



Australian Government

**Australian Accounting
Standards Board**

Postal Address

Telephone: [REDACTED]

Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

17 November 2021

By email: Corporations.Joint@aph.gov.au

RE: Questions on notice relating to Greensill

In response to your Supply Chain Financing – Question on Notice (QoN033-01) request received on 3 November 2021, please find the Australian Accounting Standards Board's (AASB) response.

Should further information be required please contact either myself on [REDACTED]
or Clark Anstis, Technical Principal on [REDACTED]

Regards

Dr Keith Kendall
AASB Chair

Question on Notice put to the Australian Accounting Standards Board by the Parliamentary Joint Committee on Corporations and Financial Services

QoN033-01

(Question dated 21-5-21, but received by the AASB on 3-11-21)

(AASB response dated 17-11-21)

QoN033-01

In March 2020 the Australian Small Business and Family Enterprise Ombudsman published its final report on *Supply Chain Finance Review*, which made two recommendations directed towards the AASB (recommendations 5a and 5c).

- a) Does the AASB intend to respond to this recommendation and if so, when will a response be provided?
 - b) What work has the AASB undertaken in response to this recommendation?
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Recommendations of the ASBFEO in *Supply Chain Finance Review*:

Appropriate coverage by accounting standards: The accounting standards need to provide greater clarity and properly cover SCF to ensure that accounts cannot be manipulated, particularly to mask cash flow issues and insolvency.

- a. The Australian Accounting Standards Board (AASB) should provide further education on guidance notes, including that companies are required to address SCF in financial reporting.
 - b. The ASX should provide further directives to companies about disclosure of SCF offerings.
 - c. Disclosure or otherwise should be monitored by the AASB, and should companies fail to appropriately disclose SCF arrangements, further clarity should be introduced.
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AASB Comments

The recommendations in the ASBFEO do not appear to have been brought to the attention of the AASB previously. The AASB intends now to respond in similar terms to this response to the Parliamentary Joint Committee.

The AASB provided input to the Financial Reporting Council (FRC) when the FRC was requested by Treasury to provide input for a response to the Parliamentary Joint Committee in June 2021 on the following question:

“What are the implications of supply chain financing for transparency in financial reporting and accounting and auditing standards?”

The AASB is not aware how that question on notice was responded to. The AASB’s response to the FRC is set out in Appendix A.

The AASB’s response to the FRC noted that the IFRS Interpretations Committee of the IFRS Foundation published an agenda decision on supply chain financing or reverse factoring arrangements in December 2020. At that time, the IFRS Interpretations Committee concluded

that the principles and requirements of the existing International Financial Reporting Standards (“IFRS Standards”) provided an adequate basis for entities to present relevant information in their financial statements.

Australian Accounting Standards, which are issued by the Australian Accounting Standards Board, have incorporated IFRS Standards since 2005. Therefore, the agenda decisions of the IFRS Interpretations Committee, which cannot add or change requirements in the Standards, can provide explanatory material that explains how the principles and requirements in the Standards apply to the subject transaction or fact pattern.

Since the publication of the IFRS Interpretations Committee’s agenda decision, the International Accounting Standards Board of the IFRS Foundation (IASB – the Board that issues the IFRS Standards) has received further requests for the setting of disclosure requirements specifically relating to supplier finance arrangements. As a result, at its June 2021 meeting, the IASB decided to add a narrow-scope standard-setting project to its work plan on supplier finance arrangements.

The IASB plans to issue an Exposure Draft as part of its due process to include specific requirements in IFRS Standards. The IASB is planning to issue the Exposure Draft in November 2021. The tentative decisions of the IASB as to the proposed requirements are set out in Appendix B.

The AASB will also issue the Exposure Draft for comment in Australia, and will consider whether to provide views on the proposals to the IASB. Amendments to the existing IFRS Standards could be issued late in 2022 at the earliest, following consideration by the IASB of the responses received to the proposals in the Exposure Draft.

The AASB would then expect to make the same amendments to Australian Accounting Standards, to maintain compliance with IFRS Standards for publicly accountable for-profit private sector entities. The mandatory application date for such amendments would be the same as determined by the IASB.

In the AASB’s view, it is appropriate to follow the IASB’s standard-setting work in the usual way in developing specific financial reporting requirements for Australian entities.¹ Amendments to IFRS Standards and to Australian Accounting Standards in turn will appropriately address the reporting of supply chain finance in general purpose financial statements that comply with those Standards.

1 The AASB’s approach is set out in its policy statement *AASB Due Process Framework for Setting Standards* (September 2019), published on the AASB website at https://aasb.gov.au/admin/file/content102/c3/AASB_Due_Process_Framework_09-19.pdf. See paragraphs 7.4.1 – 7.6.5 particularly.

AASB Direct Responses to QoN033-01

In the context of the AASB comments above, for clarity the direct responses to the questions on notice from the Parliamentary Joint Committee are as follows:

- (a) *Does the AASB intend to respond to this recommendation and if so, when will a response be provided?*

Yes, the AASB intends to respond to the ASBFEO recommendation by the end of November 2021.

- (b) *What work has the AASB undertaken in response to this recommendation?*

Since the AASB became aware of the ASBFEO recommendation only when QoN033-01 was received on 3 November 2021 from the Parliamentary Joint Committee on Corporations and Financial Services, the AASB has not undertaken any work directly in response to the recommendation. However, the AASB will apply its regular due processes to address the forthcoming proposals of the International Accounting Standards Board (IASB) for disclosures relating to supply chain finance in an entity's general purpose financial statements. The IASB proposals are expected to be issued in November 2021.

APPENDIX A

AASB response to FRC in June 2021 on the following PJC question:

“What are the implications of supply chain financing for transparency in financial reporting and accounting and auditing standards?”

In a supply chain financing or reverse factoring arrangement, a financial institution agrees to pay amounts that an entity owes to the entity’s suppliers and the entity agrees to pay the financial institution at the same date as, or a date later than, suppliers are paid.

The principal judgements to be made by an entity with such financing arrangements in preparing its financial statements in compliance with Australian Accounting Standards are as follows:

- (a) whether to present liabilities under such arrangements in the statement of financial position as trade payables or instead as a different type of financial liability (AASB 101 *Presentation of Financial Statements*);
- (b) whether to classify cash flows arising under the arrangement as cash flows from operating activities or cash flows from financing activities (AASB 107 *Statement of Cash Flows*); and
- (c) whether additional disclosures are needed in relation to liquidity risk – that is, the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (AASB 7 *Financial Instruments: Disclosures*). Supply chain financing arrangements often give rise to liquidity risk by concentrating a portion of an entity’s liabilities with one financial institution rather than a diverse group of suppliers.

An entity would consider disclosing the effects of supply chain financing arrangements separately in its financial statements when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity’s financial position, financial performance and cash flows.

Paragraph 29 of AASB 101 requires an entity to present separately items of a dissimilar nature or function unless they are immaterial.

Paragraph 122 of AASB 101 requires an entity to disclose in the financial statements the judgements that management has made in applying the entity’s accounting policies if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements.

Australian Accounting Standards therefore require an entity to determine the appropriate presentation and disclosure in its financial statements when it uses supply chain financing arrangements. The materiality of those arrangements to the entity and the financial statements will be a key factor.

Agenda Decision of the IFRS Interpretations Committee

Supply chain financing or reverse factoring arrangements are the subject of an “Agenda Decision” of the IFRS Interpretations Committee, issued in December 2020.

The Committee concluded that the principles and requirements in IFRS Standards (i.e. International Financial Reporting Standards) provide an adequate basis for an entity to determine the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes about, for example, liquidity risks that arise in such arrangements. Consequently, the Committee decided not to add a standard-setting project on these matters to the work plan.

Australian Accounting Standards, which are issued by the Australian Accounting Standards Board, have incorporated IFRS Standards since 2005. Therefore, the agenda decisions of the IFRS Interpretations Committee, which cannot add or change requirements in the Standards, can provide explanatory material that explains how the principles and requirements in the Standards apply to the subject transaction or fact pattern.

APPENDIX B

IASB Narrow-Scope Standard-Setting on Supplier Finance Arrangements

In June 2021, the IASB made tentative decisions about the disclosure scope, objectives and requirements. As reported on the IASB's website:²

Disclosure scope, objectives and requirements

The Board tentatively decided that the project would develop disclosure requirements for supplier finance arrangements, but not go beyond such arrangements (that is, the project would not develop requirements for arrangements an entity enters into to fund either receivables from customers or inventories).

The Board tentatively decided to explain the type of arrangements to be included within the project's scope, instead of proposing detailed definitions.

The Board tentatively decided to propose amending IAS 7 *Statement of Cash Flows* to add:

- a. an overall disclosure objective: to help users of financial statements understand the nature, timing, and uncertainty of cash flows arising from supplier finance arrangements; and
- b. specific disclosure objectives:
 - i. to provide quantitative information that helps users of financial statements determine the effects of supplier finance arrangements on an entity's financial position and cash flows; and
 - ii. to provide qualitative information to help users of financial statements understand the risks that arise from supplier finance arrangements.

The Board tentatively decided to propose that, to meet the proposed disclosure objectives, entities be required to disclose:

- a. the key terms and conditions of a supplier finance arrangement; and
- b. at the start and end of the reporting period:
 - i. the aggregate amount of payables that are part of the arrangement;
 - ii. the aggregate amount of the payables disclosed under (i) for which suppliers have already received payment from the finance provider;
 - iii. the range of payment terms, expressed in time, of payables disclosed under (i); and
 - iv. the range of payment terms, expressed in time, of trade payables that do not form part of the arrangement.

The Board tentatively decided to propose adding supplier finance arrangements as an example within the liquidity risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

The IASB next discussed supplier finance arrangements at its October 2021 meeting, considering proposals for transition requirements.

Transition requirements

The Board tentatively decided to add to the proposals a requirement for an entity to disclose, as at the beginning and end of the reporting period, the line items in the statement of financial position in which the entity presents financial liabilities that are part of each supplier finance arrangement.

All 12 Board members agreed with this decision.

Next step

The Board plans to publish the exposure draft in November 2021.

2 See <https://www.ifrs.org/projects/work-plan/supplier-finance-arrangements/>. The IASB's tentative decisions (extracted above) are reported under the "Meetings" tab.