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Ref: IASB Exposure Draft ED/2021/10 Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS 7

Madrid, 4th March 2022

Dear Jean-Paul,

In the present letter the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) gives its view on EFRAG's position presented in your draft comment letter on the Exposure Draft ED/2021/10 *Supplier Finance Arrangements: Proposed amendments to IAS 7 and IFRS*, issued by the IASB on November by 2021 (the "ED").

First of all, ICAC welcomes IASB's ED Supplier Finance Arrangements to address the current absence of specific disclosures on supplier finance arrangements under IFRS Standards. This financing mechanism for entities has increased in recent years and the introduction of new disclosure requirements will allow users of financial statements to understand the effects on an entity's liabilities and cash flows, providing greater transparency in relation to liquidity risk and liquidity risk management.

Our responses to the questions in the ED are explained below.

Question 1

The proposed amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the proposed amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in the Exposure

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Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the IASB's proposals. Paragraphs BC5–BC11 of the Basis for Conclusions explain the IASB'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.

ICAC agrees with the proposal to introduce in IAS 7 a description that covers the characteristics of this type of arrangements, instead of a definition, which, as the Board indicates in the Basis for Conclusions, may evolve over time.

It would also be interesting to introduce some reference to the types of supplier finance arrangements that exist in practice, such as investment or financing confirming, and as EFRAG points out in its draft comment letter, to clarify that both supplier financing arrangements that provide early payment terms to suppliers and supplier finance arrangements that provide credit terms to buyers are within the scope of the project.

Question 2

Paragraph 44F of the proposed 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 proposed 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 recognized 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 IASB'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.

ICAC agrees to include a general objective in paragraph 44F and to introduce more specific disclosure requirements in paragraph 44H. Incorporating information from this type of arrangements would allow users to know the situation in which an entity may find itself, in terms of liquidity and solvency. Supplier finance agreements can be an important source of financing for companies, and due to their trade nature, they are not recorded as financial debt. ICAC also agrees with the recommendations expressed by EFRAG in order to improve the information to be disclosed by entities.

Question 3

Paragraph 44B of the proposed amendments to IAS 7 and paragraphs B11F and IG18 of the proposed 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 IASB's rationale for this proposal.

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Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

ICAC supports EFRAG in relation to including supplier finance arrangements as an example in paragraph 44B of IAS 7. This disclosure will allow users to have a better understanding of the financing activities arising from this type of agreement.

ICAC shares EFRAG's view on including an example within the liquidity risk disclosure requirements in IFRS 7, as proposed by IASB.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

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