



**The Institute of  
Chartered Accountants  
of Pakistan**

**CA  
PAKISTAN**

**HEAD OFFICE**

March 28, 2022

(Submitted Electronically)

International Accounting Standards Board  
London, United Kingdom

**Comments on Exposure Draft ED/2021/10 - *Supplier Finance Arrangements***

Dear Board Members,

The Institute of Chartered Accountants of Pakistan is pleased to comment on the Exposure Draft (ED) on '*Supplier Finance Arrangements*' issued by the International Accounting Standards Board (the Board/ IASB) in November 2021.

We appreciate the Board's efforts in undertaking a project related to disclosures requirements for supplier finance arrangements. The Appendix to this letter contains our detailed responses to the questions in the ED.

We hope our comments are helpful to the IASB's deliberation on the ED on Supplier Finance Arrangements. Should you require further clarification on our comments, please contact the undersigned, at [sohail.malik@icap.org.pk](mailto:sohail.malik@icap.org.pk)

Yours truly,

Sohail Malik  
Director Technical Services

Encls: As above

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**ICAP Comments on  
Exposure Draft 2021/10 - Supplier Finance Arrangements**

**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 Conclusion 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.

**Comments**

We agree with the Board's proposed approach of describing the characteristics of supplier finance arrangements rather than defining the arrangements. A definition may become outdated as the arrangements and practices evolve. The Board's proposed approach to explaining the characteristics of the arrangements is accordingly the preferred approach.

With the objective to provide clarity on the supplier finance arrangements covered under the Exposure Draft (ED), it would be helpful to mention that the supplier finance arrangements providing early payment terms to suppliers and supplier finance arrangements providing extending credit terms to buyers are within the project's scope.

We noted that the Financial Accounting Standards Board (FASB) has also issued a proposed Accounting Standards Update (ASU), Liabilities—Supplier Finance Programs (Subtopic 405-50), in December 2021. The proposed ASU explains the characteristics of supplier finance arrangements and also proposes disclosure requirements for supplier finance program obligations. We suggest the Board considers the FASB proposed ASU when re-deliberating and completing the proposed amendments to IFRS 7 and IAS 7.

**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 enable 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.

### Comments

We agree with the proposed disclosures requirements for supplier finance arrangements. We believe that disclosure objectives and requirements set out in the proposed paragraphs would complement the current requirements in IFRS Standards.

We also have the following comments on a proposed disclosure and approach:

- (a) Proposed paragraph 44H(b)(ii) requires disclosure of the carrying amount of financial liabilities for which suppliers have already received payment from the finance providers. We believe that the information about financial liabilities for which suppliers have already received payment would not be readily available to the reporting entity. Further, there are concerns about the usefulness of this disclosure for users of financial statements.
- (b) As noted in our response to question 1, we suggest the Board also considers disclosure requirements proposed by FASB [(in ASU, Liabilities—Supplier Finance Programs (Subtopic 405-50)], when re-deliberating and concluding on the disclosures of this ED.

### 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 Conclusion 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.

### Comments

We agree with the Board's proposal of including supplier finance arrangements as an example in IAS 7, requiring disclosure of information about changes in liabilities arising from financing activities.

We also agree with the Board's proposal to include supplier finance arrangements as an example within the liquidity risk disclosures of IFRS 7. The proposed disclosure about liquidity risk would provide useful and relevant information to users of financial statements as by entering into supplier finance arrangements, an entity typically has concentrated a portion of its liabilities with one or a few finance providers. However, for clarity and common understanding, we suggest the Board clarifies that the disclosure of concentration of liquidity risk is required for a specific supplier finance provider(s), rather than the supplier finance arrangements.