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28 March 2022

Dear Sir

Exposure Draft ED/2021/10: Supplier Finance Arrangements

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We support the efforts of the IASB to providers users of information with information about an entity's use of supplier finance arrangements. We agree that clear and transparent disclosures are needed to assist users of financial statements in understanding the effects of those arrangements.

However, we do not think that the proposed amendments will result in these disclosures being made on a consistent basis, and in some cases they will not be required. This is because the proposed amendments to IAS 7 would apply only when cash flows are classified as financing. In practice there has been, and continues to be, diversity in the approaches that entities take in presenting cash flows arising from supplier finance arrangements (i.e. they are variously presented as financing or operating cash flows or a combination of the two, and they can be presented on a gross or net basis).

Our preference would be for the IASB to specify how cash flows arising from supplier finance arrangements are required to be presented in the statement of cash flows. However, we acknowledge that this has already been considered (paragraph BC20 of the ED) and that the IASB has decided not to take action on this point. Assuming that this decision will not be reversed, we believe that the scope of the proposed amendments to IAS 7 needs to be expanded so that they apply regardless of the category in which the related cash flows have been included, and regardless of whether those cash flows are presented on a gross or net basis. Without this, we consider that the amendments will not achieve their intended purpose.

On a wider basis, we observe that questions continue to arise about how certain cash (and non-cash) flow arrangements should be accounted for, with the IFRS Interpretations Committee having addressed a number of issues. Targeted amendments have also been made to IAS 7. We note that the statement of cash flows and related matters formed one of the proposed projects that was short listed by the staff in agenda paper 24B, which the Board considered at its March 2022 meeting.

We believe that a comprehensive review of the requirements of IAS 7 is needed. In its original form, IAS 7 was issued 28 years ago and, despite the amendments that have been made in the intervening period, we believe that financial reporting issues have emerged in a manner that results in IAS 7 no longer adequately addressing the needs of users of financial statements. We note that user feedback to the IASB's agenda consultation indicated that they consider a project of the statement of cash flows and related matters to be the highest priority project from those discussed in the Request for Information, and we encourage the IASB to add this to its agenda.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 1

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.

We agree with the decision to not directly define supplier finance arrangements. This is because the types of financing arrangements that entities enter into with financing companies vary significantly and they are likely to continue changing in the near term. Consequently, although defining a supplier finance arrangement directly may be useful in the near term, this introduces the risk that the proposed disclosure requirements might not apply to a similar type of arrangement entered into the near future because it does not meet the definition.

However, as noted in our cover letter and this Appendix, we believe that a broader project to address the increasing diversity in practice that is observed related to IAS 7 should be undertaken by the Board. If the project is taken up by the Board, the issue of supplier finance arrangements and the interaction of such arrangements with IAS 7, IFRS 7 and IFRS 9 should be considered further.

Question 2

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 proposed disclosures. We believe they would provide users of financial statements with the information necessary to understand the reporting entity's use of supplier finance arrangements.

Question 3

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 the proposed disclosures and illustrative examples. We observe that the disclosure requirements in IFRS 7 are principles-based, and the disclosure requirement in IFRS 7.39(c) might already be considered to require an entity to disclose information about its use of supplier finance arrangements if their use affects how an entity manages liquidity risk. However, the inclusion of supplier finance arrangements as an example of borrowing facilities in IFRS 7.B11F clarifies that the disclosure requirements of IFRS 7 apply to such arrangements.