People in pursuit of answers

FitchRatings

Supply Chain Finance
What are the new rules?

Frederic Gits, Group Credit Officer, Corporates

December 2nd 2022

Rationale for changing the accounting rules

- Continuing wide range of disclosure practices, with only a few entities disclosing particular qualitative and quantitative information about their Supplier Finance Arrangements (SFAs).
- Investors want to know about the existence of SFAs and the extent to which the entity's working capital, financial leverage and liquidity are tied to the use of these arrangements.
- Investors require information about SFAs that is comparable both from period to period for a reporting entity and in a single reporting period across entities;
- SFAs can be a useful tool that allows entities and their suppliers to improve their working capital management—however, this benefit can disappear quickly if, in a stress scenario, the finance providers withdraw the arrangement.
- ***Please note the following slides are based on the IASB's staff proposal and have not yet been approved by the Board.***

Scope of the new requirements

This amendment remains about **better disclosure only.**

The IASB decided **not to address classification** and presentation in financial statements as part of this revision.

A supplier finance arrangement is characterized by:

- One or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at the same date as, or a date later than suppliers are paid.
- These arrangements providing the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

Scope of the new requirements: Comments

- This is irrespective of the reason an entity entered into the arrangement or where and how it presents and classifies the related liabilities and cash flows in its statements but exclude arrangements that finance receivables or inventory.
- The reference to finance providers being paid is likely to be removed following feedback on the Exposure Draft as it may not become the legal owner of the supplier's receivables as a result of the arrangement or payment instructions may direct the entity to pay another party.
- Neither an entity's proactive participation in establishing the SFA nor payable confirmation are included in the definition
- There is no scope exclusion for SFAs in which an entity pays its suppliers using particular instruments or services—for example, payment processing services; credit cards; letters of credit; bank acceptance bills and negotiable securities; financial guarantees; and other forms of short-term financing such as import loans and overdraft facilities

FASB's definition is narrower

Under FASB, a supplier finance program is an arrangement that has all the following characteristics:

a. An entity enters into an agreement with a finance provider or an intermediary.

b. The entity confirms supplier invoices as valid to the finance provider or intermediary under the agreement described in (a).

c. The entity's supplier has the option to request early payment from a party other than the entity for invoices that the entity has confirmed as valid.

Disclosure Requirements IASB

Amendments apply to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*

An entity shall disclose:

(a) the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided);

(b) for each supplier finance arrangement, as at the beginning and end of the reporting period:

- (i) the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;
- (ii) the carrying amount of financial liabilities disclosed under (i)for which suppliers have already received payment from the finance providers; and
- (iii) the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i); and

(c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

... **Quantitative liquidity risk disclosures:**

SFAs resulting in the entity concentrating with finance providers a portion of its financial liabilities originally owed to suppliers have been added as an example of concentration risk to be disclosed

Disclosure Requirements FASB

A. The key terms of the program

B. For obligations outstanding at the end of the reporting period that the entity has confirmed as valid under the program:

- Where those obligations are presented in the balance sheet. If they are presented in more than one line item, then the entity shall disclose the amount outstanding at the end of the reporting period in each line item.
- The amount outstanding at the beginning of the reporting period
- The amount added to the program during the reporting period
- The amount settled during the reporting period
- The amount outstanding at the end of the reporting period.

Relevant Links

Please refer to the IFRS website for more details and the Feedback analysis on which this presentation is based:

https://www.ifrs.org/projects/work-plan/supplier-finance-arrangements/#project-history

Press Release of FASB announcing the new disclosure requirements

https://www.fasb.org/page/getarticle?uid=fasb_Media_Advisory_09-29-22

Disclaimer

Fitch Ratings’ credit ratings rely on factual information received from issuers and other sources. Fitch Ratings cannot ensure that all such information will be accurate and complete. Further, ratings are inherently forward-looking, embody assumptions and predictions that by their nature cannot be verified as facts, and can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this presentation is provided “as is” without any representation or warranty. A Fitch Ratings credit rating is an opinion as to the creditworthiness of a security and does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. A Fitch Ratings report is not a substitute for information provided to investors by the issuer and its agents in connection with a sale of securities.

Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch Ratings. The agency does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS AND THE TERMS OF USE OF SUCH RATINGS AT WWW.FITCHRATINGS.COM.

FitchRatings

People in pursuit of answers

New York
33 Whitehall Street
New York, NY 10004

London
30 North Colonnade
Canary Wharf
London E14 5GN