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March 25, 2022

IFRS Foundation
Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

Our Ref: 2022/O/C1/IASB/MS/25

RE: Exposure Draft ED/2021/10 *Supplier Finance Arrangements*

Dear International Accounting Standards Board (IASB or the “Board”) members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Exposure Draft *Supplier Finance Arrangements*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 (“Members”) seek to further IOSCO’s mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments provided herein reflect the consensus among Members and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Supplier finance arrangements (SFAs) are becoming increasingly relevant in the financing structure of many entities, so members welcome this project that would significantly improve the transparency and comparability of the financial statements of entities with regard to these kinds of arrangements.

We agree with the proposed approach of not developing a detailed definition of an SFA since it would eliminate the risk of that definition becoming outdated and it would reduce structuring opportunities that could arise. Furthermore, we support the new disclosure requirements that would modify IAS 7 and IFRS 7 because we believe that those disclosures would enhance the assessment of the effects of SFAs on the entity’s liabilities and cash flows carried out by users of financial information. However, in our detailed



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feedback on each question of the Exposure Draft, we provide the Board with some suggestions to improve the usefulness of the [Draft] amendments.

In addition, we consider that, although the Exposure Draft introduces new and necessary disclosures, disclosure on its own may be insufficient. To enhance consistency and minimize diversity in practice, we encourage the Board to address the classification and presentation in the financial position and cash flows statements related to SFAs. In particular, we believe that it is necessary that the ED sets up which considerations shall be taken by preparers when assessing how to present liabilities that are part of an SFA and to provide guidance on how to classify the cash outflows related to these arrangements, either as cash flows from operating or financing activities.

In our view, the rationale provided in paragraph BC20 of the Exposure Draft is not sufficiently compelling to justify not addressing this issue. However, we appreciate that the Board's immediate focus is to address the information needs of users quickly through disclosures in this narrow scope project. If the Board decides not to include classification and presentation in this project, we believe some examples should be included in the final amendments in order to promote consistency among entities. Further, a decision by the Board to move forward with the disclosure guidance should not prevent the Board from addressing classification and presentation of SFAs in the future in a separate project.

These examples could include different fact patterns regarding how the liabilities stemming from SFAs should be classified and presented in the financial statements, thus clarifying those circumstances and indicators that issuers should consider when deciding whether those liabilities are not a trade or other payable item, but rather they represent borrowings of the entity, and therefore, they have to be presented as financial liabilities in accordance with paragraph 54 of IAS 1, and the cash flows included within financing activities.

Some circumstances and indicators were included in the December 2020 agenda decision but we consider that their relevance would be greater if some examples were included in the standard as examples. Likewise, we consider it useful to incorporate into the standard an example of the proposed quantitative information required by the ED similar to that included in the document *Investor Perspective: Supplier Finance Arrangements* published on the IFRS website.



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Responses to the Board's Questions

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:

Members agree with the proposed approach of not attempting to develop a detailed definition of a SFA but rather describing it in a manner that would capture all similar arrangements, since this approach would eliminate the risk of that definition becoming outdated and it would reduce structuring opportunities that could arise. Consequently, we agree that variations in the form or labelling of the arrangement should not affect whether the disclosure requirements apply, thereby all arrangements with the characteristics of SFAs are subject to the proposed new disclosure requirements irrespective of where and how an entity presents and classifies the related liabilities and cash flows in its financial position and cash flow statements. Indeed, for the avoidance of the doubt, we consider that it should be clarified that paragraphs 44F to 44I apply to all SFAs, regardless how the liabilities and cash flows are classified.

However, the description of SFAs included in paragraph 44G could be read to encompass traditional financing arrangements with finance providers such as lines of credit or term notes that an entity can use to finance purchases from suppliers. Specifically, the description “...one or more finance providers offering **to pay amounts an entity owes its suppliers**” does not indicate to whom the finance provider is making payments (emphasis added). We recommend that the Board consider revising it to clearly state that the finance providers offer to pay the suppliers, for example, “...one or more finance providers offering **to pay an entity's suppliers the amounts the ~~an~~ entity owes its suppliers**...” This new wording would exclude transactions where the supplier is not a party to the arrangement with the finance provider. In this regard, we also suggest that the Board clarify whether the term “finance providers” included in paragraph 44G (one of the characteristics of supplier finance arrangements) can be applied to all entities that offer supply finance services.



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In addition, we believe there is ambiguity, and as a result, the potential for structuring of arrangements to avoid disclosure, in the wording: “...*the **entity agreeing to pay the finance providers** at the same date as, or a date later than, suppliers are paid*” (emphasis added). We believe there could be supplier finance arrangements where the entity does not explicitly agree to make a payment directly to the finance provider, so we recommend updating the sentence as follows: “... ~~the entity agreeing to pay the finance providers~~ **at the finance provider is paid** the same date as, or a date later than, suppliers are paid.”

Furthermore, we acknowledge that these arrangements often provide the entity with extended payment terms or the entity’s suppliers with early payment terms, compared to the related invoice payment due date. Nevertheless, we believe that the inclusion of this characteristic is not necessary to describe an SFA and they should not limit which supplier finance arrangements are under the scope of this ED. Therefore, based on the same reasons argued for not drafting a strict definition of an SFA, members suggest rephrasing the second sentence of paragraph 44G as follows “these arrangements **often** provide the entity with extended payment terms, or the entity’s suppliers with early payment terms, compared to the related invoice payment due date.”

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



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- 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:

We support the disclosure requirements of paragraph 44H of the [Draft] Amendments to IAS 7 because they will help users of financial statements to assess how SFAs affect an entity’s liabilities and cash flows, and to understand the effect of SFAs on an entity’s liquidity risk. In particular, we would like to highlight the disclosure of the carrying amount of financial liabilities recognised in the entity’s financial position statement that are part of an SFA for which suppliers have already received payment from the finance providers, which would considerably improve the transparency of the entities’ financial situation. However, we believe that it should be clarified that trade payables are also embedded within the term “financial liabilities” used in paragraph 44H, which we consider necessary to enable the reader to have a complete view of the carrying amount at opening and closing dates of liabilities related to SFAs.

Moreover, we note that an SFA entered into between an entity and a supply finance provider generally contains a credit limit. We believe that the undrawn available amount at reporting date is a relevant disclosure to the users of the financial statements. Therefore we suggest expanding paragraph 44H to require the disclosure of the credit limit, the drawn amount and the undrawn amount. In addition, we also consider it is relevant to add to the examples of the terms and conditions of each SFA, whether or not the liability is with or without recourse.

Regarding the last sentence of paragraph 44I, in order to enhance the meaningfulness of the resulting disclosures, we believe the Board should consider whether the terms and conditions of the arrangements are the only characteristics that should be considered by an entity when applying the guidance on



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aggregation, as we note the Board’s focus on “characteristics” in the recent tentative decision made by the Board regarding aggregation and disaggregation principles in its Primary Financial Statements project (IASB Update September 2021, Agenda Paper 21D). We believe the Board should also consider updating the guidance in paragraph 44I to provide example characteristics for entities to consider when aggregating and disaggregating SFAs. In addition, we are concerned that entities will provide no disclosure if they have several SFAs that are collectively material, but not individually, which we do not believe to be in the interest of users. Therefore, members encourage the IASB to require entities to provide disclosures on such arrangements on an aggregate basis, even if the criteria for aggregation set out in paragraph 44I are not met, when a number of supplier finance arrangements are not material individually, but they are on an aggregate basis.

The disclosure objective described in 44F shall enable users of financial statements to assess the effects of those arrangements on the entity’s liabilities and cash flows. However, to meet this objective, paragraph 44H refers to some disclosures but none of them are directly related to the cash flows. We recommend the IASB include some disclosures related to cash flows, for instance changes in an entity’s operating and financing cash flows due to SFAs.

Furthermore, we suggest that the Board consider adding a requirement to explain the significant criteria and judgements applied to present liabilities related to SFAs as trade payables or financing liabilities, and their cash flows from operating or financing activities. In this regard, until the classification and presentation of the SFAs is addressed, we believe that this specific requirement for disclosing those significant judgments would be necessary, in addition to the general requirements of IAS 1.

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.



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Response:

We support the proposal of amending paragraphs 44B, B11F and IG18 to add SFAs 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. We consider that it would encourage issuers to take SFAs into account when they comply with the current requirements under IAS 7 and IFRS 7.

With regard to liquidity risk, members suggest adding a requirement to disclose the existence of concentration of risk to specific supplier finance provider(s), instead of the requirement of paragraph IG18, which refers to SFAs in general.

Finally, members believe that it would be helpful if the IASB publishes educational material on the application of IFRS requirements to various types of SFAs.

We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
Committee on Issuer, Accounting, Audit and Disclosure
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