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

29 September 2020

602/636

Dear Ms Lloyd

Re.: Tentative Agenda Decision: Supply Chain Financing Arrangements – Reverse Factoring

The IDW appreciates the opportunity to comment on the above-mentioned Tentative Agenda Decision of the IFRS Interpretations Committee from June 2020.

We welcome the Committee's decision to provide guidance on reverse factoring arrangements, as this kind of transaction has become increasingly widespread in recent years. We would also support a standard-setting project regarding issues arising from such transactions, as we believe that such an approach could target the issues far more specifically than an agenda decision is able to. Moreover, any standard-setting project should not only address the disclosures necessary in the case of reverse factoring agreements, but also the interaction with the derecognition requirements in IFRS 9.

The key discussions we have been party to in this context concern the presentation of those payables subject to a reverse factoring arrangement. More specifically: whether such payables still be presented as trade payables. We appreciate the Committee's effort to clarify this issue. Nevertheless, we are concerned about a key aspect of the clarification, which is the reference to 'working capital'.

The Tentative Agenda Decision indicates that trade payables are 'part of the working capital used in the entity's normal operating cycle'. Although the term 'working capital' is also used in several IFRS, there is no clear and consistent

definition in place. We are concerned that a decision as to whether payables are part of the working capital is likely to be highly judgemental and thus this reference might introduce further uncertainty into the accounting for supply chain financing arrangements. Therefore, we believe that the IASB should provide a framework for identifying working capital in order to ensure a common understanding and comparability between information reported by different entities. As we expect that the application of such a framework will still require significant judgement, we propose that – should this approach be pursued further – entities should be required to disclose their definition of working capital.

However, in our view, a more specific reference to the derecognition guidance in IFRS 9 and an explanation of the interaction with the presentation of the liability in accordance with IAS 1 could provide a basis for a more robust reporting approach for such transactions. It would be necessary to focus on legal extinguishment as well as on substantial modifications. In respect of substantial modifications, the quantitative test would generally not lead to derecognition, whereas a targeted qualitative assessment may nevertheless warrant the derecognition of the trade payables. Any recognised 'new' payable could then not be classified as a 'trade payable'. We recommend some specific guidance be given concerning how the qualitative assessment should be conducted for trade payables – that generally have an effective interest rate of zero. For example, the introduction of an element of interest may lead to the derecognition of the trade payables and trigger the recognition of a payable depicting a financing transaction.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Bernd Stibi   Kerstin Klinner
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Reporting   International Accounting