The Association of
Accountants and
Financial Professionals
in Business

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

Reference: Exposure Draft ED/2021/10 - *Supplier Finance Arrangements*

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the International Accounting Standards Board's (IASB or Board) Proposed Exposure Draft, *Supplier Finance Arrangements* (Exposure Draft).

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Executive Summary

As you are aware, the Financial Accounting Standards Board (FASB) recently issued its own exposure draft on this topic. The comments in this letter mirror those we made to the FASB on their exposure draft in a letter from us dated February 25, 2022. We hope the two Boards will work to minimize differences between the two sets of requirements. Many of the companies we represent must, often at a subsidiary level, prepare financial statements under both accounting regimes, and differing standards add unnecessary complexity.

The Committee is very supportive of the Board's intention to increase transparency and improve disclosures about supplier finance programs. The prevalence of these programs continues to increase and, as a result, users are seeking more robust disclosures about the nature of these programs and an entity's use of the programs over time. We also applaud the Board and staff for investing the time to conduct significant stakeholder outreach to better understand the nature of the programs utilized by companies. In the balance of our letter, we provide perspectives on both the project scope and the nature and frequency of disclosures contemplated in the proposal.

Overall Project Scope

The Committee agrees with the Board's conclusion that providing more enhanced and transparent disclosures about the nature, extent and the evolution of the use of supplier finance programs over time are relevant to investors and other financial statement users.

Supplier finance arrangements can take many forms and the legal rights of those parties may vary based on the jurisdiction in which the arrangement is based. In our letter to the FASB, we noted that under US GAAP, an accounting model has evolved and is being followed by buyers which generally results in the obligations under these programs being classified as trade accounts payable and the impact of resulting changes in these obligations as operating cash flows. We support this current model. However, this does not mean that we believe all arrangements are payables. We believe some arrangements should properly be classified as debt and others as payables. We believe the reason most arrangements are shown as payables is because if they do not meet the criteria for this classification, either the transaction is modified through negotiation so that they do, or the transaction does not occur. Making this determination is not always easy and it is dependent on the facts and circumstances of the transaction.

We recommended to the FASB that they reconsider expanding the scope of the project to include codifying the current accounting guidance and considerations analyzed by preparers to determine the appropriate balance sheet and cash flow presentation for obligations under these programs. Under US GAAP, the historical accounting for obligations under supplier finance programs has been, and continues to be, guided by a combination of SEC speeches from the early 2000s and related accounting firm interpretations. While the accounting for similar programs has generally been consistent across preparers as we note above, we believe the guidance belongs in the accounting standards. In our view, this will help to both further enhance the consistency in the balance sheet and cash flow presentation related to obligations under supplier finance programs and make the preparers' processes for concluding on the appropriate accounting more efficient and effective. Including this guidance will assist preparers in more easily identifying more complex arrangements that may not qualify for accounts payable presentation.

Similarly, we believe current IFRS standards could be improved by providing additional guidance for determining the classification of supplier finance programs. Particularly because we believe these programs are more diverse globally than compared with those commonly found in the US. The SEC guidance and related accounting firm interpretations are helpful in considering the factors that should be considered in the classification of these transactions. Many IFRS preparers are not aware of SEC guidance or subject to its requirements. The IASB should expand the project scope to include implementation guidance for supplier finance programs. The Exposure Draft does not modify or establish the current accounting for supplier finance arrangements, nor do the draft amendments to IAS 7 and IFRS 7 propose to define supplier finance arrangements. Instead, they describe the characteristics of an arrangement requiring these disclosures. The Exposure Draft should be modified so that it not only identifies arrangements that require disclosure but provides guidance to determine whether the arrangements should be presented as accounts payable or debt.

Given that consistency in the balance sheet and cash flow presentation of obligations for similar programs has not been an issue to date, expansion of the project should not lead to a significant increase in the project timeline. However, if adding the accounting guidance will significantly delay the project timeline, we believe the Board should add a separate project to the agenda so the disclosure project can continue to move forward.

Proposed Disclosure Scope and Program Aggregation

We appreciate providing clear scope guidance and believe the guidance is operable, understandable and will serve to capture the complete population of supplier finance programs that are being utilized in practice today. This general scope guidance also recognizes that supplier finance programs will likely continue to evolve.

The Committee is supportive of the proposal to allow entities that use more than one program to aggregate disclosures if the characteristics of the programs are similar and aggregation does not obscure the useability of the information disclosed. The guidance is both operable and understandable and, in general, we do not believe aggregation of disclosures across similar programs will limit the usefulness of the information.

Disclosure Requirements

Except for the items noted below, the Committee believes that the proposed disclosure requirements are operable and, in general, provide a cost-effective means to provide users with more enhanced disclosures on the nature, extent and evolution of a buyer's use of supplier finance programs over time. In addition, we note that some public companies are already providing many of the proposed disclosures outside of their financial statements.

The IASB has departed from the FASB with respect to the requirement to compile certain information that requires third-party support; specifically, the Board's proposal to require buyers to disclose the outstanding obligations that the finance provider has paid to the supplier prior to the invoice due date (e.g., a subset of the outstanding confirmed amount). In the Basis for Conclusions the Board recognizes that this information is often not available to the buyer. We acknowledge that finance providers would generally be able to make this information available. But we are concerned about a requirement to disclose information outside of an entity's normal system of controls. Additionally, the tight deadlines many companies face in preparing financial statements puts stress on gathering this information and ensuring such third-party data is accurate. Therefore, we do not support the inclusion of this disclosure requirement.

We understand the desire of users to understand the magnitude of these programs and the potential impact to the financial statements if they were no longer in place. We agree with the recommendation requiring disclosure of the outstanding obligations for each balance sheet presented. The Exposure Draft also requires the disclosure of the range of payment periods for both the financial liabilities related to supplier arrangements and for trade payables that are not part of a supplier finance arrangement. For many companies the range of payment periods can be quite wide. Disclosing the range would not give users helpful information in understanding the impacts of a change in supplier terms for arrangements in this type of program. The Board should require reporting an average days' payables outstanding for both types of liabilities, it would be a more meaningful metric and should be disclosed instead.

The FASB's proposal required a rollforward of the outstanding obligations. Supplier finance programs typically cover only a portion of a company's vendors in its product supply chain and selling, general and administrative expense universe. Any information conveyed in a rollforward of this subset of a company's cost and accounts payable activity will lack the broader context of the activity in the company's total cost structure. For these reasons, we struggled to see the value this information will provide to users. We do not support the requirement of this disclosure by the FASB and would not support such a disclosure by the IASB as a potential addition or alternative to the currently proposed disclosures.

Frequency of Disclosure

We agree with the view that an interim period is not a discrete reporting period but an integral part of the annual reporting period. Interim disclosure requirements should be limited to items that are accounted for or reported differently in interim versus annual periods, significant interim events or transactions and information that has changed significantly from disclosures in the most recent annual financial statements. Based on these views, the Committee supports requiring interim disclosure on supplier finance programs only when an event or transaction related to the buyer's program has occurred that has, or could have, a material impact on the entity.

Transition and Implementation

The Committee believes the proposed disclosure requirements should be implemented prospectively. As we noted earlier, buyers will need time to both compile the information and implement robust processes and controls. This will help to minimize the initial burden on buyers as they prepare to implement the new disclosure requirements.

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We would be pleased to discuss our comments with the IASB or its staff at your convenience.

Sincerely,

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