

Amendments to HKAS 7 and HKFRS 7
Issued July 2023

Effective for annual reporting periods
beginning on or after 1 January 2024

Amendments to HKAS 7 and HKFRS 7

Supplier Finance Arrangements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Amendments to HKAS 7 *Statement of Cash Flows*

Paragraphs 44F–44H and their related heading and paragraphs 62–63 are added. For ease of reading, these paragraphs and their headings have not been underlined. The heading before paragraph 53 is amended. New text in that heading is underlined.

Supplier finance arrangements

- 44F** An entity shall disclose information about its supplier finance arrangements (as described in paragraph 44G) that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.
- 44G 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 by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.
- 44H To meet the objectives in paragraph 44F, an entity shall 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 shall 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 shall 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 (see paragraph 43).

...

Effective date and transition

...

- 62 *Supplier Finance Arrangements*, issued in July 2023, added paragraphs 44F–44H. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.
- 63 In applying *Supplier Finance Arrangements*, an entity is not required to disclose:
 - (a) comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments.
 - (b) the information otherwise required by paragraph 44H(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those amendments.
 - (c) the information otherwise required by paragraphs 44F–44H for any interim period presented within the annual reporting period in which the entity first applies those amendments.

Amendments to HKFRS 7 *Financial Instruments: Disclosures*

Paragraph 44JJ is added. In Appendix B, paragraph B11F is amended. In Guidance on implementing IFRS 7, paragraph IG18A is added. Some text from paragraph IG18 is moved to form part of the newly-added paragraph IG18A. Deleted text is struck through and new or repositioned text is underlined.

Effective date and transition

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44JJ *Supplier Finance Arrangements*, issued in July 2023, which also amended HKAS 7, amended paragraph B11F. An entity shall apply that amendment when it applies the amendments to HKAS 7.

...

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))

...

- B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:
- (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;
 - (b) holds deposits at central banks to meet liquidity needs;
 - (c) has very diverse funding sources;
 - (d) has significant concentrations of liquidity risk in either its assets or its funding sources;
 - (e) has internal control processes and contingency plans for managing liquidity risk;
 - (f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);

- (g) has instruments that could require the posting of collateral (eg margin calls for derivatives);
 - (h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; ~~or~~
 - (i) has instruments that are subject to master netting agreements; or
 - (j) has accessed, or has access to, facilities under supplier finance arrangements (as described in paragraph 44G of HKAS 7) that provide the entity with extended payment terms or the entity's suppliers with early payment terms.
- ...

Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

...

Nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

...

Quantitative disclosures (paragraphs 34–42 and B7–B28)

IG18 Paragraph 34 requires disclosure of quantitative data about concentrations of risk. For example, concentrations of credit risk may arise from:

- (a) industry sectors. Thus, if an entity's counterparties are concentrated in one or more industry sectors (such as retail or wholesale), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (b) credit rating or other measure of credit quality. Thus, if an entity's counterparties are concentrated in one or more credit qualities (such as secured loans or unsecured loans) or in one or more credit ratings (such as investment grade or speculative grade), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (c) geographical distribution. Thus, if an entity's counterparties are concentrated in one or more geographical markets (such as Asia or Europe), it would disclose separately exposure to risks arising from each concentration of counterparties.
- (d) a limited number of individual counterparties or groups of closely related counterparties.

~~Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example, concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.~~

IG18A Similar principles apply to identifying concentrations of other risks, including liquidity risk and market risk. For example:

- (a) concentrations of liquidity risk may arise from:
 - (i) the repayment terms of financial liabilities;
 - (ii) sources of borrowing facilities;
 - (iii) reliance on a particular market in which to realise liquid assets; or
 - (iv) supplier finance arrangements (as described in paragraph 44G of IAS 7) resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers.

- (b) concentrations of foreign exchange risk may arise if an entity has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

Amendments to the Basis for Conclusions on IAS 7 *Statement of Cash Flows*

Paragraphs BC28–BC44 and their heading and subheadings are added after paragraph BC27. For ease of reading, these paragraphs and their headings have not been underlined.

Supplier Finance Arrangements (paragraphs 44F–44H)

Background to the 2023 amendments

BC28 In May 2023 the IASB issued *Supplier Finance Arrangements* ('the 2023 Amendments'), which amended IAS 7 to require an entity to provide additional disclosures about its supplier finance arrangements. The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* (published in December 2020 by the IFRS Interpretations Committee) sets out the requirements in IFRS Accounting Standards that were applicable to supplier finance arrangements prior to the 2023 Amendments. The amendments complement the disclosure requirements set out in the Agenda Decision in response to feedback from users of financial statements about the limitations of those requirements. These targeted amendments are intended to enable users to obtain from financial statements information they need to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another.

Disclosure objectives (paragraph 44F)

BC29 The IASB developed the two disclosure objectives in paragraph 44F of IAS 7 to meet particular information needs of users of financial statements, namely to provide users of financial statements with information to enable them:

- (a) to assess how supplier finance arrangements affect an entity's liabilities and cash flows; and
- (b) to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

BC30 Some respondents to the IASB's November 2021 Exposure Draft *Supplier Finance Arrangements* ('the 2021 Exposure Draft') asked the IASB to require an entity to calculate and disclose particular effects of its supplier finance arrangements rather than to provide information that users of financial statements would then use to assess the effects. However, other stakeholders informed the IASB that users of financial statements employ various models when assessing the effects of these arrangements and, therefore, users of financial statements need information to make their own calculations. The IASB concluded that users of financial statements would derive greater benefit from making their own calculations, using information an entity discloses, even if those users might incur costs in doing so.

Scope of the 2023 Amendments (paragraph 44G)

BC31 In developing the requirements, the IASB considered various types of supplier finance arrangements and noted that an entity might enter into arrangements with varying structures and for various reasons. For example:

- (a) an entity obtains extended payment terms from the finance providers. The finance providers pay suppliers the amount they are due on the invoice due date, while the entity pays the finance providers an amount greater than the invoice amount, at a date later than the related invoice date.
- (b) an entity does not obtain extended payment terms from the finance providers, but the entity might have negotiated extended payment terms with its suppliers in the light of supplier finance arrangements being in place. Suppliers that are part of the supplier finance arrangement can choose to be paid a discounted amount by the finance providers earlier than the invoice due date.

BC32 The IASB decided to use the term ‘supplier finance arrangements’ to refer to the type of arrangements to which the amendments apply and developed the scope of the requirements:

- (a) to capture all supplier finance arrangements, irrespective of:
 - (i) the reason an entity entered into those arrangements;
 - (ii) the form or labelling of the arrangements; or
 - (iii) where and how an entity presents the related liabilities and cash flows in its statement of financial position and statement of cash flows.
- (b) to remain operable as new practices and arrangements evolve and develop.
- (c) to confine the scope to arrangements that finance ‘amounts an entity owes its suppliers’ (see paragraph 44G of IAS 7). The 2023 Amendments therefore do not apply to an entity’s arrangements that finance receivables or inventory. In the IASB’s view, a wider scope might have unduly delayed the needed improvements to the disclosures about supplier finance arrangements. The IASB’s decisions also mean that an entity is not required to identify other actions its suppliers might have taken to finance their receivables (for example, factoring of receivables).

BC33 The scope excludes finance arrangements that might have some but not all the characteristics of supplier finance arrangements as described in paragraph 44G of IAS 7. This is because it is the characteristics of supplier finance arrangements (as described in paragraph 44G of IAS 7) that give rise to the particular information needs set out in paragraph BC29. Accordingly, arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, an entity uses a credit card to settle the amount owed to a supplier and will instead have an obligation to pay the issuing bank) are not supplier finance arrangements.

Disclosure requirements (paragraph 44H)

BC34 The IASB developed the disclosure requirements in paragraph 44H of IAS 7 to achieve the disclosure objectives in paragraph 44F of IAS 7. An entity is required to disclose:

- (a) the terms and conditions of its supplier finance arrangements. This disclosure is to inform users of financial statements that such arrangements are in place and to explain their nature.

- (b) the carrying amounts of financial liabilities, and associated line items, as required by paragraph 44H(b)(i) of IAS 7. This disclosure is to show the size of the entity's supplier finance arrangements and the line items in which the financial liabilities that are part of those arrangements are presented.
- (c) the carrying amounts of financial liabilities, and associated line items, for which suppliers have already received payment from the finance providers, as required by paragraph 44H(b)(ii) of IAS 7. This disclosure is to enable users of financial statements:
 - (i) to analyse the entity's liabilities and their effects on operating and financing cash flows; and
 - (ii) to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.
- (d) the range of payment due dates of: financial liabilities that are part of a supplier finance arrangement; and comparable trade payables of the entity that are not part of such an arrangement. This disclosure is to enable users of financial statements to assess how these arrangements affect the entity's cash flows. In response to feedback on the 2021 Exposure Draft, the IASB decided to clarify that for this disclosure, trade payables of the entity that are not part of a supplier finance arrangement need to be comparable to the financial liabilities that are part of such an arrangement.
- (e) information required by paragraph 44H(b) of IAS 7 as at the beginning and end of each reporting period. This disclosure is to enable users of financial statements to assess changes during the period in the financial liabilities that are part of a supplier finance arrangement and to understand how these changes affect the entity's cash flows.

Aggregated information

- BC35 The 2023 Amendments require an entity to aggregate the information it provides about its supplier finance arrangements. The 2021 Exposure Draft proposed that an entity be permitted to aggregate the information disclosed about supplier finance arrangements only when the terms and conditions of those arrangements are similar. In addition, an entity would have been required to disclose additional information about its supplier finance arrangements if necessary to meet the disclosure objectives.
- BC36 After considering feedback on the 2021 Exposure Draft, the IASB decided that, in most cases, aggregated information about an entity's supplier finance arrangements will satisfy the information needs of users of financial statements. This is because supplier finance arrangements share the characteristics described in paragraph 44G of IAS 7, and it is those characteristics that give rise to the information needs of users of financial statements. Therefore, information about each individual supplier finance arrangement is not needed to provide useful information to users of financial statements. However, to avoid material information being omitted or obscured when aggregated, the 2023 Amendments require an entity to disclose:
- (a) separately the terms and conditions of arrangements that have dissimilar terms and conditions. Disaggregated information—if required—enables users of financial statements to assess the different types of arrangements an entity has entered into.

- (b) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. These non-cash changes are those that prevent the carrying amounts at the beginning of the reporting period and the carrying amounts at the end of the reporting period from being comparable to each other. These 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. (See paragraph BC37 for further discussion of non-cash changes.)
- (c) explanatory information about the ranges of payment due dates, or additional ranges, if those ranges are wide. The additional information—if required—is necessary to enable users of financial statements to assess the effect of arrangements on an entity's cash flows.

BC37 As described in paragraph BC36(b), paragraph 44H(c) of IAS 7 requires the disclosure of non-cash changes in the carrying amounts of the financial liabilities disclosed under paragraph 44H(b)(i) of IAS 7. In the IASB's view, it was necessary to highlight these non-cash changes in response to feedback from users of financial statements that these non-cash changes might not be apparent without additional disclosure. Disclosure of this information enables users of financial statements to assess the carrying amounts of financial liabilities on a more comparable basis from one reporting period to the next and to understand how these non-cash changes affect the entity's cash flows. For example, when an entity buys goods and services from suppliers, it would typically classify the cash outflows to settle amounts owed to its suppliers as a cash flow from operating activities. When an amount the entity owes its suppliers becomes part of a supplier finance arrangement, the entity—having considered the terms and conditions of the arrangement—might classify the cash outflow to settle the amount owed as a cash flow from financing activities. In such a circumstance, the entity might not have reported any cash inflow from financing activities, resulting in a non-cash change in liabilities arising from financing activities. The requirement in paragraph 44H(c) of IAS 7 does not alter the requirement in paragraph 44A of IAS 7 for an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

BC38 The IASB noted that paragraphs 29–31 of IAS 1 *Presentation of Financial Statements* require an entity to apply its judgement to determine whether and, if so, how it aggregates (or disaggregates) information in its financial statements to avoid omitting or obscuring material information. Accordingly, the IASB decided it was unnecessary to develop disaggregation requirements in addition to those described in paragraph BC36. For example, the IASB did not develop additional requirements to assist an entity in determining whether the terms and conditions of its supplier finance arrangements are dissimilar.

Costs of complying with the disclosure requirements

BC39 In responding to the 2021 Exposure Draft, stakeholders informed the IASB that the information an entity is required to disclose in applying paragraphs 44H(a), 44H(b)(i) and 44H(b)(iii) of IAS 7 is generally available to entities. The IASB was therefore of the view that an entity's application of these requirements would not result in substantial costs for that entity. However, some stakeholders informed the IASB that the information an entity is required to disclose in applying paragraph 44H(b)(ii) of IAS 7—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 the finance providers—might not be readily available. Some entities might have to incur costs to produce this disclosure, for example, by amending contractual terms and conditions to access the required information. 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 (see paragraph BC34(c)). 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.

Effective date and transition of the 2023 Amendments (paragraphs 62–63)

- BC40 The IASB decided to require an entity to apply the amendments for annual reporting periods beginning on or after 1 January 2024. The IASB set the effective date and developed the transition requirements described in paragraph 63 of IAS 7 to achieve a balance between providing sufficient time for jurisdictions and entities to prepare for the implementation of the new disclosure requirements and meeting the information needs of users of financial statements (as described in paragraph BC29) on a timely basis.
- BC41 In reaching its decisions, the IASB considered:
- (a) the time needed by jurisdictions to incorporate the new requirements into their legal systems. The IASB was informed that jurisdictions expect to have completed their endorsement processes by 31 December 2024, but some jurisdictions might be unable to do so in time for interim reporting deadlines during 2024.
 - (b) the time needed by entities to develop processes and controls to collect and validate information to be disclosed and the time needed by audit firms to audit the information—particularly for the information required by paragraph 44H(b)(ii)–(iii) of IAS 7. Entities will need time to develop processes and controls to collect and validate information by the beginning of the annual reporting period in which an entity first applies the amendments. If an entity were to develop such processes and controls after the beginning of the first annual reporting period, it might not be possible to use those processes and controls, with the necessary reliability, on a retrospective basis.
 - (c) the nature of the amendments. The amendments do not change recognition or measurement requirements.
 - (d) the time needed for translation. Translation into other languages is not expected to take substantial time and effort because the amendments do not add a large amount of text to the requirements.
- BC42 The IASB concluded that the effective date and transition requirements also meet the information needs of users of financial statements on a timely basis because the disclosure requirements in IFRS Accounting Standards that are already in effect provide users of financial statements with some information about an entity’s supplier finance arrangements (as set out in the Agenda Decision (see paragraph BC28)). The IASB also noted that paragraphs 30–31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require an entity to provide disclosures when new requirements in IFRS Accounting Standards have been issued but are not yet effective and the entity has not yet applied those new requirements.
- BC43 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*. The IASB developed the transition relief in paragraph 63(c) of IAS 7 considering the time needed by jurisdictions and entities to prepare for the implementation of the new disclosure requirements (as described in paragraph BC41).
- BC44 The IASB also decided not to provide specific transition requirements for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*) because of the disclosure-only nature of the amendments.

Amendments to the Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

Paragraph BC58E is added after paragraph BC58D. For ease of reading, this paragraph has not been underlined.

Disclosures about the nature and extent of risks arising from financial instruments (paragraphs 31–42 and B6–B28)

...

Liquidity risk (paragraphs 34(a), 39, B10A and B11A–B11F)

...

BC58E In *Supplier Finance Arrangements* issued in May 2023, the IASB added supplier finance arrangements as an example within the liquidity risk disclosure requirements in paragraph B11F of IFRS 7. Supplier finance arrangements might provide an entity with access to funds to meet its liquidity needs. However, by entering into supplier finance arrangements, an entity might concentrate a portion of its liabilities with one or a few finance providers, instead of a diverse group of suppliers. If finance providers withdraw one or more arrangements during times of financial stress, which could occur at short notice, that withdrawal could increase pressure on an entity's cash flows and affect its ability to settle liabilities when they are due. A supplier might also be able or inclined to renegotiate payment terms with its customer (the entity) during times of financial stress, whereas finance providers—subject to capital requirements—might not be able or inclined to do so. Users of financial statements need information to enable them to assess the effect of supplier finance arrangements on an entity's exposure to liquidity risk and understand how the entity manages this risk. The amendments to paragraph B11F of IFRS 7 emphasise the importance of an entity providing liquidity risk information about its supplier finance arrangements.