



# IASB ISSUES AMENDMENTS TO IAS 7 & IFRS 7 - *SUPPLIER FINANCE ARRANGEMENTS*

INTERNATIONAL FINANCIAL REPORTING BULLETIN

2023/05

June 2023

**IBDO**

## BACKGROUND

On 25 May 2023, the IASB issued [Supplier Finance Arrangements](#), which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* (the Amendments).

These Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures. In December 2020, the Committee published an Agenda Decision [Supply Chain Financing Arrangements—Reverse Factoring](#) that addressed this submission based on the requirements in IFRS Accounting Standards existing at that time.

During this process, the feedback from stakeholders indicated limitations of the then existing requirements to address important information needs of users to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the Amendments.

**STATUS**  
Final amendments

**EFFECTIVE DATE**  
1 January 2024

**ACCOUNTING IMPACT**  
Entities will be required to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

## WHAT WERE THE REQUIREMENTS PRIOR TO THE AMENDMENTS?

Prior to the Amendments, neither IAS 7 nor IFRS 7 provided specific disclosure requirements for supplier finance arrangements.

### Requirements of IFRS 7

The Committee, in its Agenda Decision, noted that IFRS 7 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. The Committee observed that reverse factoring arrangements often give rise to liquidity risk because of concentration of a portion of its liabilities with one financial institution. The Committee further noted that the entity may become reliant on extended payment terms or its suppliers may become accustomed to early payment terms. If the financial institution were to withdraw the arrangement, it could affect the entity's ability to settle liabilities when due.

As noted by the Committee, IFRS 7.33-35 requires an entity to provide disclosures of its exposures to risk arising from financial instruments, including liquidity risk. IFRS 7.39 and IFRS 7.B11F specify further requirements and factors an entity might consider in providing liquidity risk disclosures.

### Requirements of IAS 7

The Committee observed that IAS 7.44A 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.

As there were no specific disclosure requirements in IFRS Accounting Standards related to supplier finance arrangements, the Committee highlighted that 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 further observed that in accordance with IAS 1 *Presentation of Financial Statements* (IAS 1.122), the entity would be required to disclose judgements made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Committee also noted that as required by IAS 1.112, an entity would need to provide 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.

## WHAT WAS THE FEEDBACK FROM STAKEHOLDERS?

The IASB received feedback from stakeholders that highlighted the importance of information on supplier finance arrangements to investors' decision-making. Investors need information that helps them to assess the effect of supplier finance arrangements on an entity's financial position and cash flows and compare those effects across entities. In particular, investors want to assess the extent to which an entity's working capital and liquidity are tied to the existence of supplier finance arrangement i.e. the effect of supplier finance arrangement on an entity's working capital management and the effect of a withdrawal of the arrangement on the entity's financial position.

The feedback received by the IASB indicated that the application of the IFRS requirements prior to the Amendments in relation to supplier finance arrangements was insufficient to address investor information needs.

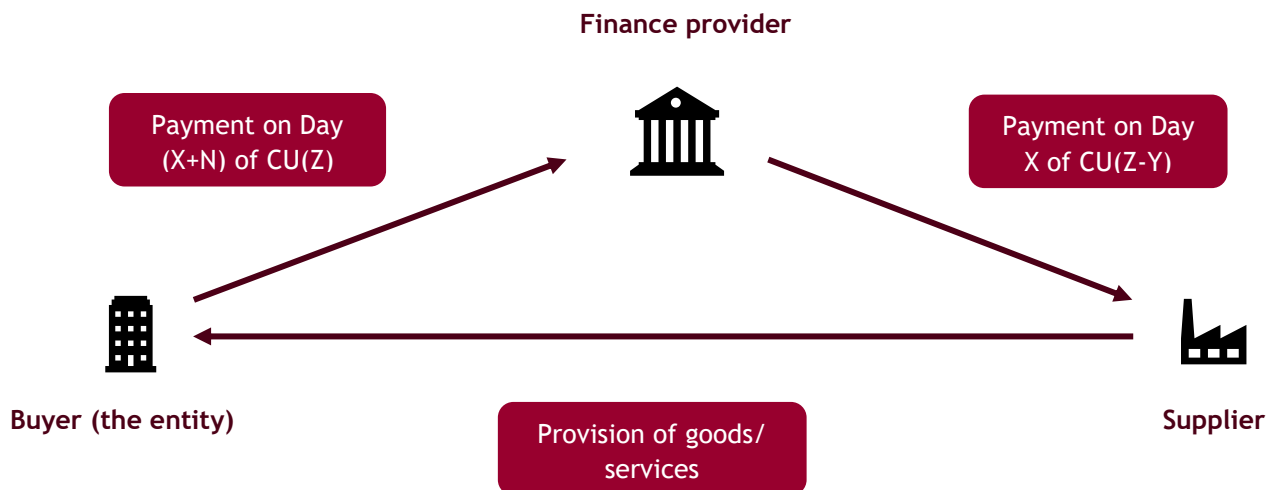
## THE AMENDMENTS

In response to the feedback received, the Amendments introduce some specific disclosure requirements related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

### Characteristics of supplier finance arrangements

Newly inserted paragraph 44G in IAS 7 explains the characteristics of supplier finance arrangements.

The following diagram depicts a typical supplier finance arrangement (also referred to as supply chain finance, payables finance or reverse factoring arrangements):



In a supplier finance arrangement, the finance provider offers to pay amounts owed by the entity to its suppliers and the entity pays the finance provider, according to the terms and conditions of the arrangement, at the same date as or a date later than the suppliers are paid.

As a result, these arrangements provide the entity with extended payment terms or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

The Amendments also clarify that the following are not supplier finance arrangements:

- Arrangements that are solely credit enhancements for the entity such as financial guarantees including letters of credit used as guarantees; and
- Instruments used by the entity to settle directly with a supplier the amounts owed such as credit cards.

## Disclosure requirements

### A. Disclosure requirements in IAS 7

The disclosure objective that the amendment to IAS 7 is addressing is to enable users of financial statements to assess the effects of the supplier finance arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

To meet this objective, an entity is required to disclose the following:

- the terms and conditions of the arrangements.
- as at the beginning and end of the reporting period:
  - (i) the carrying amounts of supplier finance liabilities and the line items of financial liabilities in which they are presented.
  - (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.
  - (iii) the range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. If ranges of payment due dates are wide, explanatory information about those ranges or additional ranges (for example, stratified ranges) are required to be disclosed.
- the type and effect of non-cash changes in the carrying amounts of the supplier finance arrangement liabilities, for example effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

These disclosure requirements inform users of financial statements of the existence of supplier finance arrangements and explain the nature of the arrangements. The users can assess the magnitude of the entity's supplier finance arrangements and their effect on operating and financing cash flows. The disclosures also enable users to understand the effect of supplier finance arrangements on the entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

The above information is required to be disclosed in an aggregated form. For arrangements that have dissimilar terms and conditions, separate disclosure of terms and conditions is required.

### B. Disclosure requirements in IFRS 7

Application guidance of IFRS 7 (IFRS 7.B11F) provides examples of factors that an entity might consider in providing liquidity risk disclosures. The Amendments have added supplier finance arrangements as another factor relevant to liquidity risk.

The guidance on implementing in IFRS 7 is amended to add supplier finance arrangements as a factor that may cause concentration of liquidity risk.

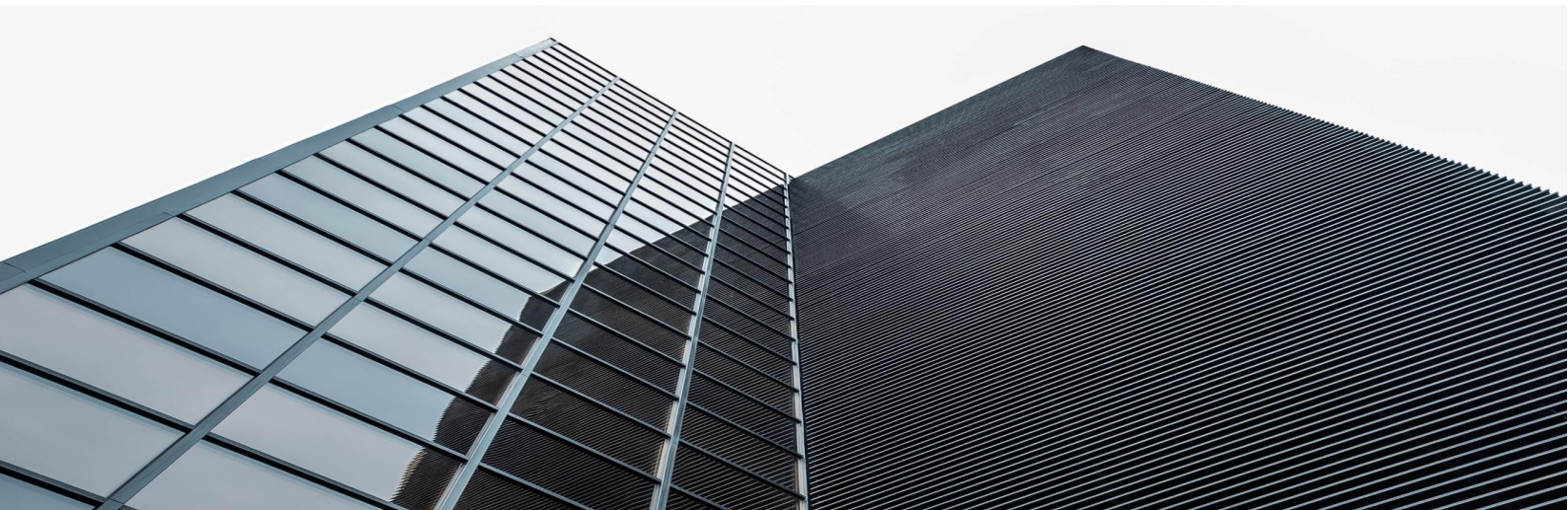


## EFFECTIVE DATE AND TRANSITION

The Amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

As a part of transitional relief, the Amendments provide exemptions from certain disclosures (the illustrative dates provided below assume an entity with a calendar year-end and a 30 June interim financial statement issued in accordance with IAS 34. It is assumed that the entity applies the Amendments for annual reporting periods beginning on or after 1 January 2024 i.e. the Amendments are not early adopted):

| Reporting period                                                                                                                          | Disclosures not required and example                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| For any reporting periods presented before the beginning of the annual reporting period in which the entity first applies the Amendments. | <p>Comparative information.</p> <p>For example, in the entity's 31 December 2024 annual financial statements, disclosures for the 31 December 2023 comparative period are not required.</p>                                                                                                                                                                                                                                                                                                                                                            |
| As at the beginning of the annual reporting period in which the entity first applies those amendments.                                    | <ul style="list-style-type: none"> <li>The carrying amounts, and associated line items, of the financial liabilities for which suppliers have already received payment from the finance providers.</li> <li>Range of payment due dates for supplier finance liabilities and comparable trade payables that are not part of a supplier finance arrangement.</li> </ul> <p>This information is not required to be disclosed for the beginning of the annual reporting period in which the entity first applies the amendments (i.e. 1 January 2024).</p> |
| For any interim period presented within the annual reporting period in which the entity first applies those amendments.                   | <p>The information otherwise required to be disclosed by the Amendments.</p> <p>Therefore, the entity is not required to disclose any of the information otherwise required by the Amendments in its interim financial statements for its half-year ended 30 June 2024.</p> <p>However, it should be noted that when the entity prepares its interim financial statements for the half-year ended 30 June 2025, it will be required to disclose the information as required by the Amendments for the comparative period i.e. for 30 June 2024.</p>    |





This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Neither BDO IFR Advisory Limited, and/or any other entity of BDO network, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Neither BDO IFR Advisory Limited, and/or any other entity of BDO network, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

The BDO network (referred to as the 'BDO network' or the 'Network') is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter 'BDO member firms'). BDO International Limited is a UK company limited by guarantee. It is the governing entity of the BDO network.

Service provision within the BDO network in connection with corporate reporting and IFRS Accounting Standards (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board and IFRS Sustainability Disclosure Standards as issued by the International Sustainability Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium.

Each of BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and the BDO member firms is a separate legal entity and has no liability for another entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the BDO member firms. Neither BDO International Limited nor any other central entities of the BDO network provide services to clients.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2023 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

[www.bdo.global](http://www.bdo.global)