



February 28, 2022

International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

**Re: Exposure Draft - Supplier Finance Arrangements: Proposed Amendments to IAS7 and IFRS 7 (ED/2021/10)**

Dear IASB:

Thank you for this opportunity to comment on the IASB's November 2021 Exposure Draft: *Supplier Finance Arrangements: Proposed Amendments to IAS7 and IFRS 7 (ED/2021/10)* and hereafter the "Exposure Draft"). Our Master of Accounting class is learning about regulatory structures and emerging issues for financial reporting. As part of this class, we have gained an understanding of this accounting issue as well as the current Exposure Draft.

We agree with the IASB that the use of a Supplier Finance Arrangement (SFA) is an issue in which financial statement users would benefit from additional information. We concur with the IASB that financial statement users should be informed as to the magnitude of a company's SFA liabilities as well as the key terms of these programs.

After researching this issue and discussing it with professionals in the industry, we understand that SFAs can be used to extend payment terms of trade payables. If used in this way, SFAs can impact a company's operating cash flows and, if not sufficiently disclosed, can affect the understandability of the financial statements. While the disclosures provided in the Exposure Draft improve the transparency of the use of SFAs, we believe that additional disclosures are needed to fully understand the impact of SFAs on a company's financial statements. We offer the following comments as potential improvements to the proposed amendments to IAS7 and IFRS7 for your consideration.

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## Descriptive Statistics of SFA Liabilities and Other Trade Payables

We believe that an understanding of the effects of SFAs on a company's financial statements requires information regarding the extent to which SFAs are used to extend payment terms beyond a company's typical payment terms for its trade payables. While the Exposure Draft requires companies to disclose a *range of payment terms* for SFA liabilities and other trade payables, this information does not provide the financial statement users with an understanding of how the payment terms relate to the dollar value of outstanding liabilities. Furthermore, we believe sophisticated financial statement users with this information would continue to have difficulty determining the effect of SFAs on a reporting entity's operating cash flows.

Therefore, we propose that companies provide more detailed descriptive statistics regarding the age of SFA liabilities and other trade payables to allow financial statement users to discern the full extent to which the terms of SFA liabilities exceed those of other trade payables. This disclosure would include two tables (shown below). These tables provide a complete aging as well as the Days Payable Outstanding ratio for both SFA liabilities and other trade payables.

| <b>Supplier Finance Arrangements Aging</b> |        |            |
|--|--------|------------|
| Date                                       | Amount | % of Total |
| < 30 days                                  |        |            |
| 31 – 60 days                               |        |            |
| 61 – 90 days                               |        |            |
| 91 – 120 days                              |        |            |
| > 120 days                                 |        |            |
| Total                                      |        | 100%       |
|  |        |            |
| Days Payable Outstanding                   |        |            |

| <b>Other Trade Payables Aging (Excluding Supplier Finance Arrangements)</b> |        |            |
|---|--------|------------|
| Date  | Amount | % of Total |
| < 30 days   |        |            |
| 31 – 60 days  |        |            |
| 61 – 90 days  |        |            |
| 91 – 120 days   |        |            |
| > 120 days  |        |            |
| Total   |        | 100%       |
|   |        |            |
| Days Payable Outstanding  |        |            |

These two tables would provide financial statement users with an increased level of transparency and an improved ability to analyze the effect of SFAs.

### *Threshold for Disclosure of Descriptive Statistics*

To maximize the cost-effectiveness of implementing this disclosure, we propose the addition of a materiality threshold to avoid unnecessary disclosures by companies that are not using SFAs to extend the payment terms of their trade payables. Specifically, we believe that companies should only be required to disclose these descriptive statistics if they use SFAs to create *a material extension of payment terms* beyond that of its trade payables.

We recognize that there is great difficulty in defining “a material extension of payment terms”, and we recognize that we are not equipped to create such a definition. Therefore, we propose further research by the IASB to determine a benchmark / implementation guidance that can aid in the definition of this term.

If a company *is not* using SFAs to extend credit terms and is only using these programs to provide a financial intermediary, then, in our view, the benefit of our proposed descriptive statistics disclosures is potentially less than the cost of providing these disclosures. However, if a company *is* using SFAs to extend credit terms, we believe that our proposed descriptive statistics disclosures would provide valuable information to understand the financial statement effects of SFAs. While developing a definition of “material extension of payment terms” would likely be challenging, we believe that inclusion of this materiality threshold would result in a targeted set of disclosure requirements for those companies in which the disclosures would be most beneficial to financial statement users.

### **Cost of Supplier Finance Arrangements**

We believe that financial statements users would benefit from a disclosure of the total fees associated with these SFAs (i.e., the financing cost) as well as a disclosure of where these costs are presented in the financial statements (e.g., inventory, cost of goods sold, general and administrative expenses, etc.). This information would improve the understandability of the SFAs’ financial statement effects.

### **Balance Sheet Classification**

It is worth noting that when SFAs are used to extend the terms of trade payables, these programs could have debt-like features. One could argue that when used in this manner, the portion of SFA obligations that represent an extension beyond the standard trade payable terms should be classified as debt on the Balance Sheet. With the disclosures proposed in the Exposure Draft and this comment letter, sophisticated financial statement users do not need this explicit Balance Sheet classification to understand the debt-like implications of these arrangements. However, financial statement users with less sophistication might benefit from a Balance Sheet classification of debt. Since the Exposure Draft is strictly focused on financial statement


disclosure, we have constrained our recommendations to the disclosure of SFAs. However, we encourage the IASB to monitor the use of these arrangements in the future and consider if a revised Balance Sheet classification would benefit some financial statement users.

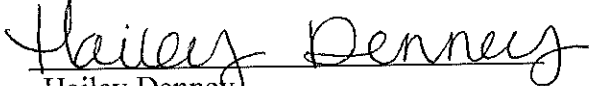
We thank you for the opportunity to comment on the Exposure Draft. We would be happy to answer any questions you might have or discuss these matters further at any time.

Sincerely,

Audit Cohort, Master of Accounting Class 2022  
Class: Regulatory Structures and Emerging Issues, Spring 2022  
Coles College of Business  
Kennesaw State University

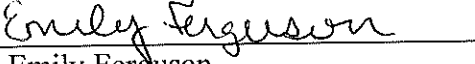
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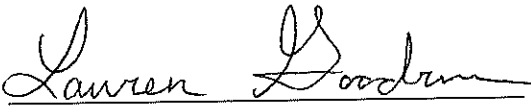
  
Marisa Daniel

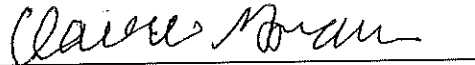
  
Hailey Denney

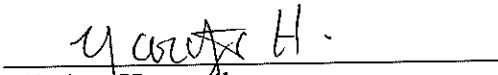
  
Zack Eckert

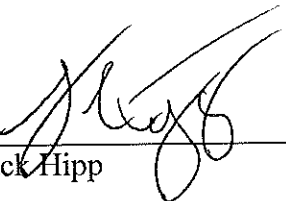
  
Madeline Everett

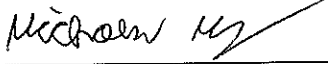
  
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Lauren Goodrum

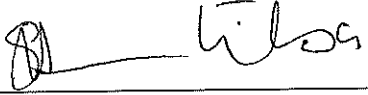
  
Claire Goran

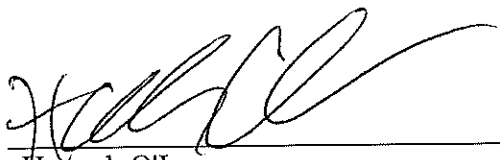
  
Yaritza Hernandez

  
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Jack Hipp

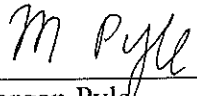
  
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Nicholas Key

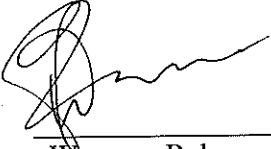
  
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Albert Lobo

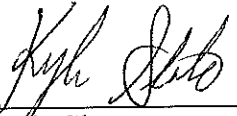
  
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Stella Mushimba


  
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Hannah O'Lear

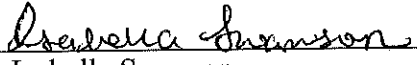
  
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Amber Powell

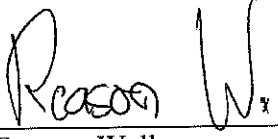
  
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Morgan Pyle

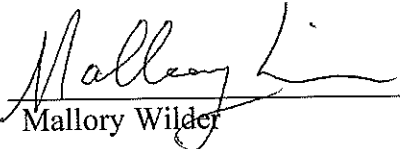
  
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Waseem Rahman


  
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Kyle Slate

  
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Amanda Soriano

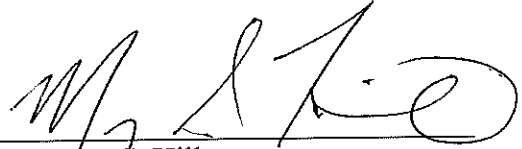
  
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Isabella Swanson

  
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Reason Walker

  
\_\_\_\_\_  
Mallory Wilder

  
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Blake Wiles

Instructor:

  
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Dr. Mary S. Hill