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

Date           **November 2025**  
Project       **Updates to Agenda Decisions for IFRS 18**  
Topic         **Comment letters—reverse factoring agenda decision**  
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**Objective**

1. As Agenda Paper 9 explains, in this agenda paper we analyse feedback on the proposed updates to the agenda decision [\*Supply Chain Financing Arrangements—Reverse Factoring \(December 2020\)\*](#) (reverse factoring agenda decision).

**Structure**

2. This paper includes:
  - (a) background (paragraphs 3–8);
  - (b) proposed updates (paragraph 9);
  - (c) summary of comments (paragraphs 10–15);
  - (d) summary of staff view (paragraphs 16–18);
  - (e) staff analysis (paragraphs 19–34);
  - (f) staff recommendation (paragraph 35);
  - (g) question to the Committee;

- (h) Appendix A—additional background information about the reverse factoring agenda decision; and
- (i) Appendix B—a possible updated agenda decision.

## Background

3. The reverse factoring agenda decision responds to the questions:
  - (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.
4. To address these questions, the agenda decision includes explanatory material about the requirements in IFRS Accounting Standards that apply to:
  - (a) presentation in the statement of financial position;
  - (b) derecognition of a financial liability;
  - (c) presentation in the statement of cash flows; and
  - (d) notes to the financial statements.
5. As we explain in paragraphs 5–13 in Agenda Paper 9, at its [April 2025](#) meeting, the International Accounting Standards Board (IASB) decided to ask 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 reverse factoring agenda decision.
6. In making this request, the IASB noted that—unlike for the other nine agenda decisions the Committee is updating (see Agenda Paper 9A)—for this particular agenda decision the Committee would not be able to simply replace the references to

IAS 1 with references to the new or amended requirements in IFRS 18. This is because the new requirements in IFRS 18 might apply not only to the part about presentation in the statement of financial position, but also to the other parts of the agenda decision. For example, paragraph 3 of IFRS 18 states that the requirements about the roles of the primary financial statements and the notes and the requirements about aggregation and disaggregation also apply to the statement of cash flows prepared in accordance with IAS 7 *Statement of Cash Flows*.

7. The Committee discussed the IASB's request at its June 2025 meeting and decided to propose an update to the reverse factoring agenda decision considering the requirements in IFRS 18. The Committee published [the proposed updates](#) for comment. The comment period ended on 6 October 2025.
8. Paragraphs 4–13 of [Agenda Paper 5B](#) of the Committee's June 2025 meeting include additional background information about the reverse factoring agenda decision and the 2023 amendments *Supplier Finance Arrangements* (2023 Amendments). That information is reproduced in Appendix A of this paper for ease of reference.

## Proposed updates

9. The proposed updates would primarily change the section of the agenda decision about presentation of liabilities that are part of a reverse factoring arrangement in the statement of financial position. The proposed updates to this section aimed to walk readers through the relevant requirements in IFRS 18 that an entity considers when making its judgement of how to present these liabilities. We include more detail about the proposed updates in our analysis.

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## Summary of comments

10. Nine respondents comment on the proposed updates to the reverse factoring agenda decision. Five of these respondents agree (or do not disagree) with the updates while making suggestions to improve the wording. Four respondents raise concerns with the updates. We group comments from the respondents as follows:
- (a) presentation in the statement of financial position;
  - (b) presentation in the statement of cash flows; and
  - (c) 2023 Amendments.

### ***Presentation in the statement of financial position***

11. One respondent says they agree with the proposed updates to include explanatory material about the factors an entity considers in determining the appropriate presentation of the liabilities that are part of a reverse factoring arrangement in the statement of financial position. They suggest:
- (a) including specific references to IFRS 18's requirements in the explanatory material to improve the flow and readability; and
  - (b) to replace the reference to paragraph 22 of IFRS 18 with a reference to paragraphs 96 and 103–104 of IFRS 18. Paragraph 22 of IFRS 18 directs an entity to the specific requirements it must consider in providing a useful structured summary in a primary financial statement and refers to paragraphs 96 and 104 as the specific requirements for the statement of financial position.
12. Four respondents say the proposed updates might not improve consistent application of the requirements in IFRS 18. They say the updates, if finalised, might have unintended consequences on how stakeholders understand the requirements in IFRS 18. They suggest further analysing the requirements in IFRS 18, or instead, withdrawing the agenda decision.

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13. These respondents refer specifically to the updates that reference paragraph B110 of IFRS 18—which includes a list of characteristics of items an entity considers when assessing whether to disaggregate items—and the proposed explanatory material that explains how an entity considers those characteristics when classifying and presenting liabilities arising from reverse factoring arrangements. For example:
- (a) two of these respondents say the proposed updates imply the nature and function characteristics of liabilities take precedence over the other characteristics in B110 (which is itself not an exhaustive list of characteristics). These respondents disagree that the characteristics listed in paragraph B110(c)–(k) are ‘indicators’ of the nature and function characteristics listed in paragraph B110(a)–(b).
  - (b) one of the respondents in (a) also says careful consideration needs to be given to the requirements related to dissimilar characteristics and indicators for disaggregation. The respondent says the proposed updates do not explain for example, whether one dissimilar characteristic is sufficient to prevent aggregation of liabilities that are part of reverse factoring arrangements and trade and other payables (as highlighted in paragraph B22 of IFRS 18).<sup>1</sup> Also, it is unclear whether material information would be obscured because of aggregating these liabilities with trade and other payables. This respondent says the proposed updates might give the impression that, applying IFRS 18, it might be ‘more common’ to aggregate liabilities that are part of a reverse factoring arrangement within the line item trade and other payables in the statement of financial position when, in fact, entities need to navigate a complex judgement that gives equal weight to each part of the analysis. This respondent suggests redrafting the updates to provide ‘a more balanced discussion’ of the requirements.

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<sup>1</sup> Paragraph B22 of IFRS 18 *Presentation and Disclosure in Financial Statements* states, ‘Applying paragraph 41, an entity shall disaggregate items that have dissimilar characteristics when the resulting information is material. A single dissimilar characteristic could result in information about disaggregated items being material.’

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- (c) two of these respondents say the proposed list and commentary of indicators from paragraph B110 of IFRS 18 included in the agenda decision risks incorrect understanding of the requirements. For example, they say it is unclear why some (and not others) of the indicators in paragraph B110(c)–(k) are mentioned. It is also unclear how the requirements for classifying income and expenses in the financing category affect an entity's assessment of the characteristics of the liabilities for purposes of presentation in the statement of financial position and statement of cash flows. For example, the proposed updates refer to paragraph B51(b) of IFRS 18 which addresses classification of income and expenses in the statement of profit or loss.<sup>2</sup>
- (d) one respondent explicitly agrees the requirement in paragraph B110 of IFRS 18 is relevant. However, they say the proposed updates are overly prescriptive and, in some cases reference indicators that are unlikely to be relevant in practice (for example, in respect of tax effects and restrictions on transferability). They say there is a risk that the proposed updates might be seen as a 'checklist'. They suggest deleting details about the characteristics.

*Presentation in the statement of cash flows.*

14. The Committee proposed no updates to the section of the agenda decision that discusses presentation in the statement of cash flows. Nonetheless:
- (a) one respondent says the introduction to the section in the agenda decision about presentation in the statement of cash flows should include a reminder that the general requirements for financial statements in IFRS 18 also applying to the statement of cash flows.

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<sup>2</sup> Paragraph B51(b) of IFRS 18 states, 'Liabilities arising from transactions that involve only the raising of finance include... a liability under a supplier finance arrangement when the payable for goods or services is derecognised—an entity is discharged of the financial liability for the goods or services and will return cash in exchange.'

- (b) another respondent says the proposed updates do not consider the underlying differences in principles and definitions between IFRS 18 and IAS 7 or include explanatory material on how to proceed in the event of a difference between the requirements in the two standards. They say entities might incorrectly apply the presentation principles in IFRS 18 to present information in the statement of cash flows. The respondent suggests including additional explanatory material about the interaction of the general requirements for financial statements in paragraphs 9–43 of IFRS 18 (referred to in the section of the agenda decision about presentation in the statement of financial position) with the requirements of IAS 7 for the statement of cash flows. The respondent acknowledges such explanatory material applies beyond the questions addressed in the agenda decision and might be better considered as part of the IASB’s project [Statement of Cash Flows and Related Matters](#).

### 2023 Amendments

15. Four respondents say an updated agenda decision should refer to the requirements introduced by the 2023 amendments *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* (2023 Amendments). Most of these respondents say not including a reference to the amendments renders the agenda decision incomplete and misleading.

## Summary of staff view

16. Based on our analysis, on balance we recommend that the Committee recommends to the IASB to withdraw the reverse factoring agenda decision. We think the Committee could respond to the concerns raised by making some changes to the proposed updates (we include in Appendix B an example of a possible updated reverse factoring agenda decision that reflects responses to the concerns).

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17. Considering the extent to which the explanatory material in the possible updated agenda decision (included in Appendix B of this paper) will remain useful after the updates, we accept that additional and more specific analysis (and explanatory material) might be needed to help stakeholders better understand and apply—in the context of reverse factoring arrangements—the applicable requirements.
18. However, adding such additional explanatory material would require significant resources and risks adding material that goes beyond what the Committee originally considered. If stakeholders identify diversity in applying the requirements in IFRS 18 in the context of reverse factoring arrangements after the agenda decision is withdrawn, they can still submit a question to the Committee.

## Staff analysis

19. In our analysis we consider:
- (a) comments from respondents (paragraphs 20–26); and
  - (b) the usefulness of a possible updated agenda decision (paragraphs 27–34).

### ***Comments from respondents***

20. Overall, we think the comments in paragraphs 11–14 (presentation in the statement of financial position and statement of cash flows) focus on how an entity considers the relevant characteristics of liabilities that are part of a reverse factoring arrangement in the context of:
- (a) assessing whether the entity’s statement of financial position and statement of cash flows provides useful structured summaries of the entity’s recognised liabilities and cash flows; and

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- (b) applying the principles of aggregation and disaggregation to determine whether to aggregate the carrying amounts and cash flows of these liabilities with other liabilities and, if so, which other liabilities.
21. Respondents did not raise concerns on many aspects of the proposed updates. With respect to the specific comments from respondents in paragraphs 11–14, we note respondents are specifically concerned about the proposed updates that refer to:
- (a) *the prominence of the characteristics of nature and function*—the proposed updates say, ‘[t]o determine whether [an entity] 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.’
- (b) *the list of some characteristics*—the proposed updates say, ‘[t]o identify the nature or function of these liabilities, the entity considers their characteristics, such as...’ which is then followed by a list of some characteristics listed in paragraph B110 of IFRS 18.
- (c) *dissimilar characteristics*—the proposed updates say, the Committee observed that:
- (i) ‘...an entity presents other payables together with trade payables only if those other payables share at least one similar characteristic with trade payables other than meeting the definition of liabilities—for example, if the other payables are part of the working capital used in the entity’s normal operating cycle.’
- (ii) ‘...an entity presents the liabilities that are part of a reverse factoring arrangement separately if these liabilities have sufficiently dissimilar characteristics from other liabilities that such presentation in the

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statement of financial position is necessary for the statement of financial position to provide a useful structured summary.’

22. As we note in paragraph 13(a), two respondents say the proposed updates in paragraph 21(a) imply that the nature and function characteristics of liabilities are, as a general matter, given precedence over the other characteristics listed in B110 (which is itself not an exhaustive list of characteristics). We note that the proposed update was based on the wording in paragraph B109 of IFRS 18 which states:

Paragraphs 24 and 41(c) require an entity to present additional line items in the statement of financial position if doing so is necessary to provide a useful structured summary of the entity’s assets, liabilities and equity. An entity uses its judgement to make this determination (including whether it is necessary to disaggregate the line items listed in paragraph 103). Paragraph 41 requires the entity to base its judgements on an assessment of whether the items have characteristics that are shared (similar characteristics) or characteristics that are not shared (dissimilar characteristics). For additional line items for assets and liabilities, an entity bases its judgements on an assessment of the nature or function of the assets or liabilities. The characteristics listed in paragraphs B110(c)–(k) might assist an entity in identifying the nature or function of assets and liabilities.

23. Paragraphs BC313–BC315 of the Basis for Conclusions on IFRS 18 explain the IASB’s rationale in developing the requirements. We think the IASB’s rationale in developing the requirements is also consistent with the proposed updates. We note from those paragraphs that:

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- (a) the IASB decided not to revisit the list of line items that IAS 1 required an entity to present in its statement of financial position, beyond clarifying how those requirements work in the context of the role of the primary financial statements;
  - (b) the IASB decided to require an entity to use the characteristics of nature and function to aggregate and disaggregate assets and liabilities into separate line items—and in doing so, retained an emphasis from IAS 1 on presentation of line items based on the nature and function of assets and liabilities; and
  - (c) other characteristics, like duration, liquidity, measurement basis, type and tax effects assist an entity in identifying the nature or function of assets and liabilities.
24. We agree with the comment in paragraph 13(b) which says an entity would need to apply judgement to determine the appropriate line items in the statement of financial position (and the statement of cash flows) in which to present liabilities that are part of reverse factoring arrangements. An entity would need to consider the requirements about the roles of the primary financial statements and the principles of aggregation and disaggregation. We, however, disagree that the proposed updates might be understood to say that, applying IFRS 18, it might be ‘more common’ to aggregate liabilities that are part of a reverse factoring arrangement within the line item, trade and other payables. We think the proposed updates set out the different requirements in IFRS 18 but do not comment on, or imply anything about, whether the requirements in IFRS 18 would make it ‘easier’ or ‘harder’ for an entity to aggregate these liabilities within a line item trade and other payables.
25. To respond to the comments in paragraphs 11 and 13(c)–(d) we think the Committee might consider:
- (a) adding the specific references suggested by the respondent in paragraph 11;

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- (b) replacing the proposed paragraph referred to in paragraph 21(a) that starts with, ‘[t]o determine whether it needs to present additional line items in its statement of financial position...’ with a higher-level statement. Such a statement can explain that paragraphs B109–B111 of IFRS 18 set out requirements on how an entity applies judgement to determine whether to present additional line items (including whether it is necessary to disaggregate the line items listed in paragraph 103 of that Standard) in the statement of financial position or disclose items in the notes.
  - (c) deleting the proposed sections in the agenda decision referred to in paragraph 21(b)–(c), that is the section beginning with, ‘[t]o identify the nature or function of these liabilities, the entity might consider...’—as suggested by a respondent (see paragraph 13(d)—and the observations listed as (b) and (c) in the next paragraph beginning with, ‘[t]he Committee observed that:’
  - (d) adding an observation that the relevant characteristics an entity would be required to consider when making its judgement will depend on the entity’s specific facts and circumstances.
26. We include an example of a possible updated reverse factoring agenda decision that reflects the changes discussed in paragraph 25 in Appendix B to this paper.

### ***Usefulness of the possible updated agenda decision***

27. In the light of the feedback on the proposed updates and the possible approach to respond to that feedback, we consider below the extent to which the explanatory material in the possible updated agenda decision (included in Appendix B of this paper) will remain useful to improve consistent application of IFRS Accounting Standards.
28. Paragraph 3 notes that the submitter originally asked the Committee to consider:

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- (a) *disclosures*—the appropriate disclosure requirements applicable to reverse factoring arrangements; and
- (b) *classification and presentation*—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.
29. The 2023 Amendments include disclosure requirements that apply to supplier finance arrangements (reverse factoring arrangements) but do not address the classification and presentation of liabilities that are part of reverse factoring arrangements in the statement of financial position and the statement of cash flows.
30. We agree with respondents in paragraph 15 that the disclosure requirements introduced by the 2023 Amendments respond to concerns the submitter identified in relation to reverse factoring arrangements and acknowledge why some say the disclosure section of the agenda decision is now incomplete and, therefore, less relevant. Paragraph BC28 of the Basis for Conclusions on IAS 7 states [emphasis added]:

The Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* (published in December 2020 by the IFRS Interpretations Committee) sets out the requirements in IFRS Accounting Standards that were applicable to supplier finance arrangements prior to the 2023 Amendments. **The amendments complement the disclosure requirements set out in the Agenda Decision in response to feedback from users of financial statements about the limitations of those requirements.**

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31. In respect of classification and presentation, the original agenda decision includes helpful explanatory material—which apart from paragraph (c) below would be included in the possible updated agenda decision (see Appendix B to this paper):
- (a) that 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) that 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) that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:
    - (i) whether additional security is provided as part of the arrangement that would not be provided without the arrangement; and
    - (ii) 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;
  - (d) that 'an entity's assessment of the nature of the liabilities that are part of the arrangement [for presentation in the statement of financial position] may help in determining whether the related cash flows arise from operating or financing activities.'

- (e) 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 non-cash transaction elsewhere in the financial statements in a way that provides all the relevant information about the financing activity.
32. We think the possible updated agenda decision includes helpful explanatory material that entities would be required to consider determining the appropriate classification and presentation. However, we accept that the possible updates—particularly to the section on ‘Presentation in the statement of financial position’ would refer more generally to requirements in IFRS 18 without specifically explaining the application of those requirements to reverse factoring arrangements. We think additional and more specific analysis (and explanatory material) might be needed to help stakeholders better understand and apply—in the context of reverse factoring arrangements—the requirements in IFRS 18. Particularly, how requirements about the roles of the primary financial statements, principles of aggregation and disaggregation and characteristics of items work together when an entity makes its judgement to determine which line items to present in its statement of financial position and statement of cash flows.
33. We think adding such additional explanatory material would, however, require significant additional resources from the Committee to develop such material and from our stakeholders to comment on the Committee’s work. We also think such additional material risk adding content that goes beyond what the Committee originally considered (for example, by including additional explanatory material about how the general requirements in IFRS 18 interact with the requirements of IAS 7 (see paragraph 14(b)). We do not have evidence to date from feedback of whether entities will have differing interpretations on these requirements and their application to reverse factoring arrangements.

34. Consequently, on balance we think it would be better for the IASB to withdraw this agenda decision in its entirety—which would comply with its normal due process as explained in paragraph 6(a) of Agenda Paper 9. If stakeholders identify diversity in applying the requirements in IFRS 18 in the context of reverse factoring arrangements, they can still submit a question to the Committee.

## Staff recommendation

35. In light of our analysis in paragraphs 19–34, we recommend that the Committee recommends to the IASB to withdraw the reverse factoring agenda decision.

## Question for the Committee

### Question for the Committee

1. Does the Committee agree with our recommendation for the Committee recommending to the IASB to withdraw the reverse factoring agenda decision?

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## Appendix A—Additional background information about the reverse factoring agenda decision

- A1. As paragraph 8 of this paper explains, we reproduce in this appendix paragraphs 4–13 of [Agenda Paper 5B](#) of the Committee’s June 2025 meeting.

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

- A2. 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.
- A3. [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.
- A4. 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***

- A5. 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.

- A6. 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>3</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.
- A7. Where applicable, we make reference to these new requirements in this paper. In light of the IASB's request to the Committee in paragraph 3, 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.

### **Summary of accounting matter**

#### ***Reverse factoring arrangements***

- A8. 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;

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<sup>3</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.

- (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*

A9. 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*

A10. 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.

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## Appendix B—A possible updated reverse factoring agenda decision

### Supply Chain Financing Arrangements—Reverse Factoring—December 2020 [Updated to replace references to IAS 1 *Presentation of Financial Statements* with references to IFRS 18 *Presentation and Disclosure in Financial Statements*—November 2025]

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 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.

In accordance with paragraph 16 of IFRS 18 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'). In accordance with paragraph 17 of IFRS 18 the role of the notes is to provide material information. Paragraph 22 (and paragraphs 96 and 104) establishes the structure of the statement of financial position. Paragraphs 103(m) and 103(o) of IFRS 18 require 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, in accordance with paragraph 23 of IFRS 18 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.

Paragraphs B109–B111 of IFRS 18 set out requirements on how an entity determines whether to present additional line items (including whether it is necessary to disaggregate the line items listed in paragraph 103 of that Standard) in the statement of financial position or disclose items in the notes. The entity applies judgement in making that determination and bases its judgements on an assessment of the characteristics of the liabilities that are part of a reverse factoring arrangement.

Unless paragraph 23 of IFRS 18 applies, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:

- a. aggregated within the line item 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.

In making this assessment and identifying the relevant characteristics of the liabilities that are part of a reverse factoring arrangement, an entity considers its specific facts and circumstances. The Committee observed that:

- a. considering paragraph B96 of IFRS 18 and paragraph 11(a) of IAS 37 *Provisions, Contingent Liabilities and Contingent* 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.

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- b. paragraph B111 of IFRS 18 states, ‘[a]ssets, liabilities and items of equity that 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 include...trade payables, disaggregated applying IAS 7, to provide separately the amounts of those payables that are part of supplier finance arrangements.’.

### **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 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**

Paragraph 6 of IAS 7 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’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. 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 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 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*).
- 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). 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.

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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.