



Need to know

IASB amends IAS 7 and IFRS 7 to address supplier finance arrangements

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This *Need to know* outlines the amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* titled *Supplier Finance Arrangements*, published by the International Accounting Standards Board (IASB) in May 2023.

- The IASB amends IAS 7 to require entities to provide qualitative and quantitative information about its supplier finance arrangements
- The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information
- In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk
- The amendments are effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted. This is subject to endorsement for use in the UK—see below
- The amendments contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments

Background

In December 2020, the IFRS Interpretations Committee published an agenda decision on supply chain financing arrangements which explains the requirements in IFRS Accounting Standards that apply to such arrangements. Feedback on the draft agenda decision suggested that the information an entity is required to provide about this form of financing falls short of meeting user information needs. The IASB considered this feedback and decided to address the issue by amending IAS 7 and IFRS 7.

The amendments

Amendments to IAS 7

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and the entity's exposure to liquidity risk.

For more information please
see the following websites:

www.ukaccountingplus.co.uk
www.deloitte.co.uk

Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements 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.

Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used to settle directly with a supplier the amounts owed (for example, credit cards) are **not** supplier finance arrangements.

To meet the disclosure objective set out above, an entity is required to disclose in aggregate for its supplier finance arrangements:

- (a) The terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity is required to disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions
- (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 is required to 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

Observation

Some respondents to the 2021 *Supplier Finance Arrangements* Exposure Draft (ED) informed the IASB that the information necessary to disclose the carrying amounts, and associated line items, of financial liabilities that are part of supplier finance arrangements for which suppliers have already received payment from finance providers might not be readily available.

Other stakeholders, particularly users of financial statements, informed the IASB that without this disclosure, the information provided would be incomplete and would fail to satisfy user information needs.

The IASB evaluated the costs and benefits for preparers and users of financial statements and concluded that the benefits of requiring disclosure of this information outweigh the costs.

Amendments to IFRS 7

Under the existing Application Guidance in IFRS 7, an entity is required to disclose a description of how it manages the liquidity risk resulting from financial liabilities. The amendments include as an additional factor whether the entity has accessed, or has access to, supplier finance arrangements that provide the entity with extended payment terms or the entity's suppliers with early payment terms.

In the Guidance on implementing IFRS 7, the amendments add that concentrations of liquidity risk and market risk may arise from supplier finance arrangements resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers.

Effective date and transition

An entity is required to apply the amendments to IAS 7 for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies the amendments for an earlier period, it is required to disclose that fact.

In applying the amendments, 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 the amendments
- The information otherwise required under (b)(ii)-(iii) above as at the beginning of the annual reporting period in which the entity first applies those amendments
- The information otherwise required by the amendments to IAS 7 for any interim period presented within the annual reporting period in which the entity first applies those amendments

An entity is required to apply the amendments to IFRS 7 when it applies the amendments to IAS 7.

Observation

The IASB did not change any disclosure requirements applicable to an entity's interim financial reports on an ongoing basis; an entity applies the requirements in IAS 34 *Interim Financial Reporting*.

Application in the UK

The amendments are not yet endorsed for use in the UK. Given IAS 7 and IFRS 7 did not include specific disclosure requirements for supplier finance arrangements before the amendments, entities are permitted to report consistent with the new requirements as an accounting policy choice without endorsement. However, this would require full retrospective application in accordance with IAS 8. The transitional provisions of the amendments cannot be applied until the amendment has been endorsed.

Further information

If you have any questions about the amendments to IAS 7 and IFRS 7, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

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