The International Accounting Standard Board,
Columbus Building,
7 Westferry Circus
Canary Wharf,
London E14 4HD
By email: commentletters@ifrs.org

27th March 2022

Dear Sirs,

IFRS Standards Exposure Draft ED/2021/10

ITFA (www.itfa.org) is a global trade association with nearly 300 members in over 40 countries. Our members comprise banks and other financial institutions of all sizes, insurance brokers and underwriters, fintechs law firms and consultants. All the major providers of supply chain finance (SCF), both banks and technology platforms and vendors, are members of ITFA. In particular HSBC, Sumitomo Mitsui Banking Corporation, Bank of America, RBS, Lloyds Bank, Bank of China, Deutsche Bank and Standard Chartered Bank have contributed to this response to your exposure draft ED/2021/10 (the Exposure Draft) relating to the proposed amendments to IAS 7 and IFRS 7. We are aware of similar proposals from the Financial Accounting Standards Board in the United States in the shape of their exposure draft dated 20th December 2021 (the FASB Exposure Draft).

Firstly, we would like to thank you for publishing these proposed standards. We believe that they will help to create a more unform and reasonable approach to the treatment of SCF programmes in financial statements and answer some of the criticisms of the industry. Whilst there have been charges of misuse of SCF, we believe that it has been a force for good, most recently during the pandemic-related credit squeeze where the market responded massively to support supply chains and corporates as seen in figures collected by the University of St. Gallen in their "Working Capital Management Study 2020" (see page 9 at WCM-Studie_2020_EN.pdf (unisg.ch)).

We would also take this opportunity to point out that there can be misconceptions even in the professional community about SCF with regards to important details of these arrangements. For example, an important feature not sufficiently highlighted is that the creditor rights that suppliers benefit from when they provide payment terms to buyers in their normal course of business typically do not change when these payables or invoices become part of a supplier finance program. Additionally, the key rating agency concern regarding the possibility of these programs being shut down in a stress scenario and causing a liquidity crisis for buyers has not been seen in practice during the pandemic related crisis. On the other hand, the inclusion of banks and availability of liquidity under these programs can mitigate supply chain resilience concerns. In the absence of SCF, suppliers use their own liquidity to make routine payment terms available to buyers and in a stressed scenario may not have the capacity to offer even regular payment terms. Many suppliers are not likely to have the professional capacity to assess evolving credit risks in the same way banks can. This is where supplier finance programs typically provide a significant risk mitigant by bringing in third party liquidity, credit assessment and pricing capacity.

We have four principal comments on your proposals.

The first relates to Question 1 in the Exposure Draft and the proposed definition of SCF in draft paragraph 44G of IAS7. Despite indications to the contrary in the Basis for Conclusion (especially paragraphs BC 5-10), we are aware of some instances where auditors have considered that the draft definition would include receivables programmes arranged by a supplier which are notified to the buyer. Such an interpretation, which we consider wrong is, however possible on a literal interpretation of paragraph 44G. To counter any such misinterpretation, we suggest that the opening sentence of paragraph 44G read as follows: "A supplier finance arrangement is ~~characterised~~ an arrangement which the entity enters into with one or more finance providers ~~offering~~ who offer to pay amounts an entity owes its suppliers, and pursuant to which the entity issues an undertaking to pay in favour of those finance providers on the same date as, or at a date later than, suppliers are paid." (amendments underlined or struck through). This would remove all doubt and has the merit of aligning with the proposed FASB guidance (paragraphs 405 -50-13-2 of the FASB Exposure Draft).

The second point relates to the terms of the SCF Programme to be disclosed and corresponds to Question 2 in the Exposure Draft. The emphasis on the arrangement of these programmes by the reporting entity would also serve to clarify that traditional trade instruments such as promissory notes and bills of exchange - which are of the sold by suppliers to banks to improve their liquidity – are outside the scope of the definition.

We note in paragraph 44H that "extended payment terms" are to be disclosed. (The definition of SCF in paragraph 44 also refers to extended payment terms). The question therefore inevitably arises as to how to determine whether a payment term has, in fact, been extended. It has been generally observed that payment terms have increased over the for at least around a decade as shown, for example, in the JP Morgan Working Capital Index 2021(see page 7 at jpmc-working-capital-index-2021.pdf (jpmorgan.com). In such circumstances, buyers will feel compelled to arrange for SCF programmes to retain the loyalty of their supply chains. Where such term extensions are recent, auditors may feel obliged to ask entities to quantify the length of the term extension. In the circumstances described above, this will prove difficult and highly subjective. The FASB has accepted this difficulty (see paragraph BC 25 of the FASB Exposure Draft). We therefore recommend, in order to avoid confusion on this point, that the words "agreed as part of the documentation for the arrangement" be added after "extended payment terms" in sub-paragraph (a) of paragraph 44H. We also respectfully suggest that the proposed changes be harmonised as far as possible with those of FASB. In relation to the amount of detail that needs to be disclosed, we would suggest that, as proposed by FASB, this be limited to information readily available to the reporting entity without any need to rely on information provided by external parties. Paragraph 44 H (b) (ii) can only be satisfied with information provided by the finance provider. The FASB proposals do not have a similar requirement as they consider (paragraph BC 23) that this information would often not be available as it would be confidential as between the finance provider and supplier. We would add that this may give rise to breach of contract issues and that supplier consent to disclose such information may not be forthcoming as it could be commercially sensitive. Finally, FASB considered this information to be of marginal value. In view of our point about the calculation of payment terms, made above, we believe that the requirement in paragraph 44H(b)(ii) is unduly onerous.

Paragraph 44H (c) will be difficult to determine in practice. In part, this is the flip-side to the point made in the preceding paragraph. Many SCF programmes will allow payables meeting specified eligibility criteria to be included in the programme with tenor being only one of them. Only some, or no, suppliers may finally be deemed to have satisfied these criteria and even these that do may not avail themselves of the early payment facility on offer. How, against such a background, could an entity determine if a payable fell into the

programme or not especially if no information was available from the finance provider or supplier? It is unclear what value this granular level of detail would bring in any case and, in our opinion, is a disproportionate burden on reporting entities. Again, the FASB does not require this information.

Finally, in relation to Question 3 in the Exposure Draft, we are unclear as to why new paragraph (da) assumes that there could be a re-classification of cash flows. As we point out in the third paragraph of this letter, the involvement of a finance provider does not change the nature of the payment obligation. It is the understanding of the market that the IASB does not intend to re-classify these obligations but rather provide more information as to how they are being financed. Any inference to the contrary could lead to undesirable uncertainty. If this wording is to be retained, we suggest adding something along the lines of:" In extreme cases, this could include classifying future cash outflows as cash flows from financing activities."

We would be happy to discuss these points in more depth. We can be contacted at info @itfa.org.

INTERNATIONAL TRADE & FORFAITING ASSOCIATION

By Sean Edwards,

Chairman