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Our ref: RJ-EFRAG 616 D
Direct dial: Tel.: (+31) 20 301 039
Date: Amsterdam, 9 March 2022
Re: EFRAG draft comment letter in response to ED/2021/10 Supplier Finance Arrangements

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Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on your draft comment letter dated 18 January 2022 (Draft Comment Letter) in response to the IASB's Exposure Draft ED/2021/10 'Supplier Finance Arrangements' (ED).

We generally agree with EFRAG's draft response to the ED. We have a few comments on your Draft Comment Letter and identified some additional points in respect of the ED, which we raise in our comment letter to the IASB. Our detailed feedback is provided in Appendix 1.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendices:

Appendix 1 – Views on EFRAG Draft Comment Letter

Appendix 2 – DASB Comment Letter on Exposure Draft ED/2021/10 to IASB

Appendix 1 – Views on EFRAG Draft Comment Letter

Question 1— Scope of disclosure requirements

The DASB generally agrees with EFRAG’s response to the ED. However, we do not fully understand the suggested clarification in paragraph 13 of your Draft Comment Letter. Paragraph 44G of the ED would already seem to capture both supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extended credit terms to buyers.

EFRAG – Questions to constituents

15 Do you consider that the proposed description of supplier finance arrangements in the IASB’s ED/2021/10 *Supplier Finance Arrangements* will result in targeted arrangements being captured within the scope of the project? Have you identified any situations where supplier finance arrangements are not captured by the project scope, however, in your view, they should be?

16 The ED’s proposals assume that the entity has access to information about supplier finance arrangements to which the entity does not necessarily participate, such as arrangements between the finance provider and the supplier. Do preparers consider that the assessment to be made by entities to determine whether they are within the ED’s scope would be feasible, considering the limited information that entities might have about supplier finance arrangements between the finance provider and supplier, in particular?

The DASB considers the proposed description of supplier finance arrangements adequate. We have not identified any examples of arrangements which, in our view, are incorrectly included within or incorrectly excluded from the project scope.

Except for the information about amounts already paid by the finance provider to suppliers (paragraph 44H(b)(ii) of the ED) for certain arrangements, as discussed under Question 2 below, we believe that the required information about supplier finance arrangements is typically available or relatively easy to obtain.

Question 2— Disclosure objective and disclosure requirements

The DASB generally agrees with EFRAG’s response to the ED. However, we do not consider the improvements recommended in paragraph 28 of your Draft Comment Letter necessary. Also, they would result in duplication and even more detailed guidance.

In addition to your comments, in our comment letter to the IASB, we question whether IAS 7 (instead of IFRS 7) is the most logical location for the proposed disclosure requirements and we note that disclosing the weighted average (rather than the range) of payment due dates would generally result in more useful information. We also recommend that the IASB considers whether entities should provide a reconciliation between the opening and closing balances of financial liabilities that are part of a supplier finance arrangement, in order to help investors determine which changes should be included in their cash flow adjustments and which not. An alternative to such a reconciliation could be to disclose significant changes in those liabilities due to business combinations, loss of control events, exchange differences, et cetera.

EFRAG – Questions to constituents

30 Do you consider that the proposed requirement in paragraph 44H(b)(ii) of the ED to disclose information about the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers is feasible to achieve for reporting entities? Are you aware of any practical difficulties with respect to collecting the information to meet this disclosure requirement?

31 The IASB is proposing that an entity is permitted to aggregate the information about each supplier finance arrangement when terms and conditions are similar.

(a) Which level of aggregation would you consider appropriate? Should the IASB mention explicitly the payment due dates of liabilities disclosed under supplier finance arrangements as an aggregation criterion?

(b) Do you agree with the alternative approach in paragraph 29, i.e. to allow that the starting point is disclosing aggregated information (regardless of the terms and conditions of those arrangements) and require disaggregation at level of a single arrangement only when it is necessary in order to provide relevant information (e.g., when terms and conditions are similar)?

As noted in our comment letter to the IASB, we observe concerns (among preparers and auditors) about the availability and auditability of information about amounts already paid by the finance provider to suppliers (paragraph 44H(b)(ii) of the ED) for certain arrangements. We suggest that the IASB better explains why this specific information is necessary (including whether the benefits outweigh the costs) and/or considers alternatives for situations where disclosing it is not practicable.

On (dis)aggregation, we note that disclosing the information in paragraph 44H of the ED at the level of each supplier finance arrangement, and permit aggregation only when the terms and conditions of arrangements are similar (paragraph 44I of the ED), might result in excessive detail. Instead we suggest that the IASB requires disaggregation at the level of a single (or subgroup of) arrangement(s) when this is relevant to an understanding of the effects of supplier finance arrangements on the entity's liabilities and cash flows. We note that disaggregation of payment due dates becomes less relevant if a weighted average is disclosed, instead of a range.

With respect to concentration of liquidity risk, if material, we do not consider aggregated disclosure appropriate. In line with your response to Question 3 in your Draft Comment Letter (paragraph 37), we believe that disclosures about concentrations of such risk should be made for specific finance provider(s) instead of supplier finance arrangements in general.

Question 3— Examples added to disclosure requirements

The DASB generally agrees with EFRAG's response to the ED. However, we do not consider it necessary to remove the word 'non-cash' from paragraph 44B(da) of the ED, as recommended in paragraph 40 of your Draft Comment Letter. This is because paragraphs 44A and 44B(a) of IAS 7 would already seem to capture changes from cash flows.

EFRAG – Questions to constituents

42 In preliminary discussions, some users considered that, the gross presentation of cash flows under supplier finance arrangements in the statement of cash flows may provide more relevant information to users of financial statements (i.e., information about a cash outflow from operating activities and a cash inflow from financing activities when the invoice is

factored by the financial institution; and a cash outflow from financing activities when the entity settles the liability). Such users indicated that gross presentation of cash flows related to supplier finance arrangements would provide them with a better understanding of the transaction compared to simply disclosing non-cash changes in liabilities under such arrangements as proposed in paragraph 44B(da) of the ED. In their view, prominence should be given to the presentation of cash flows under supplier finance arrangements which warrants consideration in the ED's proposals.

43 Do you consider that gross presentation of cash flows under supplier finance arrangements will improve the transparency of reporting for those arrangements? In your view, should gross presentation be required for cash flows arising from those arrangements?

As noted in our comment letter to the IASB, we have some concerns about the relevance of the cash flow statement when payments via finance providers to suppliers remain outside the cash flow from operating activities. However, we do not support gross presentation in the cash flow statement (operating cash outflow and financing cash inflow) when no cash flows occur, because this would conflict with the fundamental principles underlying the cash flow statement and similar considerations could also apply to other non-cash transactions (e.g., leases as lessee). Rather, we believe that disclosures on non-cash transactions should be improved and located in a single note. We would also welcome guidance on determining whether a cash flow exists. Specifically, whether and when a finance provider could be considered an agent of the entity, paying on its behalf.

Appendix 2 – DASB Comment Letter to IASB

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Direct dial: Tel.: (+31) 20 301 039
Date: Amsterdam, 9 March 2022
Re: ED/2021/10 Supplier Finance Arrangements

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on the Exposure Draft ‘Supplier Finance Arrangements’ (ED).

In doing so, we also refer to EFRAG’s draft comment letter dated 18 January 2022 (Draft Comment Letter).¹ We generally agree with the comments provided by EFRAG, unless indicated otherwise in this letter including appendix.

The DASB welcomes the IASB’s efforts to enhance both transparency about the use of supplier finance arrangements and comparability between entities. Although we would typically favour more principle-based guidance, we appreciate that users of financial statements are asking for more prescriptive disclosure requirements on supplier finance arrangements to meet their information needs and we generally support the proposals in the ED. We do however observe concerns about the availability and auditability of information on amounts already paid by the finance provider to suppliers for certain arrangements.

We also echo EFRAG’s comment that the proposals in the ED should be seen as providing application guidance, rather than complementing the existing more general requirements in IFRS (e.g., in IAS 1, IAS 7 and IFRS 7). In practice, a broad range of financing arrangements related to entities’ working capital exists. Considering the narrow scope of the current project, it is therefore important to avoid any impression that, in the absence of specific requirements, sufficiently detailed and relevant disclosures can be omitted for other types of financing arrangements.

Furthermore, we note that the ED focuses only on (some) disclosures. Notwithstanding our support for the proposed targeted amendments at this stage, the DASB agrees with EFRAG that the current project does not completely address the wider issue of providing necessary

¹ <https://www.efrag.org/News/Project-560/EFrag-draft-comment-letter-on-Supplier-Finance-Arrangements>

transparency on liquidity risk and how entities leverage their working capital to effectively obtain finance. In particular, we have some concerns about the relevance of the cash flow statement when payments via finance providers to suppliers remain outside the cash flow from operating activities. While we do not support gross presentation in the cash flow statement (operating cash outflow and financing cash inflow) when no cash flows occur, we believe that disclosures on non-cash transactions should be improved and located in a single note. We would also welcome guidance on determining whether a cash flow exists. Specifically, whether and when a finance provider could be considered an agent of the entity, paying on its behalf.

Our detailed responses to the questions in the ED are provided in the appendix, including some further comments and suggestions for potential improvements.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix – Responses to Exposure Draft 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.

The DASB agrees with the proposed narrow scope of the project (i.e., focusing on arrangements that finance amounts an entity owes its suppliers) as it addresses the issue raised by users of financial statements in a targeted and timely manner. At the same time, we note that there are also other types of financing arrangements related to entities’ working capital (e.g. inventory financing, receivables financing, etc.) for which transparent disclosures might be lacking. Therefore, we support EFRAG’s call on the IASB to closely monitor reporting on such other arrangements. We also refer to the general comments in our cover letter and encourage the IASB to consider a wider separate project on the cash flow statement in particular.

The DASB agrees with the IASB’s proposal not to provide a detailed definition of a supplier finance arrangement, but rather to describe its characteristics, for the reasons set out in paragraph BC6 of the ED.

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.

In general, we have some doubt whether IAS 7, instead of IFRS 7, is the most logical location for the proposed disclosure requirements on supplier finance arrangements.

The DASB supports the proposal to add a disclosure objective, but believes that the effects on liquidity risk should also be included in paragraph 44F of the ED, possibly with a cross reference to IFRS 7 (if the proposed disclosure requirements remain in IAS 7).

Although rather rules-based, the DASB generally agrees with the disclosure requirements proposed in paragraph 44H of the ED, also taking into account that this information was specifically requested by users of financial statements. We do however observe concerns about the availability and auditability of information on amounts already paid by the finance provider to suppliers (paragraph 44H(b)(ii) of the ED) for certain arrangements. We suggest that the IASB better explains why this specific information is necessary (including whether the benefits outweigh the costs) and/or considers alternatives for situations where disclosing this is not practicable.

In addition, the DASB believes that disclosing the weighted average, rather than the range, of payment due dates would generally result in more useful information (paragraphs 44H(b)(iii) and 44H(c) of the ED). We also recommend that the IASB considers whether entities should provide a reconciliation between the opening and closing balances of financial liabilities that are part of a supplier finance arrangement, in order to help investors determine which changes should be included in their cash flow adjustments and which not. An alternative to such a reconciliation could be to disclose significant changes in those liabilities due to business combinations, loss of control events, exchange differences, et cetera.

Finally, we note that disclosing the information in paragraph 44H of the ED at the level of each supplier finance arrangement, and permit aggregation only when the terms and conditions of arrangements are similar (paragraph 44I of the ED), might result in excessive detail. Instead we suggest to require disaggregation at the level of a single (or subgroup of) arrangement(s) when that is relevant to an understanding of the effects of supplier finance arrangements on the entity’s liabilities and cash flows. With respect to concentration of liquidity risk, if material, we do not consider aggregated disclosure appropriate. In line with EFRAG, we believe that disclosures about concentrations of such risk should be made for specific finance provider(s) instead of supplier finance arrangements in general.

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.

The DASB agrees with the proposals to add supplier finance arrangement as an example to certain existing disclosure requirements in IAS 7 and IFRS 7. In addition, we point to the comments raised by EFRAG in its Draft Comment Letter. However, we do not consider it necessary to remove the word 'non-cash' from paragraph 44B(da) of the ED, because paragraphs 44A and 44B(a) of IAS 7 would already seem to capture changes from cash flows.