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Supplier finance arrangements – IASB proposes additional disclosure requirements

What you need to know

- In an agenda decision issued in December 2020, the IFRS IC concluded that IFRS Standards provide an adequate basis to determine the presentation of liabilities and the associated cash flows in supplier finance arrangements.
- In an Exposure Draft published in November 2021, the IASB proposes to introduce new disclosure requirements to enhance the transparency of such arrangements and their effects on an entity's' liabilities and cash flows.
- Comments are due by 28 March 2022.

Highlights

On 26 November 2021, the International Accounting Standards Board (the IASB or the Board) published IFRS Standards Exposure Draft ED/2021/10 Supplier Finance Arrangements (the ED) in which it proposes amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures.

In the proposed amendments, instead of defining the scope of the proposed disclosure requirements, the Board explains the scope by listing supply chain finance, payables finance and reverse factoring arrangements as examples of supplier finance arrangements (proposed paragraph 44G).

The ED was initiated as a result of the December 2020 agenda decision (the AD) by the IFRS Interpretations Committee (the IFRS IC or Committee) addressing the presentation of liabilities and the associated cash flows arising out of supplier finance arrangements, as well as disclosures required for such arrangements. In the process, the IFRS IC and the Board acknowledged that user information needs may not be met by the current requirements.

The current requirements

In the AD, the IFRS IC noted that IFRS 7 requires disclosures to enable users to evaluate the nature and extent of risks, including liquidity risk, arising from financial instruments. It also acknowledges that liquidity risk may arise from entering into supplier finance arrangements as a result of liabilities being concentrated with one financial institution rather than with a diverse group of suppliers. Furthermore, an entity may become reliant on the extended payment terms of such arrangements, which, if an arrangement is subsequently withdrawn, may lead to an inability to settle liabilities when they are due to the suppliers.

IAS 7 requires “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”. The Committee noted that such disclosures are required for liabilities that are part of supplier finance arrangements if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities.

The IFRS IC highlighted that an entity would need to apply judgement to determine whether additional disclosures are required to ensure that the effects of supplier finance arrangements are adequately disclosed, and observed that, under IAS 1 Presentation of Financial Statements:

- Assessing how to present liabilities and cash flows related to supplier finance arrangements may involve judgement which will require certain disclosures

  And

- Supplier finance arrangements may have a material effect on an entity’s financial statements, and an entity should provide information to the extent that it is relevant to an understanding of its financial statements

The proposals

The proposals in the ED are intended to complement the current requirements, and to assist users in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows, liquidity risk and risk management.

IAS 7 requires disclosure of both cash and non-cash changes in liabilities arising from financing activities. The ED proposes that the standard should explicitly require disclosure of “non-cash changes arising from supplier finance arrangements (...), for example, when future cash outflows will be classified as cash flows from financing activities”, in order to enable users to evaluate the changes in liabilities as a result of financing activities (proposed paragraph 44B(da)).

Potentially more pervasive is the proposed requirement to provide information about the impact of supplier finance arrangements on liabilities and cash flows (proposed paragraphs 44F-44H), including:

- Terms and conditions
- Carrying amount of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented
- Carrying amount of supplier finance arrangement financial liabilities for which the associated trade payable is already settled by the finance provider
- The range of payment due dates of supplier finance arrangement financial liabilities
- The range of payment due dates of trade payables not part of supplier finance arrangements

These disclosures are to be made individually for each supplier finance arrangement, unless the terms and conditions of two or more arrangements are similar. In that case, aggregated disclosures across arrangements may be appropriate (proposed paragraph 44I). Furthermore, additional disclosures are required if necessary to enable users to assess the impact of the arrangements on the entity’s liabilities and cash flows.

The proposals in the ED are intended to complement the current requirements, and to assist users in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows, liquidity risk and risk management.

In the context of quantitative liquidity risk disclosures in IFRS 7, supplier finance arrangements are proposed as an example of other factors that may be relevant to disclose, as well as the impact of supplier finance arrangements on payment terms (proposed paragraph B11F(a)). Furthermore, a supplier finance arrangement is added as an example of a way in which an entity may concentrate financial liabilities originally owed to a number of suppliers with one or a few finance providers (proposed paragraph IG18).

Next steps

The ED is available for public comment until 28 March 2022.

How we see it

The proposals introduce specific disclosure requirements regarding supplier finance arrangements that have become a more prevalent source of financing in many sectors in recent years. Adding minimum disclosure requirements on specific types of arrangements may appear onerous. However, both the disclosure objectives proposed and the general materiality threshold in IFRS should be acknowledged when evaluating the proposed requirements. Preparers, auditors, regulators, users and other stakeholders should carefully evaluate whether the proposed amendments in the ED are an appropriate response to the concerns raised, and whether they will be effective in enhancing the transparency of financial statements. We encourage stakeholders to share feedback with the IASB by the comment deadline.

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ED None