Name: Sounder Rajan SP

M no 237299

Place: Chennai

Mail: sounderrajansubramanian2709@gmail.com

Mobile: 9940153273

Subject: Comments on Supplier Finance Arrangements

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

2) My view considering fact pattern

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.

**Comments: -**

*I don't agree*

*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*
- *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*

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.

**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.*

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

**Comments: -**

*I don't agree*

*Reasons are detailed in Q1 and Q2*

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

Sounder Rajan

M No 237299