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Reference: Request for Information – Exposure Draft ED/2021/10 – Supplier Finance Arrangements.

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED/2021/10.

We are a standard-setting body engaged in studying, developing, and issuing accounting standards, interpretations, and guidance for Brazilian companies.

CPC supports the IASB's efforts to enhance the classification and disclosure of Supplier Finance Arrangements – hereafter SFA – both in the cash flow statement and technical notes.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Mota

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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.

Response (1):. CPC believes that given the diversity of contracts and the existing financial instruments within the financial markets, a narrow definition of SFA may not identify all the arrangement in which the provision of information is needed.

We noted that the ED proposes to identify SFA through typical characteristics rather than principles. By doing this, it appears that the proposed characteristics may be applied in practice as if it were a broad definition.

In this sense, the criteria proposed in paragraph 44G has raised some concerns from part of the CPC members, because some arrangements that do not change the reporting entity cash flows, commercial condition and liquidity risks may be identified as SFA under the proposal.

An illustration of the effect mentioned in the preceding paragraph were brought by some CPC members, as summarized in the fact pattern described below:

> Company A bought certain products from supplier X and the invoice sets out that the amount payable is due in 2 months.
>
> Supplier X sale the receivable from Company A to a financial provider. The sale agreement states that the financial provider will pay the amounts due earlier than the invoice date at a discount.
>
> Company A agrees with the sale and will pay the amount due to the financial provider in accordance with the original terms of the invoice.

In our view, in the fact pattern described above the application of the ED/2021/10 proposed disclosures to Company A is unreasonable and may end up creating disclosure overload.

Accordingly, CPC believes that the proposal provided in paragraph 44G could be improved.

To be clearly and unequivocally stated, it is essential to highlight that CPC agrees that all types of SFA must be disclosed in the notes to the financial statements; however, the level of information required could be different depending on the nature of the contractual arrangements and whether or not there are changes in the payments' conditions.

It should be mentioned that the two CPC members representing investment professionals are fully aligned with the definition proposed in paragraph 44G as contained in the Exposure Drafts and therefore do not see the need for the segregation previously suggested.

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.

Response (2):

In accordance with the response given in question 1, the level of information required could be different depending on the nature of the contractual arrangements and whether there are changes in the payments' conditions.

In our view, disclosures requirements related to SFA should depend on its classification on the following categories:

(a) Supplier finance arrangements that change in the payable's conditions of the reporting entity; and

(b) Supplier finance arrangements that do not change in the payable's conditions of the reporting entity.

For the first group – letter (a) - the disclosure could be met either by the proposals within paragraphs 44B, 44H, and 44I or by qualitative disclosures that accurately describe the effect on the entity's cash flow and liquidity risks.

For the second group – letter (b) – the disclosures could be met by a statement mentioning that supplier finance arrangements have no effect on the entity's cash flow and liquidity risks.

In this sense, we suggest some indicators that could help the identification of the above-mentioned groups, as follows:

(a) Verify if the usual payables terms change.

(b) Analyze if the payables terms were updated due to negotiations between the suppliers/vendors and finance suppliers.

(c) Check if the suppliers/vendors participation in the SFA is voluntary.

(d) Observe if companies are not involved in negotiations between the suppliers/vendors and the finance suppliers.

(e) Analyze if the suppliers/vendors decision does not bear interest to the company that will provide the payment.

(f) Verify if early settlements will grant benefits to the buyer/company that will pay the invoice.

(g) Check if there is no change in the payables' subordination in case of bankruptcy.

CPC also agrees that the proposals allow to aggregate contracts with similarities; however, it is essential to provide a clear and accurate definition about what an SFA is in fact. This would avoid the creation of additional costs of controls for some transactions that, in essence, do not differ from regular trade payables.

It is also worth noting that part of the information that are being proposed to be disclosed may not be readily available to preparers and, consequentially, might not be easily auditable. The CPC has some concerns with that, more specifically with the disclosure proposed in paragraph 44H(b)(ii) whose information may not be available in the existing information systems of the preparers.

Additionally, it would also be relevant for companies to be encouraged to disclose the criteria and judgments used by management to conclude the existence of SFAs.

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.

Response (3): CPC agrees with the illustration provided because examples help preparers to understand the practical implementations better.

Meanwhile, CPC discussions about the examples of potential disclosures related to SFA raised the following statement from a Brazilian company, which can be helpful to clarify what kind of disclosure could be required for those SFA that do not change the commercial condition of the payment. Please see below in free translation version.

> *21. SUPPLIER RESTRUCTURING PROGRAM*
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> *As disclosed in note 1.1, the Company's Management has been making efforts to promote an improvement in the working capital position, as a result, Management has promoted a negotiation with the main suppliers to extend the respective payment terms in order to reduce the difference between the average collection term ("PMR") and the average payment term ("PMP"). In order to mitigate the impacts of the change in the payment term on the cash flow of its suppliers, the Company signed an agreement with financial institutions that allows the anticipation of accounts receivable from its suppliers.*
>
> *Considering that the anticipation of this receipt with the financial institutions is an option of the suppliers, this modality does not imply the occurrence of financial expenses for the Company, it does not require the mandatory participation of the suppliers, as well as the Company is not reimbursed and/or benefited by the financial institution of discounts for payment executed before the due date agreed with the supplier, there is no change in the degree of subordination of the security in case of judicial execution.*
>
> *On June 30, 20XX, the amount of the balance of suppliers that benefited from the agreement was XXX.*