



SUPPLIER FINANCE ARRANGEMENTS – PROPOSED AMENDMENTS TO IAS 7 & IFRS 7

Issued 25 March 2022

ICAEW welcomes the opportunity to comment on ED/2021/10 *Supplier Finance Arrangements – proposed amendments to IAS 7 & IFRS 7* published by the IASB in November 2021, a copy of which is available from this [link](#).

For questions on this response please contact our Financial Reporting team at representations@icaew.com quoting REP 31/22.

We welcome the Board's efforts to provide greater transparency and insight into the use of supplier financing arrangements. We are supportive of the proposed disclosure objective but are concerned that the proposed disclosure requirements are overly complex and could lead to unnecessary clutter in the financial statements.

This response of 25 March 2022 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 157,800 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2022

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

SCOPE

1. We welcome the Board's efforts to provide greater transparency and insight into the use of supplier financing arrangements.
2. We agree with the proposed approach of explaining the characteristics of supplier finance arrangements that are within the scope of the proposed disclosures as this will provide sufficient flexibility to ensure that all such arrangements are captured.
3. We suggest that the Board considers developing similarly robust disclosures for arrangements that are linked directly to financing receivables or inventory at a future date.
4. See our response to question 1 below for more details.

DISCLOSURES

5. We are concerned that the proposed disclosure requirements are overly complex and could lead to unnecessary clutter in the financial statements. In particular, we are concerned that the proposals could result in the disclosure of lots of potentially superfluous information that risks obfuscating more material disclosures.
6. See our response to question 2 below for details of how we think the proposed disclosures could be improved.

ANSWERS TO SPECIFIC 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.

7. We agree with the proposed approach of explaining the characteristics of supplier finance arrangements that are within the scope of the proposed disclosures as this will provide sufficient flexibility to ensure that all such arrangements are captured. Any detailed definition risks becoming outdated as arrangements evolve and new practices develop over time. However, guidance on whether or not arrangements that are set up primarily for the benefit of the supplier are intended to be within scope would be helpful. In our view, such arrangements should be beyond the scope of the proposed requirements as they are likely to have little if any impact on the purchaser's financial statements and are of little interest to the users of them.
8. While we appreciate the Board's reasons for not including arrangements that are linked directly to financing receivables or inventory within the scope of these proposals, we believe that a similar level of transparency about such arrangements would be desirable. We suggest that the Board considers developing similarly robust disclosures for such arrangements at a future 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:**
- (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.**
 - (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**

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.

9. While we are supportive of the proposed disclosure objective, we are concerned that the proposed disclosure requirements are overly complex and could lead to unnecessary clutter in the financial statements. In particular, we are concerned that the proposals could result in the disclosure of lots of potentially superfluous information that risks obfuscating more material disclosures.
10. Sophisticated users of financial statements may be able to use the data provided by the proposed disclosures to calculate how cash flow and leverage has been affected by supplier finance arrangements and to adjust metrics accordingly. But these calculations are not trivial and will differ depending on whether the liability under the arrangement has been classified as trade or other payables or as financing.
11. Rather than providing users with raw data and expecting them to make relevant adjustments, it would be better to simply provide them with the information they want. If, for example, the liability under the arrangement is classified as trade payables then, potentially, there is a component of that liability that is really bank debt. If this is material, investors will want to know what it is and by how much operating cash flow has been affected due to the inclusion of the change in financing in operating rather than financing in the cash flow statement. Disclosing this information in aggregate for all schemes may be simpler and more understandable.
12. That withstanding, the proposed disclosure requirements set out in draft paragraphs 44F–44I do go some way towards providing the required transparency. In some instances, there may be additional costs involved in obtaining the information needed to comply with the proposed disclosures, but overall we agree with the Board’s conclusion that the benefits to the users of the financial statements are likely to outweigh these costs.

13. We do, however, have some concerns about the following proposed disclosures:
- a. Terms and conditions
Paragraph 44H(a) requires entities to disclose the terms and conditions of each supplier finance arrangement. While investors will undoubtedly be interested in this information, this requirement could be quite onerous, particularly where an entity has entered into a large number of such arrangements. The standard should make it clear that it is acceptable to aggregate this information but that this should only be done where the terms and conditions of such arrangements are similar.
 - b. Payments received by suppliers from finance providers
Paragraph 44H(b)(ii) requires entities to disclose the carrying amounts of financial liabilities that are part of a supplier financing arrangement for which suppliers have already received payment from finance providers. Although entities will know when such payments are due, they will not necessarily know whether they have actually been made by the finance provider. Entities may therefore struggle to accurately disclose such amounts without incurring additional costs.
14. The following additional disclosures would also be useful:
- a. Disclosure of cash flow to the provider of the financing arrangement
The final standard should explicitly require companies to disclose the actual cash flow to the provider of the supplier finance arrangement and whether this cash flow is presented in operating or financing cash flows. More than anything else, providing this information would help users to better understand how such arrangements are accounted for.
 - b. Roll-forward of the liability
The proposed disclosures are enough to understand the cash flow effects in simple situations. But more information – including a roll-forward of the liability – may be needed if there are business combinations, business disposals or exchange rate effects. The disclosure objective may be enough to persuade some companies to provide this information but – to ensure transparency and consistency – our preference would be for the Standard to explicitly require such a roll-forward. We note that this disclosure requirement is included in the equivalent FASB proposals.
 - c. Carrying amount of financial liabilities
The proposals require disclosure of the carrying amount of financial liabilities that are part of a supplier financing arrangement as at the beginning and end of the reporting period. While this information is helpful, it is subject to manipulation or window dressing and may therefore not give users of the financial statements the full picture. We note that IFRS 7.35 requires disclosure of further information where ‘the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity’s exposure to risk during the period’ and that in such circumstances the entity shall ‘provide further information that is **representative**’. This requirement could, for example, be met by disclosing the average balance during the year. It would be helpful if the Board could highlight how the proposed disclosures interact with these existing requirements. This could, perhaps, be done by adding an example on supplier finance arrangements to IFRS 7.
 - d. Payment days
The proposals require disclosure of the range of payment due dates. Investors are likely to use this information to make the necessary adjustments to cash flows and leverage. A mid-point in the range could be used but a weighted average would provide

more useful information. We therefore suggest that this is disclosed in addition to the range of payment dates.

15. It may be better to adjust IFRS 7's existing disclosures about liquidity to ensure that the information needed is provided rather than creating new, standalone disclosures. Making the existing disclosures more granular, in the presence of a supplier finance arrangement, may provide users with the information they need without adding completely new disclosures to IAS 7.

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.

16. We are supportive of these proposals. They will help users understand the effects of supplier finance arrangements on an entity's operating and financing cash flows.