

## INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON SUPPLIER FINANCE ARRANGEMENTS (AMENDMENTS TO IAS 7 AND IFRS 7)

Once filled in, this form should be submitted by 11 September 2023 using the 'Comment publication link' available at the bottom of the respective news item. All open consultations can be found on EFRAG's web site: [Open consultations: express your views](#).

EFRAG has been asked by the European Commission to provide it with advice and supporting material on Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) ('the Amendments'). To do so, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement as set out in Regulation (EC) No 1606/2002. It has also been assessing the costs and benefits that would arise from their implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding the endorsement of the Amendments.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on public record unless the respondent requests confidentiality. In the interest of transparency, EFRAG will discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

**EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG is in the process of finalising its *Letter to the European Commission* regarding the endorsement of the Amendments.**

### Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Deutsche Bahn Group, Germany

- (b) Are you a:

Preparer  User  Other (please specify)

Preparer

- (c) Please provide a short description of your activity:

Transport provider (Passenger transport (bus and railway), railway cargo and logistics)

- (d) Country where you are located:

Business is located worldwide with a concentration in Germany/EU and also USA/APAC (logistics)

(e) Contact details, including e-mail address:

Tobias Fischer  
[Tobias.T.Fischer@deutschebahn.com](mailto:Tobias.T.Fischer@deutschebahn.com)

Marco Krüger  
[Marco.Krueger@deutschebahn.com](mailto:Marco.Krueger@deutschebahn.com)

### EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view and meet the criteria of understandability, relevance, reliability, comparability and does not affect prudence. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding the endorsement of the Amendments.

(a) Do you agree with this assessment?

Yes     No

Deutsche Bahn: Yes, we generally agree with this assessment.

However, there is still judgement of the user necessary to decide whether the liabilities from the entity's specific SFAs fulfill the criteria of trade payables or other types of debts. This might lead to a situation that different users come to different conclusions so that comparability might suffer.

We also wonder if the definition of supplier finance arrangements in IAS 7.44G is accurate enough to limit judgement to a minimum on whether an agreement meets the definition of such an arrangement or not. It might be appropriate to provide additional guidance to reinforce the distinction from what is meant by solely credit enhancements or instruments used by the entity to settle directly with a supplier the amounts owed in comparison to SFA.

Furthermore, there might be need to gather additional information to understand the comprehensive implications of SFAs on liquidity risk concentration to ensure that the user can really compare the different entities and their specific SFA architecture. For example, it might be relevant to understand whether the SFA volume is contracted with only one or with a diversified set of finance providers.

Besides, one has to understand the mechanism of SFAs and their potential KPI impact first in order to make use of the additional notes disclosure. In terms of understandability this might lead to the fact that the additional information might not be readily understandable by all groups of users.

In this context one must bear in mind that the volume and complexity of growing disclosure information might lead to an information overload so that some users could be distracted from other more significant information.

Additionally, we wonder whether it would be more appropriate to consider the amendments of IAS 7.44F – IAS 7.44H under IFRS 7 as the amendment is about the character and the specific features of a financial instrument. This

might be similar to the existing IFRS 7 disclosure requirement on factoring assets that are not derecognized in their entirety and the associated liabilities respectively on the entity's continuing involvement.

At last, in our opinion, the term "comparable payables" in IAS 7.44H(b)(iii) requires significant judgement on whether payables that are not part of a supplier finance arrangement fulfill the underlying criteria of that term. It might be appropriate to narrow down more precisely what constitutes "comparable payables" since the criteria "same line of business or jurisdiction" could lead to different interpretations of that term. This might again lead to a situation that different users come to different conclusions so that comparability might suffer.

- (b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments that you believe EFRAG should consider in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Deutsche Bahn: From our view there are no further issues to be considered in the EFRAG's technical evaluation of the Amendments. However, we refer to our comment under paragraph 2(a).

### The European public good

- 3 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding the endorsement of the Amendments.

#### *Improvement in financial reporting*

- 4 EFRAG has identified that in assessing whether the endorsement of the Amendments is conducive to the European public good it should consider whether the Amendments are an improvement over current requirements across the areas which have been subject to changes (see paragraphs 3 to 6 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that the Amendments are likely to improve the quality of financial reporting.

Do you agree with the assessment?

Yes  No

Deutsche Bahn: Yes, we agree.

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

#### *Costs and benefits*

- 5 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work on this has already been carried out, and the responses to this invitation to comment will be used to inform this assessment.

*Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*  
*Invitation to Comment on EFRAG's Initial Assessments*

The results of the initial assessment of costs are set out in paragraphs 8 to 18 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding the endorsement of the Amendments. To summarise, EFRAG's initial assessment is that initial and ongoing costs for preparers of the Amendments will, in general, be limited as the information required would in the majority of situations be available to an entity. An exception is the required information on the amount of liabilities that are part of supplier finance arrangements for which suppliers have already received payment from the finance providers. This information is currently not readily available in all circumstances. When this information is currently not readily available, preparers could incur some initial and/or ongoing costs in relation to collecting the information. EFRAG assesses that the transition requirements allowing an entity not to disclose this information until as of 31 December 2024 will provide entities with some time to amend contractual terms and conditions of their supplier finance arrangements. This could reduce the additional costs preparers would incur from the Amendments.

EFRAG assesses that there could also be costs for users of the Amendments. However, as users could decide not to take the new information required by the Amendments into account, users will only incur the costs if they consider the benefits of the information outweigh the costs.

Do you agree with this assessment?

Yes     No

**Deutsche Bahn: Yes, we agree.**

- 6 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraph 19 to 21 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding the endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments will result in information on supplier finance arrangements that can be very important for users of financial statements. The Amendments could also result in very limited benefits for preparers.

Do you agree with this assessment?

**Deutsche Bahn: Yes, we agree.**

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

- 7 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU, as described in paragraph 6 above, are likely to outweigh the costs involved, as described in paragraph 5 above.

Do you agree with this assessment?

**Deutsche Bahn: We cannot allow ourselves to judge on this topic as we have only restricted insights in the needs of credit rating agencies. However, we also refer to our statement under paragraph 2(a) above. In case of Deutsche Bahn, the volume of SFAs appear to be not material enough to have a significant benefit for users.**

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

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*Overall assessment with respect to the European public good*

- 8 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see paragraphs 25 to 28 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

Do you agree with this conclusion?

Yes     No

**Deutsche Bahn: Yes, we agree with this conclusion.**

If you do not agree, please explain your reasons.