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Subject: Comments on Supplier Finance Arrangements

1) I welcome the opportunity provided for sending comments onSupplier Finance Arrangements

2) My view considering fact pattern

Finance providers are not defined in detail, it is not clear who will be considered as finance provider. Today normally all bill discounting model works in general funding by bankers and not within the limits of the Company. Any utilisation of banks money will not be disclosed as amount due from Company and will not be reported to RBI unless there are any defaults in payment by Company. Accordingly, the drawing power of the Company is not reduced and this leads to confusion in understanding the term finance providers as mentioned in the exposure draft.

Also, the draft is not clear if the amount due to be paid by a Company is funded by group Company for payment and group Company receives the money later will this be considered as financing arrangement. Would like to know when this would be considered if the amount is given to group Company as loan or even if given as equity/advances which in turn will be used for payment to vendor on due date & group Company gets extra time to repay the lending Company in the group.

Further, if vendor agrees for delayed payment where by Company can pay later in either of the following option, will this be considered as financing arrangement is not clear

- *Pay late with interest*
- *Due date negotiated in such a way to extended credit days by factoring the interest as part of product pricing or service pricing with vendor*
- *Due date negotiated in such a way to extended credit days by factoring the interest borne by supplier as reverse factoring*
- *Pay late by adjusting the price in next supply*
- *Pay late by providing security or guarantee*
- *Pay late by providing more business*

These are all the hidden arrangements which cannot be identified, how to factor these arrangements for disclosure as it will be clearly evident that payment will not be made even after due date and vendor would not have followed up aggressively.

Request the committee to consider these types of practical invisible arrangements and let the prepare of financial statement understand the expectations of users of financial statements from these amendments.

Country specific scenario

In India if Company is transacting with Micro Small or Medium enterprises are required to make the payment within 45 days from the date of deemed acceptance of supply or services. As per the law if the Company pays beyond 45 days to vendor, the Company is required to pay the vendor with interest, which is equivalent of 3 times the rate of interest in active usage by Reserve Bank of India.

The draft is not clear if the Company pays later to vendor with interest as per act, will this be considered as financing arrangement. Example: If Company gets loan sanctioned from bank little late, due to which vendors are paid late with interest, will this be construed as financing arrangement is not clear

Disclosure in India

In India payable to vendors who supply capital assets are not part of trade payable, if those vendors are under financing is the disclosure required, it is not clear from the draft

Other comments:-

a) *Point 44 H a is not clear what is the extent of disclosure required as each agreement T&C would be exhaustive and preparers require a clear guidance on extent of disclosure required otherwise this can lead to excessive non useful information for users.*
b) *44 H a is also not clear whether the disclosure is required for all arrangements open as of reporting date whether any contracts of vendors have been exercised or not through that arrangement*
c) *44 H a is not clear whether disclosure is required for contracts entered during the year and closed during the year which is neither open as of the beginning of the year nor open as at the end of the year*
d) *44 H C doesn't define in detail what is called as range*
e) *BC 14 d is not clear what is the T&C expected to be disclosed for trade payables outside the ambit of financing arrangements*
f) *Cost to comply will be high in many cases the committee is not considering many instances where lender will charge the buyer for requesting these information's, which will be a burden of the organisation.*
g) *This disclosure leads to conflict of position, today bankers don't disclose these arrangements as amount lent to buyer or limits extended to buyer. Accordingly, this disclosure can be interpreted differently and can lead to confusion among lenders and users of financial statements*

Also, this draft is not clear whether the disclosure is required when interest is borne by the buyer or even when interest is borne by supplier. In many cases vendors bear the interest cost and there is no additional cost for buyer. Accordingly, that can never be construed as financing activity as there are no interest cost and disclosure as per 44 H will be contradicting.

Critical facts for disclosure

a) Today most important point is vendor or buyers who agrees for discounting is important to decide upon disclosure as trade payable or as borrowings
b) Also who is bearing the interest cost is important whether by vendor or by buyer is important to decide upon disclosure as trade payable or as borrowings

These are not clear in the draft. Also clarity on indicators of classification as trade payable viz a viz as borrowings is not defined in the draft.

How to determine whether a financier is a paying agent or not and disclosure if financier is paying agent is not clear in the draft.

If invoice is settled by financier on due date with extension of credit terms how it will be disclosed is not clear. Also on due date if interest is borne by vendor extra days how it will be disclosed is not clear.

Difference between supplier finance and working capital / over draft facility/ external commercial borrowings can be defined or explained in detailed as an appendix with examples [Including multiple scenarios of supplier financing arrangements in the world like factoring, reverse factoring, interest is borne by vendor in reverse factoring etc.,]

Additional disclosure requirements to be added:-

a) Impact if arrangement is cancelled
b) On due date if there is a roll over how to disclose
c) Disclosure for default
d) Initially after financing liabilities are disclosed as trade payable and later converted to loan
e) Disclosure required under 44 H (b) (ii) is creating confusing as to why disclosure would be made even before funding by financier
f) Comparative period disclosure
g) If agreements have expired, not renewed
h) Arrangements with financier outside India and impact in forex changes
i) Financing done by group Companies
j) Additional disclosure for invoices of related party financed with extended credit terms in buyer financials and also in seller financials
k) If seller is related party and agrees for discounting how it will have impact in disclosure in both buyer & seller FS [including effect of interest].

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connected with.

Regards

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