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26 March 2022

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom

Dear Dr Barckow

Re: ED 2021/10 Supplier Finance Arrangements – Proposed amendments to IAS 7 and IFRS 7

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') exposure draft *Supplier Finance Arrangements – Proposed amendments to IAS 7 and IFRS 7* (the 'ED').

We support the Board's initiative to improve the disclosures an entity provides about supplier financing arrangements.

We agree with the approach taken by the Board to identify the scope of the arrangements for which additional information should be provided by describing the characteristics of these arrangements. As further explained in our detailed response, we suggest that some changes to the proposed characteristics may be required to ensure that relevant supplier finance arrangements are appropriately identified. It would also be useful if the Board clarified that arrangements such as credit card arrangements and other similar trade line of credit arrangements and financial guarantee contracts may also provide a means for an entity to finance amounts owed to their suppliers and that when this is the case, entities are required to provide the relevant disclosures.

We agree with the proposed disclosure objective and believe that, in general, the proposed required disclosure would help to achieve this objective. However, we do not support the proposal that an entity that enters into supplier finance arrangements should disclose the carrying amount of financial liabilities for which the suppliers have already been paid by finance providers. As noted in the ED, an entity would need to obtain this information from the finance provider(s) and as such we are concerned about the entity's ability to obtain and verify this information that would not be subject to the entity's internal controls. We also question whether the disclosure would necessarily provide relevant information about the situation of the entity.

Separately from the finalisation of this project, and consistent with our response to the Board's recent agenda consultation, we suggest that the Board takes on a medium-sized targeted project to improve certain aspects of IAS 7, which would include, among others, the presentation of the effect of supplier finance arrangements on an entity's statement of cash flows.

Our detailed responses to the consultation questions are set out in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix

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.

We agree with the approach taken by the Board to identify the scope of the arrangements for which additional information should be provided by describing the characteristics of these arrangements. We also agree that it is appropriate that the amendments focus on supplier finance arrangements for the reasons provided in paragraph BC11.

However, we are concerned that the scope of the arrangements captured may be subject to debate. This is because the relationship or hierarchy between the different sentences in paragraph 44G is not clear.

In particular, we note that paragraph 44G starts by indicating that 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 paid". Based on this, it appears that the amendments are meant to capture all arrangements in which a finance provider intervenes between a customer and its suppliers, including those that may not include a finance component (i.e. those arrangements in which the customer pays the finance provider at the same date as the suppliers are paid).

However, the second sentence may be read to indicate that a further characteristic of supplier finance arrangements within the scope of the amendments is that the entity pays the finance provider, or the suppliers are paid by the finance provider, at a different date than the invoice due date. Accordingly, the second sentence may be interpreted as narrowing the scope of the arrangements captured as compared to the first sentence. If this is not the case, we suggest that the second sentence be amended to refer to the fact that

> *These arrangements <u>may</u> provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment terms, compared to the related invoice due date.*

If indeed, the amendments are meant to apply only to arrangements in which the entity agrees to pay the financing provider at a date later than the suppliers are paid, we suggest that the first sentence be amended accordingly.

We note that the use of the invoice due date as a reference point to identify whether financing has been received by one of the two parties may not be effective. In some arrangements, the invoice due date is adjusted for suppliers that participate in the arrangement and reverts to the "normal" invoice date if a supplier withdraws from the arrangement. Hence, if this is to be retained as a characteristic of arrangements captured by the amendments, it may be necessary to consider whether additional guidance is necessary to cater for the fact that the invoice date may be affected by the existence of an arrangement. Alternatively, the possibility offered by the arrangement that the suppliers may be paid earlier than the date the customer pays the finance provider may be a sufficient characteristic of the

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arrangements for which additional disclosures are warranted. Indeed, paragraph BC10 indicates that the Board meant to capture all arrangements that provide financing of amounts an entity owes to its suppliers.

Finally, the last sentence of paragraph 44G appears to further narrow the scope by giving typical names used to describe a subset of the broader scope of arrangements that are captured in the first sentence (supply chain finance, payables finance or reverse factoring arrangements). Whilst it may be helpful to give names of typical arrangements that are captured by the scope of the amendments, there is a risk that the name borne by an arrangement may take an undue importance in assessing the disclosures that should be provided. This does not appear to be the intent since BC10 notes that “variations in the form of labelling of the arrangement would not affect whether the disclosure requirements apply”. It may be useful to integrate this explanation in the main body of the amendments.

Some credit card arrangements and other similar trade line of credit arrangements (e.g. letters of credit) provide entities a means to finance amounts owed to their suppliers and as such may meet the characteristics provided in the first two sentences of 44G. However, these arrangements are often perceived as being different from “supply chain finance, payables finance or reverse factoring arrangements”. Therefore, it would be useful if the Board clarified that indeed supplier finance arrangements can arise from credit card and similar arrangements and when this is the case, entities are required to provide the relevant disclosures.

We note that financial guarantee contracts issued by a financial institution may also provide a means for entities to manage their liquidity in the same way as supplier finance arrangements. Through the financial guarantee contract, the financial institution agrees to pay a supplier if a buyer fails to settle the trade payable by a certain date. The financial institution then seeks recovery through collecting the defaulted receivable amount from the buyer (such that the buyer ends up settling the trade payable at a date later than the date the supplier is paid). We believe that it would be useful for the Board to also clarify whether these arrangements are within the scope of the proposed amendments to IAS 7 and IFRS 7.

Also, whilst it appears clear from paragraph BC11 that the amendments are aimed at supplier financing arrangements, the description provided in paragraph 44G may inadvertently require an entity to provide disclosure when its invoices (its trade payables) are entered into a factoring arrangement by one of its suppliers. Whilst a factoring arrangement is an arrangement between a supplier (the party who sells its trade receivables) and a finance provider, with the debtor being a passive participant, the financing arrangement appears to meet the characteristics proposed in 44G from the perspective of the debtor because the arrangement introduces a finance provider between the customer/debtor and the supplier/creditor. This is particularly the case when, before accepting the factoring of the receivables, the finance provider requires confirmation by the debtor that the goods or services have been received and that the trade receivable is valid for payment. In effect, the debtor can be viewed as agreeing to pay the finance provider at the same date (or a later date) than the date the finance provider purchases the receivable from the supplier. The Board should consider whether it is appropriate and relevant that an entity, a passive debtor, should be required to provide additional disclosures in such circumstances, in particular because the entity may not have the necessary information to comply with the disclosure requirements proposed in paragraph 44H. Paragraph BC7 appears to indicate that an important characteristic of supplier finance arrangements is that it is the buyer, and not the supplier, that enters into the arrangement with the finance provider. If indeed the Board believes that this is a key factor in identifying supplier finance arrangement this should be made clear in the body of the standard.

It would then be useful for the Board to distinguish factoring arrangements that are set up between a supplier/creditor and a finance provider, with the debtor being a passive participant, from other factoring arrangements that are set up with the active involvement of the debtor, confirming whether these latter arrangements are indeed a form of supplier finance arrangements (from the perspective of the debtor).

In this context, we note that as a result of a factoring arrangement, a finance provider may become the legal owner of the trade receivables such that the entity (the buyer) no longer owes an amount to its supplier but instead owes an amount to the finance provider. However, paragraph 44G refers specifically to "amounts an entity owes its suppliers". If the Board intends for debtors to provide the disclosures proposed in this ED in respect of amounts they owe that were entered into a factoring arrangement by the supplier, it would be important to clarify that this is the case regardless of the legal owner of the "trade" debt.

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 agree with the proposed disclosure objective and believe that the proposed required disclosure would help to achieve this objective, subject to the following comments:

- 44H(a): we suggest that the paragraph be amended to refer to the need to disclose "the relevant terms and conditions…"
- 44H(b): we note that the information required by this paragraph would need to be provided as at the beginning and end of the reporting period. Because of the short-term nature of the amounts that are typically subject to supplier finance arrangements, the disclosure in relation to payables as at the beginning of the reporting period will likely produce limited useful information, given that any payments will have been settled and bear no further risk.

- 44H(b)(i): we suggest that the paragraph be amended to make it clear that the carrying amount of the recognised financial liabilities that are part of the arrangement should be provided separately for each line item(s) that include such amounts.
- 44H(b)(ii): as noted in paragraph BC19, an entity is unlikely to have access readily to the carrying amount of financial liabilities for which the suppliers have already been paid by finance providers and would need to obtain this information from the finance provider(s). We are concerned about the ability of entities to obtain and verify this information that would not be subject to the entity's internal controls. We also question whether indeed an entity would always be entitled to obtain this information that may be affected by a separate agreement between the finance provider and the supplier(s). Additionally, in cases where the supplier *chooses* to be paid earlier than the invoice date by the finance provider, in exchange for an early payment discount, the disclosure required by 44H(b)(ii) may not provide relevant information about the situation of the entity (the customer). This is because the early payment to the supplier does not impact the timing or amount of the payment of the entity/customer to the finance provider other than fees it pays the finance provider for entering into the arrangement which are already captured by the disclosure requirements of paragraph 44F(a). As such, we suggest that the Board reconsider whether entities would be able to provide reliable information and if so, whether the costs required to comply with this requirement outweigh the benefits to the users.
- 44H(c): we suggest that the Board should consider whether the disclosure of the range of payment due dates of trade payables that are not part of a supplier finance arrangement would indeed provide useful information to the users of the financial statements unless this information is accompanied by additional information (e.g. segments or geographies) to allow a meaningful comparison between the range of payment due dates of financial liabilities that are part of a supplier finance arrangement (i.e. the requirement in paragraph 44H(b)(iii)) and those that are not.

Whilst we support the finalisation of the proposals in the ED, subject to the comments made in response to the various questions, we continue to believe that the Board should take on a medium-sized targeted project to improve certain aspects of IAS 7, which would include, among others, the presentation of the effect of supplier finance arrangements on an entity's statement of cash flows.

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 proposed amendments.