Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Berlin, 28 September 2020

Dear Sue,

IFRS IC's tentative agenda decision reached in its June 2020 conference call

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decision on Supply Chain Financing Arrangements taken by the IFRS Interpretations Committee (IFRS IC) as published in the June 2020 *IFRIC Update*.

We generally agree with the tentative agenda decision. However, we have identified room for improving the wording, thereby increasing clarity.

As regards presentation in the statement of cash flows, the current wording of the tentative decision implies that cash flows shall be presented *either* as operating cash (out)flows *or* as financing cash (out)flows. However, we take the view that under a reverse factoring arrangement, and in particular when applying the indirect method (IAS 7.20), it could be appropriate to present *both* operating cash (out)flows as well as financing cash (in/out)flows – which effectively represents a gross presentation. We suggest clarifying the agenda decision in this regard to ensure that a gross presentation is neither required nor precluded.

Further, in the light of the current Primary Financial Statements project, assessing the nature of cash flows should be based on a wider understanding of "operating" (ie. core/main business as well as ancillary activities). This said, cash outflows may be assessed as "operating" even though they are paid to the factor (which corresponds to a "financing agent") and not to the entity's supplier. We suggest improving the respective wording in order to address this point.

As regards the statement of financial position, the current wording suggests that assessing the nature of liabilities determines, or "may help" determining, the nature of cash flows. While we support coherence in presentation, this would neither require *identical* presentation in the statement of cash flows and the statement of financial position nor justify that a change in the nature of cash flows implies an automatic derecognition of an existing liability/trade receivable and recognition of a new (financial) liability – or vice versa. We suggest that the current wording be amended accordingly.

Lastly, we believe that the reasoning for this agenda decision could benefit from focussing more on the overarching aim of improving transparency. This aim is achieved by the aggregate of appropriate presentation of reverse factoring arrangements within the statement of financial position and the statement of cash flows as well as appropriate accompanying disclosure rather than specific requirements for each of these statements and/or disclosures.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President