Supplier Finance Arrangements: February 2022

Talking points for episode 126

This podcast summarises the Exposure Draft ('ED') on Supplier Finance Arrangements, published in November 2021, along with PwC's current view on the ED.

A supplier finance arrangement is an agreement between three parties; the buyer (purchasing the goods), the supplier (providing the goods) and the financier (often a bank or credit institution). Benefits of entering into this arrangement include:

1. Financial benefits - buyers will have flexibility on later payment terms with the financier compared to the original invoice, with the supplier continuing to receive the payments as per their original terms (or even earlier in some cases).
2. Operational benefits - the arrangement simplifies the payment process between the buyer and supplier given the shared IT platform the buyer and supplier will have access to.

Investors need to be able to understand the nature and amount of these arrangements. However, information about these arrangements is not necessarily clear in the financial statements. This issue was previously discussed at the IFRS Interpretations Committee (IFRIC) (EP108). Although some clarification was provided, the Committee identified gaps which would require input from the IASB. This resulted in the proposed exposure draft ('ED').

The ED is aiming to address the following key areas through disclosures:

1. Nature of arrangement: The proposal is to include disclosures to describe the nature of the arrangement including a summary of the key terms and conditions.
2. Quantitative disclosures: The proposal is to disclose the amounts subject to supplier financing arrangements separating out amounts paid by the financier (therefore is a payable from the buyer to the financier) versus amounts yet to be paid by the financier (therefore is still a payable to the supplier).
3. Liquidity risk: The ED proposes the entity disclose the range of payment dates to enable users to understand the additional financing impact of the arrangements on liquidity risk.
4. Cash flow statement: The ED proposes to disclose the impact of the arrangement on the cash flow statement to enable transparency and comparability across the industry.

PwC is developing a comment letter. In summary we support the Board's proposed approach and agree that this will be helpful to users. However, in order to achieve the intended objective there are two areas which we suggest the Board consider further:

1. The disclosure requirements presume the cash flows are financing cash flows which may result in some entities questioning whether they are in scope for the additional disclosures (where the cash flows are recognised as operating cash flows).
2. There is diversity in how entities are classifying the cash flows and whether these are presented gross or net which could be clarified through an additional disclosure requirement.

In the Investor Perspective: Supplier Finance Arrangements, the IASB provides an example of the quantitative disclosures that are being proposed in the ED.