

# Disclosure of supplier finance arrangements

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**“To better meet users’ information needs, the amendments introduce targeted disclosure requirements that will enhance the transparency of supplier finance arrangements and their effects on a company’s liabilities and cash flows. Companies may need to top-up the current level of disclosure to meet the new requirements.”**

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## Amendments focus on disclosures only

### Highlights

- Which arrangements are in scope?
- What are the new disclosure requirements?
- What do companies need to consider now?
- Effective date and transition – Applies for periods beginning on or after 1 January 2024

In response to investors’ calls for more transparency of supplier finance arrangements’ impacts on the financial statements, the International Accounting Standards Board (IASB) has **amended** IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The amendments introduce additional disclosure requirements for companies that enter into these arrangements. However, they do not address the classification and presentation of the related liabilities and cash flows.

### Which arrangements are in scope?

The IASB’s amendments apply to supplier finance arrangements<sup>1</sup> that have all of the following characteristics.

- A finance provider<sup>2</sup> pays amounts a company (the buyer) owes its suppliers.
- A company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid.
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

The amendments do not apply to arrangements for financing receivables or inventory.

### What are the new disclosure requirements?

The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company’s liabilities and cash flows, and the company’s exposure to liquidity risk.

1 Also referred to as supply chain finance, payables finance or reverse factoring arrangements.  
2 Also referred to as the factor.

Transparency is expected under existing IFRS® Accounting Standards. However, the amendments introduce specific requirements for companies to provide the information users need, as illustrated in the example below.

<b>Example: Supplier finance arrangements</b>		
<b>Qualitative information</b>		
[Disclose terms and conditions <sup>3</sup> (e.g. extended payments terms and security or guarantees provided)]		
<b>Quantitative information</b>		
	<b>End of reporting period</b> <b>31.12.20X4</b>	<b>Beginning of reporting period</b> <b>1.1.20X4</b>
<b>Carrying amount of financial liabilities</b>		
Presented in trade and other payables <sup>4</sup> :	2,000	1,500
– of which suppliers have received payment from finance provider	1,500	1,100
<b>Range of payment due dates<sup>5</sup></b>		
Liabilities that are part of the arrangements	XX–XY days after invoice date	XZ–ZX days after invoice date
Comparable trade payables that are <i>not</i> part of the arrangements	YY–YX days after invoice date	YZ–ZZ days after invoice date

Under the amendments, companies also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

## What do companies need to consider now?

Companies need to start collating additional information to meet the new disclosure requirements because some of the information may not always be readily available – i.e. the carrying amount of financial liabilities for which suppliers have already received payment from finance providers. Companies may need to obtain this information from their finance providers directly.

The IASB expects that finance providers will generally be able to make this information available, at least on an aggregated and anonymised basis – e.g. where restrictions may exist.

## Effective date and transition

The amendments are effective for periods beginning on or after 1 January 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

To find out more about the amendments, speak to your KPMG contact.

<sup>3</sup> The terms and conditions of arrangements that have dissimilar terms and conditions need to be disclosed separately.

<sup>4</sup> If liabilities related to a supplier finance arrangement are presented in more than one line item, a company needs to disclose each line item and the associated carrying amount presented in that line item.

<sup>5</sup> When the range is wide, explanatory information may be needed about the range of payment due dates.

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