Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL https://www.asb.or.jp/en/

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Dr. Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Supplier Finance Arrangements*

1. The Accounting Standards Board of Japan ("the ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("the IASB")'s Exposure Draft (ED/2021/10) *Supplier Finance Arrangements* ("the ED"), issued in November 2021.

2. We acknowledge that information needs of financial statement users regarding transactions based on supplier finance arrangements entered into by entities exist, and agree that there is room for improvement in the provision of information in this area.

3. However, we are of the view that disclosures to address the aforementioned information needs should not be limited to cover particular transactions, but disclosures would be more useful when the general disclosure objectives to provide information about an entity's liquidity management or cash flow management are clearly stated and when disclosures are made in line with those objectives. In addition, we are concerned that, even if disclosures are enhanced every time a particular transaction scheme is developed, new transaction schemes will emerge as a result of developments in financial technology, and the more these new schemes are used, the more likely it will be that such limited amendments to disclosure requirements will become insufficient to deal with such new schemes. Accordingly, we are of the view that the IASB should comprehensively consider what types of

disclosures are desirable based on the IASB's understanding of the information needs of financial statement users regarding an entity's liquidity or cash flow management (including strategies related thereto), rather than considering disclosure requirements every time particular transactions (such as supplier finance agreements) that do not fit within existing accounting standards emerge and issues are identified.

4. Our opinion on the ED is as described above. However, if the IASB were to address this issue by enhancing disclosures about supplier finance arrangements, we have concerns about the excessive burden on entities of some of the disclosure requirements proposed by the IASB and about the usefulness of the information provided. Accordingly, we do not support those proposals.

5. We understand that the U.S. Financial Accounting Standards Board ("the FASB") is also currently working on enhancing disclosures about supplier finance programs. We are of the view that, if the IASB were to address this issue by enhancing disclosures about supplier finance arrangements, it would be desirable that the results of the initiatives of the IASB, including this ED, be ultimately consistent with the requirements under U.S. GAAP. Accordingly, we expect the IASB and the FASB to work closely together to develop their respective accounting standards.

6. For our comments on the specific questions, please refer to the Appendix.

7. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi
Vice Chair
Accounting Standards Board of Japan

Appendix

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.

1. As stated in our cover letter, we are of the view that the IASB should comprehensively consider what types of disclosures are desirable based on the IASB's understanding of the information needs of financial statement users regarding an entity's liquidity or cash flow management, rather than considering disclosure requirements every time particular transactions (such as supplier finance agreements) that does not fit within existing accounting standards emerges and issues are identified. However, if the IASB were to address this issue by enhancing disclosures about supplier finance arrangements, we have concerns about some of the proposals in the ED as well, as follows.

2. The IASB proposed not to attempt to develop a detailed definition of supplier finance arrangements and instead to explain the type of arrangements. Regarding this proposal, we are of the view that it will be difficult to develop a definition that can be stably applied because we think that the development of financial technology will continue to create new schemes that may not be captured by a prescriptive definition. We also expect that explaining the type of arrangements will enable entities to disclose information that they judge to be relevant. Therefore, the IASB's approach of explaining the type of supplier finance arrangements that are within the scope of proposed disclosures rather than defining in detail the arrangements in scope is understandable.

3. However, we are concerned that the scope of arrangements subject to the proposed disclosure requirements in the ED is ambiguous, which may cause difficulties in applying the proposal in practice and may lead to an overly broad view of transactions subject to disclosure.

4. We think that the essence of a supplier finance arrangement is that a third party funding source other than the entity provides an extension of the due date for payment to the entity or early payment to the supplier for financial liabilities, such as trade accounts payable, that the entity has confirmed as the subject of the supplier finance arrangement. Therefore, we are of the view that the second sentence of paragraph 44G of the proposed amendments to IAS 7 in the ED should be given greater prominence to clarify the essence of a supplier finance arrangement.

5. However, we think that there are cases in which an entity uses a specific financial institution to manage all payments to its suppliers, and the supplier of the entity may factor its accounts receivable with that same specific financial institution. The proposal in the ED could be read to suggest that such transactions would be subject to disclosure as supplier finance arrangements. If such transactions between suppliers and financial institutions, of which the entity has no knowledge, are subject to disclosure, there are concerns about the availability and verifiability of information about such transactions. Therefore, we are of the view that it should be clarified that the proposal in the ED would not apply to cases in which a third party finance provider merely acts as a paying agent for the entity's accounts payable, to funding transactions that are not related to the entity, for example, where the entity's suppliers and finance provider simply perform factoring on receivables due from the entity, and to cases in which the entity's suppliers enter into transactions related to discounting letters of credit.

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.

6. As stated in our cover letter, we acknowledge that information needs of financial statement users regarding transactions based on supplier finance arrangements entered into by entities exist, and agree that there is room for improvement in the provision of information in this area. However, we have concerns about the following items among the disclosure requirements proposed in the ED.

The carrying amount of financial liabilities for which suppliers have already received payment from the finance providers

7. We disagree with paragraph 44H(b)(ii) of the proposed amendment to IAS 7 in the ED, which requires disclosure of the carrying amount of financial liabilities for which the supplier has already received payment from the funding source. This is because

we think that, based on paragraph 44G of the proposed amendment to IAS 7 in the ED, there are concerns about the availability of information and the verifiability of such information even if it were available.

8. We agree that the information that the IASB proposes to disclose in the ED could provide users of financial statements with:

   (a) information about the amount of cash outflows that are reported as part of cash flows from operating activities in the statement of cash flows in subsequent periods and that may in substance be considered to be cash flows from financing activities; and

   (b) information on the risk that financial liabilities such as accounts payable may be required to be repaid before they are due, depending on the nature of the supplier finance arrangements entered into by the entity, if the entity's credit risk deteriorates.

   In addition, this information is considered to be relatively easy to obtain when the supplier finance arrangements are concluded as a three-way contract between the entity, the supplier, and the finance provider.

9. However, as described in our comments on Question 1, given the ambiguity in the scope of supplier finance agreements subject to disclosure in the proposals in the ED, we are concerned that the scope of the ED could be read to extend to a variety of cases which were not the intention of the IASB. By way of example, there are cases in which an entity uses a particular financial institution solely for the purpose of managing payments to its suppliers in bulk. As part of this, the entity's suppliers and funding providers may be simply factoring receivables for the supplier and the entity uses the financial institution to facilitate its supplier's arrangements. In this case, as the entity is not a party to the factoring agreement and is merely indirectly involved without knowing the details of the arrangement, there would be concerns about the availability of the information required to be disclosed in the ED and, even if such information is available, there would be concerns about the verifiability of that information. We therefore disagree that the disclosure of this information is required, assuming that the scope of supplier finance agreements that are subject to disclosure proposed in the ED remains unchanged. If the disclosure of the information proposed in the ED were to be required, we are of the view that the IASB should ensure the availability and verifiability of the information by clarifying that

the ED would not apply, for example, when a third party funding source acts merely as a paying agent for the entity with its suppliers, as we stated in our response to Question 1.

The range of payment due dates of trade payables as at the beginning and end of the reporting period

10. We disagree with the IASB's proposal in the ED to add IAS 7 paragraphs 44H (b) (iii) and (c), which require an entity to disclose information about the range of payment due dates for trade payables.

11. We agree that the information that would be required by IAS 7 paragraphs 44H(b)(iii) and (c) may be useful in assessing the extent to which operating cash flows will improve, as discussed in the Basis for Conclusions in the ED. However, we are of the view that:

    (a) Not all supplier finance arrangements extend the due date of trade payables, and uniformly requiring such entities to disclose such information would not provide useful information in light of the disclosure objective.

    (b) Entities usually do not improve their operating cash flows solely through supplier finance arrangements, but as part of their overall management of cash flows, including factoring of trade receivables and inventory financing. The disclosure of further disaggregation of accounts payable only as proposed in the ED would be of limited usefulness.

12. We are of the view that the objective of the ED would be achieved by amending paragraph 44H(a) of IAS 7, which the IASB proposes to add in the ED, to clarify that such information should be disclosed as part of the disclosure requirements for the terms and conditions of each supplier finance arrangement if the extension of the relevant date is material.

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.

13. We disagree with the proposal to require an entity to disclose the information in paragraph 44B(da) of the proposed amendments to IAS 7 in the ED.

14. We think that the information that would be required by paragraph 44B(da) of the proposed amendments to IAS 7 will often be similar to the information on the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers in paragraph 44H(b)(ii) of the proposed amendments to IAS 7 in the ED. Therefore, we are of the view that the same concerns exist as in our responses to questions 1 and 2.

15. In addition, as described in our cover letter and in our response to Question 1, we are of the view that the IASB should comprehensively consider what types of disclosures are desirable based on the IASB’s understanding of the information needs of financial statement users regarding an entity's liquidity or cash flow management. In this regard, we think that the current IFRS 7 Financial Instruments: Disclosures (hereinafter referred to as “IFRS 7”) requires an entity to disclose its risk management objectives and policies, and that these risk management objectives and policies may overlap in some respects with the entity's strategy. However, we do not think that requiring the same level of disclosure in the financial statements as in IFRS 7 about an entity's risk management that also exists outside the scope of IFRS 7 would necessarily improve the disclosures within the financial statements. This is because it would simply increase disclosures without considering what should be included in the financial statements and would not necessarily be consistent with the objective of financial statements to provide information about an entity's financial position, financial performance and cash flows that is useful to users in making economic decisions. We are of the view that this should also be taken into account in the comprehensive consideration we propose.