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17 March 2022

International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

**Comments on the Exposure Draft *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)***

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants ("we", "our" and "JICPA") appreciates the continued efforts of the International Accounting Standards Board on this project. We welcome the opportunity to comment on the Exposure Draft *Supplier Finance Arrangements (Proposed amendments to IAS 7 and IFRS 7)* ("ED").

We agree with the ED, proposing to enhance disclosure by requiring an entity to disclose information about supplier finance arrangements that enables users of financial statements to assess the effects on the entity's liabilities and cash flows. That being said, we recommend that the Board should consider the following areas for further improvement:

a. We agree with the Board's approach to describing the characteristics of supplier finance arrangements instead of setting a definition of such arrangements. However, the scope of disclosure requirement seems too broad under the ED's proposal, which is to disclose the characteristics of supplier finance arrangements and examples of different forms of such arrangements. It may cause potential risks of hidden important information behind irrelevant information and overdue burden put into practice.

Accordingly, we recommend that certain clarifications should be made when providing the characteristics of supplier finance arrangements and setting out examples of different forms of such arrangements (See our comments on Question 1 and Question 2 (b)(ii)).

b. The ED proposes an entity to disclose the terms and conditions of each supplier finance arrangement, the carrying amount of financial liabilities that are part of the arrangement, and the line items in which those financial liabilities are presented. However, the ED is unclear whether an 'arrangement' refers to a master arrangement or individual arrangements based on the master arrangement. We suggest that the Board should clarify the level of detail required for disclosures to avoid inconsistency in practice (See our comments on Question 2(a) and Question 2 (b)(i)).

c. The ED proposes an entity to disclose information on payment due dates of financial liabilities that are part of a supplier finance arrangement and payment due dates of trade payables that are not part of a supplier finance arrangement. However, we are afraid that such a comparison may not enable users of financial statements to assess the effects of supplier finance arrangements on an entity's cash flows. Due dates of trade payables are generally affected by various factors, including industry, customers, products, and countries, not just by whether or not supplier finance arrangements are in place. Therefore, instead of disclosing payment due dates of trade payables that are not part of a supplier finance arrangement, we recommend that the entity should disclose the original payment due dates of the financial liabilities that are part of a supplier finance arrangement. Original payment due dates represents payment due dates of trade payables for transactions assuming the entity had not entered into supplier finance arrangements for the same transactions (See our comments on Question 2(b)(iii) and Question 2(c)).

The ED covers only a specific aspect of an entity's working capital management, namely the effects of supplier finance arrangements on an entity's liabilities, cash flows and other areas. Given that various other methods for working capital management will likely evolve in the future, we are not sure whether developing a requirement each time for individual transactions, as is the case for the ED, is the best approach for the Board to undertake.

Since the current IAS 7 was initially developed, causing various has been long while fundamental issues mainly in the following areas: the classification of cash flows, gross versus net presentation, consistency between other primary financial statements, and disclosure principles. In many cases, these issues seem to be arising because they do not fit into the current uncertain or fast-paced changing environment.

If the Board keeps addressing these issues by making piecemeal adjustments, it is not only inefficient from the viewpoint of standard development, but it could also lead to leaving significant issues behind, causing a risk that information provided in cash flow statements gradually becoming irrelevant for users. Hence, we believe that consideration must be given to fundamentally re-develop IAS 7 in the near future in order to address these issues in a comprehensive manner.

We understand it will be a quite painful and burdensome project for the Board to undertake. We are also aware that such a project will significantly affect many stakeholders. Still, we expect it is time for the Board to take a bold initiative and consider the possibility of re-developing the standard.

Please see our comments on individual proposals of the ED on the following pages.

| **Question 1—Scope of disclosure requirements** |
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| 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.<br>Paragraphs BC5–BC11 of the Basis for Conclusions explain the Board's rationale for this proposal.<br>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. |

**Comment:**

We conditionally agree with the proposal.

Instead of setting a detailed definition of supplier finance arrangements, we agree with the Board's approach to describing the characteristics of such arrangements and set out examples of different forms of such arrangements. It enables preparers to understand the type of transactions subject to disclosure, which appears practical. However, we believe certain clarifications are needed when explaining the characteristics of supplier finance arrangements and setting out examples.

First, to clarify the arrangement relationship, it should be clearly stated that supplier finance arrangements subject to the proposed disclosure requirement represent arrangements signed between an entity and its finance providers.

Second, we recommend limiting the scope of supplier finance arrangements. Otherwise, important information could be hidden behind the irrelevant wide range of disclosures. For example, letter of credit transactions widely used in global trading could be regarded as possessing the characteristic of supplier finance arrangements following paragraph 44G of IAS 7 because they represent transactions under which an entity, an importer, asks its bank to issue a letter of credit based on a letter of credit issuance agreement. According to the agreement, the bank promises to pay amounts the entity owes to an exporter. In such cases, even when the importer is entering into a letter of credit transactions to avoid other risks, such as a risk of not being able to obtain goods as contracted, they could be regarded as possessing the characteristic of supplier finance arrangements and scoped into the proposed disclosure requirement because credit issuance banks are able to offer early payment terms to exporters under the agreement. Unintended consequences may arise if such transactions are accounted for in the same way as to reverse factoring arrangements, which the IFRS Interpretation Committee discussed. IASB should exclude a letter of credit transactions as illustrated above and other irrelevant arrangements from the proposed disclosure requirement by clarifying the characteristics of supplier finance arrangements and examples of different forms of such arrangements and limiting the scope of supplier finance arrangements subject to disclosure.

| **Question 2—Disclosure objective and disclosure requirements** |
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| 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.<br>To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:<br>(a) the terms and conditions of each arrangement;<br>(b) for each arrangement, as at the beginning and end of the reporting period:<br>(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;<br>(ii) the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and<br>(iii) the range of payment due dates of financial liabilities disclosed under (i); and<br>(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.<br>Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.<br>Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.<br>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. |

**Comment:**

(a) We conditionally agree with the proposal.

We agree with the Board's approach to disclosing terms and conditions of supplier finance arrangements. The information enables users of financial statements to understand the detail of such arrangements better. However, we believe clarification is needed about the level of detail required for disclosure purposes. The ED proposes an entity to disclose the terms and conditions of each supplier finance arrangement. Still, it is unclear whether an 'arrangement' refers to a master arrangement or individual arrangements based on the master arrangement. We suggest that the Board should clarify the level of detail required for disclosures to avoid inconsistency in practice. Depending on whether the arrangement is referring to a master arrangement or individual arrangements based on the master arrangement, the volume of disclosure would be significantly affected as entities would be required to disclose not only terms and conditions of each arrangement but also other information set forth in paragraph 44H(b) of the Draft Amendments to IAS 7, namely the carrying amount of each arrangement, the carrying amount of financial liabilities for which suppliers have already received payment from finance providers, and the range of payment due dates of financial liabilities. We also recommend that the Board should consider aggregating disclosure information using the portfolio approach and the like because information disclosed could be fragmented if an entity has various supplier finance arrangements.

(b) (i) We conditionally agree with the proposal.

We agree with the proposal to disclose information on the carrying amount of financial liabilities that are part of a supplier finance arrangement and the line items in which those financial liabilities are presented because it would be useful information. However, we recommend the Board should clarify the level of detail required and improve information to be disclosed. Like terms and conditions, an entity is also required under the proposal to disclose the carrying amount of financial liabilities for each arrangement; however, as commented in (a) above, information could be fragmented depending on the definition of an 'arrangement,' which could result in providing information that is unhelpful for users. Thus, in addition to disclosing the carrying amount of financial liabilities for each arrangement, we also recommend disclosing information on the total carrying amount of financial liabilities as a part of the supplier finance arrangement.

(ii) We conditionally agree with the proposal.

We agree that the proposed disclosure information will allow users to understand the impact of using supplier finance arrangements on an entity's financial

statements, thereby enhancing the usefulness of financial statements.
We suggest that the Board should reconsider the scope of information to be disclosed because we are doubtful whether the cost of obtaining all the necessary information to make a comprehensive disclosure for every single case is truly worth the benefit. Supplier finance arrangements could vary in practice and type. For example, there could be a case where a supplier receives payment not directly from a finance provider with whom the entity, as a buyer, has an arrangement but from a third party engaged with the finance provider. In such cases, as the buyer, the entity may have to adjust its current practice to identify all the payments suppliers have already received. Therefore, we recommend that the Board should clarify the characteristics of supplier finance arrangements and limit the scope of arrangements subject to disclosure at a minimum level possible so that the cost of disclosing the information does not outweigh the benefit obtained from the disclosure.

(iii) We disagree with the proposal.
In addition to the proposed disclosure, we recommend that an entity should provide information about the original payment due dates of financial liabilities subject to disclosure. In other words, an entity should also disclose information on payment due dates of trade payables for transactions assuming the entity had not entered into supplier finance arrangements for the same transactions. We understand the purpose of the proposed disclosure requirement is to compare it with the information required in paragraph 44H(c) regarding payment due dates of trade payables that are not part of a supplier finance arrangement, thereby enabling users of financial statements to assess the effects of those arrangements on an entity's cash flows.
However, payment due dates of trade payables are generally affected by various factors, including industry, customers, products, and countries. Therefore, comparing payment due dates of financial liabilities that are part of a supplier finance arrangement to payment due dates of trade payables that are not part of a supplier finance arrangement may not be able to provide helpful information to users of financial statements unless the type of transactions associated with the trade payables is similar in nature. This is especially the case for multi-business or multinational companies. Accordingly, we recommend disclosing payment due dates of financial liabilities that are part of a supplier finance arrangement and the original payment due dates of the financial liabilities. That information represents payment due dates of trade payables assuming the entity had not entered into

supplier finance arrangements for the same payable transactions. In this way, users should be able to assess how supplier finance arrangements have affected payment due dates.

(c) We disagree with the proposal.
As commented in (b)(iii) above, we do not support the proposed disclosure requirement as it may not provide the appropriate information for users. Instead of the proposed disclosure, we recommend disclosing information on the original payment due dates of the financial liabilities part of a supplier finance arrangement. Or even when entities are required to follow the proposed disclosure, we think clarification is needed in the wording of the ED because currently. The requirement is unclear whether it is asking only entities with supplier finance arrangements to disclose the information or including entities that have no supplier finance arrangements in place. In this regard, we recommend that the Board should clarify the accounting for entities with zero supplier finance arrangements.

| **Question 3—Examples added to disclosure requirements** |
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| 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.<br>Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.<br>Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. |

**Comment:**
We conditionally agree with the proposal.

We agree with the Board to add supplier finance arrangements as an example within the requirement to disclose information about changes in liabilities arising from financing activities and an entity's exposure to liquidity risk, respectively, because such information would enhance compliance with the disclosure requirements. However, we suggest that certain clarifications should be made when describing examples. In paragraph 44B of the Draft Amendment of IAS 7, the Board provides an example, saying that when future cash outflows are classified as cash flows from financing activities. We believe the example should be provided at a more detailed level, explaining in which cases future cash outflows will be classified as cash flows from financing activities. Such information should be more beneficial to enhance compliance with the disclosure requirement.

Yours faithfully,

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Executive Board Member－Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants