

---

**IFRS<sup>®</sup> Interpretations Committee meeting**

Date	<b>June 2025</b>
Project	<b>Consistent Application Activities</b>
Topic	<b>Updates to the agenda decision about reverse factoring</b>
Contact	Dennis Deysel ( <a href="mailto:ddeysel@ifrs.org">ddeysel@ifrs.org</a> )

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). This paper does not represent the views of the International Accounting Standards Board (IASB), the Committee or any individual member of the IASB or the Committee. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*. The Committee's technical decisions are made in public and are reported in IFRIC<sup>®</sup> *Update*.

---

**Objective**

1. The objective of this paper is to ask the IFRS Interpretations Committee (Committee) whether it agrees with our recommendations of how to update the agenda decision [Supply Chain Financing Arrangements—Reverse Factoring](#) considering the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*.

**Structure of the paper**

2. This paper includes:
  - (a) background (paragraphs 4–10);
  - (b) summary of the accounting matter (paragraphs 11–13);
  - (c) staff analysis:
    - (i) presentation in the statement of financial position (paragraphs 16–27);
    - (ii) derecognition of a financial liability (paragraphs 28–30);
    - (iii) presentation in the statement of cash flows (paragraphs 31–35); and
    - (iv) disclosure in the notes to the financial statements (paragraphs 36–38).

- (d) staff recommendations (paragraph 39); and
  - (e) questions for the Committee (page 19).
3. The appendix to this paper sets out the proposed wording of the tentative agenda decision.

## Background

4. At its [April 2025](#) meeting, the International Accounting Standards Board (IASB) decided to ask the Committee to consider how an entity applies the requirements in IFRS 18 to the fact pattern addressed by the agenda decision [Supply Chain Financing Arrangements—Reverse Factoring](#).

### ***History of the agenda decision***

5. The agenda decision originated from a request sent to the Committee about supply-chain financing, particularly reverse factoring, arrangements. Appendix A of [Agenda Paper 3](#) of the Committee's April 2020 meeting includes the submission.
6. [Agenda Paper 2](#) of the Committee's June 2020 meeting includes an analysis of how IFRS Accounting Standards, including IAS 1 *Presentation of Financial Statements*, apply to reverse factoring arrangements. The Committee published a [Tentative Agenda Decision](#) and received 22 comment letters by the end of the comment period.
7. The Committee discussed the feedback at its December 2020 meeting. [Agenda Paper 4](#) of that meeting included an analysis of the feedback. The Committee finalised the agenda decision by concluding that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes

---

about, for example, liquidity risks that arise in such arrangements. The IASB, at its [December 2020](#) meeting, did not object to the publication of the agenda decision.

### ***Narrow-scope standard-setting project***

8. In addition to publishing the agenda decision, the work of the Committee and outreach meetings confirmed the need for additional, more specific, disclosure requirements about reverse factoring arrangements to meet information needs of users of financial statements (investors) in relation to those arrangements.
9. Consequently, in May 2023 the IASB issued *Supplier Finance Arrangements* which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The amendments require an entity to provide disclosures about its supplier finance arrangements (or reverse factoring arrangements<sup>1</sup>). The amendments complement the disclosure requirements set out in the agenda decision in response to feedback from investors about the limitations of those requirements.
10. Where applicable, we make reference to these new requirements in this paper. In light of the IASB's request to the Committee in paragraph 4, we do not analyse and recommend changes to the agenda decision to fully reflect the *Supplier Finance Arrangements* amendments. For example, throughout this paper and in the tentative agenda decision included in the appendix, we retain the term 'reverse factoring arrangements' as it was used in the agenda decision.

---

<sup>1</sup> Paragraph 44G of IAS 7 *Statement of Cash Flows* states that supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

---

## Summary of accounting matter

### *Reverse factoring arrangements*

11. Paragraphs 8–13 of Agenda Paper 2 of the Committee’s June 2020 meeting summarised the features of reverse factoring arrangements. Under these arrangements:
- (a) a financial institution pays an entity’s suppliers amounts owed by the entity, and the entity pays the financial institution—in a few jurisdictions, the reverse factoring arrangements entered into legally release the entity from settling its liability to the supplier;
  - (b) an entity’s suppliers might either receive payment for their trade receivables before the due date, or the entity settles its trade payables later than the due date;
  - (c) under both types of arrangements in (b), information is typically exchanged between the parties to the arrangement through the use of a ‘platform’ established by the financial institution for the entity’s benefit. An entity uploads to the platform the invoice information it receives from a supplier and, if applicable, an irrevocable payment undertaking that confirms the entity’s intention to pay the invoice; and
  - (d) our outreach at the time suggested that entities account for reverse factoring arrangements differently, likely because of the differences in the terms and conditions of the arrangements.

### *Concerns*

12. The submitter raised three concerns:

- 
- (a) investors find it difficult to compare entities that use reverse factoring arrangements with those that do not;
  - (b) reverse factoring arrangements might distort the nature of an entity's debt-like liabilities; and
  - (c) an entity's exposure to liquidity risk might also be obscured.

### **Accounting matters**

- 13. The submitter asked the Committee to consider:
  - (a) *disclosures*—the appropriate disclosure requirements applicable to reverse factoring arrangements; and
  - (b) *classification*—whether the process of overlaying a reverse factoring arrangement over a simple trade invoice has the effect of transforming that invoice into a different obligation that should be disclosed separately from trade payables.

### **Staff analysis**

- 14. Considering the accounting matters, the agenda decision included explanatory material about:
  - (a) presentation in the statement of financial position;
  - (b) derecognition of a financial liability;
  - (c) presentation in the statement of cash flows; and
  - (d) disclosures in the notes to the financial statements.
- 15. In this paper, we structure our analysis of how the requirements of IFRS 18 might change the agenda decision by following the original structure of the agenda decision.

---

**Presentation in the statement of financial position****Current agenda decision****IAS 1 requirements**

16. Paragraphs 18–26 of Agenda Paper 2 of the Committee’s June 2020 meeting includes an analysis of the requirements in IAS 1 applicable to the presentation of liabilities subject to a reverse factoring arrangement. In short, these requirements are:
- (a) an entity applies IAS 1 to determine how to present such liabilities in its statement of financial position, regardless of whether the entity incurs the liability to pay for the goods or services before or after a reverse factoring arrangement is in place.
  - (b) paragraph 54 of IAS 1 requires an entity to include line items in its statement of financial position for ‘trade and other payables’ and ‘financial liabilities’. ‘Financial liabilities’ exclude amounts shown under ‘trade and other payables’ and ‘provisions’.
  - (c) IFRS Accounting Standards do not explicitly define ‘trade and other payables’. However:
    - (i) paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that ‘trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier’.
    - (ii) paragraph 70 of IAS 1 explains that ‘some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity’s normal operating cycle’.

- (d) IFRS Accounting Standards also contain no description of ‘other payables’. However, paragraph 29 of IAS 1—under materiality and aggregation—states that an entity shall present separately items of a dissimilar nature or function unless they are immaterial.
- (e) paragraph 55 of IAS 1—under requirements for information to be presented in the statement of financial position—requires the presentation of line items in addition to those listed in paragraph 54 when such presentation is relevant to an understanding of an entity’s financial position.
- (f) paragraph 57 of IAS 1—also under requirements for information to be presented in the statement of financial position—adds that line items are included in the statement of financial position when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity’s financial position.

***The Committee’s analysis***

17. Considering these requirements and the feedback on the tentative agenda decision, the Committee concluded that:
- (a) an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:
    - (i) within trade and other payables;
    - (ii) within other financial liabilities; or
    - (iii) as a line item separate from other items in its statement of financial position.
  - (b) an entity presents a financial liability as a trade payable only when it:
    - (i) represents a liability to pay for goods or services;
    - (ii) is invoiced or formally agreed with the supplier; and

- 
- (iii) is part of the working capital used in the entity's normal operating cycle.
  - (c) an entity presents other payables together with trade payables only when those other payables have a similar nature and function to trade payables—for example, when other payables are part of the working capital used in the entity's normal operating cycle.
  - (d) an entity presents liabilities that are part of a reverse factoring arrangement separately when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position. In assessing whether to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities.
18. The Committee observed that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:
- (a) whether additional security is provided as part of the arrangement that would not be provided without the arrangement.
  - (b) the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.

*Updated agenda decision*

**IFRS 18 requirements**

19. IFRS 18 replaces IAS 1. Once IFRS 18 becomes effective for annual reporting periods beginning on or after 1 January 2027, an entity will apply IFRS 18 to determine how to present liabilities in its statement of financial position.

- 
20. Like the requirements of IAS 1 listed in paragraph 16:
- (a) *paragraph 54 of IAS 1*—paragraph 103 of IFRS 18 requires an entity to include line items in its statement of financial position for ‘trade and other payables’ and ‘financial liabilities’ (subject to the statement of financial position providing a useful structured summary—see paragraph 21(b)(i)).<sup>2</sup> ‘Financial liabilities’ exclude amounts shown under ‘trade and other payables’ and ‘provisions’.
  - (b) *paragraph 70 of IAS 1*—paragraph B96 of IFRS 18 explains that ‘[s]ome current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in an entity’s normal operating cycle’. (The requirements in paragraph 11(a) of IAS 37 mentioned in paragraph 16(c)(i) remain valid.)
  - (c) *paragraph 29 of IAS 1*—paragraph 42 of IFRS 18 requires an entity to disaggregate items whenever the resulting information is material.<sup>3</sup> If, applying the principles of aggregation and disaggregation in paragraph 41, an entity does not present material information in the primary financial statements, it shall disclose the information in the notes.
21. However, different to the requirements of IAS 1 listed in paragraph 16:
- (a) IFRS 18 introduces requirements for presentation of line items in the primary financial statements and the disclosure of items in the notes. These requirements are based on:
    - (i) the roles of the primary financial statements and the notes; and

---

<sup>2</sup> Paragraph 41 of IFRS 18 *Presentation and Disclosure in Financial Statements* explains that for the purposes of that Standard a line item is an item that is presented separately in the primary financial statements.

<sup>3</sup> Paragraph 41 of IFRS 18 explains that for the purposes of that Standard an item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows.

- 
- (ii) principles of aggregation and disaggregation.
  - (b) paragraphs 15–24 of IFRS 18 establish the roles of the primary financial statements and the notes. Particularly:
    - (i) paragraph 16 states that the role of the primary financial statements is to provide structured summaries of a reporting entity’s recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to investors (referred to as ‘a useful structured summary’).
    - (ii) paragraph 18 explains that an entity uses the roles of the primary financial statements and the notes to determine whether to include information in the primary financial statements or in the notes.
  - (c) paragraphs 22, 96 and 104 of IFRS 18 include specific requirements that determine the structure of the statement of financial position. In short, in its statement of financial position, an entity is required to:
    - (i) present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position (except when a presentation based on liquidity provides a more useful structured summary).<sup>4</sup>
    - (ii) present non-controlling interests and issued capital and reserves attributable to owners of the parent.
  - (d) paragraph 23 of IFRS 18 states that an entity need not present separately a line item in a primary financial statement, including those listed in paragraph 103 of IFRS 18, if doing so is not necessary for the statement to provide a useful structured summary. (Paragraph B8 explains that if an entity does not present the line items listed in paragraph 103, it shall disclose the items in the notes if the resulting information is material.)

---

<sup>4</sup> Appendix A of IFRS 18 defines ‘classification’ as: ‘the sorting of assets, liabilities, equity, income, expenses and cash flows based on shared characteristics.’

- 
- (e) conversely, paragraphs 24 and B9 of IFRS 18 require an entity to present additional line items to those listed in paragraph 103 if such presentations are necessary for the statement of financial position to provide a useful structured summary.
  - (f) to determine whether it needs to present additional line items in its statement of financial position (including whether it is necessary to disaggregate the line items listed in paragraph 103), an entity uses its judgement.
  - (g) for assets and liabilities, paragraph B109 of IFRS 18 requires the entity to base the judgement in (f) on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) of IFRS 18 might assist an entity in identifying the nature or function of assets and liabilities. these characteristics are:
    - (i) duration and timing of settlement (including whether a liability is classified as current or non-current or whether its recovery or settlement forms part of the entity’s operating cycle);
    - (ii) liquidity;
    - (iii) measurement basis;
    - (iv) measurement uncertainty or outcome uncertainty (or other risks associated with an item);
    - (v) size;
    - (vi) geographical location or regulatory environment;
    - (vii) type, for example, the type of good, service or customer;
    - (viii) tax effects—for example, if assets or liabilities have different tax bases; and
    - (ix) restrictions on the transferability of a liability.

- 
- (h) to present line items that result in a useful structured summary of assets and liabilities:
- (i) paragraphs B17 and B21 of IFRS 18 state that an entity needs to classify and aggregate assets and liabilities into items based on their characteristics so as to result in the presentation of line items that have at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows; but
  - (ii) because the role of the primary financial statements is to provide useful structured summaries, the line items in the primary financial statements are also likely to aggregate items that have sufficiently dissimilar characteristics that information about the disaggregated items is material.

***Staff analysis***

22. Considering the requirements in IFRS 18 we think that the agenda decision needs to be updated to explain that for an entity to determine the information about the current liabilities that are part of a reverse factoring arrangement to present in its statement of financial position, the entity:
- (a) uses the role of the statement of financial position—which is to provide a useful structured summary of the entity’s recognised assets and liabilities—and the principles of aggregation and disaggregation;
  - (b) makes the determination in (a) using its judgement based on an assessment of the nature or function of the liabilities; and
  - (c) to identify the nature or function of these liabilities, considers the characteristics listed in paragraphs B110(c)–(k) of IFRS 18.
23. Consistent with what the Committee observed before, we think the outcome would be that the liabilities that are part of a reverse factoring arrangement are either:

- 
- (a) aggregated within a line item ‘trade and other payables’;
  - (b) aggregated within a line item that includes financial liabilities other than trade and other payables; or
  - (c) disaggregated as a separate line item.
24. To assist entities in making this determination, we think the agenda decision can also be updated to explain how the characteristics in paragraph B110(c)–(k) might apply to current liabilities that are part of a reverse factoring arrangement:
- (a) *duration and timing of settlement*—as the Committee observed before, an entity might consider the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity’s trade payables that are not part of the arrangement.
  - (b) *liquidity*—an entity might consider the extent to which it has concentrated with finance providers a portion of its financial liabilities originally owed to suppliers and, as the Committee noted, whether additional security is provided as part of the arrangement that would not be provided without the arrangement.<sup>5</sup>
  - (c) *type*—an entity might consider the following requirements to assess the type of liability:
    - (i) paragraph 59 of IFRS 18 requires an entity to distinguish between (a) liabilities that arise from transactions that involve only the raising of finance and (b) liabilities that arise from transactions that do not involve only the raising of finance. Paragraph B51(b) lists as an example of (a), a liability under a supplier finance arrangement when the payable for goods or services is derecognised. Conversely,

---

<sup>5</sup> Paragraph IG18A(a)(iv) of IFRS 7 *Financial Instruments: Disclosures* lists as an example of concentrations of liquidity risk supplier finance arrangements (as described in paragraph 44G of IAS 7) resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers.

- 
- paragraph B53(a) lists as an example of (b), payables for goods or services that will be settled in cash.
- (ii) paragraph B96 of IFRS 18 explains that ‘[s]ome current liabilities, such as trade payables...are part of the working capital used in an entity’s normal operating cycle’.
  - (iii) paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that ‘trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier’.
- (d) *tax effects*—liabilities that are part of a reverse factoring arrangement might have a different tax base to trade and other payables.
- (e) *restrictions on the transferability of a liability*—the reverse factoring arrangement might restrict the transfer of the associated liabilities.
25. Considering these characteristics, we think the Committee’s observations in the agenda decision reflect the following:
- (a) an entity presents a financial liability as a trade payable only when it:
    - (i) represents a liability to pay for goods or services;
    - (ii) is invoiced or formally agreed with the supplier; and
    - (iii) is part of the working capital used in the entity’s normal operating cycle.
  - (b) an entity presents other payables together with trade payables only when those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, when other payables are part of the working capital used in the entity’s normal operating cycle.

- 
- (c) an entity presents the liabilities that are part of a reverse factoring arrangement separately when these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the statement of financial position is necessary for the statement of financial position to provide a useful structured summary.
26. We think the agenda decision could also note that paragraph B111 of IFRS 18 states that trade payables disaggregated in accordance with paragraph 44H of IAS 7 *Statement of Cash Flows*, might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information.<sup>6</sup>
27. We illustrate in the appendix to this paper the updates we recommend be made to reflect these updates.

### ***Derecognition of a financial liability***

#### ***Current agenda decision***

28. For derecognition of the financial liabilities that are part of a reverse factoring arrangement, the Committee observed that an entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IAS 1 in determining how to present that new liability in its statement of financial position. The explanatory material then refers back to the section of the agenda decision dealing with ‘Presentation in the statement of financial position’.

---

<sup>6</sup> Paragraphs 44H(b)(i)–44H(b)(ii) requires an entity to disclose: (i) the carrying amounts, and associated line items presented in the entity’s statement of financial position, of the financial liabilities that are part of a supplier finance arrangement; and (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers

---

*Updated agenda decision*

29. We think the Committee’s observation in paragraph 26 remains valid. The requirements included in the updated section ‘Presentation in the statement of financial position’ include paragraph B51(b) of IFRS 18 that lists an example of liabilities that arise from transactions that involve only the raising of finance. One of those examples is a liability under a supplier finance arrangement when the payable for goods or services is derecognised.
30. Consequently, we think that this section of the agenda decision needs only be updated by changing the reference to IAS 1 to IFRS 18.

***Presentation in the statement of cash flows****Current agenda decision*

31. The explanatory material currently does not refer to IAS 1. The Committee observed that an entity’s assessment of the nature of the liabilities that are part of the arrangement may help in determining whether the related cash flows arise from operating or financing activities.
32. For example, if the entity considers the related liability:
- (a) to be a trade or other payable that is part of the working capital used in the entity’s principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows; and
  - (b) is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its statement of cash flows.

---

*Updated agenda decision*

33. We think the Committee's observation in paragraphs 29–30 remains largely valid.
34. Paragraph 3 of IFRS 18 states that the general requirements for financial statements in paragraphs 9–43 and 113–114 of that Standard also apply to the statement of cash flows. These general requirements include the new requirements about the roles of the primary financial statements and the principles of aggregation and disaggregation.
35. We think the Committee's observation in paragraph 31 can be updated to refer to the process of aggregation and disaggregation in paragraphs B16–B18 of IFRS 18—that is, the process an entity undertakes to determine how to present liabilities in the statement of financial position is the same process an entity undertakes to determine how to present the cash flows that arise from these liabilities in the statement of cash flows. It is for this reason that an entity's conclusion about the presentation of the liabilities in the statement of financial position might help inform the entity's assessment of how to present the resulting cash flows in the statement of financial position.

***Disclosure in the notes to the financial statements****Current agenda decision*

36. In the disclosure section of the agenda decision, the Committee referred to:
- (a) *paragraph 122 of IAS 1*—assessing how to present liabilities and cash flows related to reverse factoring arrangements might involve judgement. In accordance with IAS 1, an entity discloses the judgements that management has made in this respect if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements.

- (b) *paragraph 112 of IAS 1*—reverse factoring arrangements may have a material effect on an entity’s financial statements. An entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements. (The Committee noted that making materiality judgements involves both quantitative and qualitative considerations.)

*Updated agenda decision*

37. Paragraphs 122 and 112 of IAS 1 have been carried forward to paragraph 27G of IAS 8 *Basis of Preparation of Financial Statements* and paragraph 113 of IFRS 18 respectively.
38. Therefore, we think this section of the agenda decision only needs to be updated by updating the references. We think the Committee’s observations about these requirements remain valid.

**Staff recommendations**

39. We recommend that the Committee updates the agenda decision *Supply Chain Financing Arrangements—Reverse Factoring* as included in the appendix to this paper.

---

## Questions for the Committee

### Questions for the Committee

1. Does the Committee agree with our recommendation of how to update the agenda decision *Supply Chain Financing Arrangements—Reverse Factoring* as included in the appendix to this paper?
2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in the appendix to this paper?

## Appendix—Suggested wording for the tentative agenda decision

### Updating the agenda decision *Supply Chain Financing Arrangements—Reverse Factoring*

#### Background

The International Accounting Standards Board (IASB) asked the IFRS Interpretations Committee (Committee) to consider how an entity applies the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* to the fact pattern addressed by the agenda decision [Supply Chain Financing Arrangements—Reverse Factoring](#).

The Committee is asking for feedback only about the proposed updates. New text added to the agenda decision are underlined and deleted text is struck through.

#### Supply Chain Financing Arrangements—Reverse Factoring

The Committee received a request about reverse factoring arrangements. Specifically, the request asked:

- a. how an entity presents liabilities to pay for goods or services received when the related invoices are part of a reverse factoring arrangement; and
- b. what information about reverse factoring arrangements an entity is required to disclose in its financial statements.

In a reverse factoring arrangement, a financial institution agrees to pay amounts an entity owes to the entity's suppliers and the entity agrees to pay the financial institution at the same date as, or a date later than, suppliers are paid.

#### Presentation in the statement of financial position

IFRS 18 *Presentation and Disclosure in Financial Statements* specifies how an entity is required to present line items of liabilities in the statement of financial position. To determine which line items to present, an entity considers:

- a. the roles of the primary financial statements and the notes; and

b. the principles of aggregation and disaggregation.

The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to investors (referred to as 'a useful structured summary'). Paragraph 22 establishes the structure of the statement of financial position. An entity is required to present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position (except when a presentation based on liquidity provides a more useful structured summary). Additionally, paragraph 103 of IFRS 18 requires an entity to present in its statement of financial position line items for trade and other payables and financial liabilities other than trade and other payables and provisions. However, an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary.

To determine whether it needs to present additional line items in its statement of financial position an entity applies its judgement based on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) of IFRS 18 assist an entity in identifying the nature or function of assets and liabilities.

Consequently, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:

- a. aggregated within a line item that includes only trade and other payables;
- b. aggregated within a line item that includes other financial liabilities than trade and other payables; or
- d. disaggregated as a separate line item.

To identify the nature or function of these liabilities, the entity considers their characteristics, such as:

- a. duration and timing of settlement—an entity might consider the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity’s trade payables that are not part of the arrangement.
- b. liquidity—an entity might consider the extent to which it has concentrated with finance providers a portion of its financial liabilities originally owed to suppliers and whether additional security is provided as part of the arrangement that would not be provided without the arrangement.
- c. type—an entity considers the following requirements to assess the type of liability:
  - i. paragraph 59 of IFRS 18 requires an entity to distinguish between (a) liabilities that arise from transactions that involve only the raising of finance and (b) liabilities that arise from transactions that do not involve only the raising of finance. Paragraph B51(b) lists as an example of liabilities in (a) a liability under a supplier finance arrangement when the payable for goods or services is derecognised. Conversely, paragraph B53(a) lists as an example of liabilities in (b) payables for goods or services that will be settled in cash.
  - ii. paragraph B96 of IFRS 18 explains that ‘[s]ome current liabilities, such as trade payables...are part of the working capital used in an entity’s normal operating cycle’.
  - iii. paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that ‘trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier’.
- e. tax effects—liabilities that are part of a reverse factoring arrangement might have a different tax base to trade and other payables.
- f. restrictions on the transferability of a liability—the reverse factoring arrangement might restrict the transfer of the associated liabilities.

The Committee observed that:

- a. an entity presents a financial liability as a trade payable only when it:
  - i. represents a liability to pay for goods or services;
  - ii. is invoiced or formally agreed with the supplier; and
  - iii. is part of the working capital used in the entity's normal operating cycle.
- b. an entity presents other payables together with trade payables only when those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, when other payables are part of the working capital used in the entity's normal operating cycle.
- c. an entity presents the liabilities that are part of a reverse factoring arrangement separately when these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the statement of financial position is necessary for the statement of financial position to provide a useful structured summary.
- d. paragraph B111 of IFRS 18 states that trade payables disaggregated in accordance with paragraph 44H of IAS 7 *Statement of Cash Flows* might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information.

~~IAS 1 *Presentation of Financial Statements* specifies how an entity is required to present its liabilities in the statement of financial position. Paragraph 54 of IAS 1 requires an entity to present 'trade and other payables' separately from other financial liabilities. 'Trade and other payables' are sufficiently different in nature or function from other financial liabilities to warrant separate presentation (paragraph 57 of IAS 1). Paragraph 55 of IAS 1 requires an entity to present additional line items (including by disaggregating the line items listed in paragraph 54) when such presentation is relevant to an understanding of the~~

~~entity's financial position. Consequently, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:~~

- ~~a. — within trade and other payables;~~
- ~~b. — within other financial liabilities; or~~
- ~~c. — as a line item separate from other items in its statement of financial position.~~

~~Paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* states that 'trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier'. Paragraph 70 of IAS 1 explains that 'some current liabilities, such as trade payables... are part of the working capital used in the entity's normal operating cycle'. The Committee therefore concluded that an entity presents a financial liability as a trade payable only when it:~~

- ~~a. — represents a liability to pay for goods or services;~~
- ~~b. — is invoiced or formally agreed with the supplier; and~~
- ~~c. — is part of the working capital used in the entity's normal operating cycle.~~

~~Paragraph 29 of IAS 1 requires an entity to 'present separately items of a dissimilar nature or function unless they are immaterial'. Paragraph 57 specifies that line items are included in the statement of financial position when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity's financial position. Accordingly, the Committee concluded that, applying IAS 1, an entity presents liabilities that are part of a reverse factoring arrangement:~~

- ~~a. — as part of 'trade and other payables' only when those liabilities have a similar nature and function to trade payables—for example, when those liabilities are part of the working capital used in the entity's normal operating cycle.~~
- ~~b. — separately when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position. In~~

~~assessing whether it is required to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities (paragraphs 55 and 58 of IAS 1).~~

The Committee observed that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:

- a. ~~whether additional security is provided as part of the arrangement that would not be provided without the arrangement.~~
- b. ~~the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.~~

### **Derecognition of a financial liability**

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9 Financial Instruments.

An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IFRS 18 IAS 1 in determining how to present that new liability in its statement of financial position (see 'Presentation in the statement of financial position').

### **Presentation in the statement of cash flows**

The Committee observed that IAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information. However, the general requirements for financial statements in paragraphs 9–43 and 113–114 of IFRS 18 apply to the statement of cash flows. Paragraph 10 of IAS 7 sets out the structure of the statement of cash flows—the statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

Paragraph 6 of IAS 7 *Statement of Cash Flows* defines:

- a. operating activities as ‘the principal revenue-producing activities of the entity and other activities that are not investing or financing activities’; and
- b. financing activities as ‘activities that result in changes in the size and composition of the contributed equity and borrowings of the entity’.

An entity that has entered into a reverse factoring arrangement determines how to classify cash flows under the arrangement, typically as cash flows from operating activities or cash flows from financing activities. The Committee observed that an entity undertakes the same process of aggregation and disaggregation in paragraphs B16–B18 of IFRS 18 to determine how to present liabilities in the statement of financial position and how to present the cash flows that arise from these liabilities in the statement of cash flows.

Therefore, an entity’s assessment of the characteristic nature of the liabilities that are part of the arrangement may help in determining whether the related cash flows arise from operating or financing activities. For example, if the entity considers the related liability to be a trade or other payable that is part of the working capital used in the entity’s principal revenue-producing activities, the entity might presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows. In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity might presents cash outflows to settle the liability as arising from financing activities in its statement of cash flows.

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from an entity’s statement of cash flows (paragraph 43 of IAS 7).

Consequently, if a cash inflow and cash outflow occur for an entity when an invoice is factored as part of a reverse factoring arrangement, the entity presents those cash flows in its statement of cash flows. If no cash inflow or cash outflow occurs for an entity in a financing transaction, the entity discloses the transaction elsewhere in the financial

statements in a way that provides all the relevant information about the financing activity (paragraph 43 of IAS 7).

### Notes to the financial statements

Paragraph 31 of IFRS 7 *Financial Instruments: Disclosures* requires an entity to provide information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. IFRS 7 defines liquidity risk as ‘the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset’. The Committee observed that reverse factoring arrangements often give rise to liquidity risk because:

- a. the entity has concentrated a portion of its liabilities with one financial institution rather than a diverse group of suppliers. The entity may also obtain other sources of funding from the financial institution providing the reverse factoring arrangement. If the entity were to encounter any difficulty in meeting its obligations, such a concentration would increase the risk that the entity might have to pay a significant amount, at one time, to one counterparty.
- b. the entity may have become reliant on extended payment terms or the entity’s supplier may have become accustomed to, or reliant on, earlier payment under the reverse factoring arrangement. If the financial institution were to withdraw the reverse factoring arrangement, that withdrawal could affect the entity’s ability to settle liabilities when they are due, particularly if the entity were already in financial distress.

Paragraphs 33–35 of IFRS 7 require an entity to disclose how exposures to risk arising from financial instruments, including liquidity risk, arise; the entity’s objectives, policies and processes for managing the risk; summary quantitative data about the entity’s exposure to liquidity risk at the end of the reporting period (including further information if this data is unrepresentative of the entity’s exposure to liquidity risk during the period); and

concentrations of risk. Paragraphs 39 and B11F of IFRS 7 specify further requirements and factors an entity might consider in providing liquidity risk disclosures.

An entity applies judgement in determining whether to provide additional disclosures in the notes about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows. The Committee observed that:

- a. assessing how to present liabilities and cash flows related to reverse factoring arrangements may involve judgement. An entity discloses the judgements that management has made in this respect if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements (~~paragraph 27G of IAS 8 *Basis of Preparation of Financial Statements*~~~~paragraph 122 of IAS 1~~).
- b. reverse factoring arrangements may have a material effect on an entity's financial statements. An entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements (~~paragraph 113 of IFRS 18~~~~paragraph 112 of IAS 1~~). The Committee noted that making materiality judgements involves both quantitative and qualitative considerations.

Paragraph 44A of IAS 7 requires an entity to provide 'disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes'. The Committee noted that such disclosure is required for liabilities that are part of a reverse factoring arrangement if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of liabilities that are part of reverse factoring arrangements, the presentation of the related cash flows, and the information to disclose in the notes about, for example, liquidity risks that arise in such

---

arrangements. Consequently, the Committee decided not to add a standard-setting project on these matters to the work plan.