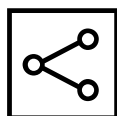


# Supplier financing arrangements

## Talking points for podcast 108



Supplier financial arrangements, also known as reverse factoring arrangements allow an entity to manage working capital more efficiently, often in conjunction with a program with a bank (or other financial institution). The program serves two purposes:

- to act as the company's paying agent and pay the company's suppliers on its behalf on the date the payables are due; and
- to provide liquidity to the company's suppliers seeking payment before the due date (i.e., factoring or discounting programs).



Supplier financing arrangements contain provisions that may require a company to present these liabilities separately from its trade payable. This could have an impact on the company's debt covenants and leverage ratios. Additionally, the statement of cash flows may also be impacted.



In December 2020 the IFRS IC issued an agenda decision on supplier financing arrangements, addressing derecognition of a financial liability, presentation in the statement of financial position and in the statement of cash flows, and the disclosures required by IAS 1 and IAS 7.



Entities accounting for supplier financing arrangements should remember the following:

- The buyer's financial statements should present fairly its financial position, financial performance and cash flows.
- Fair presentation requires the faithful representation of the effects of supplier financing arrangements in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- Separate presentation of liabilities arising from supplier financing arrangements is required when these are sufficiently different in nature or function or when relevant to an understanding of the entity's financial position
- The accounting might require the use of judgement. Entities will also need to make clear and transparent disclosures regarding these arrangements where material, as well as explain any judgements made.
- Making materiality judgements involves both quantitative and qualitative considerations.



Watch out for our forthcoming In depth on supplier financing arrangements.