



## IFRS Adviser Alert

IASB amends IAS 7 and IFRS 7 to enhance the transparency of supplier finance arrangements.

June 2023

### Executive summary

The International Accounting Standards Board (IASB) has amended IAS 7 “Cash flow Statements” and IFRS 7 “Financial Instruments: Disclosures” through the increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity’s liabilities, cash flows and exposure to liquidity.

### The amendments

The amendments require additional disclosures that complement the existing disclosures in these two Standards. They require entities to disclose:

- the terms and conditions of the arrangement;
- the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities are included in the statement of financial position;
- ranges of payment due dates;
- liquidity risk information.

These additional disclosure requirements address investors wanting more visibility around supplier finance arrangements. Supplier finance arrangements are characterized by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. 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. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.



The amendments to IAS 7 and IFRS 7 are effective for accounting periods on or after January 1, 2024.

## **Our thoughts**

We welcome these amendments. In jurisdictions where supplier financing arrangements are common, we acknowledge there is a need to explain to the users of financial statements what the effects of such arrangements are on an entity's liabilities and its cash flows. These amendments will provide the visibility investors require on such arrangements because the disclosures made could impact their assessment of debt covenant arrangements and leverage ratios.

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