College of Business,
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To

International Accounting Standards Board

Columbus Building

7 Westferry Circus

Canary Wharf

London E14 4HD

United Kingdom

March 28th, 2022

Submitted electronically

Dear Sir/Madam

Subject: Exposure Draft (ED/2021/10) on Supplier Finance Arrangements

I am pleased to respond to the call for comments on the Exposure Draft on Supplier Finance Arrangements.

I appreciate the IASB's efforts in addressing issues arising from the need to enhance disclosure requirements related to supplier financing arrangements (including but not restricted to reverse factoring).

I thank you for the opportunity to respond to this Exposure Draft. Please do not hesitate to contact me should you wish to discuss any of my comments.

Yours sincerely

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(Note: The opinions expressed in this Comment Letter are those of the author. They do not purport to reflect the views or opinions of the Department or the University).

General Observations:

In considering the scope of standard-setting on Supplier Finance Arrangements, the International Accounting Standards Board (IASB) has noted in its due process that one of the terms of reference to the IFRS Interpretations Committee (IFRIC) was a request (received in January 2020) to consider:

"…how an entity ***presents*** liabilities to pay for goods or services received when the related invoices are part of a supply chain finance (or reverse factoring) arrangement;" (para. 1(a) in Agenda Paper 12A, June 2021) (emphasis added).

I note that aspects related to presentation of (a) liabilities that are part of supplier finance arrangements and (b) associated cash flows, have been excluded from the scope of the present ED. The Board is of the view that these aspects are best considered in the course of deliberations under the Primary Financial Statements project and a further potential project for revising IAS 7 that would consider improvements to disclosures and revisit the classification of cash flows (para. 51 in Agenda Paper 12A, June 2021). I note that supplier finance arrangements are one of several issues being currently discussed in the context of definition of liabilities arising from financing activities under the Primary Financial Statements project. Further, Agenda Paper 24B tabled at the March 2022 Board Meeting, under the Third Agenda Consultation project discusses IAS 7 in a list of "Potential" or "short-listed projects". However, it is not reasonably evident from the Board's current workplan that presentation of liabilities and cash flows relating to supplier financing arrangements will be suitably addressed within a reasonable time frame. This is particularly salient given time elapsed since the origination of the request that led to the IFRIC agenda decision.

Under the circumstances therefore, the present Exposure Draft, while representing an improvement over the prior, appears to be a temporary expedient to address the issue of Supplier Financing Arrangements piecemeal through disclosure, rather than a comprehensive and simultaneous consideration of wider aspects related to presentation and disclosure. Such an approach entails the broader risk of substituting disclosure requirements to make up for perceived presentation gaps in standard-setting and is also likely to attract criticism on grounds of Disclosure Overload. Further, a comprehensive approach would have also benefitted by including within its remit, a discussion of principles that provide guidance as to when it would be appropriate to either:

(a) derecognise a supplier liability and recognize a liability to a provider of finance (timing considerations), or
(b) not derecognize a supplier liability on the basis that the provider of finance merely acts as an agent of the reporting entity, and that there is no substantive change to the nature of the underlying liability.

This is particularly crucial in view of varying practices noted by IFRIC on the basis of comment letters received during the due process followed on the agenda decision on "Supply Chain Financing Arrangements—Reverse Factoring" in 2020, including, but not limited to (a) the aspect of explicit legal novation of the liability consequent upon inclusion of the invoice under a supplier financing arrangement, (b) the provision of credit enhancements by entities to secure supplier financing and (c) the provision of irrevocable payment undertakings by entities in support of advance payments to suppliers.

In view of a trend towards large, multi-year projects being undertaken in recent years, the Board's intent and approach towards targeted amendments to existing standards, pending the finalization of principles from overarching projects is commendable. However, such an approach needs to be balanced against the need for unified standard-setting on emerging issues that require timely harmonization.

My comments on the questions raised in the ED are provided below and should be read in the context of the foregoing observations.

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 Basis for Conclusions 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.

RESPONSE:

Broadly agree subject to (a) and (b) below.

(a) Revisit the following statement in para. 44G:

"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.

Avoid suggesting that extension of payment terms (to the entity) or early payment terms (to the supplier) are mutually exclusive as both outcomes are possible in such arrangements – re-drafting is recommended, to bring out the intent in para. BC8 of Basis for Conclusions.

(b) From a reading of para. 44G and paras. BC7 and BC8, a key element in determining whether an arrangement represents a supplier finance arrangement appears to devolve on the presence of a "finance provider". The notion of finance provider is not defined in the ED and is an issue that Staff have also identified in the Primary Financial Statements project in the context of definition of liabilities arising from financing activities (Agenda Paper 21A, May 2021). It is suggested that guidance on what constitutes a finance provider be provided in the current ED, even if this is likely to be interim in nature. This can be revised if necessary in the context of amendments that may arise from the Primary Financial Statements project.

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.

RESPONSE:

Broadly agree subject to the point below on clarifying illustrative guidance related to disclosures under IAS 7.

While the focus of feedback is on the content of the Exposure Draft, it may be noted that constituents may also be guided by accompanying material related to the project. I note that material presented at the March ASAF (see slide 10) provides an illustration with respect to proposed addition to IAS 7 via para. 44H(b)(i). The illustration may be misinterpreted as suggesting that disclosures under para. 44H(b) are only/usually required with respect to arrangements that have not already been separately presented i.e. those that are currently presented as "Trade and other payables". I note that the disclosure of line item/s within which supplier finance arrangements are currently presented on the

Statement Of Financial Position is covered under the disclosure requirements of para 44H(b)(i), and is not restricted only to trade payables. I also note that this aspect received special consideration via a sweep issue considered by the Board at its October 2021 meeting. In the context of a discussion on the costs of compliance with the requirements proposed in the ED, BC19(a) appears to further strengthen the assumption that the focus of disclosures under para. 44H is primarily on carrying amounts of supplier finance liabilities where the entity "continues to present the related liabilities as trade and other payables".

In the absence of a fuller consideration of presentation aspects related to supplier finance arrangements, I therefore recommend that either:

(a) illustrative guidance be incorporated in the ED supporting IAS 7 (currently absent) that makes it explicit that the disclosures required under para. 44H also apply to carrying amounts of supplier finance arrangements that are not presented within trade payables, or
(b) para. 44H(b)(i) be suitably re-drafted to make this explicit.

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 Conclusions 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.

RESPONSE

The placement and drafting of clause (da) in Para. 44B suggests that the requirements therein are intended only to apply to cases where an entity classifies cash outflows consequent upon settlement with the finance provider as cash flows from financing activities. Given that practices on presentation of such outflows are divergent and, in the continued absence of a presentation standard, a possible implication is that disclosures under para. 44B may not be required by entities that classify such cash outflows as cash flows from operating activities. It is unclear, whether this is the intention of the proposed ED. If so, the proposed disclosure requirement will not provide users with comparable information across entities following divergent presentation practices.