ED/Ind AS 7 & Ind AS 107/2023/2

Exposure Draft

Supplier Finance Arrangements - Amendments to Ind AS 7 and

Ind AS 107

(Last date of comments - August 25, 2023)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Amendments to Ind AS 7, Statement of Cash Flows

[Paragraphs 44F–44H and their related heading and paragraphs 61–63 are added. The heading before paragraph 53 is amended. New text is underlined and deleted text is in strike-through.]

Comments:

1. In its assessments, SIRC of ICAI has considered the Amendments from the perspectives of both usefulness for decision-making and assessment of the stewardship of management. It has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

2. It is the relevance of the Statement of Cash Flows, taken as whole, may be limited for certain industries (such as financial institutions) and therefore any benefits arising from the Amendments may also be limited. For these industries, only some of the sources of finance are generally classified as 'financing activities and other disclosure requirements (for example, regulatory disclosure requirements) may already result in sufficient disclosure. However, the Amendments permit the disclosure requirements to be addressed in various ways (i.e, not only by providing a reconciliation) and that an entity should take into consideration both the extent to which information about changes in liabilities arising from financing activities provides relevant information to users; and whether the entity is satisfying the disclosure requirement through other disclosures included in the financial statements.

3. 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.

4. The proposed amendment 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.

5. Further, 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.

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

7. When disclosing the terms and conditions of the arrangement, to consider whether it is useful to explain when and why the liability is classified as trade receivable or short-term debt. That is, an entity should disclose which terms and conditions lead to the classification as operating or financing.

8. The ED to clarify whether the range of payment due dates in accordance with paragraph 44H(b)(iii) 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.

9. The ED to consider whether there is a need to disclose separately the carrying amounts of liabilities depending on their classification as trade payables or a short-term debt.

10. The ED to amend paragraph 44H(a) to highlight that the materiality principle and the usefulness of information are the leading ones when reporting for supplier finance arrangements.

11. The ED 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;

12. The ED may add that in practice, the impact of a supplier finance arrangement on the presentation of a financial liability is likely to involve a high degree of judgement based on the specific facts and circumstances. Whichever presentation is adopted, management should carefully consider the additional disclosures that will be necessary to explain the nature of the arrangements and the financial reporting judgements made.

Effective date and transition

Comments:

SIRC of ICAI agrees with the proposed effective date of 1 April 2024 so that the organizations have adequate time for implementation of the amendments to the IAS 7.

Amendments to Ind AS 107, Financial Instruments: Disclosures

Comments:

Adding new para: 44JJ under 'Effective Date and Transition' has no significant change in the ED and hence SIRC of ICAI agrees with the change**.**

Appendix 1

Comparison with IAS 7, Statement of Cash Flows

Comments:

The ED has inserted Para:6. The para is a clarification that Paragraph 61 of IAS 7 has not been included as it refers to amendments due to issuance of IFRS 17, Insurance Contracts, for which corresponding Ind AS is yet to be notified. This amendment is necessary and hence agreed.

Appendix B

Application guidance

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Nature and extent of risks arising from financial instruments

(Paragraphs 31–42)

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Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

Comments:

The ED has added clause (j) in Para: B11F. SIRC of ICAI agrees with the amendment.