

24 March 2022

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

Dear Dr Barckow,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the International Accounting Standards Board (IASB) Exposure Draft (ED) ED/2021/10 *Supplier Finance Arrangements*. In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 27 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comment. In responding to the ED, AOSSG members have provided their responses to the questions in the ED as described in Appendix of this submission.

#### Scope of disclosure requirements

AOSSG members generally agreed with the IASB's approach to describing the characteristics of a Supplier Finance Arrangements (SFA) that are within the scope of the proposals instead of defining an SFA. However, most of the responding AOSSG members considered that the characteristics of an SFA as stated in paragraph 44G of the ED may not be sufficiently clear for some circumstances and may lead to inconsistency in application and reduce comparability of financial information amongst entities.

As such, these AOSSG members request that further clarification is needed.

### Disclosure objectives and disclosure requirements

AOSSG members that have responded generally agreed that the proposed disclosure requirements will provide useful information to the users. However, some members suggested that:

- The information about financial liabilities for which suppliers have already received payment (paragraph 44H(b)(ii)) may not be readily available and may lead to auditability issues. Some members also questioned usefulness of this disclosure.
- Disclosures about the range of payment due dates of trade payables that are not part of an SFA overlap with the disclosure requirements in paragraph 39 of IFRS 7.

### Examples added to disclosure requirements

AOSSG members that have responded generally agree with the proposals of adding illustrative examples in IAS 7 and IFRS 7 which will enhance comparability and usefulness of the information. Some AOSSG members suggested to clarify that the disclosures required in respect of non-cash changes (paragraph 44B(da)) relate to financing as well as operating activities. In addition, it may be useful to disclose information about the material payments under an SFA either as a separate line item in the statement of cash flows or a note.

Some AOSSG members suggested more clarification is required for the disclosure regarding concentration of liquidity risk as the reporting entity may not be able to identify the ultimate finance providers in such case.

The Appendix to this submission provides detailed comments by the respective AOSSG members on the questions in the ED.

If you have any questions regarding this submission, please contact either one of us.

Yours sincerely,



Nishan Fernando  
Chair of the AOSSG



Dr Keith Kendall  
Member of the AOSSG Presentation and  
Disclosure Working Group

## Appendix – Comments from AOSSG members

IASB Request for comments – Exposure Draft ED/2021/10 *Supplier Finance Arrangements*

### Questions for respondents

#### Question 1—Scope of disclosure requirements

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

Paragraphs BC5 – BC11 of the Basic for Conclusion explain the Board’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.**

#### [Australia]

We support the IASB’s proposal to describe the characteristics of a supplier finance arrangement in the scope paragraph. However, our stakeholders think the wording of the proposed scope could be challenging to apply in different circumstances, leading to inconsistent application and requests for guidance. For example, the scope should recognise that supplier finance arrangements may be between a buyer and an intermediary, who may or may not be a finance provider. In addition, the intermediary may facilitate funding through multiple finance providers. It should also be clarified that the finance provider is a third-party and not the financing entity of a group, joint venture, or consortium, or similar.

#### [China]

Generally, we support the Board’s proposal for the requirements of describing the characteristics of supplier finance arrangements rather than defining them. However, for the characteristics proposed in the ED, we suggest that the Board further clarify the scope and amend characteristics of supplier finance arrangements described in the ED based on the information needs and the substance of supplier finance arrangements. If necessary, we suggest the Board make detailed explanation in the basis of the conclusion to avoid diverse understandings and accounting practices. Specific suggestions to this question are as follows:

- (i) We recommend the Board considering add **“the buyer proactively participates in the establishment or the design of the supplier financing arrangements”** as a characteristic of supplier finance arrangements in paragraph 44G of the [Draft] Amendments to IAS 7, and revise the related descriptions in paragraph BC8 of the [Draft] Amendments to IAS 7. In practice, there might be situations where the supplier dominantly directs a transaction to factoring receivables from finance provider, as described in paragraph BC8, and the buyer does not directly or proactively participate in this arrangement, or the buyer only passively participate in the supplier finance arrangement only for the changing of repayment account. This kind of supplier finance arrangements shorten the collection period of suppliers thus may have the characteristics of supplier finance arrangements as described in the ED. However, we are of the view that these supplier finance arrangements do not have the substance of providing finance to buyers.
- Furthermore, as the buyers only passively participate in such supplier finance arrangements, it is difficult for the buyers to collect and disclose such information and there are also significant concerns on the auditability of related information. We also believe that the supplier finance arrangement dominated by the suppliers have different intention, characteristics of credit risk and concentration risk with the supplier finance arrangements dominated by the buyers. Therefore, we recommend the Board including **“the buyer proactively participates in the establishment or the design of the supplier financing arrangements”** as a characteristic in paragraph 44G of the [Draft] Amendments to IAS 7 to exclude the arrangements that the buyers only passively participate in the arrangements from the scope of this ED.
- (ii) We recommend the Board clarifying in the characteristics of the supplier finance arrangement that the buyer has obtained or potential benefits through this financing arrangement, and further considering the appropriateness of the characteristic of supplier finance arrangements where the buyers make repayment to the finance provider at the same date when the finance provider provide finance to the supplier. Paragraph 44G of the [Draft] Amendments to IAS 7 stated that “A supplier finance arrangement is characterized by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at the same date as, or a date later than, suppliers are paid”. When the buyer’s payment to the finance provider and the finance provider’s payment to the supplier are made on the same day, the buyer does not get an extended payment terms and even the supplier gets early payment terms, the buyer does not get any benefit from this arrangement, which is not in line with the intention the Board develop this ED.
- (iii) It is recommended that the Board should further clarify and deliberate the description of the characteristic of "the entity agreeing to pay the finance providers", so as to avoid the

inconsistent disclosure among the identical or similar transactions. Paragraph 44G of the [Draft] Amendments to IAS 7 describes one characteristic of the supplier finance arrangement as "the entity agreeing to pay the finance providers". In practice, there may be a structured "cash flows pass through" arrangement when the supplier transfers receivables to a finance provider agreeing that the buyer makes payments firstly to the supplier then the supplier transfers the cash received to the finance provider to avoid meeting the characteristic of "the entity agreeing to pay the finance providers", even though such arrangement may have the substance of supplier finance arrangement.

### [Hong Kong]

1. The HKICPA and its respondents agreed with the IASB's approach to describing the characteristics of Supplier Finance Arrangements (SFA) that are within the scope of the proposals instead of defining SFA for the reason stated in paragraph BC6 of the ED. However, most of the respondents considered that the characteristics of SFA as stated in paragraph 44G of the ED may not be sufficiently clear in certain situations.
2. Paragraph BC8(a) of the ED mentions that an arrangement whereby the reporting entity (the buyer) settles the invoices on their contractual due dates with the finance providers, but suppliers can choose to be paid earlier by the finance providers at a discount also falls into the scope of SFA. We consider that the substance of BC8(a) (i.e. the suppliers receiving early payment at a discount) could be similar to the following common financing arrangements, and so question whether these arrangements are within the scope of the ED.
  - a) A supplier accepts a commercial bill issued by the reporting entity (the buyer) as settlement of the amount outstanding. The supplier may discount the bill with a bank and the buyer may or may not be involved in the discounting arrangement. A question arises as to whether and when such an arrangement would fall within the scope of SFA for the reporting entity. For example, does it depend on:
    - i) whether the buyer or the supplier initiated the discounting *framework* arrangement?
    - ii) whether the buyer was involved in negotiating the *granular details* of each discounting arrangement?
    - iii) the extent of involvement/cooperation between the buyer and the bank that accepts the bills for discounting?
  - b) Bank acceptance bills (BABs) are issued by a bank to the reporting entity (the buyer) which is then used by the buyer to settle the amount owing to a supplier. The supplier can choose to discount the BAB with the issuing or other bank earlier than the invoice due date, similar to the situation described in BC8(a) of the ED.

As the issue of BABs involves cooperation between the buyer and the bank, a question arises as to whether trade payables that are subject to BAB arrangements fall within the scope of SFA.

- c) Equitable v. legal assignments. In certain equitable assignments, the suppliers would receive early payment from the finance providers but the buyers are not involved in and may not even know about the suppliers' financing arrangements. The following questions/concerns were raised by our respondents:
  - i) As stated in paragraph 44G of the ED, one of the characteristics of SFA is that "the entity *agrees* to pay the finance providers". This seems to imply that equitable assignments of receivables may not fall within the scope of the ED. Our respondents questioned whether it is the IASB's intention that only legal assignment of receivables (i.e. where there are tripartite agreements) would fall under the scope of the ED.
  - ii) If equitable assignments were to fall into the scope of the ED, then entities (the buyers) would have practical difficulties in obtaining and providing the information proposed in the ED, e.g. the disclosure of concentration risk as the reporting entity may not be in a position to know whether the financial liabilities under the SFA have been further assigned. Even if they could do so, there is a significant concern on the auditability of the related information.
3. We are concerned that if the characteristics of SFA are not clear, there would be a risk of inconsistent application of the proposals which would in turn reduce the comparability of financial information among entities.
4. A respondent noted that one of the major differences between reverse factoring and traditional factoring (where the supplier factors the receivable to a finance provider) is that reverse factoring is normally initiated by the buyer, not the supplier. Therefore, to address the questions raised in paragraph 2 above, this respondent suggested that the IASB consider adding this characteristic explicitly in paragraph 44G of the ED if this is the intention of the IASB.
5. In light of the above, the HKICPA strongly recommends the IASB:
  - a) provide a clear principle of what constitutes an SFA. This would include the factors for consideration, e.g. the nature, timing and extent of involvement of the reporting entity in the arrangement, and an explanation of the key features of an SFA;
  - b) test the characteristics of an SFA to ensure that they cover the arrangements that the IASB intends to cover; and
  - c) provide illustrative examples that (i) fall within; and (ii) do not fall within the scope of the ED with reference to the examples in paragraph 2 above.

**[Indonesia]**

We agree with the Board's proposal on the scope of disclosure requirements since it will provide more information to users of financial statements about supplier finance arrangement.

**[Korea]**

We agree with the proposal. There are various and continuously changing forms of transactions where the finance provider provides credit on behalf of the supplier due to buyer demand. Considering that, it would be more fitting to the purpose of disclosure, ie capturing all arrangements that provide financing of amounts an entity owes its suppliers in a similar way to reverse factoring arrangements, if the requirement sets out the characteristics of an arrangement rather than a definition of arrangement, as suggested in the ED, because this would emphasize that the buyer needs to disclose all of the credits it received during the transaction.

**[Malaysia]**

The MASB supports the proposal of outlining the characteristics of a supplier finance arrangement that would be within the scope of the Exposure Draft. In our view, the characteristics described in the proposed paragraph 44G are clear and this approach would enable the proposal to be applied to a wider range of transactions and circumstances which, in substance, are "supplier finance arrangements" although they may be termed or labelled differently.

**[Pakistan]**

We agree with the Board's proposed approach of describing the characteristics of supplier finance arrangements rather than defining the arrangements. A definition may become outdated as the arrangements and practices evolve, and the Board's proposed approach to explain the characteristics of the arrangements is accordingly a preferred approach.

With the objective to provide clarity on the supplier finance arrangements covered under the Exposure Draft (ED), it would be helpful to mention that the supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extending credit terms to buyers are within the project's scope.

The Financial Accounting Standards Board (FASB) has also issued a proposed Accounting Standards Update (ASU), Liabilities—Supplier Finance Programs (Subtopic 405-50), in December 2021. The proposed ASU explains the characteristics of a supplier finance arrangements and also proposes disclosure requirements for supplier finance program obligations. We suggest, the Board to consider the FASB proposed ASU, when re-deliberating and completing the proposed amendments to IFRS 7 and IAS 7.

## Question 2—Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] 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 [Draft] 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 Board'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.**

### [Australia]

The AASB agrees that the objective of the proposed disclosures should be to provide sufficient information to allow users to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as liquidity risk and risk management. Stakeholders confirmed that the proposed disclosures do provide this information in most cases. However, they questioned both the practicability and usefulness of paragraph 44H(b)(ii) (the requirement to disclose carrying amount of financial liabilities for which suppliers have already received payment from the finance providers).



1. Further to the discussion of paragraph 44H(b)(ii) in paragraph BC19, we understand that some of our stakeholders (preparers) do not currently have access to the information required by this paragraph. We note that there is no equivalent disclosure proposed in the United States Financial Accounting Standards Board (FASB) exposure draft Liabilities—Supplier Finance Programs. This could affect an entity’s ability to use finance providers and intermediary platforms that mainly service the United States market. We also ask the IASB to consider the auditability of the information as the evidence would not be obtainable from an entity’s accounting records. Therefore, auditors may need to request confirmation of amounts from the finance provider or intermediary platform.
2. Concerning usefulness, we question whether the information an entity would disclose under paragraph 44H(b)(ii) would significantly add to users’ ability to understand the extent to which an entity has used supplier finance arrangements and the effect on an entity’s liquidity if the arrangement ended (paragraph BC14(e)).

Disclosing financed amounts paid to suppliers by the finance provider at the end of the reporting period does not show the extent (i.e., magnitude) of an entity’s reliance on supplier finance. We suggest that the equivalent disclosure in the FASB exposure draft might better meet the stated objective and has the advantage that the information should be available from an entity’s accounting records. The FASB proposes to require a reconciliation of movements in the carrying amounts of liabilities subject to supplier finance arrangements, including gross amounts added to programs during the period and amounts paid to the finance provider during the period (FASB exposure draft Liabilities—Supplier Finance Programs page 9 paragraph 405-50-50-3 (b)(2)).

For clarity, we also recommend the IASB change the wording in paragraphs 44H(b)(iii) and 44H(c) from ‘payment due dates’ to ‘payment terms.’ Stakeholders thought ‘payment due dates’ referred to the number of days invoices would fall due after the balance sheet date.

### **[China]**

We generally agree with the disclosure objectives proposed in paragraph 44F and the specific disclosure requirements proposed in paragraph 44H of the [Draft] amendments to IAS7. However, we have some concerns and recommendations on some specific disclosure requirements, as following:

- (i) The requirement in paragraph 44H(c) of the [Draft] amendments to IAS7 is overlapped with the disclosure requirements in paragraph 39 of IFRS 7, which is also not part of supplier finance arrangements and does not provide useful information for supplier

finance arrangements. Therefore, we recommend that the Board reconsider the necessity for this disclosure requirement.

- (ii) There are concerns on how to understand the "non-cash changes" in paragraph 44B of the [Draft] amendments to IAS 7. For example, the buyer enters into an agreement with a bank under which the bank will pay the supplier when the buyer's original accounts payable is due. It is assumed that the buyer derecognizes the original accounts payable and recognizes new loan payables when the bank pays the supplier, there is no physical cash flow(s) in and out of the buyer's bank account. Some stakeholders believe that as there is no actual cashflows in the buyer's bank account, thus it is a non-cash change; while other stakeholders believe that the bank makes the payment to the supplier on behalf of the buyer. Even though no physical cashflows in the buyer's bank account, the buyer should record the cash inflows (from the bank for granted loans from bank) and the cash outflow (to the supplier made by the bank on behalf of the buyer) in its statement of cash flows, which means there is an operating cash outflow and a financing cash inflow occurred at the same time, thus the movement of the loans payables and the accounts payables is not a "non-cash change". We suggest the Board further clarify the meaning of "non-cash changes" in paragraph 44B of the [Draft] amendments to IAS 7.

#### **[Hong Kong]**

1. We generally support the proposed disclosures in paragraph 44F of the ED because we consider that they can provide useful information to users of financial statements to assess the effects of SFA on an entity's liabilities and cash flows.
2. A few respondents (practitioners) considered that the benefits of providing the disclosure in paragraph 44H(b)(ii) of the ED (i.e. the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers) may not justify its costs. They considered that an entity would not normally obtain and verify such information in its daily operation. Therefore, the proposal would inevitably increase the costs of the entity to obtain and prepare, and the practical difficulties for the auditors to audit, such information. In addition, it is questionable whether the proposed disclosure helps users in assessing the financial position of the entity. In particular, for cases where the supplier receives early payment at a discount, the entity still has to pay the finance provider the full invoice amount on the due date (which would be disclosed under paragraph 44H(b)(iii) of the ED). The proposed disclosure in paragraph 44H(b)(ii) does not provide additional useful information in this case.
3. Given the above, the HKICPA recommends the IASB assess the costs and benefits of providing the proposed disclosure in paragraph 44H(b)(ii) of the ED by considering the

feedback from users on the usefulness of such information, and from the preparers and auditors on the costs of preparing and auditing the proposed disclosure.

#### **[Indonesia]**

We agree with the Board's proposal on the disclosure objectives and disclosure requirements since it will provide clarity on what supplier finance arrangement which entity are entails so that users of financial statement able to assess its effects on entity's liabilities and cash flows.

#### **[Korea]**

We agree with the proposal in general. We think there should be examples in paragraph 44I explaining about the similarities of the terms and conditions of the arrangements that would enable aggregation of information for different arrangements (e.g., examples of arrangements with similar and dissimilar terms and conditions).

If detailed guidance on the similarities of the terms and conditions of the arrangements is not provided, comparability may be deteriorated as the level of aggregation or disaggregation would vary according to each entity's judgment.

#### **[Malaysia]**

Other than paragraph 44H(c) as explained below, the MASB supports the proposal as it would be useful for users of the financial statements to understand and analyse the impact supplier finance arrangements have on an entity's cash flows (and liquidity risks).

However, on cost-benefit justification, the MASB recommends that the disclosure in the proposed paragraph 44H should be required only for the key terms and conditions of material supplier arrangements that are relevant to meet the disclosure objective in the proposed paragraph 44F.

In addition, on the proposed paragraph 44I about aggregation, the MASB recommends that the aggregation should be permitted for different arrangements when the terms and conditions of the arrangements are '*substantially similar*' which is currently allowed under paragraph 45(a) of IFRS 2 *Share-based Payment* and paragraph 85 of IAS 12 *Income Taxes* in relation to aggregation of information for disclosure purpose. Providing information on an aggregated basis for *substantially similar* arrangements would avoid information overload which could result in ineffective communication of the information provided.

#### Paragraph 44H(c)

The MASB does not support the proposed disclosure on the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Generally, trade payables that are not part of the supplier finance arrangement would be classified as current liabilities with settlement required within the next twelve months from reporting date. In accordance with IFRS 7 particularly paragraphs 39, B10 and B11, these trade payables are required to be disclosed in the liquidity analysis table to help users in evaluating the liquidity risks of the entity.

It is therefore, not clear how the proposed new disclosure would further enhance users' understanding of the effects of supplier finance arrangement on the liabilities and cash flows of the entity.

### **[Pakistan]**

We agree with the proposed disclosures requirements for supplier finance arrangements. We believe that disclosure objective and requirements set out in the ED would complement the current requirements of IFRS Standards.

We also have following comments on a proposed disclosure and approach:

- (a) Proposed paragraph 44H(b)(ii) requires disclosure of carrying amount of financial liabilities for which suppliers have already received payment from the finance providers. We believe that the information about financial liabilities for which suppliers have already received payment would not be readily available with the reporting entity. Further, there are concerns on the usefulness of this disclosure for users of financial statements.
- (b) As noted in our response to question 1, we suggest the Board to also consider disclosure requirements proposed by FASB [(in ASU, *Liabilities—Supplier Finance Programs* (Subtopic 405-50)], when re-deliberating and concluding on the disclosures of this ED.

### **Question 3—Examples added to disclosure requirements**

Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] 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 Conclusion explain the Board'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.**

**[Australia]**

We agree with the proposed examples added to the disclosure requirements in IAS 7 and IFRS 7. However, stakeholders also wanted to understand the extent of cash payments made under supplier finance arrangements in the period. Therefore, we suggest that material payments under supplier finance arrangements should be disclosed either as a separate line item in the statement of cash flows or a note. The separate disclosure of cash payments in the statement of cash flows would complement our recommendation for Question 2 to reconcile movements in the carrying amount of liabilities subject to supplier finance arrangements.

**[China]**

We agree with the proposal of adding illustrative examples, which will enhance the comparability and usefulness of information.

**[Hong Kong]**

Concentrations of risk

1. We note that in certain financing arrangements, the finance providers may be acting as a conduit or an intermediary to spread the credit risk of the reporting entity to multiple finance providers (e.g. by sub-contracting all or part of the risk to other financial institutions). As the reporting entity may not know the finance provider's back-end arrangements on its debt, it may not be able to identify the ultimate finance providers in such case. It would only be able to identify the party with which it had contracted for the SFA and the total amount that it would have to pay to this party. We considered that the ED is not clear as to whether the proposal regarding concentrations of risk in paragraph IG18 would require an entity to disclose information only up to the party with whom it contracted or information that covers the whole chain of SFA. Accordingly, we suggest that the IASB clarify the extent of disclosure that is required under paragraph IG18 of the ED.

Statement of cash flows

2. Paragraph BC16 of the ED explains that SFA is added as an example to paragraph 44B of the ED to help users of financial statements understand the effects of SFA on an entity's *operating* and *financing* cash flows. However, the proposed disclosure in paragraph 44B(da) covers non-cash changes arising from financing activities only.
3. We note that neither the IFRS Interpretation Committee's Agenda Decision *Supply Chain Financing Arrangements-Reverse Factoring* nor the ED addresses the presentation of cash flows arising from SFA, e.g. whether gross or net presentation of cash flows should be applied, and whether and when cash flows should be presented under operating or

financing activities. Therefore, it is likely that diversity in practice will continue to exist. We are concerned that the current proposal in paragraph 44B(da) may not capture those non-cash changes that would be classified as cash outflows from operating activities in the future given the same facts and circumstances.

4. To capture all non-cash changes arising from SFA, we recommend that the IASB move the proposal in paragraph 44B(da) to paragraph 44H of the ED, and include non-cash changes arising from operating activities as follows:

“non-cash changes arising from supplier finance arrangements (as described in paragraph 44G), for example when future cash outflows will be classified as cash flows from operating or financing activities;~~and~~”

We consider that including this disclosure in paragraph 44H, which specifically addresses the disclosures of SFA, would avoid entities missing out the requirement that was originally proposed in other parts of IAS 7 *Statements of Cash Flows*.

5. In addition, as the issue on the presentation of cash flows arising from SFA is yet to be addressed, consistent with our response to the IASB *Third Agenda Consultation*, we suggest that the IASB consider undertaking a targeted project to improve the wider aspects of the statement of cash flows, including cash flows arising from SFA, in the future.

#### **[Indonesia]**

We agree with the Board’s proposal on the examples added to disclosure requirements regarding supplier finance arrangements.

#### Other matters:

We are of the view that there is a need for standard-setting activity in the area of presentation of supplier finance arrangements in the statement of financial position. We consider 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 presented as part of trade payables. We understand that the Board’s intention in this proposed amendment is to focus on disclosures, hence we recommend the Board to address this issue in a related project.

**[Korea]**

We agree with the proposal. It is important for information users to be informed about liquidity risks that relate to withdrawal or maturity of supplier finance arrangements where credit is concentrated on a few finance providers. Thus, we think emphasizing and requiring to disclose such risks is an appropriate amendment.

**[Malaysia]**

The MASB supports the proposal.

However, the MASB suggests that the IASB clarifies in its Basis for Conclusions the reason for not proposing disclosures in relation to supplier finance arrangements arising from operating activities.

We note that the proposed paragraph 44B(da) provides an example of changes in liabilities arising from financing activities; when in fact, supplier finance arrangements can be classified by an entity as operating activities or financing activities. This is discussed and explained in the Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* (December 2020) which states, in part:

*An entity that has entered into a reverse factoring arrangement determines how to classify cash flows under the arrangement, typically as cash flows from operating activities or cash flows from financing activities. The Committee observed that an entity's assessment of the nature of the liabilities that are part of the arrangement may help in determining whether the related cash flows arise from operating or financing activities. ...*

**[Pakistan]**

We agree with the Board's proposal of including supplier finance arrangements as an example in IAS 7, requiring disclosure of information about changes in liabilities arising from financing activities.

We also agree with the Board's proposal to include supplier finance arrangements as an example within the liquidity risk disclosures of IFRS 7. By entering into supplier finance arrangements, an entity typically concentrates a portion of its liabilities with one or a few finance providers. The proposed disclosure about liquidity risk would therefore provide useful and relevant information to users of financial statements. However, for clarity and common understanding, we suggest the Board to clarify that the disclosure of concentration of liquidity risk is required for a specific supplier finance provider(s), rather than the supplier finance arrangements.