Supplier Finance Arrangements—disclosures that reflect investor needs

Zach Gast

The International Accounting Standards Board (IASB) is proposing changes in disclosure requirements to improve the transparency of supplier finance arrangements (sometimes referred to as reverse factoring) and their effects on a company’s liabilities and cash flows.

IASB member Zach Gast, explains what the IASB is proposing and why.

What is the IASB proposing?

The IASB’s Exposure Draft Supplier Finance Arrangements proposes to add to existing disclosure requirements that apply to supplier finance arrangements. The IFRS Interpretations Committee clarified these existing requirements in 2020, which is expected to result in increased disclosure.

However, as reverse factoring has grown in usage and a company’s financial health can deteriorate rapidly if these arrangements are withdrawn, users of financial statements (investors) have informed the IASB that the information companies currently provide about this form of financing falls short of meeting investor information needs.

The IASB is proposing a disclosure objective that would require a company to disclose information that enables investors to assess the effects of its supplier finance arrangements on its liabilities and cash flows.

The IASB’s proposals also highlight the importance of a company disclosing required liquidity risk information about these arrangements.

“Reverse factoring can diversify a company’s funding sources and improve balance sheet efficiency. However, poor accounting disclosures related to reverse factoring can obscure a company's underlying health and frustrate like-for-like comparisons.”

—S&P Global

To meet the disclosure objective, the IASB proposes that a company disclose:

(a) the terms and conditions of each supplier finance arrangement;

(b) for each supplier finance arrangement, as at the beginning and end of the reporting period:

(i) the carrying amount of financial liabilities recognised in the company’s balance sheet that are part of the arrangement and the line item(s) in which those financial liabilities are presented;

(ii) the carrying amount of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers;

(iii) the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i); and

(c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

The company would disclose additional information if needed to meet the disclosure objective and would be permitted to aggregate the information for different arrangements, but only when the terms and conditions of those arrangements are similar.

See page 4 for an example of the proposed quantitative information.

What are supplier finance arrangements?

A common supplier finance arrangement is illustrated in the diagram above. The company as the buyer (1) purchases and receives goods or services from a supplier on agreed payment terms. A finance provider (2) offers to pay amounts the company owes to its supplier. The company (3) agrees to pay the finance provider at the same date as, or a date later than, the supplier is paid. These arrangements can involve more than one finance provider; they provide the company with extended payment terms, or the company’s suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

What do IFRS® Standards currently require?

A company is required to present separately in its balance sheet liabilities that are part of supplier finance arrangements, to the extent that doing so is relevant to an understanding of its financial statements. The size, nature or function of financial liabilities that are part of a supplier finance arrangement (1) will determine whether the company presents the liabilities separately in its balance sheet and (2) help in determining whether to present the related cash flows in operating or financing activities in the cash flow statement. Different arrangements may result in different presentations.

A company discloses the accounting policy it applies to the liabilities arising from or affected by supplier finance arrangements. A company also provides information about its exposure to liquidity risk arising from these arrangements.

A supplier finance arrangement can result in a non-cash transfer within the balance sheet that would not be presented in the cash flow statement. Such non-cash changes are already required to be reflected in a company’s disclosures about changes in financing liabilities.

What additional information do investors need?

Investors told the IASB that gaps in information about supplier finance arrangements hinder investors from comparing companies and their use of these arrangements. Investors struggle with understanding where the payables associated with the arrangements are recognised in the balance sheet.

In the cash flow statement, changes in payables financed by finance providers can affect cash flows from operating activities. Additionally, in some circumstances, derecognising a trade payable and recognising another class of financial liability may produce these effects in a company’s cash flow statement:

(1) a cash flow benefit in operating activities when the trade payable is recognised;
(2) a non-cash transfer in cash flows from financing activities when the trade payable is derecognised and a new class of financial liability is recognised; and
(3) a cash outflow in financing activities when the new liability is settled with the finance provider.

Without adequate disclosure, it can be difficult for investors to:

(a) effectively assess the company’s total debt, adjusting for liabilities financed by a finance provider;
(b) differentiate between operating and financing cash flows, adjusting for the effects of amounts financed by a finance provider; and
(c) understand the risk to a company of supplier finance arrangements no longer being available to it.

---

2 For more information, see the Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring, published by the IFRS Interpretations Committee.
What are the implications of the proposed amendments?

The proposed amendments would affect companies that enter into supplier finance arrangements.

The IASB expects that most of the information companies would be required to disclose is readily available to them. Consequently, application of the proposed requirements is not expected to result in significant additional costs.

For some supplier finance arrangements, companies do not currently obtain information about the carrying amount of financial liabilities for which suppliers have already received payment from finance providers. However, the IASB expects that such information could be made available to companies, at least on an aggregated and anonymised basis. The IASB also expects the benefit of the proposals to outweigh the costs because transparency about this piece of information helps investors analyse the amount and nature of an entity’s debt-like liabilities.

**Questions and answers**

1. **Do the proposals include arrangements that finance receivables (for example factoring) or inventories?**
   
   No. The IASB considered whether to include within the project’s scope requirements for arrangements that finance a company’s receivables or inventories but decided not to do so to avoid delaying improvements to the disclosure requirements for supplier finance arrangements.

2. **Are all material supplier finance arrangements included in the proposals?**
   
   Yes. All arrangements with the characteristics of supplier finance arrangements—as described in the IASB’s proposals—are subject to the proposed disclosure requirements. Investors should be aware that the terms and conditions of supplier finance arrangements can range from simple to highly complex, and arrangements can vary in form and how they are labelled.

3. **Would a company disclose additional information when its range of payment due dates at a reporting date are wide?**
   
   Yes, a company would be required to disclose additional information necessary to enable investors to assess the effects of the arrangements on the company’s liabilities and cash flows.
The views expressed in this article are those of the author as an individual and do not necessarily reflect the views of the International Accounting Standards Board (Board) or the IFRS Foundation (Foundation). The Board and the Foundation encourage members and staff to express their individual views. This article has not undergone the Foundation’s due process. The Board takes official positions only after extensive review, in accordance with the Foundation’s due process.

---

**Example 1—Quantitative information**

<table>
<thead>
<tr>
<th>Supplier Finance Arrangement with Finance Provider A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying amount of liabilities</strong></td>
</tr>
<tr>
<td>Presented within trade and other payables</td>
</tr>
<tr>
<td>- of which suppliers have received payment</td>
</tr>
<tr>
<td>Carrying amount</td>
</tr>
<tr>
<td>- of which suppliers have received payment</td>
</tr>
<tr>
<td><strong>Range of payment due dates</strong></td>
</tr>
<tr>
<td>Liabilities that are part of the arrangement</td>
</tr>
<tr>
<td>Trade payables that are not part of an arrangement</td>
</tr>
</tbody>
</table>

---

**Find out more**

The full text of the Exposure Draft is available [here](#).

---

**We need your views**

What are your views on the proposals? Do you agree with the proposed disclosure objective?

Do you think the proposed disclosures (see page 1) would enable investors to assess the effects supplier finance arrangements have on a company’s liabilities and cash flows? Which of the proposed supplier finance arrangements do you expect will be most useful to you? Which would be least useful to you, or what do you think is missing?

We would like to hear your views and comments on these issues. The proposals are open for comment until 28 March 2022. Please let us know what you think.

---

**Get in touch**

The IASB seeks to meet one-on-one with investors to explore feedback on the proposed amendments related to supplier finance arrangements.

If you would be interested in participating in this way, please feel free to contact me at zgast@ifrs.org or Sid Kumar from the Investor Engagement team at skumar@ifrs.org.

We are also available if you have any questions about the feedback process or if we can assist you in submitting feedback in any form.

---

3 This example is provided for illustrative purposes only. The example is simplified and reflects assumptions that may not apply in all circumstances.