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DES NORMES COMPTABLES

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PDC n°16

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## Exposure Draft ED/2021/10—Supplier Finance Arrangements

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned exposure draft (ED).

In December 2020, the IFRS Interpretations Committee (Committee) published an [agenda decision](#) *Supply Chain Financing Arrangements* explaining the existing IFRS requirements applicable for an entity that has entered into a reverse factoring arrangement<sup>1</sup>. In a [letter](#) dated 23 September 2020, we had expressed support to the publication of this agenda decision, together with narrow-scope standard-setting aiming at enhancing the disclosures applicable to reverse factoring arrangements (or 'supplier finance arrangements' throughout this letter). As a response to the feedback received by the Committee and further to additional outreach with users of financial statements, the IASB (Board) tentatively decided to undertake standard-setting focused on disclosures. Consistent with our views on this matter, we welcome the thrust of the Board's proposals as set out in the ED and overall agree with those proposals. The increasing use of supplier finance arrangements around the world has been accompanied with increased scrutiny from a number of stakeholders (users and regulators in particular) given the possible double-edged effects of such arrangements on entities' liquidity. In our view, this context requires developing specific application guidance to the existing requirements in IFRS Standards to improve the understanding of how such arrangements affect an entity's financial position and cash flows. We also note that the FASB is also considering developing disclosures requirements for those arrangements, thus contributing to some level playing field in relation to the information entities are expected to provide across the world.

We support the proposed scope of disclosures objectives and requirements together with the proposed objectives and requirements themselves. That being said, we have some observations on some of the Board's proposals and suggest possible refinements in Appendix A to this letter. In particular, we:

- recommend the Board explicitly specify disclosure requirements to help understand the effects of supplier finance arrangements on an entity's cash flows—paragraph 44F of the ED includes a disclosure objective referring to an entity's cash flows but with no accompanying disclosure requirements in paragraph 44H.
- encourage the Board to double-check whether disclosures about the range of payment due dates of trade payables would provide useful information at a reasonable cost.

We welcome this narrow-scope standard-setting project focused on disclosures. However, we observe that supplier finance arrangements raise a number of accounting matters notably about how an entity shall (i) present liabilities that are part of such arrangements in its statement of financial position and (ii) report the related cash

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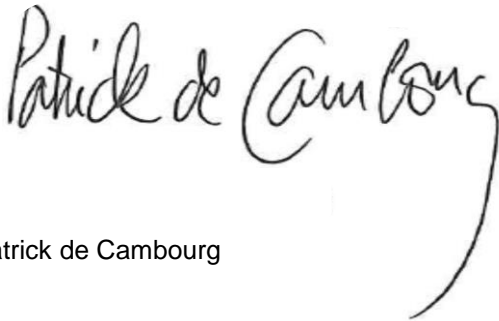
<sup>1</sup> This agenda decision sets out the applicable requirements in relation to how an entity determines the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes about, for example, liquidity risks that arise in such arrangements.

flows in its statement of cash flows—and having determined how those cash flows are presented, whether this presentation provides useful information. We note that EFRAG has identified a number of possible recommendations to improve the accounting for supplier finance arrangements which, in our view, provide evidence that further standard-setting may be warranted as a second step. Additionally, we note that the matter related to the presentation of cash flows in an entity's statement of cash flows is not specific to supplier finance arrangements—it also arises for receivable financing arrangements ('factoring of trade receivables') which are widespread. Accordingly, we think the Board should include such arrangements in any standard-setting project. We recommend the Board assess whether to undertake further standard-setting as part of its 2022–2026 Workplan to address those matters.

Appendix A to this letter provides our detailed comments on the ED.

Should you need any further clarification, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a long, sweeping tail that extends downwards and to the right.

Patrick de Cambourg

## APPENDIX A

### 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**

### Overall feedback

We support the proposed scope of disclosure requirements. Nonetheless, we suggest improvements to the drafting of the proposed scope. Additionally, we think, from a conceptual perspective, that differing types of supplier finance arrangements warrant specific disclosures requirements. However, we acknowledge the challenges of distinguishing arrangements in practice. Absent any better cost-benefit solution, we agree with the approach ultimately retained in the ED—ie specifying one set of disclosure objective and requirements for all supplier finance arrangements. We encourage, though, the Board to consider the feasibility of refining the proposed disclosures before finalising the amendments.

- **Describing rather defining supplier finance arrangements**

We agree with the Board's proposal not to define supplier finance arrangements for the reasons set out in paragraph BC6 of the ED. We agree that describing the characteristics of such arrangements is a better alternative that could capture the range of possible variations of, and future changes to, those arrangements.

- **The proposed description for supplier finance arrangements in scope**

Paragraph 44G of the ED includes a proposed description for supplier finance arrangements. This description captures, in our view, three *main* variations of those arrangements:

- arrangements in which an entity aims to achieve improvement to its working capital through extended payments terms. Paragraph BC8 of the ED includes a description of those variations:
  - o arrangements in which the entity has negotiated extended payment terms with its suppliers and the suppliers can choose to be paid earlier than the invoice due date by the finance providers<sup>2</sup>. In those circumstances, the existence of extended payment terms are, in substance, conditional upon the existence of the supplier finance arrangement (*Type 1 arrangements*).
  - o arrangements in which the entity has not negotiated extended payments terms with its suppliers. In those circumstances, the finance providers pay the suppliers on the invoice due date whereas the entity pays the finance providers at a later date (*Type 2 arrangements*)<sup>3</sup>.
- arrangements in which an entity aims to achieve other objectives than improving its working capital—such as providing support to suppliers through alternative and more affordable financing<sup>4</sup> or streamlining administrative processes. In those circumstances, the entity's suppliers can choose to be paid earlier than the invoice due date by the finance providers without the invoice due date having been modified beforehand (*Type 3 arrangements*).

However, we think this 'one-size-fits-all' description may end up making the understanding of paragraph 44G rather difficult and maybe inaccurate in some circumstances. For example, this paragraph specifies that '*...these arrangements provide the entity with extended payment terms...compared to the related invoice payment due date*'. This phrase appropriately captures *Type 2 arrangements* described above. It does not appropriately capture *Type 1 arrangements*—in those circumstances, the suppliers get paid on the invoice due date (a renegotiated due date); then it is instead appropriate to compare the invoice due date with the due date that would have existed applying payments terms before the renegotiations (or conditions that would have been obtained had the supplier finance arrangement not been put in place).

We also note that paragraph BC7 of the ED might create uncertainty about the arrangements falling in the scope of the Board's proposals. In our view, paragraph BC7 best describes *Type 2 arrangements*—ie those described

<sup>2</sup> Paragraph BC8(a) describes those arrangements.

<sup>3</sup> Paragraph BC8(b) describes those arrangements.

<sup>4</sup> Paragraph BC8(a) also describes those arrangements.

in BC8(b) of the ED—and *Type 3 arrangements* while the description in paragraph 44G is not limited to those arrangements.

To improve the understandability of the Board's proposals in relation to the scope of the proposed requirements, we recommend refining the description in paragraph 44G of the ED. Possible ways of doing so include (i) restructuring this paragraph in its entirety, (ii) elevating paragraph BC8 in any final amendments or (iii) improving the paragraph's wording as follows : 'A *supplier finance arrangement* is characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at the same date as, or a date later than, suppliers are *normally paid*. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related *normal invoice payment due date*. *Supplier finance arrangements* are often referred to as *supply chain finance, payables finance or reverse factoring arrangements*'.

- **The proposed scope for the disclosures applicable to supplier finance arrangements**

We understand that the Board's proposals also aim to require disclosures about *Type 3 arrangements*—ie those in which the supplier can choose to obtain payment before the invoice due date without any change to the normal payments terms agreed with the entity. For those types of arrangements, we think that the proposed description for supplier finance arrangements does not sufficiently help distinguish the circumstances in which a supplier obtains payment earlier than the invoice due date from the finance providers as part of a *supplier finance arrangement* (in which case the discount fee applied to the receivable purchase is typically lower than the fee that supplier would have negotiated on a stand-alone basis) from those in which the supplier obtains earlier payment as part of a 'standard' *account receivable factoring arrangement* with finance providers (in which the entity has no involvement). As literally drafted, the Board's proposals might be understood as also requiring an entity to disclose information about standard account receivable factoring arrangements used by suppliers and for which disclosures have so far applied to the suppliers only. We think helpful if the Board could clarify in any final amendments that factoring arrangements in which the entity has no involvement are not in the scope of the proposed disclosures.

Stepping back from the Board's proposals, we think the ED does not sufficiently consider whether *all* supplier finance arrangements warrant the same type of disclosure objectives and requirements. In our view, the reasons for which an entity enters into a supplier finance arrangement may not trigger the same information needs. In particular, we think that identifying the party that ultimately obtains financing from the finance providers is essential in the analysis. Specifically:

- for *Types 1 and Type 2 arrangements*, the entity (not its suppliers) obtains, in substance, financing from such arrangements. We understand that users have expressed information needs for those arrangements to help assess how those arrangements affect the entity's working capital and cash conversion and, ultimately, its leverage. There are specific risks applying for those arrangements. For example, should a *Type 1 arrangement* be terminated, we expect the suppliers to enter into negotiations with the entity to revert to the previous payment terms—thus, creating specific liquidity risks for the entity.
- for *Type 3 arrangements*, the suppliers (not the entity) obtain financing from the arrangements<sup>5</sup>. In this case, the proposed disclosures may inappropriately convey information that the entity has obtained financing. Should any such arrangement be terminated, we expect the entity to have less pressure from its suppliers to renegotiate the payment terms than for the circumstances in which a *Type 1 arrangement* is terminated. Here, we expect users to receive information from the suppliers' financial statements—not from the entity. We are unsure about whether users have specific information needs towards the entity. Some of our stakeholders think there is no compelling reason to require an entity to provide disclosures in this respect.

We acknowledge that distinguishing the above-mentioned types of arrangements could be challenging in practice. Consequently, it may be easier for the Board, and fit for purpose, to specify the same package of disclosures in a cost-benefit perspective. Absent any better cost-benefit solution, we agree with the approach ultimately retained. However, we encourage the Board to assess the feasibility of refining the proposed disclosures objective and requirements giving consideration to the party (ie the entity or the supplier) that obtains in-substance financing from the supplier finance arrangement—this is an important factor to understand the substance and implications of the arrangements.

- **Focusing the disclosures on supplier finance arrangements**

We agree with the Board's observations set out in paragraph BC11 of the ED explaining that the Board considered but did not proceed with extending the scope's project to arrangements that finance receivable or inventories. We think important to stay focused on supplier financing arrangements at this stage to avoid going astray and

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<sup>5</sup> Some suppliers may even require the entity to set up such arrangements to obtain financing.

unnecessarily delaying the publication of any final amendments. We think the Board could rather consider those matters as a second step as part of (i) a research project dedicated to revisiting IAS 7 *Statement of Cash Flows* or (ii) a broader scope project on supplier finance and receivable financing arrangements.

## **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.***

- **The proposed disclosure objective**

We agree with the Board's proposal to add an overall disclosure objective to help users of financial statements assess the effects of the supplier finance arrangements on an entity's liabilities and cash flows.

We note this objective is focused on the effects of supplier finance arrangements on an entity's financial position ('liabilities') and cash flows. However, we note that those arrangements may also affect an entity's financial performance because the entity may (i) incur costs to set up those arrangements or (ii) benefit from discounts received from prompt settlement of invoices. Consequently, we recommend the Board consider expanding the scope of the proposed disclosures to an entity's financial performance.

- **The proposed disclosure requirements**

We generally agree with the proposed disclosure requirements as set out in paragraphs 44H and 44I of the ED. Our comments below nonetheless include recommendations to refine the Board's proposals.

- **Disclosures about the effects of supplier finance arrangements on an entity's cash flows**

We note those disclosure requirements primarily focus on the effects of those arrangements on the entity's liabilities. Surprisingly, the ED does not specify disclosure requirements—other than the proposed changes to paragraph 44B of IAS 7—to help understand the effects on the entity's cash flows, in particular on the entity's statement of cash flows. We acknowledge that the 'wrap-up' requirement in paragraph 44I<sup>6</sup> should lead an entity to include information in this respect. However, as observed in paragraph BC12(b) of the ED, users have expressed specific information needs in relation to the reporting of supplier finance arrangements in an entity's statement of cash flows. We also note this is an area where (i) users have expressed mixed views as to whether the existing requirements in IAS 7 result in information that is useful—users may need information to make restatements they deem suitable for their analyses—and (ii) diversity in reporting practices may exist. Accordingly, we think the Board should develop specific disclosure requirements in this respect. Such requirements may include disclosing (i) how the entity has classified cash flows under such arrangements in the statement of cash flows, (ii) the amounts of cash flows it has reported as part of its operating and financing activities and (iii) sufficiently

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<sup>6</sup> In particular the sentence 'An entity shall disclose additional information about its supplier finance arrangements necessary to meet the disclosure objective in paragraph 44F...'

detailed information about non-cash transactions (if any) as part of the requirements in paragraphs 43 and 44 of IAS 7<sup>7</sup>.

We agree with the proposed amendment to paragraph 44B of IAS 7 that refers to '*non-cash changes arising from supplier finance arrangements*'. The proposed disclosure would be relevant when an entity reclassifies amounts related to the invoices that are part of the supplier finance arrangements from the trade and other payables line item to the financial liability line item. However, in those circumstances, an entity may not report any cash outflow as part of its cash flows from operating activities when the amounts due are settled by the finance providers to the supplier—the entity reports the related cash outflows as part of its cash flows from financing activities. Accordingly, we recommend the Board require an entity to separately disclose the cash outflows relating to supplier finance arrangements that are reported as part of its cash flows from financing activities. We also recommend the Board elevate its observations in paragraph BC16 of the ED in any final amendment because those observations are useful to understand the proposed amendment to paragraph 44B(da) of IAS 7.

- **Amounts that the finance providers have already paid to the suppliers**

With regard to the proposed disclosure requirement in paragraph 44H(b)(ii), we expect many entities to be able to disclose the related item of information—most notably because we expect entities to monitor the use of their credit facilities when they are the party to *Type 1* and *Type 2 arrangements*. However, not all entities might necessarily be able to do so. Consequently, we recommend an entity disclose the carrying amount of financial liabilities for which suppliers have already received payments from the finance providers when that information is reliably available without undue cost or effort.

- **Information about the range of payment due dates of trade payables**

The Board proposes to require entities to disclose information about the range of payment due dates of trade payables that are (i) part of supplier finance arrangements (paragraph 44H(b)(iii)) and (ii) not part of such arrangements (paragraph 44H(c)). We understand the rationale for such disclosures as set out in paragraph BC14(d) of the ED. This being said:

- we are unsure that such disclosures provide useful information in all circumstances. The standard deviation among those ranges may be significant, thus raising some doubts about whether users will ultimately receive information giving a faithful representation of the extent to which an entity has obtained financing. Some of our stakeholders have concerns about users making simplistic computations on the basis of that information and thus, deriving inaccurate interpretations. Disclosing the weighted average payment date or providing more granular information would conceptually provide more relevant information. However, we acknowledge the challenges of computing such a weighted average. We also note that providing more granular information could result in entities disclosing information that may be commercially sensitive. On balance, we agree that disclosing a range of payment terms may be a pragmatic approach.
- we have been made aware that preparing such disclosures—in particular those proposed in paragraph 44H(c)—may be costly for entities operating in many jurisdictions. The underlying information is available but processing that information may require time and efforts.

In our view, the costs and the benefits of the Board's proposals in this respect are finely balanced. Accordingly, we encourage the Board to double-check whether disclosures about the range of payment due dates of trade payables would provide useful information at a reasonable cost.

- **Other drafting point**

As a final note, we recommend the Board refine the wording in paragraph 44H(a) of the ED to require disclosure of the '*relevant*' terms and conditions of each supplier finance arrangements.

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<sup>7</sup> We observe that the requirements in paragraphs 43 and 44 of IAS 7 only refer to *investing* and *financing* transactions and thus, do not, as currently drafted, capture transactions that are part of supplier finance arrangements.

### 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.**

We agree with the Board's proposed amendments to IFRS 7 *Financial Instruments: Disclosures* and its implementation guidance.

We recommend the Board retain in any final amendments the observations in paragraph BC21 of the ED—in our view, those observations are helpful to understand how supplier finance arrangements may increase liquidity risk. We suggest, though, the Board enrich those observations by also explaining that typically in this type of arrangement the finance providers may under certain circumstances deduct the amounts for which suppliers have already received payment from the total amount those finance providers may be willing to lend to the entity—in other words, the existence of supplier finance arrangements may reduce an entity's ability to obtain additional borrowings or reduce its ability to draw on existing borrowings, and thus may affect the entity's liquidity risk.

### Other comments

The Board explained in paragraph BC20 of the ED that it had decided not to address, as part of this project, classification and presentation matters in an entity's statement of financial position and statement of cash flows. However, we encourage the Board to consider elevating in any final amendments the analysis set out in the Committee's agenda decision published in December 2020.

Despite the Board's intention not to address classification and presentation matters, we note that paragraph BC19(a) incidentally touches on such issues when the Board's states that it (emphasis added) '...expects that, to the extent finance providers act as a paying agent on the entity's behalf (and the entity continues to present the related liabilities as trade and other payables), the entity would be able to obtain [the carrying amount of financial liabilities for which suppliers have already received payment from the finance provider] from its paying agent'. We do not agree with this observation as drafted. An entity shall first assess whether to derecognise a trade payable that is part of a supplier finance arrangement. We think this assessment would lead to differing conclusions when considering separately the two types of arrangements described in paragraphs BC8(a) and BC8(b) of the ED:

- with respect to the arrangements described in BC8(b) of the ED (*Type 2 arrangements* in this letter), the Board's observation in paragraph BC19(a) seems to conflict with the derecognition requirements in IFRS 9 *Financial Instruments*. In the fact pattern described in paragraph BC19(a), the trade payable is normally legally extinguished when the finance providers discharge the liability on the debtor's behalf. Applying the requirements in paragraphs 3.3.1 and B.3.3.1 of IFRS 9, the entity should (i) derecognise the trade payable (ie a liability to pay for goods or services) and then (ii) recognise a new liability for the provision of funds used to settle the trade payable. Accordingly, the settlement of the trade payable by finance providers acting as 'a paying agent on the entity's behalf' would be a cash transaction that the entity should report in its statement of cash flows as (i) an operating cash outflow and (ii) a simultaneous financing cash inflow (with the final repayment of the finance providers being presented as a financing cash outflow).
- with respect to the arrangements described in BC8(a) of the ED (*Type 1 arrangements* in this letter), suppliers can choose to be paid earlier than the invoice due date by the finance providers, at a discount. In those circumstances, we agree that the entity may not derecognise the trade payable when the finance providers pay the suppliers—ie the entity may continue to present the related liabilities as trade and other payables (similarly to what is done when suppliers elect to factor their receivables at their own discretion).

Accordingly, we recommend the Board remove the phrase 'and the entity continues to present the related liabilities as trade and other payables' from paragraph BC19(a) if it were to carry forward this paragraph in the basis for conclusions on any final amendments.