Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, 21 March 2022

Dear Andreas,

ED/2021/10 – *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)*

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the Exposure Draft ED/2021/10 *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)*, issued by the IASB on 26 November 2021 (herein referred to as 'ED'). We appreciate the opportunity to comment on the proposals.

Overall, we support the IASB's effort on improving transparency and clarity about accounting for supplier finance arrangements. Therefore, we generally agree with establishing additional disclosure requirements and with the proposals in the ED. While we feel these are basically appropriate and decision-useful, we have identified some details that appear unclear or inconsistent on which we comment below in this letter.

Furthermore, we think that additional disclosures in isolation are not sufficient in effectively solving the challenges around accounting for supplier finance arrangements. These challenges also comprise its presentation in the statement of financial position and in the cashflow statement, which is not addressed in this ED.

While acknowledging that additional disclosures are a pragmatic and timely solution for improving transparency to address the demand by various stakeholders, we take the view that accounting for supplier finance arrangements needs to be addressed more comprehensively in the future. Conceptually speaking, disclosure requirements should only be considered, and potentially amended, jointly with re-considering current presentation requirements. In this regard, our finding is that the challenges around supplier finance arrangements are one more reason to consider a broader project on IAS 7.

For more details on our findings on the specific proposals in the ED, we refer to our responses to the questions which are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the ED

Question 1 – Scope of disclosure requirements

The [Draft] Amendments … do not propose to define supplier finance arrangements. Instead, paragraph 44G … 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.

BC5–BC11 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.

We agree with the scope of the proposed amendments. In particular, we agree with the term "supplier finance arrangements" (SFA) and with the proposed description of characteristics including examples for such arrangements. Our view is that this description is sufficiently broad and general, therefore comprising an appropriate range of SFA.

However, we are unclear why (and how) a "description" or "explanation" of SFA, as proposed, distinguishes from a "definition", which the IASB explicitly avoids. Our understanding is that the proposed description would equally qualify as a definition – which would be suitable without being too much detailed.

Also, we fail to understand why – on the one hand – the description is very general, thereby allowing a broad range of SFA to be in the scope, while – on the other – some specific arrangements (ie. receivable or inventory financing arrangements) are implicitly scoped out, as they are explicitly "not included" (BC11). In other words, we do not understand why these particular arrangements are not automatically in the scope of arrangements as per the proposed description.

Q2 – Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] Amendments … 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 … proposes to require an entity to disclose … Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar. BC12–BC15 and BC17–BC20 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.

We partially support the proposed disclosure requirements. While we basically agree with the specific proposals, we have identified some details that appear unclear or inconsistent.

Firstly, establishing a <u>disclosure objective</u> appears useful and is in line with the new (overall) disclosure principles resulting from the respective project. Although we concur with the specific disclosure objective for SFA, as proposed in the ED, we are not convinced that all of the proposed specific disclosures will effectively help meet the stated objective.

To our understanding, the list of details to be mandatorily disclosed (para. 44H) appears distinct, unambiguous, and exhaustive. Contrary to this, we feel the requirement for any additional disclosures that are deemed necessary for meeting the objective (para. 44I) lacks clarity. As a result, the latter requirement leaves room for judgement by an individual entity and thereby reduces comparability between entities and over time in respect of these disclosures.

Secondly, we acknowledge the <u>specific disclosures</u> as proposed in the ED would help increase transparency about SFA. However, we are not yet convinced that the following proposals in detail are adequate or decision-useful:

- ranges of payment due dates, without any information about amounts (for each due date) and about regional or industry-specific conventions or habits (IAS 7.44H(b)(iii) and (c));
- terms, conditions, and other information about *each* (single) arrangement (IAS 7.44H(a) and (b)), instead of arrangements as an aggregate.

Finally, we like to state that more transparency (about SFA) can not only be achieved by establishing a “disclosure objective” – to be met, naturally, by mere additional disclosures. Instead, more transparency could be achieved by setting a “transparency objective” – which would be more comprehensive and preferably be met by appropriate presentation, accompanied by adequate disclosures.

Q3 – 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.

BC16 and BC21–BC22 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.

We do not oppose generally adding SFA as examples to both standards. However, we are not entirely clear about whether amending the proposed selected requirements, these and only these, are useful and appropriate.

In respect of the liquidity risk disclosures (IFRS 7), adding SFA as an example to a non-exhaustive list of factors that “might be considered” (para. B11F) appears, at least, not inappropriate. Nevertheless, it remains unclear whether, and how, amending para. B11F would require any disclosure in addition to what should already be disclosed under the current wording.

In respect of the disclosures about changes in liabilities arising from financing activities (IAS 7), we doubt whether the proposed additional disclosure requirement in para. 44B(da) is sufficiently clear. This additional disclosure primarily concerns non-cash changes, but also relates to (future) cash-flows and, hence, touches on the cash-flow presentation – although presentation issues are generally not in the scope of this ED (and the respective deliberations). Whilst agreeing with the requirement, we think that the example in para. 44B(da) would benefit from incorporating the reasoning provided in BC16 into the main body of the standard as the current wording might raise unintended questions about cash-flow presentation.