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**AUTORITÉ
DES NORMES COMPTABLES**

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Mrs Sue Lloyd
IFRS Interpretation Committee Chair
7 Westferry Circus, Canary Wharf
London, E14 4HD
United Kingdom

PDC n°29

Subject: June 2020 – IFRS IC Tentative Agenda Decision: Supply Chain Financing – Reverse Factoring

Dear Mrs Lloyd, *Dear Sue,*

I am writing to you on behalf of the Autorité des normes comptables (ANC) to express our views on the IFRS Interpretations Committee's Tentative Agenda Decision (TAD) published June 2020 regarding the classification and disclosures requirements applicable to supply chain financing arrangements.

We agree with the Committee's conclusion that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of liabilities that are part of such arrangements, the presentation of the related cash flows and information to disclose in the notes. However, we suggest clarifications to the wording of the TAD with regard to the scope of some disclosure requirements.

Lastly, we support the initiative of a narrow-scope amendment, to develop additional disclosure requirements for arrangements entered into to fund payables to suppliers.

- **The usefulness of publishing an Agenda Decision (AD)**

The consequences of supply chain financing arrangements on financial information are complex and far-reaching. Moreover, such arrangements are becoming widespread and cover a wide range of schemes. We agree with the Committee's tentative decision to publish an AD that sets out the applicable presentation and disclosure requirements. We think an AD may enhance the consistent application of those requirements and thus, may improve the reporting of financial information about supply chain financing arrangements.

- **Improvements to the wording of the Agenda Decision**

Albeit limited in its scope, the TAD provides useful clarifications about (i) the presentation of the obligations to which reverse factoring arrangements relate and (ii) the applicable disclosures. We agree with Committee's analysis and conclusions but think that the scope of the disclosures requirements mentioned in the TAD could be made more explicit.

We understand that the first paragraph of the section entitled '*Notes to the financial statements*' specifically deals with disclosure requirements only applicable to financial liabilities not classified as trade payables. Accordingly, those requirements do not apply to trade payables. This is apparent from the mention in the TAD that '*such disclosure is required for liabilities that are part of a reverse factoring arrangement if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities*'. We agree that paragraph 44A of IAS 7 *Statement of Cash Flows* restricts this disclosure requirement to financial liabilities other than trade payables because that paragraph requires an entity to provide disclosures '*that enable users of financial statements to evaluate changes in liabilities arising from financing activities*'.

The following paragraph in the section goes on and outlines the requirements in IFRS 7 *Financial Instruments: Disclosures*. However, given the scope applicable to the requirements mentioned in the immediately preceding paragraph and in the absence of any clarification, we are concerned that the TAD might be read as narrowing the disclosures requirements in IFRS 7 on liquidity risk to financial liabilities other than trade payables only and thus, might imply that those disclosure would not apply to trade payables. In our view, the scope of the requirements in IFRS 7 on liquidity risk is not limited to financial liabilities other than trade payables—it also extends to trade payables (applying paragraphs 3 and 31 of IFRS 7) and to all non-derivative financial liabilities (applying paragraphs 39 of IFRS 7). Therefore, it would be useful to clarify that the scope of the disclosure requirements regarding liquidity risks as presented in the TAD includes the circumstances in which the liabilities are classified as trade payables.

- **Clarifications on the scope of possible narrow-scope standard-setting**

The addendum to the TAD states that the possible narrow-scope standard-setting project would consist of developing '*disclosure requirements for arrangements entered into to fund payables to suppliers*'. For reasons similar to those mentioned in the paragraph above, we think that the scope of such project could be clarified by being more accurately defined. We agree that the addendum is not part of the Agenda Decision as such. Nonetheless, we think such clarification would avoid any misunderstanding about the types of liabilities that would be in the scope of the standard-setting project, and by extent would contribute to the understandability of the AD.

Should you wish to discuss any aspect of our comment letter, please do not hesitate to contact me.

Yours sincerely,

Kind regards.

Patrick de Cambourg

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