28 March 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam,

Consultation: Exposure Draft; Supplier Finance Arrangements Proposed amendments to IAS 7 and IFRS 7 (ED/2021/10)

The Corporate Reporting Users' Forum (CRUF) welcomes the opportunity to provide the International Accounting Standards Board (IASB) with our comments.

The CRUF was established in 2005 and we have been holding regular meetings since. The CRUF has prepared this comment letter based on discussions in CRUF meetings and have reflected input from CRUFs globally. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. Our comments are based on our professional experience as users of corporate reporting.

Overall comments

We welcome the IASB's Exposure Draft on Supplier Finance Arrangements. We believe that current reporting requirements currently lack the necessary clarity and rigour to allow users of accounts to identify and understand the financial liabilities and risks that companies may be taking on when they adopt reverse-factoring as part of their procurement strategy.

We note the comment in paragraph BC1 of the exposure draft that the IFRS Interpretations Committee considered a question from a credit rating agency about the information required to be provided in financial statements about supply chain finance (reverse factoring) arrangements. We assume that this refers to the letter of 31st January 2020 from Moody's Investors Service to the IFRS Interpretations Committee.

Moody's should be commended for raising its concerns about Supply Chain Finance (SCF) and for its clear and comprehensive analysis of the potential problems surrounding standards of reporting on SCF. Extensive and opaque use of SCF was an important factor in the demise of Carillion and the fact that so many investors and other stakeholders were taken by surprise. This fact notwithstanding, it was only the scandal around the failure of Greensill Capital in 2021 that really created widespread awareness of the actual and potential risks inherent in this type of financing.

In addition to the concerns set out by Moody's as a credit rating agency there are reasons why other stakeholders should be concerned about the use of SCF and its operational implications. These include:

- SCF is, by any other name, a way of acquiring additional working capital for a business. Many businesses periodically require an increase in working capital and this can be funded via a number of conventional sources such as facilities provided by the company's bank. The need to use SCF raises questions as to why such conventional sources of credit are not being used or, more pertinently, why they no longer appear to be available.
- When a supplier enters into a supply arrangement with a customer the payment terms will be agreed (possibly by negotiation) and will form part of the supply contract. Customers that renege on these terms will be viewed with suspicion by suppliers. In cases in which a company pays late or very late the reaction from many suppliers will be to put the customer 'on stop' until outstanding invoices are settled in full. The resulting disruption to the supply chain and the customer's inability to obtain the goods and services it needs to carry on trading can easily pose an existential threat to the business. If it can no longer supply its own customers, it is heading for failure.
- The question has to be asked why, when conventional factoring services are already widely available, suppliers do not simply use these. Without any clear explanation or credible justification from the buying entity, one can only conclude that the discount applied to the invoices by the factoring agent is so high (due to the perceived credit risk of the buyer) that the suppliers baulk at this. It is more attractive to them to take a tough line and put the buyer on stop. For the buyer in this situation, entering into SCF arrangements are potentially a way of delaying the day of reckoning.
- As things stand, reverse factoring has been a convenient way of hiding and disguising these problems – as was seen with Carillion where approximately £0.5bn of debt apparently merited little more than a footnote in the notes to the financial statements.
- It seems very likely that most forms of SCF are an expensive form of finance. The bank and/or other funding providers will settle supplier invoices on the due date on behalf of the customer and will often add a premium to the face value of the invoice when recovering their money from the customer. The cost of the premium is currently completely opaque in terms of reporting transparency.
- There are a number of other important disclosure considerations which are discussed in the Annex to Moody's letter to the IFRS Interpretations Committee.

We are pleased and reassured that these issues are now being addressed by the IASB. Our answers to the questions in the Exposure Draft are given below.

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.

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We understand and accept the Board's decision not to define 'supplier finance arrangements' but instead to describe the characteristics of arrangements which would be covered by the requirements set out in the Exposure Draft.

We feel that the description of the characteristics as set out in paragraph 44G is not entirely satisfactory. As it stands, 44G could include conventional factoring (which is not the intention). Paragraph BC7 makes it clear that it is **the buyer** that is entering into an arrangement with one or more finance providers to settle suppliers' invoices on a date before the buyer pays the amount it owes for the goods and services. **The buyer, therefore, is entering into a formal credit arrangement with the finance provider**. We would like to see this distinction stated with greater clarity in 44G.

BC7 helps to distinguish between SCF arrangements and, say, those in which a buyer arranges for a finance provider to offer conventional but slightly more advantageous factoring terms to suppliers (should they wish to use them) at no additional cost to the buyer and with no contractual obligation on the part of the buyer. Again, this distinction needs to be made clearer in 44G.

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.

We agree with the proposals as set out in the Exposure Draft. We do, however, note the suggestion that an entity should be able to aggregate information needed to meet its disclosure objectives for different arrangements when the terms and conditions of those arrangements are similar. It would be helpful if the IASB could give an example of what 'similar' means in this context.

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.

We agree with this proposal. The rationale is well explained in paragraphs BC21 – 22 of the Exposure Draft.

However, in the context of quantitative liquidity risk disclosures (Appendix B of the Exposure Draft), we note that paragraph B11F states that Supplier Finance Arrangements are one of a number of 'other factors' that an entity 'might consider in providing the disclosure required in paragraph 39C'. From an investor point of view this seems to create no obligation on boards to report on the implications for liquidity risk of SCF arrangements. It allows scope for boards to remain silent on the issue and, even when challenged, to claim that they 'considered' SCF arrangements but decided not to report on them and to do so without providing any justification for their decision.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Signatures

Peter Parry

Sue Milton

Charles Henderson

Chris Moore

Chris Elliott

Koei Otaki CPA, CMA

Masayuki Kubota, CFA

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