

EFRAG Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

28 March 2022

Dear Mr Barckow,

Re: Exposure Draft Supplier Finance Arrangements

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft ED/2021/10 *Supplier Finance Arrangements*, issued by the IASB on 26 November 2021 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the IASB's ED *Supplier Finance Arrangements*. Considering the increased usage of such arrangements by European companies and the investors' demand for more detailed information, this ED will enhance the transparency and support investors to analyse and understand the effects of such arrangements on an entity's liabilities and cash flows which are not always obvious to users of financial statements.

EFRAG supports the IASB's project to timely enhance the transparency of reporting for supplier finance arrangements (i.e., to focus on the proposed disclosures as set out in the ED) and increase conformity with existing disclosure requirements in IFRS Standards. EFRAG observes that the IASB's approach to this topic tends to be rather rules-based. EFRAG notes that rather than complementing the current requirements (IFRS 7, IAS 7, IAS 1), the proposals in this ED should be seen as providing application guidance to them, when dealing with supplier finance arrangements.

EFRAG considers that the project does not completely address the wider issue of providing necessary transparency on liquidity risk and how entities leverage their working capital to effectively obtain finance. This includes presentation and classification in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general. At a later stage, EFRAG anticipates that further efforts are needed in terms of reporting of such arrangements in the primary financial statements and encourages the IASB to consider possible improvements related to supplier finance arrangements in the future. EFRAG makes further suggestions on how to improve the reporting of supplier finance arrangements in Appendix 2.

Project scope

EFRAG supports a narrow-scope project to develop specific disclosure requirements for supplier finance arrangements that provide relevant information to users of financial statements. However, EFRAG recommends that the IASB elevate paragraph BC8 of the ED to become part of the proposed amendments. This will strengthen the description of supplier finance arrangements in paragraph 44G of the ED by clarifying that both supplier finance arrangements providing early payment terms to suppliers and supplier finance

arrangements providing extending credit terms to buyers are within the scope of the project.

Finally, 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 (e.g., supplier inventory financing, receivables financing). EFRAG notes that such arrangements are increasingly used in practice and should be closely monitored by the IASB. EFRAG anticipates that further efforts are needed in terms of reporting of such arrangements and that the IASB should take the opportunity to consider whether further clarifications or improvements could be done within a comprehensive project on supplier finance arrangements 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 to help users of financial statements assess the effects of supplier finance arrangements on an entity's liabilities and cash flows. EFRAG further suggests that the disclosure objective is expanded to also include the effects of those arrangements on an entity's liquidity risk and financial performance.

EFRAG also considers that providing a comprehensive package of disclosures that includes all disclosures related to supplier finance arrangements would be helpful to users. Additionally, EFRAG recommends that the IASB consider additional improvements to the proposed disclosure requirements as explained in paragraph 19 of Appendix 1.

Examples added to disclosure requirements

EFRAG agrees with the IASB proposal to add an example within the liquidity risk disclosure requirements in IFRS 7. This proposed disclosure will emphasise that such information is relevant for users to better assess the effects of supplier finance arrangements on an entity's exposure to liquidity risk and its risk management.

However, EFRAG observes that the concentration of liquidity risk may vary and recommends that the IASB consider adding an explicit proposal that would require disclosure of concentration of risk to specific supplier finance provider(s) instead of supplier finance arrangements in general.

EFRAG also agrees with the IASB proposal to add supplier finance arrangements as an example in paragraph 44B of IAS 7. This disclosure will emphasise that such disclosures are relevant for users to obtain better information about changes in liabilities arising from financing activities under supplier finance arrangements.

EFRAG suggests that 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.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix 1.

If you would like to discuss our comments further, please do not hesitate to contact Ioana Kiss or me.

Yours sincerely,



Jean-Paul Gauzès
President of the EFRAG Board

Appendix 1 - EFRAG's responses to the questions raised in the ED

Question 1 – Scope of disclosure requirements

Question 1

The proposed amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the proposed amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in the Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the IASB's proposals.

Paragraphs BC5–BC11 of the Basis for Conclusions explain the IASB'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.

EFRAG's response

- 1 EFRAG supports a narrow-scope project to develop specific disclosure requirements for supplier finance arrangements that provide relevant information to users of financial statements, focus the attention of preparers and auditors and facilitate enforcement by regulators. However, EFRAG observes that the IASB's approach to this topic tends to be rather rules-based and notes that considering a more principle-based approach would benefit the improvements.
- 2 EFRAG considers that the proposed disclosure requirements will result in increased conformity with existing IFRS Standards. The IASB notes, in paragraph BC4 of the ED, that the proposed new disclosure requirements complement the current requirements in IFRS Standards. EFRAG considers that rather than complementing the current requirements (IFRS 7, IAS 7, IAS 1), the proposals in this ED should be seen as providing application guidance to them, when dealing with supplier finance arrangements (e.g., to provide guidance to entities regarding disclosures of their accounting policies and other information considering the overarching materiality principle when deciding what information would be relevant for users of financial statements). In this respect, EFRAG suggests that the IASB consider elevating the last sentence in paragraph BC11 of the ED to form part of the main text of the Amendments as well as to refer to the requirements of IAS 1.
- 3 Additionally, EFRAG notes that there is a risk of a possible narrow interpretation of the scope of IFRS 7. While EFRAG agrees that liabilities under supplier finance arrangements are in the scope of IFRS 7 requirements, it also notes that such liabilities do not originate from the financing operations of an entity and, as such, some may understand that they are not necessarily in scope of IFRS 7 disclosure requirements.

Types of SFA

- 4 EFRAG agrees with the project scope to focus on supplier finance arrangements. Such arrangements are increasingly used in practice, and they can significantly affect an entity's ability to settle its liabilities when they become due. EFRAG supports the scope as it effectively addresses the issue treated by the agenda decision [Supply Chain Financing Arrangements – Reverse Factoring](#) that was published in December 2020.
- 5 EFRAG acknowledges that some of the arrangements identified by the IASB in paragraph BC8 of the Basis for Conclusions do not extend the reporting entity's

payment terms or its liquidity risk. Providing disclosures about such arrangements might not be always useful as users are focused on information about extended credit terms and exposure to liquidity risk. Nonetheless, EFRAG highlights that setting the right dividing line between arrangements that extend payment terms from those that do not would be a challenge, entail judgement and possibly lead to structuring opportunities. In addition, there may be situations where disclosures are still useful under paragraph BC8(a) of the Basis for Conclusions. For example, when an entity concentrates in one finance provider a significant portion of its financial liabilities originally owed to many suppliers or when suppliers are asked to extend the standard payment terms because there is an early payment facility. This is because, in these situations the entity is exposed to a concentration of liquidity risk.

- 6 When considering the approach to define the scope and the inclusions of arrangements that do not necessarily impact the entity's liquidity risk, EFRAG notes that the focus of the disclosure is on enabling the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows: paragraph 44F provides in this respect a clear disclosure objective.
- 7 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 (e.g., supplier inventory financing, receivables financing). EFRAG notes that such arrangements are increasingly used in practice and should be closely monitored by the IASB. However, EFRAG agrees with the IASB's argument that widening the scope of the project to a broader range of financing arrangements related to an entity's working capital may delay the project. EFRAG also anticipates that further efforts are needed in terms of reporting of such arrangements and the IASB should take the opportunity to consider whether further clarifications or improvements could be done within a comprehensive project on working capital and liquidity management in the future (please see Appendix 2 *Further recommendations on working capital and liquidity management*).

Description of SFA

- 8 EFRAG agrees with the IASB proposal to explain the type of arrangements to be included in the project's scope. EFRAG considers that the IASB's approach to describe the characteristics of supplier finance arrangements rather than define them would have the benefits to:
 - (a) eliminate the potential risk for the possible definition becoming outdated, and
 - (b) reduce any structuring opportunities related to drafting contracts between an entity and its supplier(s), and finance provider(s).
- 9 EFRAG suggests that the IASB elevate paragraph BC8 of the ED to become part of the proposed amendments to IAS 7. This will strengthen the description of supplier finance arrangements in paragraph 44G of the ED and clarify that both supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extending credit terms to buyers are within the scope of the project.
- 10 Furthermore, EFRAG suggests that the IASB clearly states that receivable financing arrangements in which the reporting entity is not affected are not part of the proposed scope.
- 11 Notwithstanding its support for this project and the observations above, EFRAG considers that the project does not completely address the wider issue of providing necessary transparency on liquidity risk and how entities leverage their working capital to effectively derive finance. This includes presentation, classification and labelling in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general. Appendix 2 provides additional

suggestions to the IASB of how to holistically approach the reporting for working capital and liquidity management.

Question 2 – Disclosure objective and disclosure requirements

Question 2

Paragraph 44F of the proposed 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.

To meet that objective, paragraph 44H of the proposed 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 IASB'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.

EFRAG's response

Disclosure objective

- 12 In general, EFRAG is supportive of the direction of the project to improve disclosure requirements related to supplier finance arrangements.
- 13 EFRAG agrees to add an overall disclosure objective in IAS 7 to help users of financial statements understand the effects of supplier finance arrangements on an entity's liabilities and cash flows. Furthermore, EFRAG suggests that the overall disclosure objective in paragraph 44F of the ED be expanded to also include the effects of those arrangements on an entity's liquidity risk and its financial performance.
- 14 EFRAG notes that the proposed disclosures provide a timely improvement towards a more transparent reporting for supplier finance arrangements. However, based on feedback from outreach activities on the project, future efforts are needed to address also classification and presentation of those arrangements in the statement of financial position and in the statement of cash flows. Appendix 2 to this letter illustrates the issues that arise with those statements.
- 15 EFRAG considers that providing a comprehensive package of disclosures that includes all disclosures related to supplier finance arrangements (including

integrating those mentioned in the IFRS IC agenda decision) would be useful. For example, disclosing management's decision and judgements on how to present liabilities and cash flows related to reverse factoring (i.e., why management considers that the recognised liability is akin to trade payable or to short-term debt) or including specific references related to supplier finance arrangements on when to present separately a financial liability.

Specific disclosure requirements in IAS 7

- 16 EFRAG supports the proposed specific disclosure requirements in IAS 7 as such disclosures will enable users to better understand an entity's financial position and performance and show its level of debt resulting from such arrangements.
- 17 In addition, EFRAG highlights the importance of distinct disclosures related to supplier finance arrangements such as ensuring that entities use consistent terminology when describing their supplier finance arrangements accounting policy (e.g., reverse factoring, supply chain factoring, supply chain financing, early payment scheme, supplier payment scheme, etc).
- 18 EFRAG acknowledges that the IASB proposals on improving disclosures related to supplier finance arrangements will result in the following benefits for users of financial statements:
 - (a) *explicit disclosure of supplier finance arrangements* - requiring information about the terms and conditions of each supplier finance arrangement would result in entities explicitly disclosing those arrangements with finance provider(s). Currently, the usage of such arrangements in practice is increasing, however, entities do not always reflect them in their disclosures and accounting policies;
 - (b) *size and location of liabilities* - disclosing the carrying amount of an entity's liabilities that are part of supplier finance arrangements and the line item(s) in which they are presented in the statement of financial position will give an indication to users about the size and location of liabilities being part of such arrangements;
 - (c) *entity's level of debt* – disclosing the carrying amount of liabilities that are part of supplier finance arrangements together with the carrying amount of these liabilities for which suppliers have already received payment from the finance provider(s) will be helpful to users to analyse an entity's level of debt and its effects on the operating and financing cash flows;
 - (d) *impact on days payable and cash flows* – disclosing the range of payment due dates of both financial liabilities that are part of each arrangement and trade payables that are not, will enable users to assess the extent to which operating cash flows improve as a result of the increased use of supplier finance arrangements by the entity;
 - (e) *usage of extended payment terms* – disclosing the carrying amount of financial liabilities for which suppliers have already received payment from the finance provider(s) would provide information about the extent to which the entity has used extended payment terms or its suppliers have used early payment terms. Users would be able to assess an entity's exposure to liquidity risk if the arrangements were no longer available;
 - (f) *trend analysis* – requiring information at the beginning and end of each reporting period would help users identify any changes and trends in the usage of supplier finance arrangements and their effects on an entity's liabilities and cash flows.
- 19 However, EFRAG recommends that the IASB consider further improvements to the proposed specific disclosure requirements, in particular:

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- (a) *basis for preparation of the statement of cash flows*: as currently the project on supplier finance arrangements does not address the accounting for these arrangements in the statement of cash flows, EFRAG encourages the IASB to put emphasis on requiring disclosures that would enable users to understand cash flows arising from supplier finance arrangements and their impact on the entity's liquidity;
- (b) *impact on cash flows* – to provide information to enable users to understand cash flows arising from supplier finance arrangements. The IASB shall consider mandating quantitative indicators such as: changes in the period to the liabilities under supplier finance arrangements and identification of their impact on cash flows; changes to cash flows resulting from these arrangements; weighted average payment terms, to help users quantify the credit extended by these arrangements;
- (c) to clarify the linkage between the definition of trade payables in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the proposed disclosures which relate to financing arrangements;
- (d) *terms and conditions of the arrangement* – requiring entities to disclose the terms and conditions of each supplier finance arrangement could be burdensome, not necessarily relevant and conflict with confidentiality agreements. EFRAG suggests that the IASB consider amending this requirement to require disclosure of the 'relevant' terms and conditions of each supplier finance arrangement. In addition, the IASB should also ensure that paragraph 44H reflects, when describing the terms and conditions, the entire arrangement, including any significant changes in terms and conditions with suppliers (for example, any significant changes to the standard payment terms and prices with suppliers resulting from a supplier finance arrangement);
- (e) *accounting policy disclosures* – in paragraph 18(a) EFRAG notes that entities do not always reflect their accounting policies with respect to supplier finance arrangements. EFRAG observes that the ED's proposals do not refer or provide guidance to entities regarding disclosure of their accounting policies about supplier finance arrangements in addition to general requirement in IAS 1 for entities to disclose material accounting policies. EFRAG encourages the IASB to consider whether such disclosure should be established. Furthermore, to consider whether it is useful to explain when and why the liability is classified as a trade receivable or short-term debt. That is, an entity should disclose which terms and conditions lead to the classification as operating (i.e., trade payables) or financing (i.e., other financing liabilities);
- (f) to clarify whether the range of payment due dates in accordance with paragraph 44H(b)(iii) of the ED refer to payment due date to the finance provider or payment due date to the supplier. This is particularly important considering that supplier finance arrangements can be structured in different ways as explained in paragraph BC8 of the ED;
- (g) to amend paragraph 44H(a) of the ED to highlight that the materiality principle and the usefulness of information are the leading ones when reporting for supplier finance arrangements (i.e., to replace 'the terms and conditions of each supplier finance arrangement' with 'the *relevant* terms and conditions of supplier finance arrangements');
- (h) to clarify the usage of the term 'financial liability' when applied to supplier finance arrangements. In particular, whether liabilities disclosed under such arrangements have to be presented as financial liabilities in the statement of financial position;

- (i) to consider elevating the explanation in paragraph BC19 of the ED into the proposed amendments of IAS 7 in order to clarify that to the extent finance providers act as a paying agent on the entity's behalf the entity would be able to obtain this information from its paying agent.
- 20 EFRAG observes that information about the carrying amounts of financial liabilities that are part of a supplier finance arrangement for which suppliers have already received payment from finance providers might not be available to entities in all cases or require incurring additional costs. EFRAG further notes that such information might be sensitive or regulated. Consequently, EFRAG recommends IASB amend the proposed disclosure requirement in paragraph 44H(b)(ii) to only require such disclosure when information is available without due costs and efforts.

Level of aggregation

- 21 EFRAG notes that paragraph 44I of the ED permits aggregation of information about different supplier finance arrangements only when their terms and conditions are similar. EFRAG considers that this disclosure requirement lacks clarity and might result in providing excessive detail. Following consultation, constituents alternatively supported requiring entities to disclose aggregated information (when terms and conditions are similar) and require disaggregation at the level of a single arrangement when it is necessary in order to provide relevant information. The disaggregation requirements should in particular aim to make extended payment terms transparent and to address liquidity risks.

Question 3 – Examples added to disclosure requirements

Question 3

Paragraph 44B of the proposed amendments to IAS 7 and paragraphs B11F and IG18 of the proposed amendments to IFRS 7 propose to add supplier finance arrangements as an example within the 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 IASB'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.

EFRAG's response

Liquidity risk

- 22 EFRAG agrees with the IASB proposal to add an example within the liquidity risk disclosure requirements in IFRS 7 to highlight the importance of providing liquidity risk information about supplier finance arrangements. This will enable users to better assess the effect of such arrangements on an entity's exposure to liquidity risk and their risk management.
- 23 EFRAG highlights the importance of having disclosures on liquidity risks related to the fact that an entity concentrates part of its liabilities on a single finance provider (rather than a diverse group of suppliers) and that an entity (or its suppliers) has become reliant to extended payment terms (or early payment) provided by the arrangement.
- 24 However, EFRAG observes that the concentration of liquidity risk varies depending on whether an entity has established supplier finance arrangements with only one finance provider or with a few different finance providers. Thus, if the arrangement is withdrawn, the entity could find itself in a significantly different liquidity position

based on how it diversifies its exposure to liquidity risk arising from different supplier finance arrangements with different finance providers. Therefore, EFRAG recommends that the IASB consider adding an explicit proposal that would require disclosure of concentration of risk to specific supplier finance provider(s) instead of supplier finance arrangements in general.

Changes in liabilities arising from financing activities

- 25 When an entity does not report any operating cash flows, the effects of supplier finance arrangements on its cash flows may not be apparent to users of financial statements and obscure the reported information about such arrangements. Therefore, EFRAG is of the view that adding a disclosure in paragraph 44B of IAS 7 about changes in an entity's operating and financing cash flows is fundamental for users to understand the effects of such arrangements on an entity's cash flows.
- 26 However, EFRAG is concerned that in situations when a corporate entity does not report any operating cash flows related to payments to suppliers under supplier finance arrangements, the entity would significantly improve its operating cash flow metrics, which will result in an unusual outcome in the statement of cash flows.
- 27 The IASB should clarify whether gross cash flows may exist if, for example, the financial institution acts as an entity's paying agent in a reverse factoring arrangement (including whether it would be an accounting policy). Nonetheless, the IASB should consider making 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.

Appendix 2 – Further recommendations on arrangements related to working capital and liquidity management

- 28 EFRAG supports the proposals included in the IASB's Exposure Draft ED/2021/10 *Supplier Finance Arrangements* and encourages the IASB to complete the project in a timely manner.
- 29 In general, the project will promote conformity with existing requirements, thus increasing the transparency of reporting for these arrangements and provide users with useful information about their effects on an entity's financial statements allowing for equal comparisons across entities.
- 30 This project is a step forward in addressing the issues highlighted by EFRAG in its comment letter on the IASB's project *Primary Financial Statements*. The IFRS IC's agenda decision and the IASB's project on supplier finance arrangements are likely to improve significantly the reporting of financial information about these arrangements in the future.
- 31 Nonetheless, EFRAG notes that entities will have to apply different IFRS Standards and an IFRS IC's agenda decision when accounting for and providing disclosures on supplier finance arrangements (i.e., multiple paragraphs in IFRS 7, IFRS 9, IAS 1, IAS 7 and IFRS IC's agenda decision). EFRAG highlights the importance of helping management to apply the requirements of different IFRS Standards related to classification, presentation and disclosures of such arrangements.
- 32 EFRAG constructively supports the IASB's current project to timely enhance the transparency of reporting of supplier finance arrangements (i.e., to focus the project on the proposed disclosures as detailed in the ED). This will ensure that users will receive the information they need for supplier finance arrangements in a timely manner.
- 33 However, EFRAG considers that the project relates to the wider issue of presentation and classification in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general. At a later stage, EFRAG anticipates that further efforts are needed in terms of reporting of such arrangements and the IASB should take the opportunity to:
- (a) consider whether further clarifications or improvements could be done within a comprehensive project on SFA . In particular, a project that would consider improvements that could help users easily assess the true level of borrowing from financial creditors (including net debt) and consider other similar arrangements related to working capital and liquidity risk management for which there is a lack of disclosures (e.g., supplier inventory financing, receivables financing) as such arrangements are increasingly used in practice;
 - (b) provide further application guidance, illustrative examples or implementation guidance on the requirements of IFRS 9 *Financial Instruments* for supplier finance arrangements in the principle-agent area and derecognition requirements for liabilities that become part of such arrangements;
 - (c) consider the need for a holistic review of how current disclosure requirements address the increased interest in liquidity risk and how entities leverage their working capital effectively when financing their activities;
 - (d) perform outreach on whether the proposed amendments to IFRS 7 satisfy users' information needs on liquidity risk; and
 - (e) consider a research project on IAS 7 to address the relevance of the statement of cash flows when reporting for SFA (e.g. improving disclosures on non-cash transactions and providing guidance on determining whether a cash flow

existed, specifically, whether and when a finance provider could be considered as a paying agent of the entity).

- 34 EFRAG notes that transparency about supplier finance arrangements could be achieved not only by establishing a disclosure objective but also by more comprehensive appropriate presentation, accompanied by adequate disclosures.
- 35 EFRAG recommends that the IASB further consider the consistency of reporting for supplier finance arrangements across different primary financial statements (statement of financial position, statement of financial performance and statement of cash flows). More details about further improvements related to reporting of supplier finance arrangements are included in the sections below.
- 36 Finally, EFRAG observes that the ED's proposed disclosure requirements rather provide application guidance on how to apply requirements of existing IFRS Standards (i.e., IAS 1, IAS 7, IFRS 7, IFRS 9) to supplier finance arrangements. EFRAG notes that the IASB's narrow-scope project might confuse preparers that such disclosures are not required for other types of financing arrangements related to managing of an entity's working capital.

Statement of financial position

- 37 EFRAG is of the view that there is still a need for standard-setting activity in the area of classification and presentation of supplier finance arrangements to better address the specificities of such arrangements. This could be addressed in separate related projects.
- 38 In the agenda decision issued by the IFRS IC, it is clarified when an entity should present liabilities that are part of a reverse factoring arrangement as part of trade payables and when it should be presented separately. EFRAG observes that having a clear dividing line between trade payables and financial debt would be useful, however, it would be highly judgemental and difficult to achieve. Therefore, EFRAG suggests providing some indicators that would help entities determine the classification and presentation of liabilities in the statement of financial position under such arrangements. Possible indications that could be considered are: which entity initiates the agreement, which entity bears the interest expense for the bank's intermediation in the arrangement, what is the usual maturity of liabilities under supplier finance arrangements etc.
- 39 On presentation, EFRAG also considers that more guidance is needed to help management assess the presentation for liabilities when becoming part of supplier finance arrangements. For example, it may be useful to develop indicators of when a liability represents borrowings of the entity, and consequently can no longer be classified as trade payables (e.g., an entity obtains extended credit from the finance provider, the financial institution legally novates the payable, the financial institution is not simply a paying agent, etc).
- 40 It is important to provide guidance not only on separate presentation but also proper labelling on the face of the financial statements (e.g., use of 'trade payables', 'other creditors', 'borrowings', 'short-term debt' or 'financial debt'). It is helpful for users that entities are required to provide better information on what trade payables will be paid under these arrangements and when (i.e., provide information similar to the maturity analysis disclosures for financial debt).
- 41 EFRAG recalls that a UK construction business in 2018 that received a lot of attention in the UK presented these liabilities separately as 'other creditors' (i.e., separately from trade payables), which was much criticised as it was not presented as part of financial debt, and consequently not reflecting such amounts in debt to earnings ratio, covenants and cash conversion ratios. This seems to be recognised

by the IFRS IC when discussing the statement of cash flows, which refers to 'borrowings of the entity', but not when discussing the statement of financial position.

- 42 Users have also raised the issue of splitting the amount because classifying the entire payable as a loan payable would overstate the entity's borrowings.
- 43 EFRAG also observes that the diversity in presentation of liabilities under supplier finance arrangements as trade payables or as financial debt is also a result of different legal frameworks that exist in various jurisdictions. For example, some jurisdictions do not allow the reclassification from operating to financing category.
- 44 EFRAG suggests that the IASB consider the possibility of presenting separately liabilities that arise from supplier finance arrangements. For example, a separate line item could appear when there is a change to the usual characteristics of a 'trade payable' but this change is not sufficient to justify reclassification to financial liability.

Statement of financial performance

- 45 EFRAG highlights that there is the question of how the income and expenses that arise from reverse factoring should be presented in the statement of profit or loss (e.g., as part of finance costs), particularly when considering the IASB proposals in its project *Primary Financial Statements*. For example, in its Exposure Draft *General Presentation and Disclosures*, the IASB concluded that any income and expenses from trade payables on extended credit terms should be presented in the financing category in the statement of financial performance. This raises the question of whether any income and expense from a reverse factoring arrangement where an entity obtains extended credit from the finance provider should also be considered as part of financing category.
- 46 Under some supplier finance arrangements, the entity settles invoices on the due date negotiated with its suppliers, but suppliers can choose to be paid earlier than the invoice due date by the finance provider, at a discount. In this case, EFRAG highlights the importance of clarifying the presentation of income and expenses that arise from such arrangements.

Statement of cash flows

- 47 EFRAG considers that the linkage between the statement of financial position and the statement of cash flows is important and should be preserved. Therefore, a gross presentation of cash inflows and outflows under supplier finance arrangements in the statement of cash flows could be useful when there is a principle-agent case.
- 48 Additionally, EFRAG recommends that the IASB clarify how cash flows under supplier finance arrangements should be presented in the statement of cash flows, in particular, under paragraph BC8(a) and (b) of the ED and in light of the EFRAG's suggestion made in paragraph 9 of the EFRAG DCL.
- 49 Finally, EFRAG suggests that the IASB consider a research project on IAS 7 to address the relevance of the statement of cash flows when reporting for SFA. For example, that the IASB considers improving disclosures on non-cash transactions and providing guidance on determining whether a cash flow existed, specifically, whether and when a finance provider could be considered as a paying agent of the entity.

Implementation

- 50 If retrospective information is required, the IASB should provide a sufficient implementation period for preparers as some of the information may be difficult to obtain, particularly the aggregate amounts proposed above.
- 51 However, the implementation period for the project should not be significantly extended as current diversity in practice would continue to be present. Following the

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publication of the IFRS IC's agenda decision in December 2020, entities had sufficient time to adjust their reporting for supplier finance arrangements, however, no significant changes in reporting were observed.