



<b>Project:</b>	<b>Supplier Finance Arrangements</b>	<b>Meeting:</b>	October 2023 (M199)
<b>Topic:</b>	<b>Supplier Finance Arrangements and Lack of Exchangeability Tier 2 Disclosures</b>	<b>Agenda Item:</b>	4.1
		<b>Date:</b>	25 September 2023
<b>Contact(s):</b>	Helena Simkova <a href="mailto:hsimkova@asb.gov.au">hsimkova@asb.gov.au</a>	<b>Project Priority:</b>	Medium
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Decide on changes

## Objective of this paper

- 1 The objective of this paper is for the Board to decide whether AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* should be amended to include the following:
  - (a) additional disclosure requirements related to supplier finance arrangements, which have recently been added to AASB 7 *Financial Instruments: Disclosures*; and
  - (b) amendments to disclosure requirements of IAS 21 *Lack of Exchangeability*.

## Supplier finance arrangements – Amendments to AASB 7

### Background

- 2 At the June meeting, the Board approved issuing [AASB 2023-1 Amendments to Australian Accounting Standards – Supplier Finance Arrangements](#), which amended AASB 7 and AASB 107 *Statement of Cash Flows* to require additional disclosures about entity’s supplier finance arrangements.
- 3 Specifically, the standard requires an 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.
    - (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).

- (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.

- 4 An entity is not required to disclose comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments. The information in paragraph 3(b) is not required as at the beginning of the annual reporting period in the year when the standard is applied.
- 5 The amendments are effective from 1 January 2024 with early application permitted.

### Staff analysis

- 6 As the amendments add additional disclosures to IFRS Standards, the Board needs to consider whether similar amendments are required in AASB 1060 applied by Tier 2 entities.
- 7 The AASB [For-Profit Entity Standard-Setting Framework](#) and AASB [Not-For-Profit Entity Standard Setting Framework](#) outline the Board's approach when considering amendments to AASB 1060 following amendments made by the IASB to full IFRS Standards.
- 8 In determining the Board's approach, 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 the disclosures address a matter of public policy, the disclosures are of particular relevance in the Australian environment, or the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.<sup>1</sup>
- 9 The supplier finance arrangements disclosures were added to IFRS Standards to address users' needs for information relating to entity's liquidity position and cash flow. The feedback from Australian users reinforced the need for these disclosures.
- 10 Although staff have not received any feedback on whether these disclosures are of similar importance to users of Tier 2 financial statements, staff considered the principles that AASB used to determine, whether to add disclosures to AASB 1060 when developing the standard.<sup>2</sup> These principles were based on the view that users of the financial statements of Tier 2 entities are particularly interested in information about:
  - (a) short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities;
  - (b) liquidity and solvency;
  - (c) measurement uncertainties;
  - (d) accounting policy choices; and
  - (e) disaggregation of amounts presented in the financial statements.

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<sup>1</sup> See paragraph 56 of the For-Profit Entity Standard-Setting Framework and paragraph 43 of the Not-for-Profit Entity Standard-Setting Framework.

<sup>2</sup> See paragraph 53 of the For-Profit Entity Standard-Setting Framework and paragraph 40 of the Not-for-Profit Entity Standard-Setting Framework.

- 11 Staff noted, that the disclosures would provide additional information about the cash flows, liquidity and solvency and might therefore be of particular importance to users.
- 12 Therefore, staff suggest the Board issues an Exposure Draft proposing adding supplier finance arrangements disclosure requirements to AASB 1060. Staff also suggest including the transitional relief.

**Questions for Board members**

- Q1. Do Board members have any questions or comments?
- Q2. Do Board members agree with the staff recommendation in paragraph 12? If not, what do Board members suggest?

- 13 Subject to the Board agreement, staff suggest the following timeline:

Staff to draft Exposure Draft proposing amendments to AASB 1060 to add additional disclosure requirements for supplier finance arrangements.	By 30 November 2023
Staff to finalise the Exposure Draft out of session via the Chair and publish the Exposure Draft	30 November 2023
Comments on the Exposure Draft due	14 January 2024 (45 days comment period)
Staff to analyse any feedback received and discuss with the Board	March 2024
Staff to finalise and issue the amending Standard after incorporating any feedback from the stakeholders/Board	March/April 2024

- 14 Staff suggest that the amending standard applies to annual periods beginning on or after 1 January 2024 that end on or after 30 June 2024 to avoid retrospective application and to align as closely as possible to the amendments made by the AASB in AASB 2023-1.

**Questions for Board members**

- Q3. Do Board members agree with the proposed timeline? If not, what do Board members suggest?
- Q4. Do Board members agree with the proposed effective date? If not, what do Board members suggest?

**Lack of exchangeability – Amendments to IAS 21**

**Background**

- 15 In August 2023 the IASB issued the Amendments to IAS 21 *Lack of Exchangeability*. The amendments require companies to provide more useful information in their financial statements when a currency cannot be exchanged into another currency.
- 16 Paragraph 57A of IAS 21 requires the entity to disclose information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects its financial performance. The entity shall disclose:
  - (a) the nature and financial effects of the currency not being exchangeable into the other currency;

- (b) the spot exchange rate(s) used;
- (c) the estimation process; and
- (d) the risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

*Staff analysis*

- 17 Considering the principles in paragraph 8, the staff concluded that the disclosures do not address a matter of public policy, are not of particular relevance in the Australian environment, neither clarify or reduce existing disclosure requirements in full IFRS Standards.
- 18 In addition, staff assume that the amendments to IAS 21 may not be applicable to Tier 2 entities in Australia.

*Staff recommendation*

- 19 Staff do not consider any amendments to AASB 1060 to include additional disclosures relating to lack of exchangeability are required.

**Questions for Board members**

- Q5. Do Board members have any questions or comments?
- Q6. Do Board members agree with the staff recommendation in paragraph 19? If not, what do Board members suggest?