



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

25 March 2022

Dear Board Member,

Re: ED/2021/10 Supplier Finance Arrangements

BUSINESSEUROPE welcomes the opportunity to comment on the Exposure Draft regarding the Supplier Finance Arrangements.

We understand that users are interested in the effects of supplier finance arrangements and we agree with some of the disclosures proposed by the Board. However, we think that the proposals go well beyond what is necessary to assess the effects on the entity as the proposed disclosures are too disaggregated, may contain sensitive information and may require information that is not available to entities. We note that the proposal would even apply to entities that are not affected by supplier finance arrangement when they do not benefit from extended payment terms. In our view, additional disclosures should be required only when entities are affected.

We also believe that economically similar transactions, e.g. factoring arrangements of the supplier, should be discussed to ensure that similar transactions are presented in similar ways.

Should you wish to discuss any of these comments, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser
Legal Affairs Department

ANNEX

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.

BusinessEurope concludes that an entity should only be subject to the proposed disclosures when it itself is affected from extended payment terms or there is a derecognition of a trade payable combined with the recognition of a financial liability or a concentration in terms of liquidity risk exists. In our view, this would be in line with the objective of the draft amendment, i.e. to provide users with information on effects of such arrangements on the cash flows and risk associated with such arrangements. Hence, when there is no effect on cash flows and liquidity risk, no additional disclosures should be required.

Overall, BusinessEurope is of the view that additional disclosures should only be required, if the reporting entity is affected (e.g. by prolonged payment terms) by reverse factoring arrangements. This could be achieved by either defining the disclosure requirements appropriately or be altering the description to ensure that only arrangements that affect the reporting entity, are considered.

While all members of BusinessEurope share this conclusion, there are various lines of thought which lead to the described outcome:

Some members of BusinessEurope do not see the necessity to provide additional disclosures in the absence of a recognition of a financial liability instead of a trade payable. IFRS provide sufficient guidance to determine when there is a trade payable and when there is a substantial modification that would lead to a derecognition of a trade payable. Additional disclosures should only encompass transactions that would lead to a modification and/or the recognition of a financial liability instead of a trade payable. The description of a supplier finance arrangement should therefore narrowed to clarify that disclosures are only required in the case of supplier finance arrangements that lead to a derecognition event.

Other members welcome the IASB's approach to describe rather than define supplier finance arrangement. These members recognize that there are many different types of



such arrangements already existing and assume that more types will arise. Hence, a rather broad description seems appropriate to capture these transactions and they agree with the Board's reasoning laid out in ED.BC6.

They also agree – in principle – with the description presented in paragraph 44G of the ED. However, strong concerns regarding the practicability of that definition are raised. While the information on own payment dates will be available to an entity, assessing the change in payment terms for the supplier will be much more difficult if not impossible since this information may be commercially sensitive or an exchange of such information could be regulated. The buying entity may not be aware of payment dates that differ from the agreed payment dates of the invoice. An entity and its supplier may have created the ability for the supplier to sell or otherwise finance its receivables against the entity, but the with entity having no knowledge of the actual usage of that option. The example in ED.BC8(a) seems therefore oversimplified.

Nevertheless, while a broad description may cover the range of existing arrangements, these members do not think that the proposed disclosures should apply to all of them. A “one size fits all” approach does not seem to be appropriate given the differences in the effects they have on the reporting entity.

As a further remark with regard to the example provided in ED.BC8(b), we think that the Board should clarify whether direct payment by finance providers to suppliers is sufficiently evident to conclude that there is a supplier financing arrangement rather than two separate transactions (obtaining a credit facility on the one hand and the purchase of goods or services on the other hand). Especially in the transaction described in that example, where the finance amount exceeds the amounts payable to suppliers, there seems to be room for misinterpretation.

As such, there is a large economic similarity of these arrangements with direct factoring arrangements between a supplier and other financial institutions. Both should be adequately considered when defining new disclosure requirements. We therefore disagree with the Board's conclusion presented in ED.BC11 and suggest that the Board analyze both aspects simultaneously to avoid that economically similar transactions are disclosed in different ways.

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.

We disagree with the level of detail that the Board proposes to be disclosed.

Regarding ED.44H (a)

It will be very burdensome to disclose the terms and conditions of each arrangement and this could also be conflicting with confidentiality agreements. Entities may also have a wide variety of different arrangement which could lead to extensive disclosure that would not result in better information for users. Entities should be required (not simply permitted) to aggregate disclosures when the main features of the arrangements are similar, to avoid creating an incentive to disclose unnecessary details.

Regarding ED.44H (b)(i)

We agree that it is useful for users to assess the amount of liabilities that are reclassified from trade payable to financial liabilities or incurred instead of trade



payables. However, that information would be better provided on an aggregated level instead of on an arrangement-by-arrangement level for the reasons stated above.

Regarding ED.44H (b)(ii)

We disagree with the proposal to disclose liabilities for which the supplier has already received payment. From our perspective, that information may be sensitive and not always available. We also disagree with the Board's conclusion in ED.BC19 that finance providers would be able to freely exchange such information, especially when the entity does not benefit from extended payment terms.

The proposed disclosure would also not provide any additional information that could be used to analyse the cash flows of the entity, as long as payment terms remain unchanged whether or not the suppliers make use of such an arrangement.

Regarding ED.44H (b)(iii)

We agree that there is a justified interest in the working capital management of the entity. As such, an overall range of days payable may provide useful information for investors. However, we disagree with the Board's proposal to disclose due dates separately per each agreement. Depending on the individuality of arrangements (e.g. when an entity enters into different arrangements with each supplier), the information provided may be detrimental to the economic situation and the overall negotiation position of an entity.

Regarding ED.44H (c)

We agree that it will be useful for investors to assess the effect that supplier finance arrangements have on the working capital of an entity.

However, we remain concerned that there is a potential for misinterpretation when users compare the information in accordance with ED 44H (b)(iii) and 44H (c). Members have reported that regional differences exist in terms of payment due dates and situations may occur, where trade payable subject to supplier finance arrangements have shorter due dates than trade payables that not part of such arrangements. It could give the impression that supplier finance arrangements would even lead to a shortening of due dates.

**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.

As a consequence of the changes proposed above, the Board should alter the examples provided to clarify that no disclosures are required if the reporting entity remains unaffected from such arrangement (e.g. because it does not benefit from extended payment terms) and to reflect a reduced amount of disclosures.