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Berne, 28 March 2022

Comment Letter on Exposure Draft ED/2021/10 "Supplier Finance Arrangements"

Dear Madam, dear Sir

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Exposure Draft (ED).

Our detailed response (in the appendix) has been prepared in conjunction with our member companies.

We very much welcome that the IASB is addressing this topic. Whilst we have many comments to the Exposure Draft, we are appreciative that the IASB is taking concrete steps to address specific stakeholder needs, and is engaging preparers and other stakeholders in this discussion. We would be more than happy to further contribute to this topic in due course.

Summary of key points from our comments on the Exposure Draft:

- We agree that it is reasonable not to define supplier finance arrangements.
- We believe that the IASB should differentiate the disclosures requirements for "active programs" (that is, actively managed as alternative credit facilities) and "passive programs".
- We see unintended consequences in providing the information in 44H in instances where supplier financing programs are designed for a purpose other than actively managing credit facilities.
- We are of the view that IFRS 9 guidance on recognition and derecognition of financial liabilities, including the existing disclosure requirements highlighted by the December 2020 IFRIC Agenda Decision, should be sufficient to (i) ensure that the presentation of trade payables on the face of the Financial Statements is not misleading for the users, and (ii) provide the right information about the risks related to these programs.
- There is a risk that some of the information to be disclosed may not be provided timely and consistently, and the management of the entity may have no control on the quality and completeness of the information.
- The disclosure may be misleading for users of financial statements who may disproportionately weigh the importance of payment due dates in determining whether the financial liability should continue to be recognised as a trade payable, or extinguished/reclassified as financial debt.

- We agree that it is beneficial to provide information about non-cash changes in liabilities arising from financing activities.

Please find our detailed comments in relation to the specific questions raised in the Exposure Draft in the appendix.

If you require any further information, please do not hesitate to contact us.

Yours sincerely,

SwissHoldings

Federation of Swiss-based multinational enterprises

Dr. Gabriel Rumo
Director

Denise Laufer
Member of the Executive Committee

SwissHoldings

APPENDIX

QUESTIONS FOR RESPONDENT

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.

Answer to Question 1

We agree that it is reasonable not to define supplier finance arrangements in the amendments to IAS 7 and IFRS 7 but rather describe the characteristics of arrangement for which an entity would be required to provide the information proposed. We recognise that such an approach may be designed to mitigate the evolution of supplier financing practices and arrangements in response to changing regulatory and financial reporting environments.

We note that the proposed amendments may fall short in addressing user's concerns of finding it difficult to analyse the total amount of an entity's debt and associated cash flows [BC12(a)(b)(d)] due to the near indistinguishable difference between direct factoring arrangements and reverse factoring. Although supplier financing arrangements may represent an evolving trend that is making headlines, there are other forms of receivable financing and/or inventory financing supported by financial institutions that have not been captured in this narrowly-scoped standard-setting project [BC11].

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.

Answer to Question 2

We understand that the intention of the disclosure requirements put forward within this Exposure Draft are focused on when supplier financing arrangements are actively managed as alternative credit facilities by an entity. Examples of actively managed supplier financing arrangements (or "**active programs**") include features that allow:

- Buyer's discretion in determine the timing of the payment to the financial institution including:
  - Payments made after the contractually agreed maturity date of the invoice
  - Payments made before the contractually agreed maturity date of the invoice
- Buyer's discretion to determine whether the supplier's invoice is factored

We see unintended consequences in providing the information in 44H in instances where supplier financing programs are designed for a purpose other than managing credit facilities. For example, a common objective of reverse factoring arrangements can be to optimize procurement processes by offering suppliers access to cheaper funding opportunities. For these **passive programs**, we are of the view that IFRS 9 guidance on recognition and derecognition of financial liabilities, including the disclosure requirements highlighted by the December 2020 IFRIC Agenda Decision, should be sufficient to (i) ensure that the presentation of trade payables on the face of the Financial Statements is not misleading for the users, and (ii) provide the right information about the risks related to these programs.

Qualitative disclosure 44H (a)

We agree that users of financial reporting would benefit from this qualitative disclosure.

Nevertheless, the requirement to disclose each supplier finance arrangement should be reconsidered. The concept of listing the details of all supplier finance arrangements conflicts with the qualitative characteristics of materiality. We also foresee that the ability to aggregate as per 44I may led to inconsistencies in practice as the criteria of "similar terms and conditions" is conceptual and may be difficult to apply.

Our recommendation would be to require the disclosure of the terms and conditions of significant supplier finance arrangements, and also to change the language of paragraph 44I from restrictive negative language to a more positive requirement to aggregate where possible:

"An entity shall ~~is permitted to~~ aggregate the information provided to meet the disclosure objective in paragraph 44F for different arrangements ~~only~~ when the terms and conditions of those arrangements are similar".

Quantitative disclosure 44H (b)(ii)

We agree that users of the financial reporting would benefit from this quantitative disclosure when the supplier finance arrangement is managed as an alternative credit facility ("**active programs**"). In such case, the entity would generally have the information available via an interface platform with the financial institutions.

When the supplier finance arrangement is not managed as a credit facility ("passive programs"), the entity may have no access to the information. In practice, this means the preparer would have to include information in the financial reporting that are provided by external parties. When an entity has programs in place in different countries involving multiple financial institutions, the information may not be provided timely and consistently, and the management of the entity may have no control on the quality and completeness of the information. This would result from the bilateral

nature of the financing agreement between the supplier and the financing provider. Furthermore, in passive programs, the supplier's decision to factor its financial assets to a financing provider is independent and disconnected from the financial position of the preparer. Suppliers selectively applying factoring depending on their own financing needs should therefore not influence user's and analyst's assessment on the financial position of the preparer.

As a result, we believe the disclosures of 44H b(ii) should not be required, unless the program is actively managed as a credit facility by the entity.

Quantitative disclosure 44H (b)(ii)-(iii) and 44H (c)

We agree that users of the financial reporting would benefit from this quantitative disclosure when the supplier finance arrangement is managed as an alternative credit facility (the "active programs").

Nevertheless, we are concerned about the unforeseen consequences of this disclosure when the supplier finance arrangement is not managed as an alternative credit facility. Indeed, this disclosure may be misleading for users of financial statements who may disproportionately weigh the importance of payment due dates in determining whether the financial liability should continue to be recognised as a trade payable, or extinguished and recognized/reclassified as a financial debt. Users may conclude, with incomplete information at their disposal, that the preparers of financial statements have erroneously assessed the nature of the financial liabilities in their balance sheet presentation. This element of the disclosure risks discrediting the preparers' accounting judgements in determining the appropriate balance sheet presentation.

Notwithstanding the above, the disclosure of a "range of payment due dates of financial liabilities" [44H b(iii)] provides incomplete information. Some payment ranges within the same arrangement may be wide so as to render the disclosure of a range useless.

A disclosure of the average payment term would be unwelcomed by preparers as in certain instances as it may be viewed as sensitive information for the relationship between the entity and the suppliers. Furthermore, doing a weighted average of credit days would be a difficult exercise requiring significant effort for the preparers. We understand that the Board continuously assesses the trade-off between providing decision-useful financing information about the reporting entity and concerns over disclosure of sensitive information as well as the cost and efforts to provide the information.

As a result, our recommendation is to not disclose a range of payable terms as put forward in 44H b(iii).

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.

Answer to Question 3

We agree that it is beneficial to provide information about non-cash changes in liabilities arising from financing activities. We note that this amendment to IAS 7 can be implemented in isolation. This amendment may enable users to identify preparers who extinguish the original financial liability (e.g., trade receivable) and recognize a financing liability (e.g., short term debt).

We also support the disclosures about liquidity risks related to supplier finance arrangements, as highlighted in the December 2020 IFRIC Agenda Decision. We note that in a “passive programme” the liquidity risk is actually with the supplier, as the decision of when the supplier is paid is between the finance providers and the supplier, and the supplier is exposed to the withdrawal of the programme, not the customer.

Other SwissHolding comments

The Board may also wish to consider whether any amendments to IAS 2 Inventories is beneficial. We note that the interpretation of normal credit terms and the historic trend of increasing payment terms makes the application of paragraph IAS 2.18 particularly judgmental.