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Our ref: RJ-IASB 508 F
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 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

[1] https://www.efrag.org/News/Project-560/EFRAG-draft-comment-letter-on-Supplier-Finance-Arrangements

(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.