Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Supplier finance arrangements**	**Meeting:**	AASB February 2022 (M185)
Topic:	**Summary of stakeholder feedback on AASB ED 317**	**Agenda Item:**	12.2
		Date:	**7 February 2022**
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		Decision-Making:	High
		Project Status:	Comment letter drafting

Summary of stakeholder feedback

1 This paper summarises the feedback from outreach activities on the matters raised in IASB ED/2021/10 *Supplier Finance Arrangements* (AASB ED 317).

2 Staff conducted the following outreach activities to gather views from stakeholders:

(a) 4 November 2021 – User Advisory Committee (UAC). Six UAC members provided feedback to AASB staff;

(b) 16 December 2021 – AASB Disclosure Initiative Project Advisory Panel (DIPAP) outreach. Four DIPAP members provided feedback to AASB staff;

(c) 13 January 2022 – Australian Institute of Company Directors (AICD) meeting. One AICD representative provided feedback to AASB staff;

(d) 3 February 2022 – AASB staff attended a joint meeting arranged by CAANZ and CPA Australia to obtain the views of their members. Three members provided feedback on the exposure draft; and

(e) Other targeted consultations. One preparer provided feedback to AASB staff.

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.

3 The wording of the proposed paragraph 44G is:

> *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.*

4 Two stakeholders [preparers] thought the scope should be clarified for supplier-initiated financing arrangements and intermediary (three-party) platforms where the company or the supplier might have initiated the transaction (e.g. the entity has an intermediary platform in place and the supplier may choose to use it to receive the payment earlier or to wait for the standard payment from the entity).

5 A stakeholder [preparer] asked how the scope might impact arrangements within a public-private partnership (PPP) if the consortium had supplier payment arrangements with a financing component. For example, if such an arrangement fell within scope, this might require a consortium member to collect information they do not have and cannot access.

6 A stakeholder [regulator] thought the proposals would not apply in the previous case if financiers weren't paying the suppliers directly.

7 A stakeholder [preparer] did not think the proposals would add value because, in most cases, entities use supplier finance to simplify their payments to international suppliers, and little changes other than the payable to a supplier becomes payable to a finance provider. Although the proposed disclosures could be useful where an entity uses SCF to match their supplier payments to inventory turnover. The main issue is that SCF is not clearly defined so it is unclear what is and is not captured.

8 A stakeholder [regulator] said they agreed with the IFRS Interpretations Committee agenda decision but wasn't certain whether supply chain finance transactions are very common in Australia. This is due to perceptions of oppressing suppliers (when that may not be the case) and the Greensill situation. They thought that much of this was due to the government's desire for suppliers to be paid earlier.

9 A stakeholder [professional body] said the proposed amendments may be better as guidance as they do not favour more rules within standards and questioned whether this could lead to more rules in other standards.

10 A stakeholder [preparer] held no strong view but agreed the principles-based approach to explaining the type of transactions seems reasonable.

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.

Question 2—Disclosure objective and disclosure requirements
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.

11 A stakeholder [user] said that, overall, the proposals are good, especially the quantitative information. However, they suggested entities should also specify where the payments sit in the statement of cash flows (whether in operating or in financing) in the note to avoid manipulation. Concerning the quantitative disclosures, paragraph 44H(b)(i) is a must, paragraph 44H(b)(ii) is nice to have, and paragraphs 44H(iii) and 44H(c) are interesting.

12 A stakeholder [user] said the disclosures seemed useful, particularly whether an entity had used the arrangement to delay its payment terms and for how much. They also wanted to be able to identify any shift between operating and financing cash flows due to SCF arrangements in the statement of cash flows. Alternatively, the cash outflow should always be an operating cash outflow.

13 A stakeholder [user] clarified that it would be distortive if an entity shifted material payments from operating cash flows to financing cash flows.

14 A stakeholder [user] said disclosing the carrying amount of amounts that are part of the arrangement [in conjunction with payment terms] sufficiently shows the changes in the timing

of cash payments. In addition, they wanted to understand changes to the classification of cash flows within a period.

15 A stakeholder [user] agreed they wanted to understand changes to the classification of cash flows within a period and said this information should be in the reconciliation of financing cash flows (para. 44B – see Question 3). They also suggested that, if material, this information should be included as a separate line item in the statement of cash flows.

16 A stakeholder [user] said it is important to understand changes [over time] in the quantum of such arrangements for forecasting purposes. In addition, if the finance provider takes any additional collateralisation, it should be disclosed.

17 There was discussion [by users] around whether paragraph 44H(b)(ii) meets their objectives but no one had a view.

18 Two stakeholders [preparers] observed that, if supplier-initiated financing arrangements and some arrangements between consortium members in a PPP were within the scope of paragraph 44G (see Question 1), they would likely not have access to the information about the carrying amount of liabilities for which suppliers have already received payment (para. 44H(b)(ii)).

19 Two stakeholders [preparers] raised the difficulty of obtaining the information for paragraph 44H(b)(ii) in three-way arrangements where the finance company in the role of intermediary provides a platform linking the company and the supplier.

20 One stakeholder [preparer] said there is a lot of focus on whether suppliers have received payment or not (para. 44H(b)(ii)) and was not sure whether this information was useful to users.

21 A stakeholder [regulator] questioned whether the proposed amendments meet the objectives, for example, for amounts already paid to suppliers (para. 44H(b)(ii)).

22 A stakeholder [preparer] said paragraph 44H(b)(ii) seemed reasonable if the company had an obligation to suppliers.

23 Three stakeholders [preparers] noted that the way paragraphs 44H(b)(iii) and 44H(c) are worded sounds as though it is asking for the range of payment due dates, although the disclosure example provided by the IASB is of payment terms. One stakeholder agreed with this disclosure only if it means payment terms, as this is the critical information required for a user to understand the arrangement.

24 A stakeholder [preparer] observed that the wording of paragraph 44H(c) might capture all accounts payable, although this is largely already required by the paid-on-time legislation.

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

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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.

25 Five stakeholders [users] 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. Two of the users supported the inclusion of material cash payments made under SCF arrangements as a separate line item in the statement of cash flows and one suggested the location within the CFS could be disclosed in the note.

26 A stakeholder [regulator] questioned whether the proposed amendments meet the objectives, as the priority should to identify and give visibility over cash flows that are affected by the arrangements.

27 One stakeholder [preparer] agreed with the proposal to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities.