

Supplier Finance Arrangements: Tier 2 Disclosures

Comments to the AASB by 5 February 2024



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 5 February 2024.

Formal submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) 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@aaasb.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.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Why we are making these proposals

In June 2023, the AASB issued AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*. That Standard amends AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements.

The additional information will enable users of financial statements to assess how supplier finance arrangements affect an entity's liabilities, cash flows and exposure to liquidity risk. The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.

When developing AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, the Board considered that users of the financial statements of Tier 2 entities were particularly interested in information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements. As the amendments to AASB 107 and AASB 7 will result in additional information about an entity's cash flows, liquidity and solvency, the Board decided to propose the same amendments to AASB 1060 to require those disclosures in the financial statements of Tier 2 entities.

What we are proposing

This Exposure Draft proposes amendments to AASB 1060 to require a Tier 2 entity to disclose in aggregate the following:

- (a) the terms and conditions of the arrangements;
- (b) as at the beginning and end of the reporting period;
 - (i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement;
 - (ii) the carrying amounts, and associated line items, of the 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, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If the ranges of payment due dates are wide, an entity would disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges); and
- (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

Application date

It is proposed the amendments would apply to annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024, with earlier application permitted.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 5 February 2024. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

- 1 Do you agree with the proposed amendments to AASB 1060? If you disagree, please explain why.
- 2 Do you have any other comments on the proposals?

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 3 Have the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?
- 4 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 5 Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
- 6 Would the proposals result overall in financial statements that are useful to users?
- 7 Are the proposals in the best interests of the Australian economy?
- 8 Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative, and are they appropriate relative to the existing requirements? 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.

Contents

PREFACE

**[DRAFT] ACCOUNTING STANDARD
AASB 2024-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – SUPPLIER FINANCE
ARRANGEMENTS: TIER 2 DISCLOSURES**

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures* is set out in paragraphs 1–6. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2024-X

This [draft] Standard makes amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main features of this Standard

Main requirements

AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements* (June 2023) amended AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to introduce the requirement for an entity to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.

This Standard amends AASB 1060 to require a Tier 2 entity to include in its financial statements the same disclosures that AASB 2023-1 requires in the financial statements of Tier 1 entities. Accordingly, Tier 2 entities will be required to disclose the terms and conditions of supplier finance arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.

Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2024 that end on or after 30 June 2024], with earlier application permitted.

[Draft] Accounting Standard AASB 2024-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2024-X *Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures*

Objective

- 1 This Standard amends AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) to require a Tier 2 entity to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities, cash flows and exposure to liquidity risk.
- 2 These amendments reflect the issuance of AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*, which amended AASB 107 *Statement of Cash Flows* (August 2015) and AASB 7 *Financial Instruments: Disclosures* (August 2015), and extend the disclosure requirements to Tier 2 entities.

Application

- 3 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1060 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 4 This Standard applies to annual periods beginning on or after ... [1 January 2024 that end on or after 30 June 2024]. Earlier application is permitted.

Amendments to AASB 1060

- 5 Paragraphs 119A-119D and a related heading are added.

Supplier finance arrangements

- 119A An entity shall disclose information about its supplier finance arrangements (as described in paragraph 119B) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.
- 119B Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements 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. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.
- 119C To meet the objectives in paragraph 119A, an entity shall disclose in aggregate for its supplier finance arrangements:

- (a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions;
- (b) as at the beginning and end of the reporting period:
 - (i) the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement;
 - (ii) the carrying amounts, and associated line items, of the 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, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges); and
- (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 86).

119D In applying paragraphs 119A-119C, an entity is not required to disclose:

- (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those requirements; and
- (b) the information otherwise required by paragraph 119C(b)(ii)-(iii) as at the beginning of the annual reporting period in which the entity first applies those requirements.

Commencement of the legislative instrument

6 For legal purposes, this legislative instrument commences on ... [29 June 2024].

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2024-X Amendments to Australian Accounting Standards – Supplier Finance Arrangements: Tier 2 Disclosures.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in the Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. Individual Board members gave greater weight to some factors than to others.

Background

Tier 1 amendments

- BC2 In June 2023, the AASB issued AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*. The Standard amends AASB 107 *Statement of Cash Flows* and AASB 7 *Financial Instruments: Disclosures* to require an entity to provide additional disclosures about its supplier finance arrangements.
- BC3 The additional information will enable users of financial statements to assess how supplier finance arrangements affect an entity’s liabilities, cash flows and exposure to liquidity risk. The amendments require an entity to disclose the terms and conditions of the arrangements, the carrying amount of the liabilities that are part of the arrangements, the carrying amounts of those liabilities for which the suppliers have already received payment from the finance providers, the range of payment due dates and the effect of non-cash changes.
- BC4 These amendments arose from the issuance of International Financial Reporting Standard *Supplier Finance Arrangements* (Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*) by the International Accounting Standards Board (IASB) in May 2023.

Relevance of the amendments to AASB 1060

- BC5 The AASB *For-Profit Entity Standard-Setting Framework* and the AASB *Not-For-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board for considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards.
- BC6 The standard-setting frameworks first consider whether the amendments introduce a significant recognition and measurement difference between full IFRS Standards and the *IFRS for SMEs* Standard. If they don’t, the standard-setting frameworks state that no further action is required unless:
- (a) the disclosures address a matter of public policy;
 - (b) the disclosures are of particular relevance in the Australian environment; or
 - (c) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.
- BC7 The Board noted that the disclosure requirements were added to IFRS Standards to address users’ needs for information relating to an entity’s liquidity position and cash flow. The feedback from Australian users reinforced the need for these disclosures.
- BC8 Although the Board has not received any feedback on whether these disclosures are of similar importance to users of Tier 2 financial statements, the Board considered the principles used to determine whether to add disclosures to AASB 1060 when developing the Standard. The Board considered that information about short-term cash flows and obligations, commitments or contingencies, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregation of amounts presented in the financial statements would be of particular importance to the users of financial statements.
- BC9 At its October 2023 meeting, the Board decided to issue an Exposure Draft proposing amendments to AASB 1060 to require Tier 2 entities to disclose information relating to their supplier finance arrangements. The amendments would require a Tier 2 entity to include in its financial statements the same disclosures that

AASB 2023-1 requires in the financial statements of Tier 1 entities. The disclosures would provide additional information about the cash flows, liquidity and solvency of Tier 2 entities.

Effective date

BC10 The Board proposes that the amendments should be made effective for annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024, with earlier application permitted. This would be consistent with the effective date of AASB 2023-1 for most entities.