



IASB ED/2021/10 Supplier Finance Arrangements

Feedback to respondents – EFRAG Final Comment Letter

April 2022

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FR Board or EFRAG FR TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IASB Exposure Draft ED/2021/10 *Supplier Finance Arrangements* (‘the ED’) on 29 March 2022. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how these comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter (‘FCL’).

Background to the ED

The IASB published its ED in November 2021. The ED proposed disclosure requirements for supplier finance arrangements (‘SFA’) in order to enhance the transparency of reporting for such arrangements by complementing the already existing requirements in IFRS Standards.

The ED’s comment period ended on 28 March 2022. Further details are available on the IASB [website](#).

EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 18 January 2022. The draft comment letter (‘DCL’) was open for comments until 9 March 2022.

In the DCL, EFRAG broadly supported the IASB’s proposals on this project which would increase conformity with current disclosure requirements in IFRS Standards. However, EFRAG considered that the project did not completely address the wider issue of providing necessary transparency on liquidity risk and leverage of reporting entities’ working capital. Therefore, EFRAG anticipated that further efforts were needed in terms of reporting of SFA in the primary financial statements and encouraged the IASB to consider possible improvements related to these arrangements in the future in other cross-related projects.

Outreach activities

Following the publication of its DCL, EFRAG organised six outreach activities on the IASB’s proposals, including:

- Closed consultation with Accountancy Europe on 8 February 2022;

- EFRAG FR TEG – EFRAG CFSS meeting – public meeting with representatives of European standard setters on 17 February 2022;
- Closed consultation with EFRAG User Panel and Credit rating agencies on 17 February 2022;
- Closed consultation with Credit rating agency S&P Global on 24 February 2022;
- Closed consultation with European Securities and Markets Authority (ESMA) on 3 March 2022;
- Online questionnaire on the IASB’s proposals on scope of supplier finance arrangements – deadline for completion 9 March 2022; and
- Written consultation with the EFRAG FIWG - deadline for comments 14 March 2022.

Comments received from respondents

EFRAG received and considered nine comment letters from respondents. These comment letters are available on the EFRAG [website](#). A list of respondents is provided in the Appendix.

The comment letters received came from national standard setters, business association, user organisation, preparer organisation and EU authorities.

EFRAG’s final comment letter

EFRAG submitted its FCL to the IASB on 29 March 2022.

In general, EFRAG retained the initial position in its DCL to support the proposals on SFA, however, acknowledged that the project does not sufficiently address the wider issue of providing necessary transparency on liquidity risk and working capital leverage of entities.

Furthermore, EFRAG strengthened its views to reflect the feedback received from outreach activities and comment letters received in the following areas:

Scope of disclosure requirements

- EFRAG supports a narrow-scope project to develop specific disclosure requirements for SFA that provide relevant information to users of financial statements.
- EFRAG recommends the IASB elevate paragraph BC8 of the ED to become part of the proposed amendments. This will strengthen the description of SFA in paragraph 44G of the ED by clarifying that both SFA providing early payment terms to suppliers and SFA providing extending credit terms to buyers are within the scope of the project. Furthermore, EFRAG suggests that the IASB clearly state that receivable financing arrangements in which the reporting entity is not involved are not part of the proposed scope.
- EFRAG acknowledges that there might be other similar arrangements related to working capital and liquidity risk management for which there is a lack of disclosures. EFRAG anticipates that further efforts are needed in terms of reporting of such arrangements within a comprehensive project on SFA in the future.

Disclosure objective and disclosure requirements

- EFRAG supports the IASB proposals to add an overall disclosure objective and specific disclosure requirements in IAS 7 *Statement of Cash Flows* to help users of financial statements assess the effects of SFA on an entity’s liabilities and cash flows. EFRAG further suggests the disclosure objective to be expanded to include also the effects on an entity’s financial performance.

- EFRAG recommends the IASB consider additional improvements to the proposed disclosure requirements as explained in paragraph 18 of the EFRAG FCL.

Examples added to disclosure requirements

- EFRAG agrees with the IASB proposal to add an example within the liquidity risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.
- EFRAG observes that the concentration of liquidity risk may vary and recommends the IASB consider adding an explicit proposal that would require disclosure of concentration of risk to specific supplier finance provider(s) instead of SFA in general.
- EFRAG also agrees with the IASB proposal to add SFA as an example in paragraph 44B of IAS 7. EFRAG suggests the IASB include a cross-reference between paragraph 44F and paragraph 44B(da) of the ED as non-cash information is key for understanding changes in the statement of cash flows.

Detailed analysis of issues, comments received and changes made to EFRAG’s final comment letter

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

Scope of disclosure requirements

Proposals in the ED

Paragraph 44G of the ED described the type of arrangements to be included within the project’s scope, instead of proposing detailed definitions for SFA. The ED explained that a SFA 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 on the same date as, or a date later, than suppliers are paid.

EFRAG’s tentative position

EFRAG agreed with the IASB’s proposed scope, which focused on SFA. However, EFRAG recommended that the IASB remind entities about already existing disclosure requirements that apply to some types of financing arrangements and that the materiality principle in IAS 1 *Presentation of Financial Statements* is the overarching one for entities to consider when deciding what information would be relevant for users of financial statements.

EFRAG also supported the proposal to explain the characteristics of the types of arrangements included in the project scope. Furthermore, EFRAG considered that the IASB should strengthen that description by clarifying that both SFA providing early payment terms to suppliers and SFA providing extending credit terms to buyers are within the scope of the project.

EFRAG’s final position

After considering the feedback received, EFRAG decided to address the concerns raised by its constituents on the description of SFA by asking the IASB to elevate the guidance in paragraph BC8 of the ED to paragraph 44G of the ED to clarify that all arrangements providing early payment terms to suppliers and arrangements providing extending credit terms to buyers should be within the scope of the project.

EFRAG acknowledged that conceptually different types of arrangements had different characteristics and might affect an entity in different ways. However, it was noted that distinguishing between these arrangements would be difficult in practice as it required judgement and could lead to structuring opportunities. Furthermore, there were benefits to provide disclosures about all types of SFA because there could be concentration of liquidity risk to one finance provider or a supplier providing extended credit terms as a result of the underlying arrangement. Consequently, EFRAG supported the narrow scope of the project as proposed by the IASB.

EFRAG also considered that the IASB should clearly state that receivable financing arrangements in which the reporting entity is not involved are not part of the proposed scope in order to avoid interpretation difficulties.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

EFRAG’s response to respondents’ comments

Respondents’ comments

There was general support for the ED’s proposal to describe rather than define SFA as it would capture a wider range of arrangements.

In addition, respondents made the following comments:

- arrangements that did not extend the reporting entity’s credit and payment terms; when there was no derecognition of a trade payable combined with the recognition of a financial liability or a concentration in terms of liquidity risk, should not be included within the project’s scope;
- it was not clear why some specific arrangements (i.e. receivable or inventory financing arrangements) were explicitly scoped out;
- to provide guidance on whether arrangements initiated by the supplier were intended to be within the project scope;
- there were also lack of transparent disclosures for other types of financing arrangements related to entities’ working capital;
- all arrangements providing finance should be adequately considered when defining new disclosure requirements and the IASB should closely monitor reporting of these arrangements and consider developing similarly robust disclosures at a future date.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Disclosure objective and disclosure requirements

Proposals in the ED

The ED proposed amendments to IAS 7 to add:

- *an overall disclosure objective* to help users of financial statements understand the nature, timing, and uncertainty of cash flows arising from SFA; and
- *specific disclosure requirements* for SFA to provide qualitative and quantitative information that helps users of financial statements determine the effects of these arrangements on an entity’s financial position and cash flows.

EFRAG’s tentative position

EFRAG supported the IASB’s proposal to add an overall disclosure objective and specific disclosure requirements in IAS 7. EFRAG further suggested that the disclosure objective is expanded to also include the effects of those arrangements on an entity’s liquidity risk. In its DCL, EFRAG recommended further improvements to the IASB’s proposed disclosure requirements with respect to these arrangements.

Respondents’ comments

Almost all respondents supported the IASB’s proposal to add an overall disclosure objective. Many respondents suggested that the proposed disclosure objective should be expanded to include the effects on an entity’s liquidity risk and financial performance.

Respondents made the following comments on the proposed specific disclosure requirements:

EFRAG’s response to respondents’ comments

EFRAG’s final position

Based on the feedback received, EFRAG continued to support the IASB’s proposal to add an overall disclosure objective and specific disclosure requirements in IAS 7, to suggest that the disclosure objective is expanded to also include the effects of those arrangements on an entity’s liquidity risk and added to include effects on financial performance.

EFRAG supported the proposed improvements by constituents to specific disclosure requirements and modified the EFRAG FCL accordingly. EFRAG acknowledged the benefits of the proposed specific disclosure requirements and recommended based on the feedback received that the IASB consider further improvements.

EFRAG agreed with respondents’ comments that providing detailed disclosures on the terms and conditions of each SFA could be burdensome and conflict with confidentiality terms of some agreements. Thus, EFRAG recommended requiring disclosures of the ‘*relevant terms and conditions of supplier finance arrangements*’.

EFRAG also concurred with respondents’ concerns that it would be difficult to provide and verify disclosures about the carrying amounts of financial liabilities that were part of a SFA for which suppliers have already received payment from finance providers. Disclosing such information might be costly to provide or carry sensitive information.

EFRAG observed that having a wide range of payment due dates was not very helpful to establish the extended credit provided under these arrangements. It would be more useful to provide the weighted average

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

- *terms and conditions* - asked the IASB to clarify what was the right level of disclosures and to require disclosure of the ‘relevant’ terms and conditions of each SFA;
- *payments received by suppliers from finance providers* – concerns were expressed about the availability and auditability of such information, and whether it contained sensitive information;
- *range of payment due dates* - it could be more useful to provide the weighted average payment terms;
- *level of aggregation* - wide support for EFRAG’s suggested approach to provide aggregated information first and only require disaggregation when this would result in relevant information; and
- *impact on cash flows* - to provide information about changes in the period relating to the liabilities under SFA and their impact on cash flows; and to help users quantify the credit extended by these arrangements.

EFRAG’s response to respondents’ comments

payment terms which showed the outstanding amount of liabilities for which the entity obtained an extension in payment days.

There was general agreement that the level of aggregation as proposed in paragraph 44I of the ED was not the appropriate starting level for such disclosure. Therefore, the view taken in the EFRAG DCL to provide aggregated information first and only require disaggregation when this would result in relevant information was retained.

EFRAG supported respondents’ views that providing information to enable users to understand cash flows arising from SFA was crucial and the IASB should consider mandating quantitative indicators such as: changes in the period of the liabilities under SFA and identification of their impact on cash flows; changes to cash flows resulting from these arrangements; and weighted average payment terms, to help users quantify the extended credit by these arrangements.

EFRAG’s tentative views expressed in the draft comment letter and respondents’ comments

Examples added to disclosure requirements

Proposals in the ED

The ED proposed the addition of SFA as an example within the requirements to disclose information about changes in liabilities arising from financing activities in IAS 7 and about an entity’s exposure to liquidity risk in IFRS 7.

EFRAG’s tentative position

EFRAG agreed with the IASB proposal to add SFA as an example in paragraph 44B of IAS 7 and within the liquidity risk disclosure requirements in IFRS 7. EFRAG recommended that the IASB consider adding an explicit proposal that would require disclosure of concentration of risk to specific supplier finance provider(s) instead of SFA in general. EFRAG makes further suggestions of how to improve the proposed disclosure requirements.

Respondents’ comments

Almost all respondents agreed with the IASB’s proposals to add SFA as an example to certain existing disclosure requirements in IAS 7 and IFRS 7.

Most respondents acknowledged that addressing how to present cash flows arising from SFA in the statement of cash flows was crucial. However, they considered that preserving the conceptual function of the statement of cash flows was important and generally supported having disclosure about non-cash changes arising from these arrangements.

Users were interested to know the effect of SFA on an entity’s profitability in addition to liquidity risk.

EFRAG’s response to respondents’ comments

EFRAG’s final position

EFRAG considered the views of respondents in arriving at the position expressed in the EFRAG FCL.

No changes were suggested to the views expressed in the EFRAG DCL.

Appendix: List of respondents

Table 1: List of respondents

Name of respondent¹	Country	Type / Category
The Dutch Accounting Standards Board (DASB)	The Netherlands	National Standard Setter
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
The European Securities and Markets Authority (ESMA)	Europe	Regulator
The Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
The European Federation of Financial Analysts Societies (EFFAS)	Europe	User organisation
Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Professional organisation
BUSINESSEUROPE	Europe	Preparer organisation
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation

¹ Respondents whose comment letters were considered by the EFRAG FR Board before finalisation of the EFRAG FCL.