involved in setting up an arrangement and designing early payment terms for suppliers. The Board concluded that proposed paragraph 44H(a)'s requirement for entities to disclose information about the terms and conditions of each arrangement would be sufficient to satisfy most information needs; information about an entity's involvement in setting up the arrangement or designing terms would have little incremental value.

Changes in liabilities arising from financing activities

BC16 Users of financial statements find it difficult to understand the effects of supplier finance arrangements on an entity's operating and financing cash flows. To help in this respect, the Board decided to add supplier finance arrangements as an example in paragraph 44B of IAS 7 to highlight the importance of providing information about non-cash changes in liabilities arising from financing activities that arise from supplier finance arrangements. For example, an entity buys goods and services from suppliers and would typically classify the future cash outflows to settle amounts owed to its suppliers as a cash flow from operating activities. When an amount the entity owes its suppliers becomes part of a supplier finance arrangement, the Agenda Decision (see paragraph BC2) explains that the entity—having considered the terms and conditions of the arrangement—classifies the future cash outflow to settle the amount owed as arising from either operating activities or financing activities. If the entity classifies the future cash outflow as a cash flow from financing activities (without reporting any cash inflow from financing activities), the outcome is that there has been a non-cash change in liabilities arising from financing activities. Such a non-cash change may not be apparent to users of financial statements without the disclosure highlighted by the proposed amendments to paragraph 44B.

Costs to comply with the disclosure requirements

BC17 Paragraphs BC13–BC14 explain the benefits of the disclosure objective and related requirements set out in the proposed amendments to IAS 7.

BC18 The Board expects that the information to be disclosed in accordance with proposed paragraphs 44H(a), 44H(b)(i), 44H(b)(iii) and 44H(c) is already readily available to entities and, consequently, application of the proposed requirements would not result in significant costs for entities affected.

BC19 For some supplier finance arrangements, entities do not currently obtain the information that would be disclosed in accordance with proposed paragraph 44H(b)(ii) (the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers). However, the Board expects that:

(a) finance providers would generally be able to make this information available to a buyer that engages the finance providers' services—if the information is currently not provided, it could be made available to a buyer before the effective date of any final amendments. Although for some arrangements there may be restrictions on the information finance providers could provide, such restrictions would be unlikely to prevent the finance providers from providing the information on an aggregated and anonymised basis. The Board also expects that, to the extent finance providers act as a paying agent on the entity's behalf (and the entity continues to present the related liabilities as trade and other payables), the entity would be able to obtain this information from its paying agent.

(b) the benefit of the information for users of financial statements would outweigh the costs. Paragraph BC14 sets out the benefit of this information within the package of proposed disclosure requirements. Feedback from users of financial statements emphasised the importance of transparency about supplier finance arrangements—and, in particular, about the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers—to help analyse the amount and nature of an entity's debt and consequential effects on operating and financing cash flows.

Classification and presentation in the statements of financial position and cash flows

BC20 The Board considered whether to add requirements to IAS 1 *Presentation of Financial Statements* to help assess whether the nature of financial liabilities within the scope of the proposed requirements is similar to, or dissimilar from, that of trade payables (which is part of an entity's working capital) or other financial liabilities. The Board also considered adding requirements to IAS 7 to clarify how to identify when a cash flow has occurred (for example, to help assess when a finance provider acts as a paying agent on an entity's behalf). The Board is of the view that a project on the classification and presentation of liabilities in the statement of financial position or on the occurrence and classification of cash flows in the statement of cash flows would need to consider a wider range of liabilities and cash flows than only those related to supplier finance arrangements (as described in these proposals). The Board, therefore, decided not to address classification and presentation in the statements of financial position and cash flows as part of this project.

Proposed amendments to IFRS 7

BC21 The Agenda Decision (see paragraph BC2) notes that reverse factoring arrangements often give rise to liquidity risk. By entering into such an arrangement, an entity typically has concentrated a portion of its liabilities with one or a few finance providers (rather than a diverse group of suppliers). Consequently, should the arrangement be withdrawn during times of stress (which finance providers can typically do at short notice), that withdrawal could increase pressure on an entity's cash flows and affect its ability to settle liabilities when they are due. A supplier may also be able or inclined to renegotiate payment terms with its customer (the entity) during times of stress, whereas finance providers—subject to capital requirements—may not be able or inclined to be as flexible.

BC22 Users of financial statements need information to help them assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk and risk management. The liquidity risk disclosure requirements in IFRS 7—which apply to recognised and unrecognised financial instruments—are already comprehensive, and the Board is of the view that there is no need to add to them as part of this project. Nonetheless, the Board decided to add supplier finance arrangements as an example within the liquidity risk disclosure requirements in IFRS 7 to highlight the importance of providing liquidity risk information about these arrangements.

Transition

Entities already applying IFRS Standards

BC23 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to initially apply an IFRS Standard (or amendments to it) retrospectively, except to the extent it is impracticable to do so.

BC24 The Board decided that entities be required to apply the proposed amendments retrospectively in accordance with IAS 8. The benefits of requiring entities, on transition, to provide comparative information as if the amendments had always been applied would outweigh the costs because:

(a) the comparative information would help users of financial statements identify and assess changes and trends in the effects of supplier finance arrangements on an entity's liabilities and cash flows, and on its exposure to liquidity risk; and

(b) the costs of obtaining the information are not expected to be excessive.

First-time adopters

BC25 The Board concluded that, because of the disclosure-only nature of the amendments, there is no reason to provide an exemption for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*).

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