

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
United Kingdom

Ref: The IFRS Interpretations Committee's June 2020 tentative agenda decision

Dear Ms Lloyd,

The European Securities and Markets Authority (ESMA) would like to thank you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication of a tentative agenda decision in the June 2020 IFRIC Update relating to *Supply Chain Financing Arrangements — Reverse Factoring*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an entity presents liabilities arising from supply chain financing – reverse factoring arrangements and what related information an entity is required to disclose in its financial statements.

ESMA notes that the IFRS IC concluded that the principles and requirements in existing IFRS provide an adequate basis for an entity to determine the accounting for such arrangements. ESMA agrees with the Committee's conclusions.

ESMA is conscious that, in the absence of standard-setting activity by the IASB to address the specificities of reverse factoring arrangements, some diversity in practice may still persist especially for the degree of judgement involved in the approach to the classification of liabilities relating to these transactions, their presentation and the related disclosures. Therefore, until such a specific standard-setting solution is developed by the IASB, ESMA agrees with the usefulness of the proposed agenda decision and supports its finalisation subject to the following comments.

Firstly, ESMA would deem it useful that the IFRS IC spells out more clearly which considerations issuers should make in determining the nature of the liabilities that are part of

a reverse factoring arrangement. As the tentative agenda decision indicates, this determination is necessary in order to identify the type of cash flows – whether operating or financing – that shall be presented pursuant to IAS 7 *Statement of Cash Flows*. For example, it may be helpful that the IFRS IC clarifies under which circumstances a liability is not a trade or other payable, but rather it represents borrowings of the entity and, therefore, it has to be presented as a financial liability, in accordance with paragraph 54 of IAS 1. Amongst others, potential indicators that can be considered are, for instance, the fact that the maturity of the liability to a financial institution is significantly longer than the initial maturity of the liability to the supplier and the fact that the financial institution receives compensation for the extension granted, as indicated in Decision EECS/0117-06 of ESMA's 21st *Extract from the EECS's Database of Enforcement*¹.

Secondly, ESMA supports the examples provided in the tentative agenda decision of factors that an entity might consider when assessing whether to present separately liabilities that are part of a reverse factoring arrangement. However, ESMA regrets that the tentative agenda decision does not address the presentation of items relating to reverse factoring arrangements in the statement of profit or loss and other comprehensive income. ESMA encourages the Committee to address this aspect to clarify, for example, whether the items relating to these arrangements should be classified as part of finance costs in accordance with paragraph 82(b) of IAS 1 or in a different line item. In this respect, ESMA also highlights the importance of ensuring consistency in the operating or non-operating classification across the primary statements of the different components stemming from these arrangements.

Thirdly, ESMA welcomes and agrees with the conclusion made by the Committee on the usefulness of the disclosure requirements in IAS 1 *Presentation of Financial Statements*, IAS 7 and IFRS 7 *Financial Instruments: Disclosures*. ESMA recalls that in its 2015 Statement² it encouraged issuers to disclose: (i) the accounting policy applied to the classification of reverse factoring arrangements; (ii) the judgements made by the management; (iii) the relevant provisions of those arrangements; (iv) the quantitative impact on their financial statements; and (v) how the arrangements are used to manage their liquidity needs. ESMA suggests that, when finalising its agenda decision, the IFRS IC makes reference to the importance of disclosing such aspects and, in particular, the judgments made and the accounting policies applied to these types of transactions.

Lastly, ESMA notes that the tentative agenda decision may be read as limiting the applicability of the disclosures in IFRS 7 to the cases where changes in liabilities arising from financing activities occur, as per the disclosure requirements in IAS 7. ESMA therefore encourages the Committee to: (i) clarify this aspect so to avoid any misunderstanding in the scope of the IFRS 7 disclosures; (ii) and consider recommending the IASB making narrow-scope amendments to the requirements in IFRS 7 to more explicitly address these transactions. In addition, when taking forward its project on *Primary Financial Statements*, ESMA encourages the IASB to

¹ [ESMA32-63-334](#) – Report, 21st Extract from the EECS's Database of Enforcement, 31 October 2017

² [2015/ESMA1608](#) – Public Statement, European common enforcement priorities for 2015 financial statements, 27 October 2015



provide a specific example on the application of the principles for aggregation and disaggregation that can illustrate the presentation of items relating to reverse factoring transactions.

In case you have any questions or comments regarding this letter, please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department (Evert.vanWalsum@esma.europa.eu).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M' with a flourish.

Steven Maijor