LUISS

Corporate Finance

Financial Statement Analysis

Disclosure of Information about Supplier Finance Arrangements according to IFRS/IAS amendments: First Empirical Evidence

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INTRODUCTION

Supplier Finance Arrangements (SFAs) stand out as essential mechanisms for corporations aiming to improve working capital management within modern financial practices. Supply Chain Finance together with Payables Finance and Reverse Factoring creates practical advantages such as enhanced liquidity, extended payment terms, and improved supplier relationships through the financial alignment of buyers with suppliers and third-party financial organizations. Although SFAs provide clear operational benefits the financial reporting of these arrangements remains problematic because of its long-standing lack of transparency and inconsistent reporting practices among different companies.

The IFRS and IAS regulatory framework until recently offered insufficient instructions regarding how to classify and report SFAs which led to substantial discrepancies in their depiction across corporate financial reports. Without standardized guidelines companies could use SFAs to manage liquidity and hide their genuine financial status. The collapse of Carillion demonstrated how unreported or poorly disclosed SFAs can lead to systemic risks and governance failures. The incidents highlighted systemic issues which prompted regulators to push for wide-ranging reforms to enhance financial transparency and safeguard investor interests.

The International Accounting Standards Board (IASB) worked together with international regulatory authorities to release essential changes to IAS 7 (Statement of Cash Flows) and IFRS 7 (Financial Instruments: Disclosures) during 2024. Companies must now submit standardized SFAs disclosures that detail financial terms, liquidity impact, balance sheet classification and risks related to deferred payments. The regulatory change goes beyond technical aspects because it marks a substantial shift in the way financial obligations are defined and assessed.

Current technological innovations including real-time data systems alongside fintech platforms and automated invoice processing are transforming how SFAs are implemented and monitored. Thanks to digitalization companies can expand their supplier finance programs effectively while boosting traceability and compliance as well as stakeholder trust. ESG-linked SFAs are becoming more prevalent which helps integrate supplier finance into the larger framework of sustainable and responsible corporate financial practices.

THESIS OBJECTIVES

This thesis seeks to critically examine the impact of these regulatory changes on the transparency and reliability of financial reporting concerning SFAs. The research questions guiding this study are:

1. How effective have the IFRS/IAS amendments been in improving the transparency of SFAs in financial statements?
2. Why was there a need for this reform in the regulatory framework governing Supplier Finance Arrangements (SFAs)?
3. What are the challenges and outcomes for companies in implementing these new reporting standards?

METHODOLOGY

To address these questions, the study will adopt a mixed-methods approach:

- **Qualitative Analysis:** Detailed reviews of regulatory texts, corporate financial statements, will be conducted to understand the scope and application of the amendments.

- **Quantitative Analysis:** Financial data from a sample of companies before and after the amendments will be analyzed to assess changes in reporting practices and their implications on financial transparency.

This methodology will enable a comprehensive evaluation of the amendments' effectiveness, providing insights into both the process of regulatory adaptation and its outcomes.

Structure of the Thesis

The thesis is organized into four main chapters:

- **Chapter I** establishes the theoretical framework by defining Supplier Finance Arrangements and analyzing their role in modern financial management. It explores the different forms of SFAs, the historical evolution of these instruments, and their impact on working capital optimization for both buyers and suppliers. A comparative analysis with alternative working capital financing tools, such as receivable and inventory financing, is provided. Furthermore, the chapter discusses the strategic benefits of SFAs, the risks associated with their misuse and opacity.

- **Chapter II** addresses the accounting and regulatory framework governing SFAs. It begins by outlining the limitations of pre-2024 IFRS/IAS standards and then presents the Carillion case as a key trigger for reform. The chapter then examines the 2024 amendments to IAS 7 and IFRS 7, focusing on new disclosure requirements, enhanced transparency in cash flow reporting, classification in

financial statements, and the need to report liquidity risks and payment terms in detail.

- **Chapter III** presents the empirical core of the thesis. It outlines the research methodology and provides an in-depth analysis of how selected manufacturing companies have responded to the new disclosure requirements. The chapter assesses the impact of SFAs on financial statements, working capital, liquidity, and key financial ratios, offering case-based insights and comparative evaluations.

- **Chapter IV** explores future developments in the SFA landscape. It focuses on digital transformation, including the integration of SCF platforms and fintech solutions, the role of e-invoicing and automation, and emerging trends such as ESG-linked SFAs. This chapter provides a strategic outlook on how SFAs are evolving into intelligent, real-time financial infrastructure.

CONTRIBUTION

This study contributes to knowledge by connecting regulatory theory with corporate financial practice to address a crucial research gap. The study demonstrates through data how a significant regulatory change has affected actual business practices and points out the advancements achieved as well as ongoing obstacles to overcome. The research uncovers how SFAs function beyond financial tools to serve as markers of corporate transparency while also demonstrating ethical financial practices and strategic flexibility. The thesis presents the view that transparency within supplier finance functions beyond compliance requirements and serves as a fundamental element for rebuilding market trust and strengthening financial systems.

CHAPTER I: Definition and General Characteristics of SFAs

1.1.1. Definition of Supplier Finance Arrangements and Main Characteristics

In Supplier Finance Arrangements (SFAs) a bank or finance provider acts as an intermediary between a purchasing company and its suppliers to facilitate financial transactions. This arrangement allows suppliers to get paid in advance for their invoices while buyers enjoy extended payment periods. When the supplier finishes delivery and issues the invoice the finance provider disburses the invoice amount to the supplier with a discount that represents financing costs. The buyer completes payment to the finance provider on an agreed future date which surpasses the initial invoice due date. This system changes traditional factoring methods because in SFAs the buyer triggers the financing process which supports supplier liquidity and enables the buyer to improve its working capital metrics.

The development and increasing use of Supply Chain Finance Agreements should be analyzed in connection with supply chain management principles and the relationship between actual goods movement and financial supply chain operations. Supply chain management stands as a fundamental corporate management discipline that combines organizational processes with advanced technologies and information systems to optimize global sourcing and delivery of goods. Within this system, the physical supply chain responsible for moving goods and services merges with the financial supply chain that enables operations through financial support including credit management and payment solutions. Through the utilization of SFAs buying organizations fortify their supply chain partnerships and simultaneously boost their '*source-to-pay'* and '*order-to-cash'* process performance. Financial institutions and banks provide essential support by delivering solutions that connect physical goods movement with financial transactions which leads to better cash management and company operational performance.

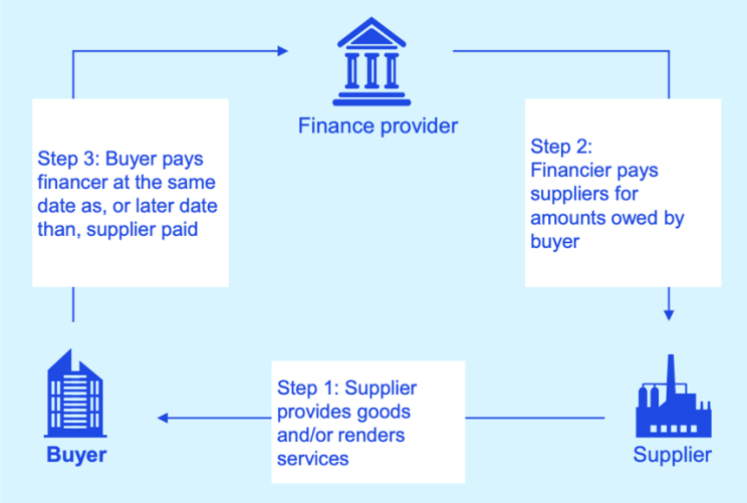

Figure 1 - KPMG. (2021). *Reverse Factoring and the Impacts on Financial Statements*.

The triangular structure of SFAs features three parties who interact through distinct sequential operational stages. Figure 1 illustrates this process: The supplier starts the process by delivering goods or services and issuing an invoice (Step 1); thereafter the finance provider transfers payment to the supplier post buyer invoice approval, typically before the original payment deadline (Step 2); the buyer completes the cycle by paying back the finance provider either on time or on a mutually agreed deferred date (Step 3). The supplier benefits from faster cash collection and decreased Days Sales Outstanding (DSO) while the buyer extends its Days Payable Outstanding (DPO) with no direct impact on the supplier's liquidity. The finance provider generates revenue by charging a discount or fee for its early payment service.

The arrangement qualifies as an SFA according to IFRS rules when it arises from an existing business obligation between supplier and buyer and requires a third-party financier to settle the obligation while becoming the buyer's creditor. Although the terminology may vary, all these structures rely on the same financing logic: Utilizing trade payables as a means to add liquidity to supply chain operations.

1.1.2. Main Forms of SFAs (Supply Chain Finance - Payables Finance - Reverse Factoring)

Supplier Finance Arrangements (SFAs) are known by several names including Supply Chain Finance (SCF), Payables Finance and Reverse Factoring yet represent one unified financing approach. While all these terms are commonly used interchangeably, they each highlight their own specific aspect. Reverse factoring demonstrates a reversal of the conventional factoring model by making the buyer the initiator of the process instead of the supplier. Supply Chain Finance represents a wider idea which includes different financial methods to improve liquidity throughout the entire supply chain. During real-world operations these three terms typically describe an identical structured arrangement led by the buyer. These programs utilize the buyer's strong credit reputation to obtain better financing terms for suppliers. After the buyer approves an invoice the finance provider delivers early payment to the supplier at a reduced rate but requires the supplier to repay the finance provider when the invoice becomes due or according to extended terms negotiated in advance. Small and medium-sized suppliers benefit greatly from this approach since they typically lack direct access to low-cost capital markets. SFAs deliver liquidity advantages to suppliers and working capital optimization for buyers while they build stronger collaborative relationships across the supply chain. These structures generate performance improvements at the firm level and supply chain resilience through buyer credit strength and aligned financial incentives.

1.2 Historical Evolution and Rise of SFAs

Supply chain financing techniques like SFAs have been available for many decades yet their implementation has picked up speed dramatically during the last 15 to 20 years. The principle of third-party financing for trade payables has been established for some time as both large buyers and banks continually sought financing solutions to support their critical suppliers. Modern SCF programs started to gain momentum after the 2008 financial crisis when businesses faced credit restrictions and needed new methods to improve liquidity. Businesses sought working capital solutions which led to a surge in SCF interest immediately following the 2008 financial crisis: Right after the 2008, interest in SCF spiked as business looked for working capital relief.: indeed, "supply-chain finance…saw an uptick in use after the 2008 financial crisis" *(Thomson Reuters.*

(2021). Supply Chain Finance and Hidden Risks: Disclosure Gaps and Investor Awareness.). Buyers wanted to lengthen payment terms to retain cash reserves while suppliers desperately required immediate cash flow due to tightened credit access. SCFs programs developed as advantageous solutions within this context. The popularity of SFAs grew across different industries and regions during the 2010s because digital platforms emerged which connected buyers with suppliers and finance providers. Freightwaves'[1] detailed analysis from 2023 showed that 84 S&P 500 companies reported SCFs program usage which financed $80 billion in outstanding payables during Q1 2023.

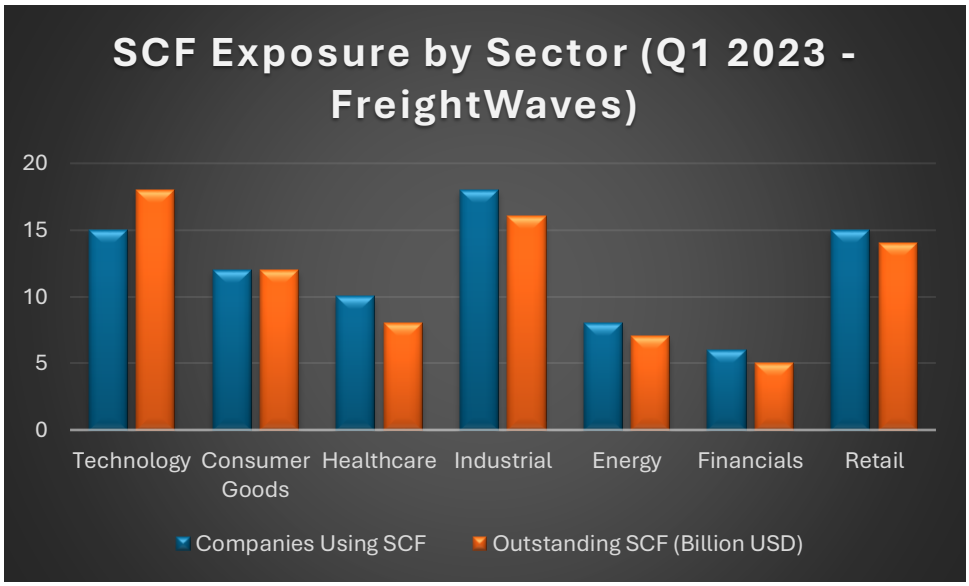

Figure 2 – Estimated SCF Exposure by Sector in Q1 2023 (based on FreightWaves Analysis)

Source: Author's elaboration

The current state of SFC usage among publicly traded corporations demonstrates both its widespread adoption and maturity levels while also underlining the critical role these financial tools play in modern working capital management strategies. Furthermore, more market research data highlights this robust growth: Allied Market Research reported that the global SCF market reached $6 billion in 2021 and expects to grow to $13.4 billion by 2031 which indicates an annual growth rate of approximately 8.8%. The insolvency of Carillion in 2018 represented a significant turning point because this UK construction

[1] Freightwaves is a U.S.-based logistics and supply chain intelligence platform that provides data analytics, industry news, and market insights focused on freight, transportation, and supply chain finance.

giant relied heavily on reverse factoring. The collapse of Carillion along with subsequent investigations highlighted the lack of transparency in SFAs which led regulators to look into new disclosure rules. SFAs experienced quick growth enabled by technological advances and international trade while facing periodic crises which revealed regulatory deficiencies. SCF played a critical role during the COVID-19 pandemic because a lot of companies faced difficulties with uncertain cash flow. At the same time, the pandemic and those corporate collapses *"sparked concern over whether companies are being transparent" about their use of SFAs (Thomson Reuters. (2021). Supply Chain Finance and Hidden Risks: Disclosure Gaps and Investor Awareness.).* The unfolding events prepared standard-setters to establish improved financial statement reporting requirements for SFAs starting in 2024.

1.3 The Role of SFAs in Working Capital Management

Companies leverage SFAs to bolster Working capital management for both suppliers and buyers because Working capital serves as an essential element in managing short-term operations like inventory, receivables and payables which directly impacts company liquidity and operational efficiency. SFAs operate on accounts payable and accounts receivable components to deliver beneficial flexibility to all stakeholders. The measurement of working capital control represents a key strategic goal for numerous companies:

(Accounts Receivable + Inventory - Accounts Payable + Cash)

Managing working capital has developed into a strategic necessity for businesses aiming to maintain profitable expansion. Supplier Finance Arrangements stand as vital instruments to help companies manage cash flow optimization and decrease supply chain operation expenses while maintaining supplier financial stability. To manage operations successfully companies, need insights into how Supplier Finance Arrangements connect with their complete operational systems. Optimal management processes in the physical supply chain create substantial value through the "Source-to-Pay", "Order-to-Cash" and "Fulfil-to-Service" macro-processes (Figure 2). The processes represent the activity flow

that handles procurement operations together with production steps and order fulfillment procedures which lead to invoicing actions followed by payment processes. Financial institutions offer SFAs which help companies enhance their working capital management and optimize cash flow throughout their supply chain operations.

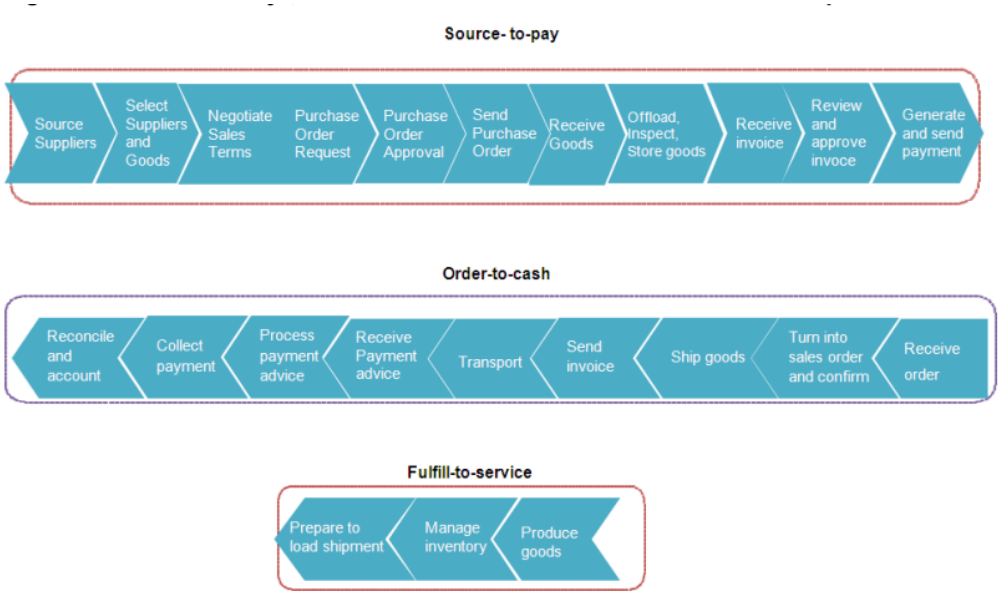

Figure 3: "Source-to-Pay", "Fulfil-to-Service" and "Order-to-Cash" macro-processes –

Source: EBA European Guide

1.3.1. The role of SFAs in optimizing working capital for both Buyers and Suppliers

The buyer gains ability to extend payment deadlines to suppliers beyond standard limits through the use of an SFA. Through the use of SFAs suppliers receive payment at 60 or 90 days rather than the standard 30-day trade credit term. The increase in DPO results in a delay that creates additional cash reserves on the balance sheet. Days DPO measures the typical days a company takes to settle payments with suppliers after receiving their goods or services. It is calculated as:

$$DPO = \frac{Trade\ Payables}{Cost\ of\ Good\ Sold}\ x\ 365$$

When DPO rises, companies gain extended cash control which strengthens their short-term liquidity and working capital status allowing them to allocate extra cash for operational funding and debt reduction or growth investments. The advantages stem from the fact that suppliers remain unharmed by this financial arrangement because they receive timely payment from the financing party. When companies excessively use high DPO values they risk damaging supplier relationships unless they manage these values carefully. The report *"Corporates and Supply Chain Finance: Fitch Ratings[2] (2018)* conducted an in-depth research study examining how companies rely more on supply chain finance programs and how this impact working capital management with a focus on Days Payable Outstanding (DPO) evolution. Reviewing a sample of 337 global companies across different industries, the study highlighted a clear trend: The average Days Payable Outstanding (DPO) rose by 17% between 2014 and 2017 as it increased from roughly 82 days to 96 days. The 2017 period saw DPO growth reach 6% over the previous year demonstrating an accelerated adoption of extended payment terms. By using these methods buying firms delayed cash payments while maintaining supplier liquidity through access to early payment options from third-party financial institutions. Numerous corporations employed SFAs to boost their operating cash flows and strengthen financial ratios without officially raising their debt levels. On the other hand, from the supplier's perspective, selling the invoice to the financier means that supplier's DSO (days sales outstanding) is reduced, with the possibility to convert their receivable into cash much faster if they waited for the buyer's extended payment. DSO is a key financial metric that indicates the average number of days a company takes to collect payment after a sale has been made. It is calculated by:

$$DSO = \frac{Account\ Receivable}{Revenue}\ x\ 365$$

Reduced DSO means quicker cash collection which strengthens supplier liquidity and decreases dependency on outside financing. An elevated DSO reflects inefficiencies in collection operations or serious customer payment issues which ultimately destabilizes cash flow and improves supplier liquidity by lowering short-term borrowing

[2] Fitch Ratings is one of the "Big Three" credit rating agencies globally, alongside Moody's and S&P, providing financial market research, ratings, and risk insights on companies, bonds, and industries.

requirements. Financial Service Arrangements move liquidity from financial intermediaries like well-capitalized banks to suppliers by utilizing the creditworthiness of buyers as a connecting mechanism. A proper evaluation of SFAs requires comparison to conventional working capital management methods used by companies. Buyers who seek to extend their DPO usually negotiate for extended payment terms which can negatively affect suppliers by leading to their increased DSO. Meanwhile, if the supplier needed faster cash in order to decrease DSO, it might try to negotiate early payments discounts with the buyer or borrow mechanism where both objectives can be met: The buyer achieves greater DPO while the supplier benefits from decreased DSO at the expense of financing costs that fall between both parties.

Beyond accounts receivable and payable, inventory represents the third critical component of working capital management. The efficiency of inventory management can be assessed through the Days in Inventory (DII) metric, which measures the average number of days that goods remain in inventory before being sold or used. DII is influenced by various events across the physical supply chain, including the time required to receive inbound supplies, internal factory movements, order processing times, preparation for shipment, and the performance of the distribution channels. Poor forecasting, incorrect requirement sizing, premature order cycles, and purchasing based solely on price rather than actual necessity can all contribute to higher inventory levels and, therefore, a higher DII.

The DII is calculated as:

$$DII = \frac{Inventory}{Cost\ of\ Good\ Sold}\ x\ 365$$

The speed at which companies turn their inventory into sales improves when they have a lower DII which enhances their liquidity and cuts down expenses from stock management. The presence of a high DII indicates that a company faces problems with inventory management effectiveness and experiences supply chain operational delays. Events within the physical supply chain can result in higher inventory levels. The supply chain faces higher inventory levels due to inbound supply delays along with factory movement inefficiencies and extended order processing periods combined with shipment

preparation time requirements and distribution channel performance issues. Ineffective management processes including inaccurate forecasting and improper requirement sizing coupled with premature orders and price-driven purchasing decisions can intensify inventory accumulation. Increases in inventory levels do not always signal ineffective management practices. Certain valid operational needs may force companies to maintain greater inventory levels than what a strict JIT[3] system would dictate. Manufacturing plants must prepare machinery for production runs which makes smaller production runs impractical and too expensive. When larger production runs become essential for economic feasibility these circumstances lead to temporary inventory build-up at the supplier's or buyer's facilities. The analysis of physical supply chain practices which affect Days Payable Outstanding enables calculation of an essential financial supply chain metric called cash-to-cash cycle time that plays a vital role in effective supply chain management (SCM).

$$Cash - to - Cash\ Cycle\ Time = (DSO + DII) - DPO$$

represents the interval between payment for raw materials and the receipt of cash generated by selling final goods. If the cash-to-cash cycle time is short, then a company can reasonably consider itself to be managing its working capital well. If the cycle time is long a company must conclude that it could have too much working capital tied up in its business operations, which means it cannot be used for other purposes such as investing in growth projects. This is another way of saying the aim of efficient SCM is to shorten DSO and extend DPO whilst minimizing DII. Figure 3 graphically illustrates the cash-to-cash cycle components and their correlation:

[3] Just-In-Time (JIT) is a production and inventory management strategy aimed at minimizing inventory levels by receiving goods only as they are needed in the production process, thereby reducing storage costs and waste.

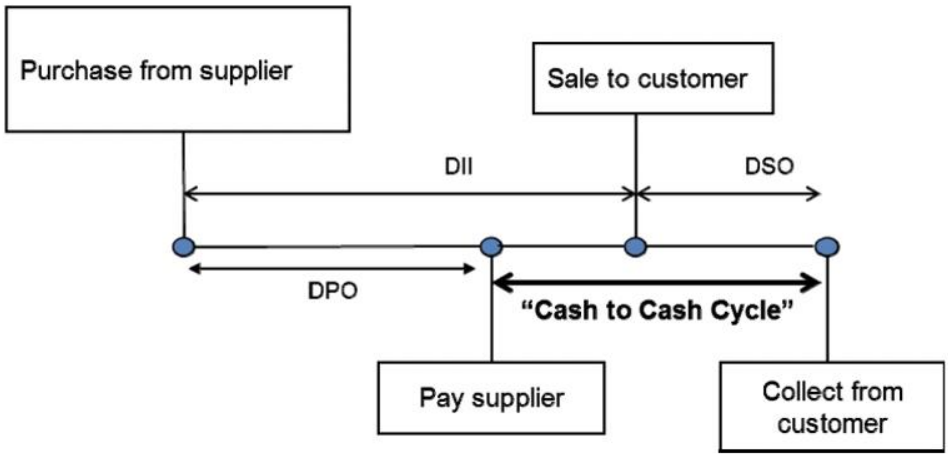

Figure 4 – The Cash – to- Cash cycle time illustrated

Source: Dawson, P. – Supply Chain Finance – EBA European market guide

The connection between SCM operations and cash-to-cash cycle time emerges when companies understand that cash tied up in inventories (DII) extends both production time and delays in customer payments. To balance the extended time span of (DSO + DII) companies often raise their DPO values. Using supplier payment extensions as a long-term strategy fails to deliver valid results and inevitably leads to tension between businesses. When suppliers experience delayed payments as a result of unilateral decision-making, they face difficulties which disproportionately affect smaller or more vulnerable suppliers who lack bargaining power. Extending DPO enables companies to shorten their cash-to-cash cycle time but creates supplier burden unless SCM process efficiency improves accordingly. Payment terms can extend beyond the standard periods if suppliers receive an attractive counteroffer such as confirmed payment dates or a supply chain finance arrangement which includes cash release by a financial institution on behalf of the buyer.

1.3.2. Comparison with other Working Capital Financing Tools (Receivable Financing, Dynamic Discounting, Inventory Financing)

SFA are often compared to other common working capital financial tools, such as Receivables Finance, Dynamic Discounting and Inventory Financing where each serves different type of needs in corporate liquidity management.

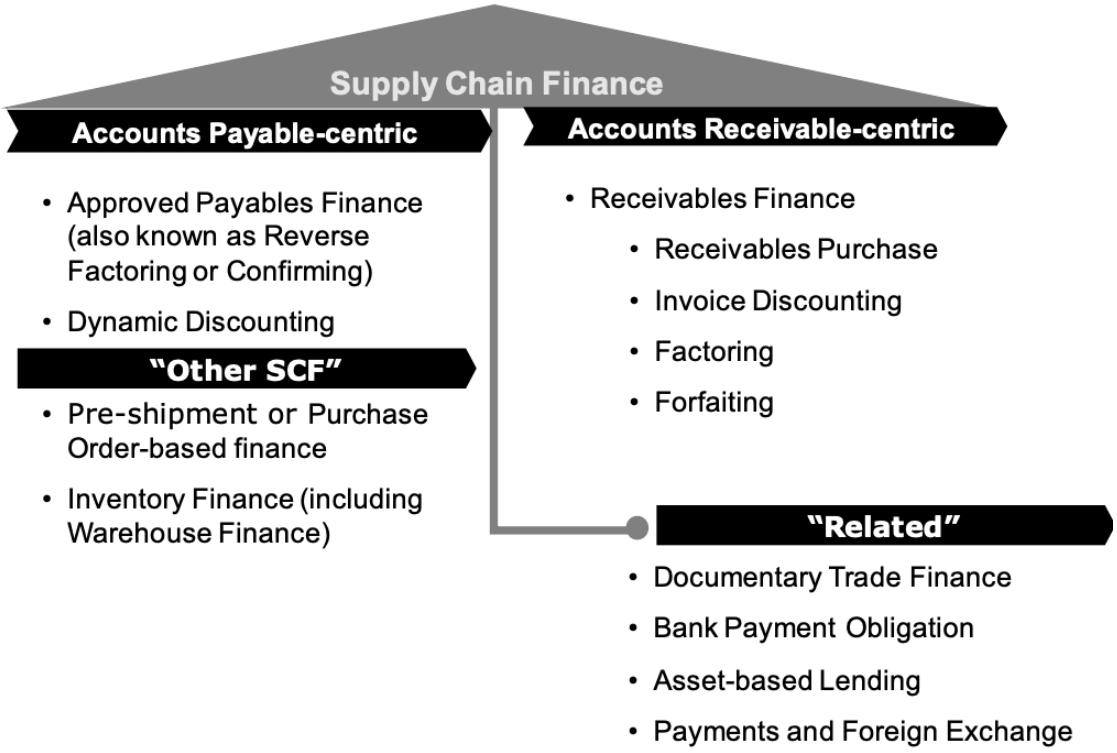

Figure 5 – The complete Supply Chain Finance Portfolio

Source: Dawson, P. – Supply Chain Finance – EBA European market guide

Through Receivable Financing suppliers gain access to working capital by leveraging their outstanding accounts receivables connected to one or several customers to generate liquidity. Suppliers secure early payments through this process by accepting amounts below the full receivable face value though different pricing structures can apply based on contract specifics. The practices of receivable financing differ widely and depend on factors such as jurisdictional requirements, local regulatory frameworks and industry norms as well as the specific financial instruments that are used. Receivable financing transforms receivables into cash flow through purchase, assignment, pledge or

discounting operations. Multiple terms within the industry regularly share meanings yet lack a consistent definition framework. Key forms of receivable financing include:

Receivables Purchase: Under a receivable purchase agreement banks and other financial institutions agree to buy or discount supplier receivables typically without recourse. The structuring of the transaction as "disclosed" or "silent" depends on whether the buyer (obligor) receives information. These financial programs feature a financing bank interacting mainly with the supplier (who acts as its client) along with one or multiple buyers. Financial institutions typically buy receivables as soon as invoices are issued. By structuring their receivables purchases as "true sales" suppliers manage to keep transactions off their balance sheets which prevents the need to record bank debt. Limited recourse provisions become relevant during contractual disputes or when insurance claims are invalidated. Transactions achieve complete non-recourse status through credit insurance backing or bank guarantees as well as when investment-grade buyers participate.

Forfaiting: It involves a specialized method for international receivables purchases where suppliers transfer financial instruments like Promissory Notes, Drafts, or Bills of Exchange to a financier who buys them at a discount without recourse. Cross-border trade obligations are exchanged on a secondary market that demonstrates clear pricing standards. Since receivables lack approval when financing occurs through forfaiting the process needs strict validation to confirm the legitimacy and ability to collect the claims.

Invoice Discounting: A supplier uses invoice discounting to submit invoices to a bank or factor which will discount them. Under this arrangement the supplier retains control of receivables while collecting payment from the buyer when the payment matures. Buyers usually remain unaware of the transaction. The financing institution disburses an advance that represents 75% to 90% of the invoice amount while adding an interest margin to current market rates. The use of invoice discounting provides a versatile financial solution that applies to both single transactions and entire receivables portfolios.

Factoring: It involves selling a wide range of receivables which frequently includes an entire seller's turnover or a significant part of it. Factoring agreements usually inform buyers about debt transfers requiring them to send payments straight to the factor.

Factoring services can be delivered with recourse terms or through credit protection which transfers payment default risk to the financier resulting in non-recourse factoring. Receivables portfolio quality control is strictly enforced by factors who also levy management fees together with funding costs. Factoring started with small and medium-sized enterprises but has developed into a significant financing method for large international transactions outside conventional banking options.

Each model of receivable financing carries specific risks. Common concerns include the submission of invoices for goods not yet shipped, the issuance of subsequent credit notes canceling invoices, diversion of payments to unauthorized bank accounts, undisclosed commercial disputes, or intentional misrepresentation of invoice values. To mitigate these risks, banks and factors implement a range of control measures, including:

- Conducting random direct contact with buyers to verify invoice validity.
- Actively following up on the collection of financed receivables and reconciling amounts paid and received.
- Applying dilution controls (monitoring reductions in receivable value), ageing controls (tracking overdue receivables) and concentration controls (avoiding excessive exposure to single buyers or sectors).

The key term "*factorability*" in factoring operations indicates which receivables qualify for financing through their essential properties. Ideally, the financed receivable should represent a "*sell it and forget it*" transaction: A transaction which represents a complete unconditional sale of goods or services stands alone without needing future support or additional conditions. Portfolios cannot include receivables from contracts that require ongoing service obligations or support agreements and those with "*sale or return*"[4] clauses and return-offset arrangements. Contractual intricacies heighten chances of payment failure and damage the financed asset's value. Receivable financing mechanisms provide suppliers essential cash flow solutions while maintaining balance sheet leverage stability through true sale structures. When companies unlock capital that was

[4] A “sale or return” clause allows the buyer to return unsold goods to the seller, meaning that revenue recognition and ownership transfer may be conditional and deferred until final sale or acceptance.

previously tied up in receivables, they will be able to finance their operational activities and improve their financial ratios while boosting their working capital.

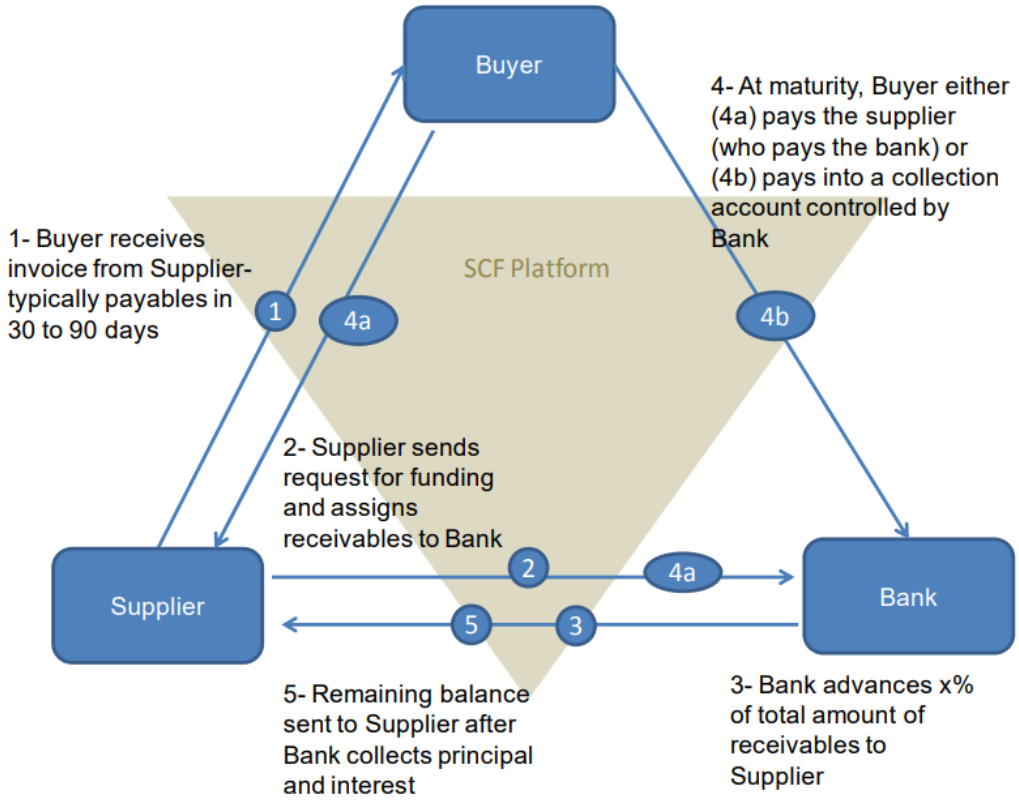

Figure 6 – Receivables Purchase Process Flows

Source: Adapted from IIG Capital – EMA European Market Guide

The typical steps are as follows:

1. The **buyer** receives an invoice from the supplier, typically with a payment term ranging from 30 to 90 days.
2. The **supplier** submits a request for funding and assigns the receivables to the **bank** via a dedicated SCF platform.
3. The **bank** advances a percentage (typically between 80% and 100%) of the invoice face value to the supplier.

4. Upon maturity, the **buyer** either:
    - (4a) Pays the supplier, who subsequently reimburses the bank; or
    - (4b) Directly deposits payment into a collection account controlled by the bank.
5. After collecting the principal and any agreed financing costs, the bank remits the remaining balance to the supplier.

This model provides suppliers with immediate liquidity by issuing cash advances during shipment and invoicing time. Every payment passes through the collection account which helps maintain control over proceeds and minimizes operational risks. The contractual agreement establishes maximum payment terms during the initial transaction process. When funds are managed through a revolving credit facility business can reinvest repaid amounts by submitting new eligible receivables to maintain uninterrupted working capital funding. This guide excludes detailed process descriptions for other receivable financing instruments such as factoring and invoice discounting because they can be found through specialized industry associations. Receivable financing delivers crucial financial adaptability to suppliers since it allows them to enhance liquidity while maintaining operational continuity and achieving better management of their working capital assets.

Through dynamic discounting businesses optimize their working capital by using their available cash resources to provide suppliers with early payment in return for invoice discounting. Buyers utilize their internal cash reserves to finance early payments instead of seeking third-party funding options. The method speeds up the supplier's Days Sales Outstanding (DSO) by accelerating the cash conversion cycle and delivers to the buyer a financial return that matches the negotiated discount. Early payment discounts have historically been set using a predetermined discount rate combined with a specific payment date which is referred to as static discounting. *The "2/10, Net 30"*[5] *(EBA – European Market Guide)* payment arrangement allows suppliers to provide a 2% discount when buyers pay within 10 days rather than waiting until the full 30 days. Buyers achieve substantial annualized returns of about 36% through this setup when they make their

[5] "2/10, Net 30" is a common trade credit term meaning the buyer can take a 2% discount if the invoice is paid within 10 days; otherwise, the full amount is due within 30 days.

payments inside the designated early payment period. Static discounting creates operational risks for buyers since they might forfeit the discount if invoice approvals extend past the early payment deadline. Dynamic discounting eliminates these drawbacks through enhanced payment flexibility. In dynamic discounting systems the level of discount depends on when the payment is made early. Paying earlier allows buyers to receive bigger discounts but waiting until close to the due date results in smaller discounts for the payment. The dynamic negotiation capability of this "sliding scale" model enables buyers and suppliers to adjust terms based on real-time operational conditions to better synchronize financial returns with liquidity requirements.

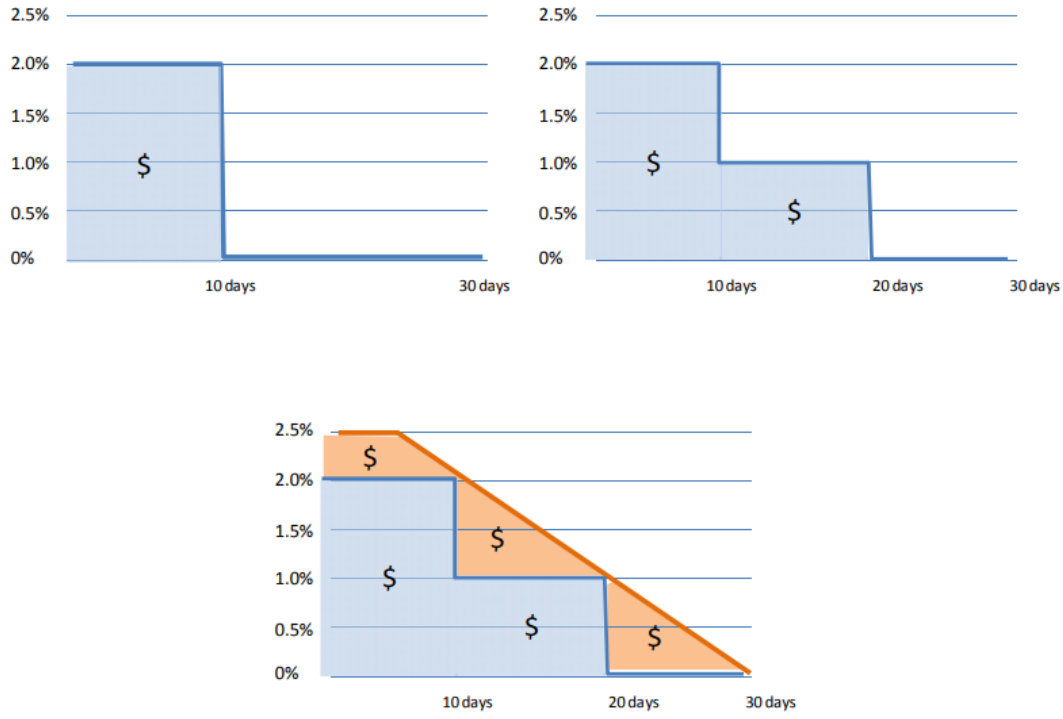

Figure 7 – Dynamic Discounting
Source: Camerinelli, adapted from Taulia – EBA European market Guide

Dynamic discounting not only generates better returns on liquidity compared to traditional money market investments but also reinforces supply chain stability by assisting suppliers with cash flow needs without external financing requirements. The buyer needs to maintain adequate liquidity levels since funding early payments directly requires enough resources to participate in dynamic discounting without damaging its

working capital requirements. Supplier Finance Arrangements transfer the responsibility of funding to a financial institution. Buyers can lengthen their payment schedules and maintain optimal working capital without reducing their cash reserves through this financial mechanism. Many companies blend both payment methods by using dynamic discounting to pay selected suppliers when liquidity and early payment benefits are optimal and directing other payables to SFA programs to maintain maximum cash flow management efficiency.

This is how a typical Dynamic Discounting works:

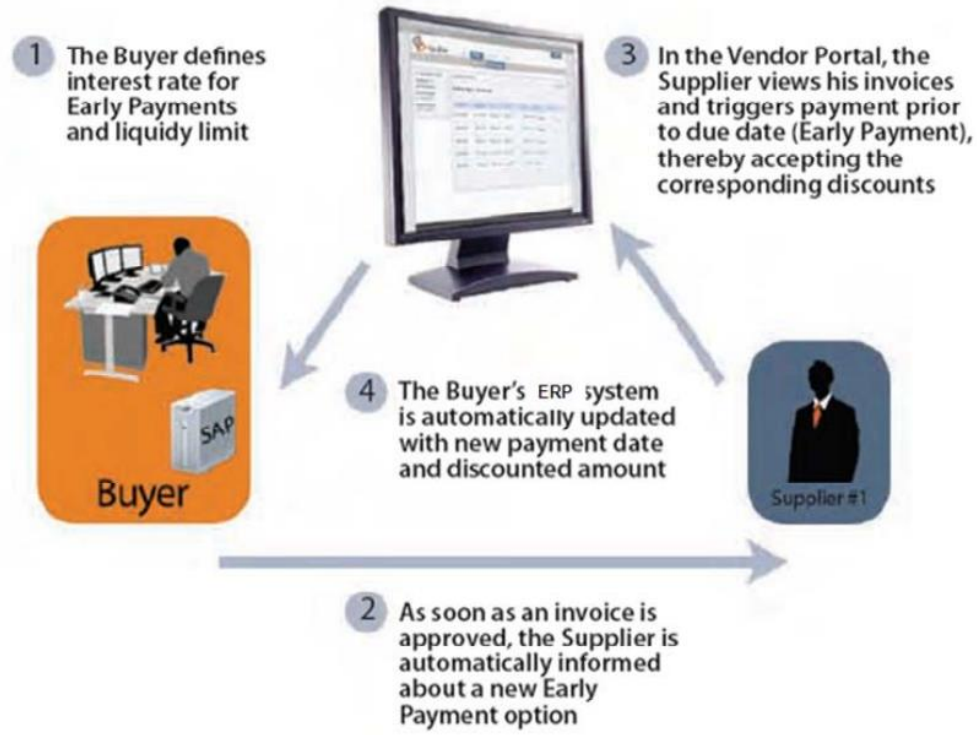

Figure 8 – How Dynamic Discounting Works
Source: Supply Chain Finance – EBA European Market Guide – Taulia

Dynamic Discounting has gained significant attention from the financial sector despite not being officially recognized as a unique Supply Chain Finance (SCF) solution by banks. Banks which understand the necessity of aiding corporate clients to manage their liquidity have begun to incorporate dynamic discounting features into their overall cash management service offerings. Financial institutions supply specialized dashboards

which allow buyers to control dynamic discounting programs while monitoring their available liquidity. The usefulness of these tools becomes apparent when buyers deal with seasonal trading patterns which lead them to have extra liquidity for early payments or need external funding to maintain operations. Banks become essential liquidity collaborators through these integrated solutions which enable clients to manage working capital effectively during their specific operational cycles.

Inventory financing serves as a key working capital optimization solution that stands apart from both Supplier Finance Arrangements (SFAs) and dynamic discounting. The buyer or supplier receives a loan collateralized by inventory stock or purchase orders through inventory financing. Inventory financing functions earlier in the supply chain than other SCF tools and serves businesses that need funding before manufacturing and distributing their products. When firms need early cash flow support for production materials suppliers receive direct payments from financiers which ensures crucial liquidity during vital supply chain stages. Inventory finance which is also called warehouse finance represents a supply chain finance model where financing covers goods that are either sold beforehand unsold or hedged and banks typically establish a security interest on the inventory. Inventory financing structure and risk evaluation depends upon two primary factors:

1. The intrinsic value and saleability of the inventory.
2. The intended use of the inventory within the manufacturing or sales process.

Inventory financing represents a working capital solution primarily used for commodities and finished goods for which a reliable market value can be determined. Typical eligible assets include standardized products such as metals, minerals, or agricultural produce, as well as finished goods supported by confirmed purchase orders. In contrast, inventory in the form of work-in-progress is generally excluded due to its limited marketability and lack of immediate realizable value.

A fundamental consideration for credit risk management involves ensuring that the bank can access and control pledged inventory if a borrower default. Institutions manage risk by insisting that inventory be held in recognized warehouses or secured locations to ensure clear identification and separation of the goods. Financing options may consist of

a straightforward secured loan backed by the pledged goods or more intricate methods like repurchase agreements where banks maintain legal ownership of inventory throughout the financing period. Inventory financing gives businesses the key benefit of accessing money held within their existing stock without having to sell their inventory. This financing method provides significant value in industries where production or export cycles run long because inventory needs to be stored for extended periods before reaching final customers. A standard financial arrangement allows borrowers like commodity processors or exporters to obtain loans from financial institutions through their raw materials and finished products inventory as collateral. Term facilities structure the loan which borrowers repay through monthly equal instalments and conclude with a final bullet payment. The loan repayment process is typically secured through receivables from trustworthy buyers who have obtained approval from the lending bank. A warehouse houses pledged inventory and an independent collateral management agent oversees it to maintain the collateral's adequacy. The loan repayment for each portion enables the release of the corresponding goods. The collateral manager issues monthly inventory inspection certificates which allow the bank to verify that the pledged goods maintain enough value to cover the outstanding loan balance. Supplier Finance Arrangements (SFAs) aim to optimize accounts payable and receivable management through buyer-led mechanisms but inventory financing creates liquidity by turning physical stock into cash. Both instruments enhance working capital optimization but they exhibit major differences in their structural design as well as funding processes and strategic implementation. By linking suppliers to the buyer's superior credit status, SFAs provide early payment options at reduced expenses which enhances liquidity throughout the supply chain. Inventory financing functions as a financial tool that enables funding for production and distribution activities through the use of physical goods as security.

Financing Instrument	Primary Actor (Initiator)	Benefit for Buyer	Benefit for Supplier
Factoring (traditional)	**Supplier (Seller)**	No direct impact on DPO, the buyer pays according to the originally agreed terms (the transaction concerns the supplier).	Advance receipt of receivables, DSO reduction, and improvement of their own liquidity, although at the cost of a commission or interest.
Reverse Factoring / SFA	**Buyer (Client)**	Extension of payment terms, the buyer can pay later than the original deadline, increasing DPO and preserving their cash in the short term. Payments can also be centralized through the intermediary.	Early payment compared to the original due date (the supplier receives immediate cash from the financier, reducing their DSO), often at the rates favored by the buyer's creditworthiness.
Inventory Financing	**Buyer (owner of the inventory)**	Immediate liquidity through a loan secured by inventory, improving the liquidity indicator without reducing inventory volume. The debt obtained is, however, recorded as short-term financing.	Not directly applicable to the supplier (internal tool to the company to finance working capital; the supplier is not involved).
Dynamic Discounting	**Buyer (Client)**	High return on early payment discount (e.g., 2/10 net 30), improves supplier loyalty, uses internal excess liquidity efficiently.	Accelerated DSO through early payments, no need for external financing, more control via buyer dashboard.
Invoice Discounting	**Supplier**	No buyer benefit; transaction is between supplier and financial institution.	Quicker access to funds without waiting for invoice maturity, improves liquidity (buyer not informed).
Forfaiting	**Supplier**	No direct benefit to buyer; mainly supports supplier's liquidity for export contracts.	Receives payment without recourse; mitigates risk of non-payment from international clients.
Receivables Purchase	**Supplier**	No buyer involvement; helps suppliers access liquidity from third-party institutions.	Liquidity improvement without booking a loan; derecognition of receivables possible if structured as 'true sale'.

Table 1 – Comparative Analysis of SFA and other Working Capital Financial Tools

Source: Author's Elaboration

As the table shows, reverse factoring stands out because it is buyer-led: The debtor company coordinates the reverse factoring program with a financial institution to provide suppliers with advance payments. Through traditional factoring suppliers transfer their invoices to factoring firms to access cash but buyers stay outside the arrangement continuing to pay suppliers or factoring companies by the original due dates without direct liquidity advantages though they might negotiate extended terms as suppliers benefit from factoring. SFAs stand out to buyers from a net working capital standpoint because they enable maximum operational liquidity compared to other working capital instruments.

1.4 Benefits and Strategic Implications of SFAs

SFAs deliver numerous advantages for buyers and suppliers while having major strategic consequences for supply chain management and corporate finance. Enhanced liquidity and fortified supplier partnerships create strategic impacts that extend beyond conventional payables accounting. Buying firms see their liquidity and working capital improve instantly through SFAs. Buyers receive substantial extensions of payment terms

up to 60 extra days because finance providers ensure suppliers receive payment on time. The arrangement gives buyers an interest-free or low-interest short-term financing option for their payables which allows them to allocate the cash otherwise required for supplier payments to alternative uses during the payment extension period. Buyers may secure improved pricing or consistent supply from suppliers through the offer of an SFA program. The option of quick payment provides the supplier with value which allows the buyer to negotiate better prices and maintain supplier reliability. This leads to the strategic benefit of supply chain stability: Buyers who provide timely financial support to suppliers prevent potential financial distress and bankruptcy while ensuring their supply chain remains uninterrupted. SCF programs have received praise from big corporations for their ability to prevent disruptions while boosting supplier performance. According to a 2023 Citi report, supplier resilience strengthens the physical supply chain when buyers use their robust credit to finance suppliers. A frequently mentioned advantage for buyers involves structuring SFAs so that debt stays off their balance sheet because payables stay categorized as operating payables instead of borrowings. Suppliers gain from quicker access to funds and reduced financing expenses because payment is received immediately after buyer approval of invoices instead of waiting for the entire payment term to conclude. The financing reduces the supplier's DSO because it enables faster cash flow enabling the supplier to reinvest in their business or meet its financial obligations and thus the cost of this financing remains lower than other options available to suppliers. The interest rates or discount charged to suppliers remain low because lenders in an SFA depend on investment-grade credit risks of buyers instead of the smaller suppliers' risks, providing suppliers with affordable working capital. The major Predictability benefit enables suppliers to forecast their financial planning with confidence through quick sales of invoices and it proves especially beneficial for small and medium enterprises. On a relational level, participating in a buyer’s SFA program can strengthen the supplier’s relationship with that large customer that indicates a long-term partnership approach: Bank of America claims that suppliers benefit from establishing stronger relationships by building tighter connections with their buyers *Bank of America - (2023) - Supply Chain Finance Solutions: Strengthen your supplier network)*. Preferred status as an SCF supplier within competitive industries leads to increased business opportunities and stability which results in mutually beneficial financial relationships. When suppliers identify significant

financial backing from buyers through access to financing they tend to focus more on those buyers' requirements while also expanding their production capabilities and upgrading their quality standards along with sharing new solutions. Buyers implement key supplier financing programs as part of their supplier relationship management strategies to achieve long-term supply chain stability. SFAs serve to both strengthen supply chain relationships and deliver a substantial competitive advantage. The approach shows that SCF can integrate into commercial negotiation strategies when managed properly to prevent excessive stress on suppliers. Boards of directors and chief financial officers now view Supply Chain Financing Agreements (SFA) as essential components of capital structure strategies since they function like short-term loans despite not being formally recognized as debt. Due to this analysis businesses must decide if they should depend more on operational debt like SCF or obtain financing through conventional bonds and loans. The trend of *"ESG-linked supply chain finance"*[6] emerged when companies started to integrate their SCF programs with environmental, social and governance (ESG) objectives which enables buyers to provide better financing terms to suppliers who fulfill specific environmental or social requirements thus supporting corporate social responsibility efforts. Through strategic SFAs application companies can advance sustainable practices across their supply networks while supporting their environmental, social, and governance performance targets. SFAs deliver financial advantages through enhanced liquidity and cash flow management for buyers and suppliers and act as strategic assets to strengthen supply chain partnerships while improving competitive standing and refining corporate financial plans. The implementation of SFAs through careful planning and transparency results in the creation of robust supply chain systems that operate efficiently and sustainably and boosts the financial standing of buyers.

1.5 Risks and Criticisms of SFAs

Supplier Finance Arrangements (SFAs) deliver considerable benefits for liquidity optimization and working capital management but they also bring about substantial concerns from regulators and investors. The attributes making SFAs appealing through

[6] ESG-linked supply chain finance refers to programs where financing conditions—such as discount rates—are tied to a supplier's performance against predefined environmental, social, or governance (ESG) criteria. These models aim to incentivize sustainability across the value chain.

financial reporting flexibility and better short-term liquidity can be exploited to hide the real financial state of a company. The main risk of SFAs stems from their associated transparency issues which arise when companies fail to properly disclose SFAs information within their financial statements. The main issue involves the risk of "hidden debt" because traditional accounting standards prevent the classification of trade payables from standard commercial terms as debt. Through SFAs companies can extend payment terms by using bank financing yet continue to record these obligations as trade payables instead of financial liabilities. Companies can report increased operating cash flows from postponed supplier payments without disclosing to investors that this boost actually comes from external financing rather than genuine operational improvement. Historically many organizations recorded these obligations under accounts payable but provided minimal or no disclosure about them in the financial statement notes. Financial statement users may be deceived about a company's real leverage and liquidity status because of this transparency issue. Regulatory bodies have shown concern about the missing transparency in financial statements. The U.S. Securities and Exchange Commission (SEC)[7] warns that lack of detailed disclosure about these arrangements keeps investors and analysts from obtaining the necessary information to make informed decisions according to their Staff Statement on SFAs Disclosure – 2020. Credit rating agencies have taken steps to evaluate the consequences of this practice. S&P Global Ratings indicates that they will treat extended payment terms under SFAs as debt in credit analyses if such extensions are material. Companies that gain considerable working capital benefits from these agreements could encounter repayment challenges akin to those from typical debt obligations when SFAs end or reduce, according to their analysis. Financial institutions classify SFAs as "*accounting loopholes"* because they provide benefits similar to borrowing without requiring firms to list these obligations as liabilities on their financial statements. These practices increase reported performance figures but hide the financial risks which would normally be connected to debt. The substantial danger exists when supplier finance facilities face possible termination or restructuring. The financing bank might cut back or terminate the facility if the buyer's creditworthiness declines or market conditions shift because many SFAs operate as uncommitted credit lines. The abrupt end

[7] The Securities and Exchange Commission (SEC) is the U.S. federal agency responsible for enforcing securities laws, regulating the securities industry, and protecting investors by ensuring transparency and fair practices in financial markets.

of supplier finance facilities would force the buyer to experience a critical liquidity shortage which requires them to pay suppliers either on regular terms or immediately without assistance from external finance sources. The buyer's cash reserves could face an unforeseen substantial depletion which would create significant strain on their balance sheet while endangering financial stability. SFAs expose suppliers to specific vulnerabilities. Suppliers who do not have a wide range of credit options will encounter difficulties obtaining comparable alternative financing when the buyer or financing bank independently changes the program terms or terminates it. The situation becomes particularly challenging for suppliers who rely on SFA early payment features to meet their liquidity requirements. Best practices suggest suppliers should reduce dependence on one buyer program while seeking multiple financing options to protect themselves. The use of SFAs raises ethical issues because they pressure suppliers and lengthen payment terms while appearing to offer early payment options. Powerful buyers sometimes demand supplier participation in their SFA programs while enforcing extended payment terms which transfer costs and financial burdens to the supplier network. While SFAs are promoted as reciprocal advantages for both parties, critics maintain that exploitative consequences can arise from unregulated power dynamics between participants in these agreements. SFAs have functioned occasionally as tools for earnings management according to financial reporting standards and corporate governance principles. Certain companies might delay payments through SFAs at the end of reporting periods to boost their cash position while failing to properly reveal their arrangement details. Key financial indicators including operating cash flow and debt-to-equity ratios become distorted by such practices which consequently deceive stakeholders about the company's actual performance and risk position. Under such circumstances improved disclosure through proper reclassification of extended payables as debt when needed could greatly affect evaluations of leverage and liquidity positions along with covenant fulfillment. SFAs serve as beneficial financial instruments when used properly yet their improper application hides financial realities while increasing risk and undermining stakeholder confidence. The latest regulatory updates and IFRS 2024 amendments mark substantial progress towards eliminating this "*accounting loophole*" to ensure that financial statements accurately reflect the economic reality of supplier finance transactions.

Chapter 2: Evolution of Accounting Treatment and Regulatory Framework of SFAs (IFRS)

2.1 THE PRE-2024 REGULATORUY FRAMEWORK AND ITS LIMITATIONS

Until 2024 there existed no dedicated IFRS standards that addressed Supplier Finance Arrangements (SFAs); companies instead used existing standards including IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows along with IFRS 7 Financial Instruments: Disclosures for accounting treatment. The absence of specific standards resulted in varied practices which permitted companies to exercise significant discretion in how they presented and disclosed SFAs. The absence of specific rules enabled firms to either interpret or bypass guidance which allowed them to conceal SFA-related liabilities under standard working capital line items while giving minimal disclosure. Regulatory frameworks proved inadequate for accurately representing the economic reality of SFAs which consequently affected transparency and comparability standards.

2.1.1 IFRS/IAS GOVERNING SFAs BEFORE THE REFORM

The requirements for presenting liabilities on the statement of financial position are established by IAS 1. Paragraph 54 of IAS 1 stipulates that "trade and other payables" must be presented independently from other financial liabilities. IFRS lacks an explicit standalone definition of "trade payables" but IAS 37 defines them as liabilities for goods or services that have been invoiced or formally agreed upon with suppliers (IAS 37.11). IAS 1 establishes that trade payables are included as components of an entity's working capital during the standard operating cycle (IAS 1.68). A central question before the 2024 amendments in Supplier Finance Arrangements was how to categorize reverse factoring program obligations as either trade payables or short-term borrowings. Management used to have the primary responsibility for making this determination. A liability from an SFA remains a trade payable if it continues to serve its original purpose related to goods and services purchases and operates within the normal business cycle. According to IAS 1 entities required distinct presentation for obligations that functioned like loans due to

extended payment terms or financial intermediary involvement by listing them under "*other financial liabilities*" or as separate line items to accurately depict the financial position (IFRS IC, 2020). Businesses needed to evaluate if bringing in a financial provider changed the essence of the original liability. IFRS 9's derecognition criteria were also relevant: When a supplier's original obligation transforms into a new obligation to a finance provider then derecognition of the trade payable along with recognition of a new financial liability becomes necessary according to IFRS 9.3.3.1. The IFRS framework did not provide specific bright-line rules for resolving this issue. As a result, companies applied considerable discretion. A number of firms treated SFA-related debts as borrowings while other businesses kept them on as trade payables despite the creditor changing from a supplier to a financial institution. The lack of standardization across companies led to unclear financial reporting before the reforms of 2024 took place. IAS 7 establishes the classification framework for cash flows into operating activities and both investing and financing activities. The classification of cash flows became difficult when SFAs made it unclear whether payments to suppliers should be categorized as operating cash flows or if repayments to financial institutions should be classified as financing cash flows. IAS 7 describes operating activities as transactions related to the main revenue-generating operations while financing activities represent changes in equity and debt (IAS 7.6). Before the reform companies needed to determine if payments under an SFA were operating cash flows or financing activities based on the liability's balance sheet representation. The IFRS Interpretations Committee (IFRS IC)[8] made it clear that companies should classify cash flows according to how those items appear on their balance sheets. The classification of SFA obligations as trade payables resulted in their payments being recorded as operating outflows while obligations classified as borrowings required reporting as financing outflows according to IFRS IC guidelines in 2020. The presence of interpretative flexibility resulted in different reporting practices across organizations. IAS 7 also addresses non-cash financing transactions. Paragraph 43 mandates that organizations must report transactions where financial institutions pay supplier invoices for buyers which results in liability formation without immediate cash payment. Through the 2016 IAS 7 amendment paragraph 44A now requires entities to

[8] The IFRS Interpretations Committee (IFRS IC) is the interpretative body of the IFRS Foundation. It provides guidance on how to apply IFRS Standards in practice and clarifies accounting issues that arise in financial reporting.

report changes in financing activity liabilities in both cash and non-cash forms according to IAS 7.43–44A. Entities needed to include SFAs classified as financial liabilities in their net debt reconciliation statements. Trade payables classification led to the exclusion of such obligations from financing disclosures which diminished transparency and comparability. Entities must disclose information under IFRS 7 which deals with financial instrument disclosures to help users assess both the nature and extent of risks from financial liabilities (IFRS 7.31–35). Although SFAs were not specifically mentioned in the principles they encompassed essential risk areas including liquidity risk. Reverse factoring escalated liquidity risk through the consolidation of payment responsibilities at one financial institution. The risk originates from both the concentration of transactions with one counterparty and the company's need to maintain access to the SFA facility. IFRS 7 requires companies to disclose their management of liquidity risks by revealing maturity profiles and concentration risks. Entities should provide extra disclosures when their year-end balances fail to reflect typical yearlong exposure as seen in window dressing practices according to standard IFRS 7.B11F. The application of these disclosures showed variability because management's judgment about materiality and transparency determined their implementation. The disclosure requirements within this landscape include guidance from IAS 1 which mandates entities to present their significant judgments (IAS 1.122) alongside material information essential for financial statement comprehension (IAS 1.112). Entities were theoretically required to reveal the economic substance of SFAs according to financial guidelines. The lack of specific guidance before 2024 resulted in varied reporting practices across organizations. Certain companies provided detailed qualitative and quantitative data while others grouped their SFA obligations under general payables and several companies completely excluded these details. The IFRS framework depended on general principles outlined in IAS 1, IAS 7, IFRS 7, and IFRS 9[9] to manage SFAs before the 2024 amendments came into effect. The absence of specific guidelines resulted in broad discretion that caused classification inconsistencies together with limited disclosures and ended with transparency issues. The 2020 agenda decision of the IFRS Interpretations Committee made expectations clearer

[9] IFRS 9 – Financial Instruments is an accounting standard issued by the IASB that governs the classification, measurement, impairment, and hedge accounting of financial assets and liabilities. It replaced IAS 39 in 2018.

without implementing binding standards which led to practice diversity that drove later regulatory changes (IFRS IC, 2020; IASB, 2023).

2.1.2. KEY WEAKNESSES AND SHORTCOMINGS IN THE PREVIOUS REGULATORY FRAMEWORK

The statement of financial position presentation requirements for liabilities are defined by IAS 1. IAS 1.54 requires entities to report "trade and other payables" distinctly from other financial liabilities according to paragraph 54. IFRS lacks a separate definition of "*trade payables*" but IAS 37[10] defines them as liabilities related to invoiced goods or services or those with formal agreements from suppliers which appear in IAS 37.11. IAS 1 specifies that trade payables count as part of an organization's working capital during its regular operating cycle according to IAS 1.68. Before the 2024 amendments took place in Supplier Finance Arrangements this major question existed about the proper classification of reverse factoring program obligations whether they should remain as trade payables or should they become short-term borrowings. Management determined this classification until recent times. An SFA liability remains a trade payable when its nature and function stay consistent with purchasing goods or services during the typical operating cycle. When extended payment terms or financial intermediary involvement made an obligation resemble a loan IAS 1 demanded a different presentation for the company's financial position either under "other financial liabilities" or as a separate line item to ensure proper representation (IFRS IC, 2020). The addition of a finance provider required companies to evaluate if it altered the original liability. IFRS 9's derecognition criteria were also relevant: When the original supplier obligation is extinguished and replaced by a new financial obligation to a finance provider IFRS 9.3.3.1 dictates derecognition of trade payables and recognition of a new financial liability. The IFRS framework provided no specific bright-line rules regarding this issue. As a result, companies applied considerable discretion. Different firms classified SFA-related liabilities as borrowings whereas others kept them categorized as trade payables despite the creditor becoming a financial institution. Financial reporting became opaque before the 2024 reforms due to these inconsistencies. IAS 7 sets the standards for categorizing

[10] IAS 37 – Provisions, Contingent Liabilities and Contingent Assets is an accounting standard that establishes criteria for recognizing, measuring, and disclosing provisions and contingent items in financial statements.

cash flows into operating, investing and financing activities. SFAs created classification challenges by making it difficult to differentiate between operating cash flows which include supplier payments and financing cash flows which encompass repayments to financial institutions. IAS 7 describes operating activities as transactions tied to main revenue-generating operations and identifies financing activities as those affecting equity and borrowing levels (IAS 7.6). Before the reform companies needed to analyze whether SFA payments counted as operating cash flows or financing activities based on liability presentation on the balance sheet. The IFRS Interpretations Committee insisted on categorizing cash flows according to their corresponding balance sheet classifications. The SFA obligation designation as a trade payable led to recording related payments as operating outflows while if it was categorized as borrowing the payments were reported as financing outflows (IFRS IC, 2020). The interpretative flexibility resulted in different approaches to financial reporting. IAS 7 also addresses non-cash financing transactions. Paragraph 43 mandates that organizations disclose specific transactions where financial institutions manage supplier invoices for buyers which results in liabilities without immediate cash expenditure. The 2016 amendment to IAS 7 added paragraph 44A which requires companies to report changes in financing activity liabilities including both cash and non-cash transactions according to IAS 7.43–44A. Financial liabilities classification for SFAs necessitated their inclusion in the net debt reconciliation. Trade payables classification typically excluded these obligations from financing disclosures which decreased the comparability and transparency of financial reports. Entities must supply information to help users assess the risks from financial liabilities according to IFRS 7 which regulates financial instrument disclosures (IFRS 7.31–35). The principles addressed critical risks including liquidity risk without explicitly mentioning SFAs. Reverse factoring increased liquidity risk because its centralized payment obligations through one financial institution. The risk originates from the combination of concentrated counterparty relationships and the company's reliance on ongoing use of the SFA facility. According to IFRS 7 entities need to report their liquidity risk management approaches including details about maturity profiles and concentration concerns. Entities must offer supplementary disclosures if their year-end balances do not accurately represent typical annual exposure levels according to IFRS 7.B11F which includes "window dressing" scenarios. Disclosure application was inconsistent in practice because

it relied mainly on management's evaluation of material importance and transparency. The disclosure framework includes IAS 1 which mandates organizations to present both their significant judgments (IAS 1.122) and essential material information (IAS 1.112) for financial statement comprehension. The expectation was that entities would reveal the economic substance of SFAs according to theoretical standards. Without specific guidelines until 2024, organizations adopted diverse methods for reporting. Certain companies provided extensive qualitative and quantitative details while others combined SFA-related obligations into general payables and many excluded them entirely. The IFRS framework depended on general principles from IAS 1, IAS 7, IFRS 7, and IFRS 9 for SFA accounting before the 2024 amendments. The existing accounting framework allowed for significant interpretative discretion which resulted in classification inconsistencies and insufficient disclosure practices that together diminished transparency. The IFRS Interpretations Committee in 2020 clarified expectations through their agenda decision yet avoided establishing mandatory standards which led to varied implementation practices and prompted further regulatory changes (IFRS IC, 2020; IASB, 2023).

2.2 THE NEED FOR REGULATORY REFORM: THE CARILLION CASE

The downfall of renowned corporations during the late 2010s emphasized the risks posed by opaque SFA accounting. The downfall of Carillion plc in January 2018 became the critical event that showed the necessity for immediate regulatory changes. The large UK construction and services company Carillion used supplier financing aggressively to conceal their growing debt while artificially maintaining cash flow levels. The downfall of Carillion plc revealed to the world the risks of SFAs which conceal real financial situations and the resulting pressure led regulators to establish new standards.

2.2.1 HOW CARILLION USED SFAs TO MASK ITS FINANCIAL POSITION

Carillion was an early and heavy adopter of reverse factoring. From 2012 Carillion began using "*Early Payment Facility*" agreements with banks allowing banks to pay suppliers quickly and enabling Carillion to settle with the banks at a later time. Through this system Carillion managed to prolong payment terms to suppliers while maintaining good supplier relations by allowing banks to pay suppliers quickly and giving Carillion extended credit

periods. Carillion took loans from banks to settle payments to suppliers but failed to disclose these loans as debt obligations. The amounts Carillion owed to banks stayed listed under "*other payables*" in its balance sheet. Through multiple years Carillion progressively depended on this facility to finance its business activities. The scale of Carillion's use of supplier finance agreements reached massive levels by 2016. The company disclosed net debt of approximately £219 million in its most recent financial reports. The reported figure did not account for Carillion's debts from the supplier finance program. According to Fitch Ratings analysis Carillion maintained between £400 million and £500 million of debt equivalent through its reverse factoring program. The company concealed this borrowing amount because it did not include it as a financial liability in its financial statements. Carillion's balance sheet displayed a substantial rise in "*other payables*." During a four-year span, Carillion's other payables grew nearly three times from approximately £263 million to £761 million. The expansion of the reverse factoring scheme caused most of the growth in Carillion's other payables. Carillion's days payable outstanding grew dramatically since they systematically postponed payments through bank financing.

21. Trade and other payables

	2009 £m	2008 £m
Trade payables	**599.6**	626.0
Amounts owed to customers on construction contracts	**188.1**	163.0
Other tax and social security costs	**43.2**	55.2
Amounts owed to jointly controlled entities	**40.8**	35.6
Amounts owed under jointly controlled operations	**15.4**	10.3
Other creditors	**212.1**	275.0
Accruals and deferred income	**584.4**	556.7
	1,683.6	1,721.8

Figure 9 – Trade and Other Payables

Source - Carillion's Annual Report 2009

20. Trade and other payables

Current liabilities	2016 £m	2015[1] £m
Trade payables	**749.2**	591.4
Amounts owed to customers on construction contracts	**57.4**	62.8
Other tax and social security costs	**44.2**	67.4
Amounts owed to joint ventures	**112.4**	87.0
Amounts owed to jointly controlled operations	**21.8**	9.0
Other creditors	**760.5**	561.7
Accruals and deferred income	**340.9**	304.0
Deferred consideration payable[2]	**3.7**	31.0
	2,090.1	1,714.3

Figure 9.1 – Trade and Other Payables from Carillion's Annual Report 2016

Source – Carillion's Annual Report 2009

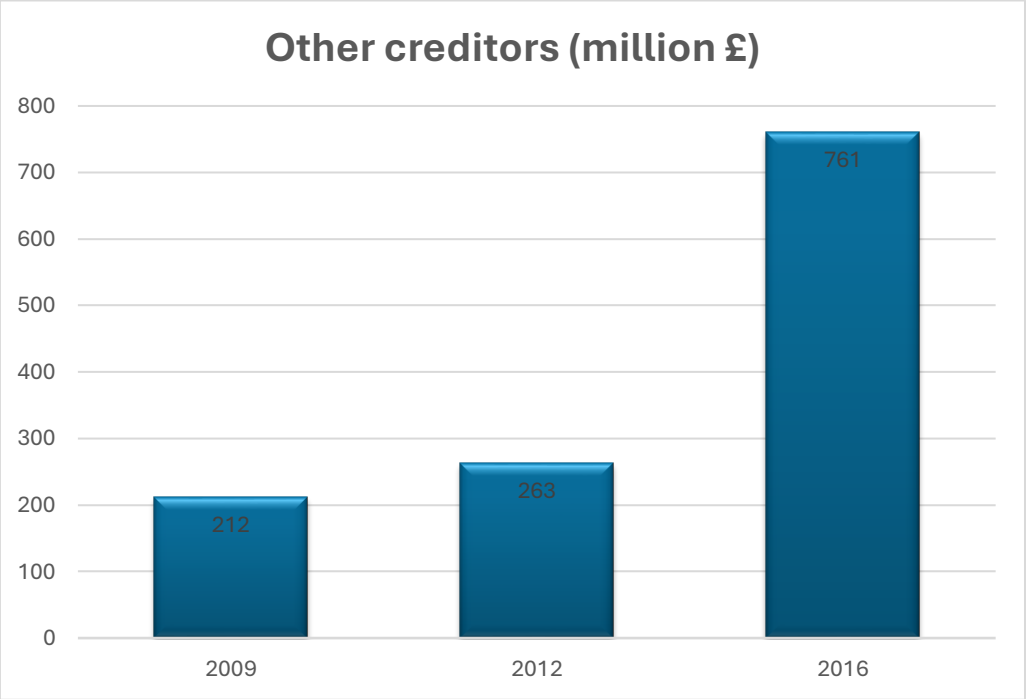

Figure 10 - Increase in Carillion's 'other creditors' (short-term payables) from 2009 to 2016, indicating heavy use of SFAs (data from Carillion reports and Fitch estimates)
Source: Author's Elaboration

This category was effectively serving as a form of short-term borrowing. The House of Commons inquiry into Carillion later noted that the company had "'*borrowed' large amounts of money in less conventional ways, by taking longer to pay its invoices"- (House of Commons. (2018) – The Collapse of Carillion – March 2018)*. It described the jump in other creditors as "a form of short-term borrowing" that made the company "much more vulnerable to a cash crunch." *(House of Commons. (2018) - Carillion: Second Report of Session 2017–2019)*. In Carillion's case, the cash crunch indeed came. The dramatic rise in payables signaled that Carillion was increasingly dependent on bank financing to meet its obligations, even though this was not transparent from the headline debt number.

FINANCIALS

Carillion delivered a startling profit warning on 10 July 2017 which revealed a £845 million financial setback to its balance sheet. This announcement triggered an immediate market reaction: Following the CEO's resignation and the suspension of dividends the value of the company's shares dropped by 70% within two days. The downfall of Carillion started with this event but earlier financial blunders from the last few years caused the crisis. The company reported that declining cash flows from major construction contracts including three UK PPP[11] projects and operations in the Middle East and Canada prompted a comprehensive contract review by the Board with KPMG support. The comprehensive review created a massive provision of £845 million and projected future cash outflows from these contracts to be between £100 and £150 million during 2017 and 2018. The fact that Carillion's growing debt concealed its fundamental weaknesses stands out as remarkable. The company experienced a loan growth of over 430% as its borrowing expanded from £242 million in December 2009 to £1.3 billion by January 2018. The chart displays how Carillion experienced a sharp and continuous increase in borrowing. The growing debt failed to correspond with any equivalent productive investment. Parallel analysis demonstrates that the value of long-term assets rose by only 14% during the same timeframe. The imbalance between Carillion's financial obligations and its asset growth suggests that company liabilities were used to manage operational deficits and delay payments to suppliers through SFAs instead of supporting sustainable business growth. The company managed to conceal its increasing financial vulnerability behind seemingly stable indicators since SFA accounting practices maintained a level of opacity. A deteriorating balance sheet becomes apparent when heavy debt dependency exists without matching asset expansion, while short-term liquidity actions disguise the issue. The significant increase in liabilities through loans and "other creditors" demonstrates your thesis's central theme of concealed leverage.

[11] Public-Private Partnerships (PPPs) in the UK are long-term contracts between a public authority and a private entity to finance, build, and operate public infrastructure or services, often used in sectors like transport, education, and health.

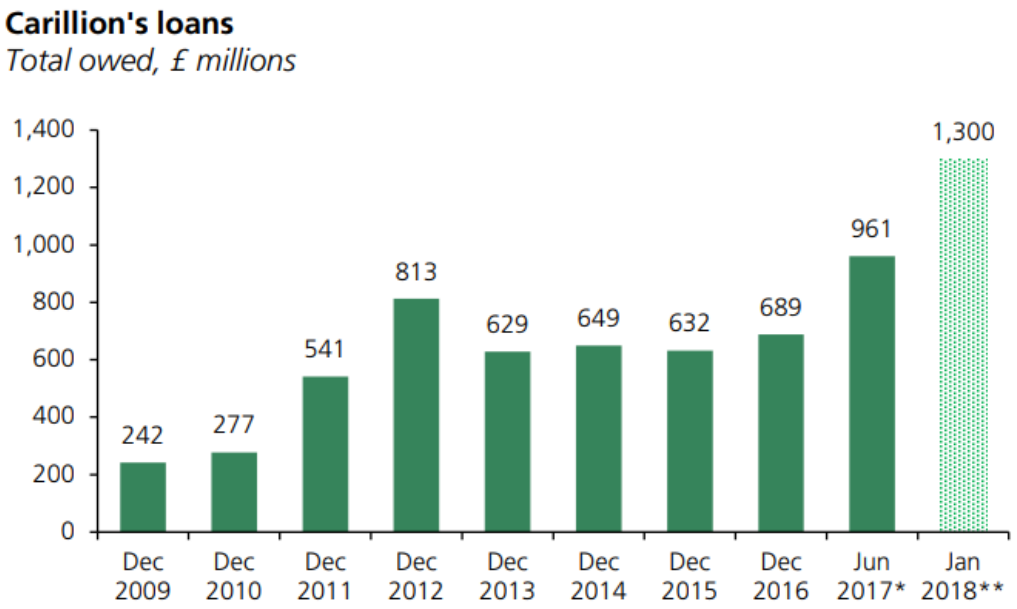

Figure 11 – Total Loans

*Source: Carillion's annual financial statements; *interim financial statements for the six months ended 30 june 2017; ** Financial Times (16 Jan 2017)*

Note: Total loans is the sum of bank overdrafts, bank loans, finance lease obligations and other loans.

Declining revenue

There is also evidence that Carillion's margins may have been indirectly affected By extending payment terms to extreme lengths Carillion likely faced increased expenses from bank fees and supplier discounts associated with the SFA that financial statements did not specifically detail. The business usually reports these costs either by decreasing revenue when suppliers accept discounts or through interest expenses and finance costs. The financial impact of Carillion's Early Payment Facility on profits remains unidentified because the company failed to provide separate cost disclosures. Carillion got small benefits from these costs because the company wanted to boost cash flow while management prioritized surviving in the short term even though it led to more fees. Carillion failed to achieve any expansion in its revenue. The company experienced a 2% decrease in revenue between 2009 and 2016. The projected linear analysis of 2017 interim results shows that revenues could have declined by up to 12% compared to 2009. The lowest revenue point for Carillion occurred in 2013 when it reached a level which was 26% below its 2009 revenue.

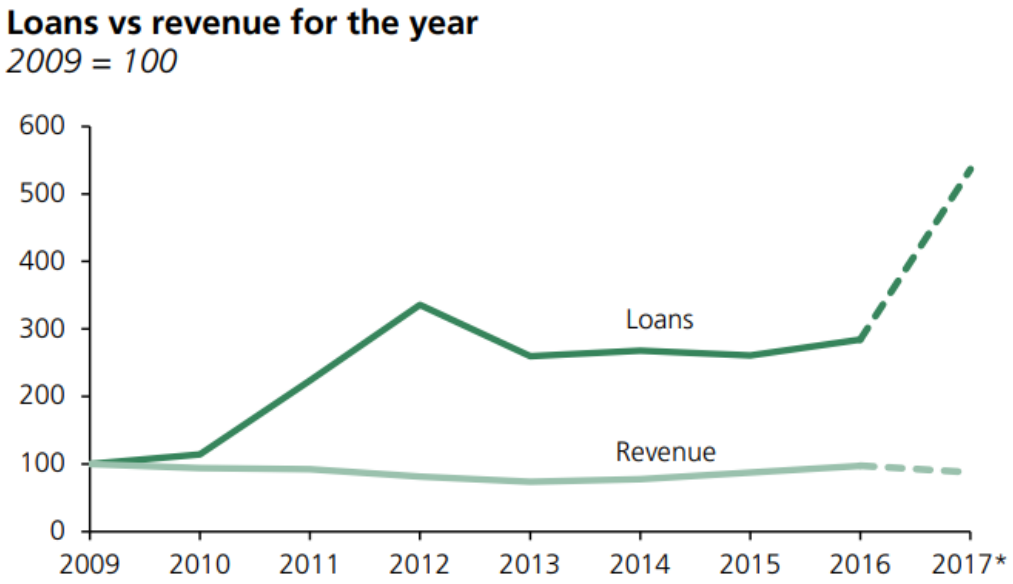

Figure 12 – Loans vs Revenue for the Year

*Source: Carillion's annual financial statements; * Loans value reported by Financial Times (16 Jan 2017) and full-year revenue projected by the library based on Interim financial statement for the six months ended 30 June 2017*

Note: Revenue is the group revenue

Misallocation of borrowed Capital

The significant gap between Carillion's growing debt levels and its modest long-term asset expansion clearly shows a critical flaw in how the company distributes its capital. Between 2009 and 2017 total borrowings rose by nearly 297% while long-term assets increased by only 14% which shows the company failed to use borrowed money for sustainable growth investments. Additional funding resources which might include obligations hidden by Supplier Finance Arrangements most likely went towards managing short-term operational expenses to postpone insolvency. The business strategy appears to depend more on financial maneuvers instead of authentic investment initiatives. This reporting disconnects obscured the firm's increasing financial instability and damaged its ability to generate sustainable value.

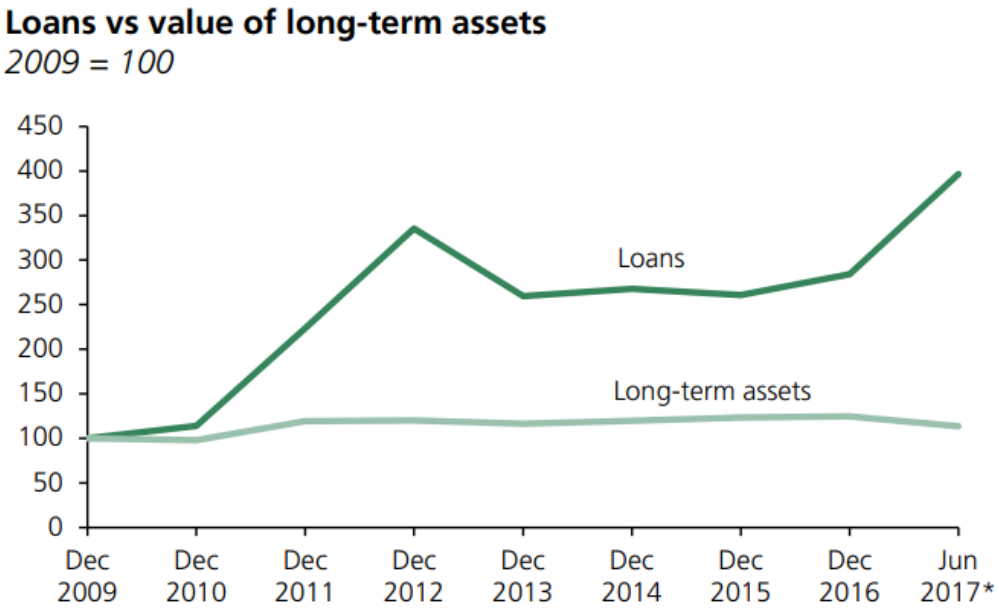

Figure 13 – Loans vs Value of Long-term assets

*Source: Carillion's annual financial statements; * Interim financial statement for the six months ended 30 June 2017*

Note: Long-term assets is total non-current assets less deferred tax assets

Aggressive Bidding and Accounting

Carillion has been criticized for its aggressive bidding and accounting Aggressive accounting involves reporting profits and revenue ahead of time based on positive predictions when cash has yet to be received. Everything functions properly assuming that predictions turn out to be accurate. When operational costs increase and income decreases due to project delays and defects, anticipated profits become real financial losses. Aggressive accounting demonstrates itself in company accounts by showing a cash decrease relative to declared profits since profits are recorded before the cash is actually received. Carillion's accounts are a case in point. The lack of realization of these projections can result in profits quickly becoming losses.:

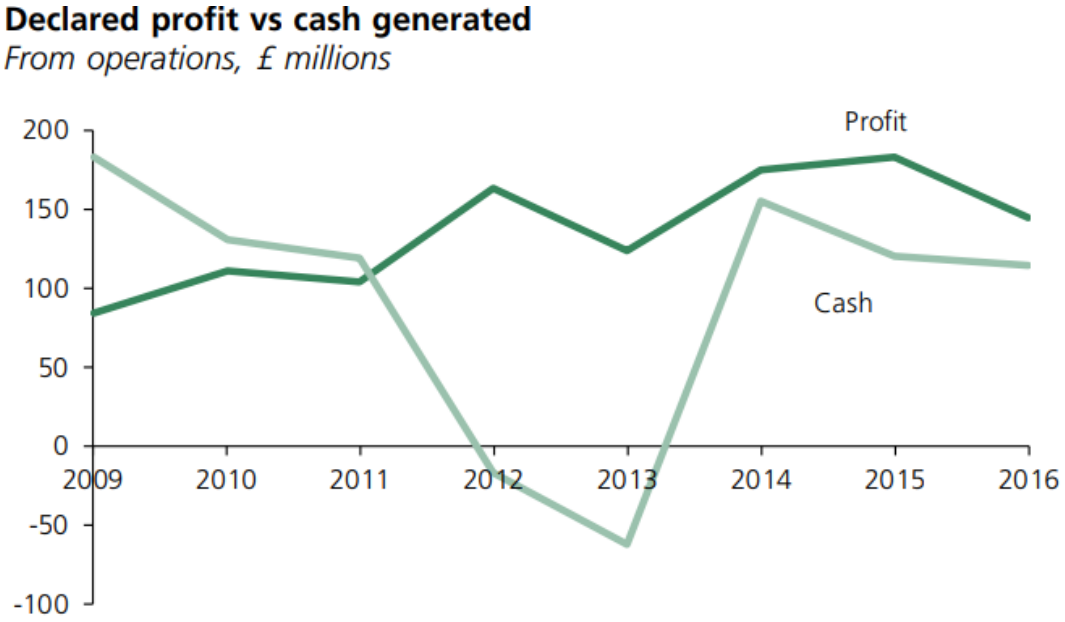

*Figure 14 - *Interim financial statement for the six months ended 30 June 2017*

Source: Carillion's Annual Report 2016

Note: Profit is group operating profit; Cash is net cash generated from operations

Carillion revealed in its profit warning on 10 July 2017 that an enhanced review of material contracts across the Group led to a £845m contract provision by 30 June 2017. The company's contracts predictions were incorrect by £845m. The financial reports released on 29 September 2017 disclosed Carillion's net worth had declined by £1.2 billion which exceeded the total profits earned over the previous eight years.

Carillion's working capital ratio

The company also had a low level of working capital: The company maintained a constant current asset to current liabilities ratio of around 1.0 throughout 2013 to 2016. A current asset to current liability ratio below 1.2 may suggest that a company faces financial problems. Carillion increased the delay of supplier payments each year resulting in inflated operating cash flow because these cash outflows were deferred beyond the year-end. Despite its business remaining stagnant Carillion managed to report strong operating cash generation through these financial practices. The company Carillion faced criticism for its "aggressive accounting" practices because it couldn't convert its reported profits into actual cash. The reverse factoring program helped to temporarily increase cash flow

through artificial means. Carillion depended on ongoing bank support for its payable financing which created a precarious cash flow situation.

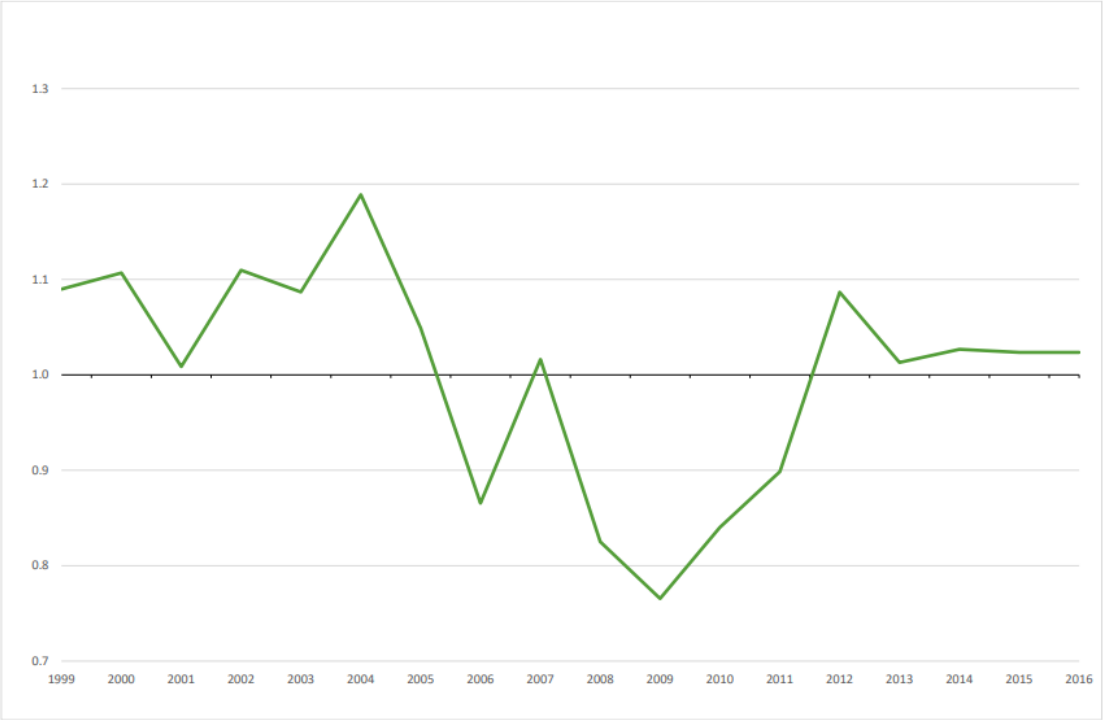

Figure 15 – Carillion's Working Capital Ratio
Source: Analysis of Carillion plc's Annual Report and Accounts 1999–2016

Superficially, Carillion's working capital appeared manageable, trade payables were large, but so were trade receivables (typical for construction). The crucial difference was that a large portion of those payables was effectively a debt to financial institutions. Carillion's liquidity risk was therefore much higher than what standard liquidity ratios indicated. The company's current ratio and quick ratio did not fully reflect the strain because the reverse factored payables were treated like normal short-term liabilities. In reality, Carillion was chronically short of cash and was using every tool available (including delaying payments) to stave off liquidity pressure.

Carillion's payment term

In December 2017, City A.M.[12] reported that *'third-party suppliers on 30- day terms have been put on 90 and 120 days without their knowledge' - (City A.M – Carillion falls from grace: What happened behind the scenes during 2017? – December 2017).* Carillion's late payments had attracted negative attention since at least 2013, when Carillion had increased its maximum payment terms to suppliers to 120 days. The lengthening of Carillion's payment terms was the reason cited by a hedge fund manager for betting against the company. It is possible to estimate the average number of days taken by Carillion to pay its trade creditors, such as suppliers and subcontractors. The chart below shows that the main change occurred in 2011, when average payment days went from 73 to 93, or 28% longer.

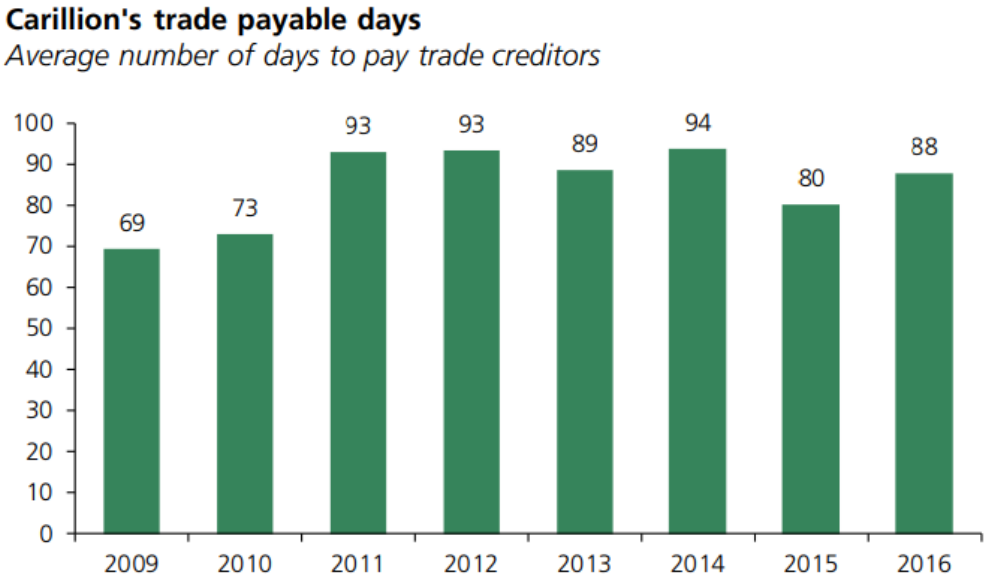

Figure 16 – Carillion's Trade Payable days

Source: Carillion's annual financial statements- Annual Report 2016

; Note: Staff costs are deducted from cost of sales to calculate trade payable days.

- During 2017, average payment days to suppliers was 43 days
- About 5% were paid in 120 days
- Less than 10% were paid in more than 60 days.

[12] City A.M. is a London-based business newspaper and online publication focused on financial markets, economic policy, and corporate news, widely read by professionals in the UK finance sector.

The financial statements provided by Carillion contained very limited details about its supplier finance arrangements. Fitch's review found only one minimal reference to Carillion's early payment program in the non-financial part of the accounts without any supporting figures or details in the audited financial statements. The company's disclosures failed to specify the number of payables included in the program and omitted any mention of special risks. Carillion's decision not to disclose these details remained within legal limits because no specific accounting rule required them to do so at that time. The auditors gave their approval to the financial statements because they believed the accounting practices matched standard requirements by treating the amounts as payables. The true extent of Carillion's SFA usage became known after its collapse when third parties such as Fitch conducted investigations and analysis.

2.2.2 THE ROLE OF SFAs IN CARILLION'S COLLAPSE AND MARKET REACTIONS

The January 2018 collapse of Carillion occurred unexpectedly and disastrously with its supplier finance arrangements (SFAs) recognized as a primary reason for its failure. The reverse factoring program intensified Carillion's financial instability on top of its pre-existing structural problems such as contract cost overruns and a large pension deficit combined with aggressive revenue recognition practices. Carillion's creditworthiness experienced a swift decline when it disclosed £845 million in contract write-downs through its July 2017 profit warning. Carillion's dependence on SFAs evolved from hidden financial support into a major financial weakness. Supplier finance programs usually maintain an uncommitted status which permits banks to either retract financing or impose stricter requirements when there is a decline in the buyer's credit rating. Finance providers began declining Carillion's new invoices and introduced tougher conditions as the company's credibility diminished in late 2017. The company faced liquidity withdrawal alongside its wide funding shortage which resulted in the most critical moment of cash flow support failure. Carillion officially entered liquidation on January 15, 2018 which resulted in thousands of creditors including those linked to the SFA structure becoming vulnerable. A £1.3 billion debt recorded alongside substantial off-balance-sheet commitments caused a systemic breakdown. The company reported "other payables" totaling £761 million which primarily consisted of reverse factoring

arrangements. The company collapse demonstrated the potential of reverse factoring to mask the actual financial status of a business. Carillion's operational cash flow fell short of reported earnings according to analysts who also observed a substantial rise in outstanding payments to suppliers. Without detailed disclosures it proved nearly impossible to determine the extent to which this situation resulted from SFAs. Investors and credit agencies failed to recognize Carillion's actual leverage and liquidity risks. Credit rating agencies downgraded Carillion in 2017 although they lacked full details about SFA-related liabilities. Carillion faced intense scrutiny regarding its accounting practices and auditing procedures after the fallout occurred. The UK parliamentary investigation determined Carillion exploited accounting ambiguities to conceal its debt levels through SFAs. The Financial Reporting Council initiated an investigation into Carillion's operations and its auditing firm KPMG while ESMA[13] and the SEC encouraged companies to provide more transparency about their reverse factoring arrangements. The events surrounding this case created significant pressure on standard-setters to take action. S&P Global stated that material reverse factoring exposures would be treated as debt-like obligations in credit evaluations while Fitch and Moody's incorporated equivalent changes into their assessment models. These temporary measures were put in place to reduce the transparency gap until official disclosure reforms were implemented. The collapse of Carillion highlighted how undisclosed SFAs create systemic risks. Reverse factoring helped the company to boost its liquidity temporarily and delay its financial problems but the company fell into a quick collapse when this support vanished. The situation taught a powerful lesson about how hidden details in financial disclosures can damage both the credibility of financial statements and investor trust. The situation became the driving force behind essential regulatory changes designed to eliminate the "hidden debt loophole" and make sure that financial statements accurately represent these risks.

[13] The European Securities and Markets Authority (ESMA) is an independent EU authority that contributes to safeguarding the stability of the EU's financial system by enhancing investor protection and promoting stable and orderly financial markets.

2.3 THE 2024 REGULATORUY AMENDMENTS AND NEW DISCLOSURE REQUIREMENTS

The International Accounting Standards Board (IASB) started a narrow-scope project to improve supplier finance arrangements transparency after identifying the above issues. The IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures received amendments in 2023 which became effective from 1 January 2024 for all subsequent annual periods. The amendments establish explicit disclosure requirements for supplier finance arrangements which IFRS standards address for the first time. The goal of the 2024 reforms is to enhance transparency by ensuring that investors can identify: The disclosure requirements introduced by the updates include details about the classification and amounts of liabilities associated with SFAs on balance sheets. Organizations must reveal previously concealed information through these reforms. The amendments do not modify how SFA liabilities are recognized or measured but focus on disclosure requirements which still result in substantial changes to business practices.

2.3.1 IAS 7 – STATEMENT OF CASH FLOWS: ENHANCING TRASPARENCY

Entities must now present both numerical and descriptive details about Supplier Finance Arrangements (SFAs) in the notes to financial statements according to the 2024 updates to IAS 7 – Statement of Cash Flows. The updated standard requires organizations to provide information that allows users to evaluate how supplier finance arrangements affect company liabilities and cash flow operations while increasing transparency for these widely used financial tools.

Entities must now specify the essential terms and conditions of their Supplier Finance Agreements in their reports. Entities need to disclose who initiates the financing and include details about extended payment period durations and any vital covenants or conditions as part of their qualitative disclosures. The disclosure reveals that the company's standard payment terms change from 60 to 90 days while suppliers receive early payment at a discount through a third-party finance provider. Narrative explanations enable readers to grasp the actual substance of transactions beyond their accounting presentation. The amendments demand that businesses provide quantitative data about the monetary values of SFAs together with qualitative descriptions. The amendments require companies to disclose liability balances under SFAs at both starting and closing

periods of reporting while showing their placement on the balance sheet. The company could report that "€100 millions of financial liabilities linked to SFAs appeared in trade payables on December 31, 2024" and clarify which parts are classified as short-term debt. The disclosure should specify which subset of payables involves early payment received by the supplier from the finance provider since these now represent financial obligations to the institution instead of commercial liabilities to the supplier. The report must detail how payment term ranges for liabilities under SFAs differ from standard payment terms outside these arrangements. The requirement helps financial statement users determine the extent of payment term extensions that occur because of SFAs. When standard trade payables are settled in 60–70 days but SFA-related payables take 85–90 days to settle companies need to disclose this information. When payment terms have a wide span such as from 30 to 120 days companies need to give further details to prevent showing a deceptive average. The disclosed financial data points help determine if a company is leveraging SFAs to extend payment obligations by large amounts. The new amendments require companies to report any non-cash adjustments to SFA liabilities that occurred throughout the reporting period. For instance, adjustments could happen when a trade payable moves to another line item because of an SFA agreement or when a business combination results in the company assuming a new SFA. Entities need to provide a clear explanation of these non-cash movements in such situations. The transparency provided allows analysts and investors to comprehend the changes in working capital and financing activities that are excluded from the statement of cash flows. The disclosure requirements produce substantial improvements in clarity about the effects of SFAs on cash flow information. With the reconciliation of initial and final balance sheets along with the disclosure of non-cash transactions investors gain better insight into what portion of reported operational cash flow comes from genuine operations and what part results from financial arrangements through SFAs. When SFA-related payables escalate from €20 million to €100 million during the year analysts can deduce that as much as €80 million from the reported operating cash inflow represents deferred supplier payments financed by a third party rather than actual cash from sales. The updated IAS 7 standard allows users to make their own adjustments despite not requiring cash flow reclassification. The release of new information enables analysts to classify payments made to suppliers by the finance provider as financing outflows instead of operating outflows which allows them

to adjust the cash flow statement to show real economic conditions. The existing IAS 7.44 A requirement obligates companies to reconcile all financing activity liabilities and these changes complement that requirement by including both cash and non-cash changes. Through these modifications the amendments reveal previously hidden details about working capital financing. As the IASB Vice-Chair succinctly stated, *"The new disclosures will bring transparency into where payables associated with supplier finance arrangements sit on the balance sheet and allow investors to make their own determination of how they thus affect cash flows" (IASB, 2023, Press Release).* This shift is a direct response to past criticisms that SFAs enabled hidden leverage and distorted liquidity positions. Going forward, these implications should now be far more visible and assessable in financial reporting.

2.3.2 IFRS 7 – FINANCIAL INSTRUMENTS: STRENGTHENING DISCLOSURE OBLIGATIONS

IAS 7 works to improve the quantitative visibility of Supplier Finance Arrangements but the 2024 changes to IFRS 7 focus mainly on qualitative and risk-related aspects. IFRS 7 B11F new application guidance establishes SFAs recognition in liquidity risk disclosures and mandates entities to assess and report any significant risk exposure to financial statement users. The primary emphasis of the amendment's centers around the concentration of liabilities. SFAs frequently utilize one or two financial intermediaries to handle most of a company's payables. IFRS 7 now identifies this as a key risk factor: A business must reveal its dependency when €150 millions of €200 million in trade payables is concentrated with one bank through an SFA arrangement. Disclosures provide investors with knowledge about potential vulnerabilities that might worsen during financial stress periods or when the facility is unexpectedly withdrawn. The revised standard includes stronger obligations for performing maturity analysis. Companies need to separate the payment schedules of SFAs from regular trade payables to enhance cash flow planning clarity. IFRS 7.33 expansion now mandates qualitative disclosures about how SFAs impact liquidity management and potential outcomes of program reductions or terminations. The updated IFRS 7.33 requires companies to reveal how they handle liquidity dependencies by disclosing potential alternative funding needs for $X millions of obligations and any committed credit lines that serve as mitigating actions. This new

guidance echoes long-standing recommendations from regulatory agencies like ESMA to prevent unforeseen liquidity crises originating from the unannounced failure of external financial support. The reforms make clear the hidden off-balance-sheet dangers present within SFAs. The presence of related liabilities in financial statements combined with firms depending on them introduces hidden vulnerabilities because of their continuous availability. Businesses should now integrate SFAs into their working capital financing plans and assess how vital these facilities are for ensuring daily cash flow stability. The changes to IFRS 7 result in liquidity risk reporting becoming more meaningful and transparent while supporting better decision-making. Businesses need to disclose their dependency on supplier finance arrangements while quantifying their exposure and identifying significant financing partners when necessary along with detailing their alternative financial measures. The changes enable investors and credit analysts along with regulators to perform accurate stress tests and assess the entity's genuine liquidity reserves. The new disclosures simultaneously eliminate critical reporting gaps from previous practices and create a stronger link between accounting data and real economic risk exposure.

2.3.3 NEW PRESENTATION GUIDELINES FOR SFAs

The 2024 amendments brought forward new presentation and disclosure guidelines that dramatically change the reporting procedures for Supplier Finance Arrangements (SFAs) within financial statements. While the amended rules do not force a uniform classification on balance sheets allowing businesses to classify SFA liabilities under different headings such as trade payables based on professional judgment, they enforce transparency requirements that effectively result in these amounts being separated for financial statement users' benefit. The key innovations introduced by the reform revolve around four fundamental dimensions: The reform requires companies to disclose contractual terms and conditions along with the segregation of SFA-related liabilities while also addressing balance sheet classification and promoting comparability and standardization. One major advancement requires companies to provide thorough descriptions of their SFA programs and disclose any unique or non-standard elements they contain. The disclosure requirements mandate the detailed reporting of extended payment terms such

as 120 days instead of standard 60-day terms, any additional guarantees to the finance provider, and the structural mechanics behind the financial arrangements. Previously omitted from public documents or relegated to non-material notes this information now must appear within financial statement disclosures. This requirement brings financial reporting into line with the accounting principle of "substance over form" by making the economic reality of transactions transparent instead of just their formal accounting labels. The company reports that a supplier gets early payment via a financing bank and the company settles the bank after 90 days which is 30 days longer than standard supplier terms resulting in additional interest expenses. The revised regulations now provide clear structure to formerly hidden or missing information.

IAS 1 does not require a separate balance sheet line item for SFAs but the disclosure obligations from IAS 7 and IFRS 7 create a need to separate SFA-related liabilities in the notes to the accounts. The updated requirements mandate companies to separately quantify liabilities under SFAs and disclose the financial statement lines in which they appear. Companies with significant supplier finance arrangements typically create a special line item such as "*Liabilities under supplier finance arrangements*" or provide detailed breakdowns in the notes to meet IAS 1 transparency requirements. The updated standards will require transparency to become standard practice instead of remaining an unusual occurrence. The new standard enables financial statement users to differentiate between regular trade payables and those resembling short-term bank loans which was previously challenging to identify. Many companies will likely review their classification methods for SFA obligations because of the newly available transparency. Auditors may recommend that companies reclassify liabilities from trade payables to other financial liabilities when their economic characteristics match short-term borrowing through extended payment terms or explicit interest payments; this follows International Financial Reporting Standards Interpretations Committee (IFRS IC) recommendations for accurate financial representation. The result could be that trade payables contain only SFA-related liabilities with typical payment terms and that extended or finance-like parts of those liabilities are included in short-term debt. These reclassifications will appear in the non-cash changes that IAS 7 requires to enable complete tracking of SFA liability movements throughout the reporting period.

Through the 2024 amendments important standardization and comparability features are now available which the prior system lacked. The mandate for uniform disclosures about total outstanding SFA balances along with the settled amounts by financial providers and their payment terms will enable investors, analysts, and credit rating agencies to conduct financial comparisons between different enterprises and industries. The new disclosure requirements will enable stakeholders to calculate adjusted leverage ratios like debt-to-equity and working capital metrics because of improved accuracy and completeness in the available information. Structured and disaggregated data on SFAs will allow researchers to perform more accurate empirical analysis about their impact on liquidity and financial risk together with firm valuation. The reform represents both a significant improvement for transparency and investor protection while serving as an essential resource for enhancing corporate financial reporting quality and reliability.

Table 2 presents a summary of the main distinctions between the pre-2024 regulatory framework and the subsequent amendments to demonstrate the changes in disclosure requirements.

Aspect of Reporting	Pre-2024 IFRS (Old Framework)	Post-2024 IFRS (Amended IAS 7 & IFRS 7)
Specific SFA Disclosures	No explicit disclosure requirements for SFAs. Companies applied general IFRS principles at their discretion. Most did not separately identify SFA-related liabilities or terms.	Must disclose the existence of SFAs and describe their **terms and conditions** (e.g. payment timing, financing costs, guarantees). Clear qualitative explanation of how the arrangements work is required.
Amount of Liabilities in SFAs	No requirement to quantify how much payables are under SFA programs. SFA obligations often included within *trade payables* or *other payables* without breakdown.	**Carrying amount of SFA liabilities** must be disclosed at period start and end. Companies must state the amounts of payables covered by SFAs and where they sit on the balance sheet. Also, must disclose the portion of those liabilities already paid by the finance provider (i.e. amount owed to banks).
Payment Terms / DPO	No requirement to disclose payment term ranges or DPO related to SFAs. Many companies' DPO increases went unexplained or were only partly explained qualitatively.	Range of payment due dates for SFA payables versus normal payables must be given. This highlights extended terms. Wide ranges must be explained with additional detail. Enables users to see if, for example, SFA payables are paid much later than typical terms.
Liquidity Risk Exposure	Only general liquidity risk disclosures under IFRS 7. Companies were supposed to disclose concentrations of risk and reliance on financing sources, but few referenced SFAs specifically. Investors often unaware of dependency on these programs.	**Specific liquidity risk disclosure for SFAs.** Must discuss how SFAs affect the company's liquidity risk and what could happen if the facility is withdrawn. IFRS 7 now cites supplier finance as a factor in liquidity risk reporting. Companies will include SFA obligations in maturity analyses and disclose any risk concentrations (e.g., dependence on one funder).
Cash Flow Classification	No change to cash flow classification rules (and the amendments do not change this either). Judgment used to determine if payments to finance providers are operating or financing cash flows. Most often, payments were classified as operating cash outflows (as payment to a supplier).	**Improved transparency but classification unchanged.** Companies still classify cash flows based on the nature of the liability (which could be operating or financing). However, IAS 7 now requires disclosure of non-cash changes in SFA liabilities, helping users reconcile how SFA-related payables move. The additional qualitative disclosures also help users understand the cash flow implications (e.g., if a program is increasing, operating cash flow may be benefitting).
Balance Sheet Presentation	Under IAS 1, companies had latitude: many included SFA obligations in *trade payables* or *other creditors* without separate line items. Some might reclassify to short-term debt in rare cases, but no consistency.	Still presented within liabilities (trade payables or otherwise), but with **explicit note disclosure** of amounts. If material, some companies might voluntarily present a separate line for SFA payables, but the standard doesn't mandate a separate line – it mandates clear note disclosure to accompany the existing presentation.
Comparative Information & Transition	Not applicable (no prior requirements). Companies often did not restate anything since no rule existed.	Upon first application in 2024, companies are exempt from providing the new disclosures for the comparative opening balance (e.g., 2023 opening). However, comparative figures for the prior period end (2023) will need to be provided in 2024 financials. Early adoption is allowed (meaning some 2023 reports may show the disclosures).

Table 2 – Comparison of SFA Reporting: Pre-2024 vs Post-2024 IFRS Requirements.
Source: Author's Elaboration

The 2024 amendments adoption marks a significant advancement in transparency and comparability of supplier finance arrangements. The new amendments will provide investors and analysts' access to vital data previously inaccessible including information about reverse factoring programs scale and precise payment term impacts along with

companies' potential facility dependence. These changes will enable precise evaluations of both leverage ratios and working capital structure alongside liquidity risk assessments. Although the amendments were issued in May 2023 with implementation in 2024 they allowed early adoption which led many multinational companies especially those reporting under US GAAP[14] to integrate the new requirements into their 2023 financial reports. Retail and manufacturing sectors' early adopters have started to reveal their supply finance arrangement usage which enables analysts to make more reliable adjustments to debt and cash flow metrics. The changes to IFRS match the Financial Accounting Standards Board (FASB)'s ASU 2022-04 because both require disclosures for supply chain finance programs effective in 2023. Investors receive a significantly improved understanding of working capital financing methods through these disclosures. The IFRS modifications will reveal supplier finance arrangements to greater transparency. The relevant details about SFAs will now be visible to users enabling them to make well-informed judgments regardless of how extensively a company uses them. The new standard represents both technical advancement and a cultural shift toward enhanced accountability and improved financial decision-making.

CHAPTER 3: EMPIRICAL EVIDENCE AND CASE STUDIES

3.1 INTRODUCTION TO EMPIRICAL ANALYSIS OF SFAs

This chapter presents an empirical analysis of how European companies are responding to the revised IFRS disclosure requirements for Supplier Finance Arrangements (SFAs). The study is based on a sample of 15 publicly listed European manufacturing firms and investigates both the qualitative aspects of disclosure in financial statements and the quantitative effects on key financial metrics. Section 3.1.1. outlines the research methodology and describes the characteristics of the selected sample. Section 3.2 focuses on the practical application of SFAs in the manufacturing sector, analyzing how companies have adapted their reporting practices in 2024. This section also identifies and discusses the key metrics used to evaluate the impact of SFAs, including liquidity,

[14] US GAAP (Generally Accepted Accounting Principles) refers to the accounting standards, principles, and procedures used by companies in the United States for financial reporting, as established primarily by the Financial Accounting Standards Board (FASB).

transparency, financial risk, and compliance with IFRS. Section 3.3 evaluates the effects of SFAs on financial statements and performance indicators, examining changes in balance sheet composition, working capital dynamics, and cash flows. Section 3.4 concludes the chapter with a comparative analysis across the sample, offering strategic insights from the case studies and assessing the role of enhanced transparency in shaping investor perceptions and credit ratings.

3.1.1 METHOOLOGY AND SAMPLE DESCRIPTION

The study uses both quantitative data from Refinitiv Eikon and qualitative information from an examination of companies' annual reports and financial disclosures to conduct this empirical analysis. This study aims to evaluate European manufacturing companies' responses to the 2024 updates to IAS 7 and IFRS 7 about Supplier Finance Arrangements (SFAs), by examining their adoption variations, disclosure quality and financial impacts on reporting methods and liquidity management. The sample reference includes 15 manufacturing companies from Europe. The selection process for these companies incorporated a structured methodology and clear criteria to maintain consistency and comparability while ensuring empirical relevance. This selection process targets only companies with main businesses in the manufacturing sector based on the NACE[15] classification (Sections C and D), which covers subsectors like chemicals and materials represented by Covestro AG and DSM-Firmenich N.V., automotive manufacturing seen with Volkswagen Group AG and Stellantis N.V., industrial machinery and engineering including Siemens Energy AG and Oerlikon Corporation AG, electrical equipment and automation led by Schneider Electric SE, pharmaceuticals and chemicals highlighted by Bayer AG, aerospace and defense represented by Airbus SE, and food and beverages involving Nestlé SA and Danone S.A.

[15] NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) is the statistical classification of economic activities in the European Union, used to categorize businesses by sector for regulatory and analytical purposes.

No.	Company Name	Country	Industry Segment	Stock Exchange	Market Cap (USD, May 2025)
1	DSM-Firmenich AG	Switzerland	Specialty Chemicals & Nutrition	SIX Swiss Exchange	$28.6 bn
2	Covestro AG	Germany	Chemicals & Materials	XETRA (Frankfurt)	$12.65 bn
3	Daimler Truck Holding AG	Germany	Trucks & Commercial Vehicles	XETRA (Frankfurt)	$32.35 bn
4	OC Oerlikon Corporation AG Pfäffikon	Switzerland	Industrial Machinery	SIX Swiss Exchange	$1.04 bn
5	Lenzing AG	Austria	Chemicals & Fibers	Wiener Börse	$1.25 bn
6	Palfinger AG	Austria	Machinery & Equipment	Wiener Börse	$1.17 bn
7	Krones AG	Germany	Machinery	XETRA (Frankfurt)	$3.79 bn
8	Schneider Electric SE	France	Electrical Equipment	Euronext Paris	$141.17 bn
9	Volkswagen AG	Germany	Automotive OEM	XETRA (Frankfurt)	$58.08 bn
10	Ericsson AB	Sweden	Telecom Equipment	Nasdaq Stockholm	$28.18 bn
11	Stellantis N.V.	Netherlands	Automotive OEM	Euronext Milan/Paris	$32.74 bn

Table 3 – Sample of European Listed Companies potentially Engaged in SCF Programs (May 2025)
Source: Author's Elaboration

The sample features both companies complying with the new SFA disclosure requirements and those still in the process of full implementation. By examining compliant companies alongside those partially or fully non-compliant we achieve a deeper understanding of both the reform's effectiveness and its implementation barriers through comparative entity analysis. This method enhances assessment of amendment effectiveness as well as identifies variations in how different sectors or jurisdictions adapt to regulations. A second fundamental selection criterion was geographic: The study included only European headquarter-based companies from Germany through to Sweden. The geographic limitation ensures that all listed companies in the European Union must adhere to International Financial Reporting Standards (IFRS) as required by Regulation (EC) No 1606/2002 to prepare their consolidated financial statements according to IFRS. Our entire sample includes companies which operate within the regulatory framework responsible for implementing the 2024 amendments to IAS 7 and IFRS 7.

The chosen firms publish IFRS-aligned consolidated financial statements and operate on key European regulated exchanges which include XETRA in Frankfurt and Euronext across Paris, Amsterdam and Milan along with SIX Swiss Exchange and Nasdaq Stockholm. The disclosure accessibility along with financial data reliability and comparability for analysis purposes receives assurance from their practices. The sample features only companies with market capitalization between €1 billion and €270 billion to maintain economic significance while preventing size-related distortions as of the end of fiscal year 2023. The selected range of firms does not include micro-cap companies that often lack formal supplier finance programs and have limited disclosure abilities

along with extreme mega-cap enterprises whose large scale and varied operations can dilute the clarity of SFA-related data. The chosen businesses fall within the mid-to-large capitalization range which allows them to run structured supplier finance programs while maintaining audited financial statements that investors can analyze and adhere to new IFRS disclosure standards. The most important factor for inclusion in the sample was each company's actual use or likely use of disclosed Supplier Finance Arrangements. A rigorous assessment of their latest financial statements and communications to investors confirmed this information. Reverse factoring and supply chain finance instruments appeared in some companies' 2023 financial reports and risk disclosure documents. Some companies adopted the 2024 amendments and showed this through dedicated sections in their 2024 financial statement notes.

We gathered financial statement information for both fiscal year 2023 (FY-1) and fiscal year 2024 (FY0) for each company. The Refinitiv Eikon platform provided key financial variables such as Trade Payables, Total Debt, Cash and Cash Equivalents, Net Debt (calculated by subtracting cash from total debt), Operating Cash Flow, Interest Paid, Income Taxes Paid, and Market Capitalization. The selected financial indicators demonstrate the most significant aspects of liquidity and working capital efficiency alongside financial leverage which may experience changes through Supplier Finance Arrangements implementation. The data acquired from Refinitiv underwent verification against the official financial statements of companies to maintain uniformity and address classification discrepancies. The annual reports of selected companies for 2024 (released in early 2025) underwent detailed examination to extract qualitative information about SFAs. The analysis centered on note sections about "*reverse factoring*", "*supply chain finance*", or "*supplier finance arrangements*" and extended to accounting policy disclosures along with liquidity risk management discussions. The disclosures provided essential information for evaluating how well companies met the new mandatory reporting requirements from the IAS 7 and IFRS 7 amendments. The analysis period uses 2024 as the inaugural year for new rule application while comparing it to 2023 which represents the baseline under the old disclosure framework. The methodology combines numerical data and textual disclosure metrics to conduct a comprehensive evaluation of economic effects and transparency levels resulting from initial implementation of updated IFRS standards. The empirical procedure required the development of a disclosure

checklist that was based on the 2024 revisions to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The new IFRS guidance (effective for annual periods beginning on or after January 1, 2024) sets out a clear list of required disclosure elements for companies that use Supplier Finance Arrangements (SFAs). In summary, to comply with the amended standards, an entity must now disclose:

- **Existence and terms of SFA programs:** A qualitative description of the significant terms and conditions of its supplier finance arrangements, including how the program operates, the typical payment term extensions, and any guarantees or special contractual features.

- **Carrying amounts of liabilities under SFAs:** The quantitative number of payables or other liabilities that are part of SFA programs, disclosed at both the beginning and end of the reporting period, along with the line items in which these liabilities are classified on the balance sheet. Companies must clarify, for example, whether such obligations are included in trade payables or are reclassified elsewhere.

- **Subset already paid by the finance provider:** Of the total period-end SFA liabilities, the amount for which the suppliers have already received payment from the finance provider (i.e., the portion of payables effectively financed by the intermediary at the reporting date). This helps distinguish liabilities owed to financial institutions from those owed directly to suppliers.

- **Payment term ranges:** The range of payment due dates applicable to liabilities under SFAs, compared to those for similar trade payables not included in SFAs. Where these ranges are wide or variable, companies must provide sufficient explanatory information to allow users to understand the extent of term extensions under SFAs.

- **Non-cash changes in SFA liabilities:** Any non-cash movements that affected the carrying amount of SFA-related liabilities during the period, such as those

resulting from business combinations, foreign exchange fluctuations, or internal reclassifications—must be disclosed to reconcile changes not apparent from the statement of cash flows.

The 2024 amendments established these elements as part of the required disclosure checklist. The updated IFRS 7 now specifically identifies supplier finance arrangements as a possible area where liquidity risk can become concentrated. Companies should disclose SFAs within their liquidity risk reporting which includes detailing their dependency on such financing options and the consequences if access to these arrangements becomes limited or terminated. It should be noted that the IASB granted transitional relief for first-time application in 2024: The new SFA disclosure rules do not require companies to include comparative 2023 data in their initial applications of 2024 and interim reports from 2024 are also exempt from these disclosure obligations. The analysis examines how the new disclosures appear mainly in the 2024 annual financial statements according to the established position. The analysis for each sample company revealed if an SFA program was disclosed and whether all required disclosure elements appeared in the 2024 report. The research team gathered specific quantitative figures including SFA program carrying amounts and finance provider payments to enable comparisons across companies. We calculated various essential metrics from financial data in order to assess the influence of SFAs on financial statements. The growth in trade payables from 2023 to 2024 serves as an indicator of working capital changes which may result from extended payment terms while operating cash flow changes and their effects on liquidity ratios like the current ratio along with working capital ratios such as days payables outstanding were analyzed. We examined leverage indicators by simulating the effects of converting SFA payables into short-term debt on a company's net debt and debt-to-equity ratio to understand the concealed debt element of these transactions.

The research methodology combines a content analysis of annual report disclosures with a time-based comparative financial analysis. Our goal is to use both methods to determine whether companies have met information requirements. The research investigates how SFAs influence reported financial figures and ratios during the initial year following IFRS 7/IAS 7 implementation.

3 2. PRACTICAL APPLICATIONS OF SFAs IN MANUFACTURAL SECTORS

3.2.1. KEY METRICS FOR EVALUATION SFAs IMPACT (LIQUIDITY, TRANSPARENCY, COMPLIANCE)

We evaluate the impact of SFAs on companies' financial health and reporting quality by examining liquidity along with transparency and compliance.

The table provides a comprehensive financial snapshot of each company over two fiscal years (FY0 and FY-1) by covering key indicators including net debt balance, trade account payables, cash and cash equivalents alongside actual operating cash flow and market capitalization with the current ratio. The selected metrics allow us to assess SFAs' effects on short-term solvency, leverage ratios and how liquidity appears in financial statements. The dataset facilitates the detection of trends and irregularities that might stem from Supplier Finance Arrangements especially when trade payables grow disproportionately against cash flow generation or when the current ratio seems artificially boosted through delayed payment terms. Analyzing data from both the present year and the previous year enables temporal evaluations that reveal how recent regulatory modifications or market forces have impacted corporate financial tactics and disclosure practices. We obtained data from official financial statements and investor reports while our selection criteria made sure to include both SFA-intensive firms and companies that do not use such arrangements to allow balanced and meaningful findings interpretation considering the 2024 IFRS amendments.

Identifier	Company Name	GICS Industry Name	Country of Headquarters	Net Debt (FY0, EUR)	Trade Account Payables - Total (FY0, EUR)	Cash & Cash Equivalents - Total (FY0, EUR)	Cash Flow From Operations - Actual (FY0, EUR)	Market Capitalization (FY0, EUR, Millions)
DSFIR.AS	DSM-Firmenich AG	Chemicals	Switzerland	2.563.000.000,00	2.276.000.000,00	2.667.000.000,00	1.778.000.000,00	25.961,90
1COVG.DE	Covestro AG	Chemicals	Germany	2.580.000.000,00	2.101.000.000,00	509.000.000,00	870.000.000,00	10.614,24
DTGGe.DE	Daimler Truck Holding AG	Machinery	Germany	17.594.000.000,00	4.629.000.000,00	6.553.000.000,00	1.555.000.000,00	29.180,35
OERL.S	OC Oerlikon Corporation AG Pfaeffikon	Machinery	Switzerland	1.176.498.567,02	361.999.559,08	423.752.425,04	288.386.268,00	1.269,72
LENV.VI	Lenzing AG	Chemicals	Austria	1.654.394.000,00	386.383.000,00	442.297.000,00	322.503.000,00	1.139,24
PALF.VI	Palfinger AG	Machinery	Austria	663.453.000,00	210.173.000,00	131.803.000,00	228.003.000,00	739,84
KRNG.DE	Krones AG	Machinery	Germany	-305.860.000,00	802.194.000,00	442.483.000,00	452.200.000,00	3.791,17
SCHN.PA	Schneider Electric SE	Electrical Equipment	France	8.953.000.000,00	8.893.000.000,00	6.887.000.000,00	5.580.000.000,00	138.669,67
VOW3.DE	Volkswagen AG	Automobiles	Germany	165.224.000.000,00	29.772.000.000,00	40.296.000.000,00	5.000.000.000,00	45.553,06
ERIC.B.SE	Ericsson AB	Communications Equipment	Sweden	-10.168.000.000,00	30.173.000.000,00	43.158.000.000,00	4.300.000.000,00	300.919,93
STLAM.MI	Stellantis N.V.	Automobiles	Netherlands	113.000.000,00	29.684.000.000,00	34.100.000.000,00	10.000.000.000,00	36.461,57

Table 4 – Key Financial Indicators of Selected Manufacturing Companies in Europe (FY0)

Source: Refinitiv – Financial Database - Author's Elaboration

Identifier	Company Name	GICS Industry Name	Country of Headquarters	Net Debt (FY-1, EUR)	Trade Account Payables - Total (FY-1, EUR)	Cash & Cash Equivalents - Total (FY-1, EUR)	Cash Flow From Operations - Actual (FY-1, EUR)	Current Ratio (FY0)
DSFIR.AS	DSM-Firmenich AG	Chemicals	Switzerland	2.267.000.000,00	2.071.000.000,00	2.456.000.000,00	1.265.000.000,00	2,02
1COVG.DE	Covestro AG	Chemicals	Germany	2.880.000.000,00	1.895.000.000,00	625.000.000,00	997.000.000,00	1,61
DTGGe.DE	Daimler Truck Holding AG	Machinery	Germany	14.241.000.000,00	5.059.000.000,00	7.067.000.000,00	386.000.000,00	1,63
OERL.S	OC Oerlikon Corporation AG Pfaeffikon	Machinery	Switzerland	1.239.400.629,83	318.733.784,91	564.244.943,55	208.900.351,55	1,09
LENV.VI	Lenzing AG	Chemicals	Austria	1.668.066.000,00	296.322.000,00	725.639.000,00	160.323.000,00	1,48
PALF.VI	Palfinger AG	Machinery	Austria	678.285.000,00	241.000.000,00	76.538.000,00	186.661.000,00	1,77
KRNG.DE	Krones AG	Machinery	Germany	-308.624.000,00	723.164.000,00	448.364.000,00	137.622.000,00	1,34
SCHN.PA	Schneider Electric SE	Electrical Equipment	France	10.078.000.000,00	7.596.000.000,00	4.696.000.000,00	5.907.000.000,00	1,23
VOW3.DE	Volkswagen AG	Automobiles	Germany	143.087.000.000,00	30.901.000.000,00	43.449.000.000,00	10.700.000.000,00	1,13
ERIC.B.SE	Ericsson AB	Communications Equipment	Sweden	9.554.000.000,00	27.768.000.000,00	35.190.000.000,00	4.000.000.000,00	1,17
STLAM.MI	Stellantis N.V.	Automobiles	Netherlands	-14.206.000.000,00	33.008.000.000,00	43.669.000.000,00	9.000.000.000,00	1,09

Table 4.1 – Key Financial Indicators of Selected Manufacturing Companies in Europe (FY -1)

Source: Refinitiv – Financial Database - Author's Elaboration

Each of these is evaluated using specific metrics or indicators:

Liquidity Metrics: Corporate liquidity is directly impacted by Supplier Finance Arrangements (SFAs) through modifications in the timing of cash payments to suppliers. The crucial metric analyzed in this study assesses how fluctuations in trade payables impact working capital. When payables grow year-over-year and this growth is analyzed against cost of sales or purchases it usually means the company extends payment terms through strategic measures including SFAs to improve its short-term liquidity position.
The analysis of Operating Cash Flow (OCF) trends continues because heavy reliance on SFAs usually leads to temporary improvements in OCF figures. When trade payables experience significant growth, companies delay supplier payments which pushes them into later accounting periods and increases current operating cash flow figures. Covestro demonstrated a rise in trade payables by about 10.9% during 2024 reaching €2.101 billion from €1.895 billion while its operating cash flow fell by approximately 13% to €870 million from €997 million. Extended payment terms prevented operating cash flows from facing a much larger negative decline. DSM-Firmenich experienced a trade payable rise of 9.9% (totaling €2.276 billion from €2.071 billion) while their OCF grew substantially by 40% (reaching €1.778 billion from €1.265 billion). DSM-Firmenich's improved OCF reflects the benefits from post-merger synergies and profitability gains alongside advantages from working capital timing created through strategic payables management. Days Payable Outstanding (DPO) serves as a key metric by showing the average time duration a company requires to fulfill its supplier payments. The rise in DPO between 2023 and 2024 demonstrates that DSM-Firmenich increasingly depends on longer

payment periods which are enabled through SFAs. Payables under SFA arrangements demonstrate noticeably extended payment terms (generally over 60 days) when compared to standard trade payables which have terms of 30-45 days. Volkswagen experienced a slight increase in its DPO in 2024 due to €1.7 billion of payables being set up with 60-day payment terms. Importantly, a more qualitative but critical indicator of liquidity risk arises from financing concentration: Companies face greater liquidity risks when their operations depend heavily on SFAs because these arrangements can be withdrawn at any time. The unexpected closure or scaling back of an SFA facility might force a company to quickly tap into cash reserves or seek other financing methods to fulfill supplier obligations thus creating significant liquidity challenges. Our liquidity analysis evaluates the actual cash liquidity position of companies by applying metrics like working capital changes related to payables, operating cash flow variations and DPO adjustments to understand the effects of SFAs.

Transparency Metrics: The IFRS disclosure requirements serve as a tool to evaluate transparency and compliance improvements. Our transparency assessment uses a disclosure scorecard to measure both the required elements companies disclose and their efforts to exceed minimum disclosure requirements. All SFA-using companies in our sample reported all necessary quantitative details including carrying amounts, "of which" amounts and date ranges. Our analysis includes whether companies voluntarily offered comparative prior-year statistics even though this requirement isn't mandatory and only Volkswagen included the 2023 number and contextual narrative. High transparency companies might reveal the numerical data and provide information on why numbers changed or how programs work ("the rise in SFA payables this year is explained by more suppliers joining our program"). Our analysis includes checking whether companies explicitly mentioned the new standards because doing so demonstrates their transparency in compliance. A number of companies included references to updated standards in their accounting policy note such as "*Implemented changes to IAS 7 and IFRS 7 to enhance disclosure requirements regarding supplier finance*". The average disclosure of each required element was found to be provided by most applicable companies when evaluated based on scoring. In most instances regarding non-cash changes companies reported no

changes or lacked complex movements which remains acceptable. Transparency is also about clarity: The clarity of term explanations and information accessibility play vital roles. The majority of firms positioned their SFA information logically by placing it under payables sections or dedicated notes and applied clear labels such as “Supplier finance arrangements” as subheadings. Our qualitative analysis shows that transparency levels have significantly advanced from 2023 to 2024. Before the IFRS mandate companies typically failed to disclose reverse factoring usage entirely or provided only vague references to it. The IFRS mandate now provides investors with a transparent and comparable data trail. Investors did not have access to specific payable amounts linked to SFAs for DSM or Volkswagen in 2023 but gained access to exact figures such as €218 million for DSM and €1.728 billion for VW in 2024 to evaluate materiality.

Compliance Metrics: We assess compliance through evaluation of both adherence to disclosure standards discussed under transparency and the timeliness of their implementation. Our analysis determines if organizations have successfully adopted the disclosure requirements established by the 2024 amendments since their accelerated implementation timeline from the IASB. Almost every entity submitted the necessary data points according to the previous note. Possible compliance shortcomings might have included nondisclosure of payment terms range or absence of the "*already paid by bank*" detail but none of these omissions appeared in the 2024 company reports which we reviewed. The compliance evaluation includes checking if companies mention the new standards within their basis of preparation or accounting policies note. The Supplier Finance Arrangements amendments received mention in approximately 80% of the sample reports within sections listing 2024 effective new standards indicating forthcoming disclosures from these amendments. Our examination of governance includes checking if auditors' reports contain emphasis of matter notes about the new disclosures. The absence of separate emphasis paragraphs on SFAs indicates auditors believe companies properly managed these requirements through standard financial reporting practices since no major deficiencies concerning SFAs were reported. The transitions were managed properly based on this informal compliance measure.

3.2.2. HOW COMPANIES ARE ADAPTING TO THE NEW DISCLOSURE REQUIREMENTS

To illustrate how companies are responding to the updated disclosure requirements introduced by the IASB in 2024, this section presents a set of case studies focusing on firms operating in the manufacturing sector. The analysis draws directly from official sources, including Annual Reports, Consolidated IFRS Financial Statements, and Sustainability Reports published by each company for the fiscal year 2024. Each example highlights how the firm complies with the amended disclosure standards by reporting both quantitative and qualitative information on Supplier Finance Arrangements (SFAs). Particular attention is given to the breakdown of SFA-related liabilities, the distinction between SFA and non-SFA trade payables, average payment terms, and any qualitative commentary regarding liquidity risk or dependence on third-party financing.

Volkswagen Group AG (Germany, Automotive):

In its 2024 consolidated IFRS financial statements, Volkswagen Group provides detailed disclosure on Supplier Finance Arrangements (SFAs) *within Note 31, titled "Trade Payables*". As of December 31, 2024, SFA-related liabilities amounted to €1,728 million, representing a significant increase from €993 million in 2023. Of this total, €1,196 million had already been disbursed to suppliers by financing institutions, confirming that these obligations are now owed by Volkswagen to the financial intermediaries rather than directly to the suppliers.

The note further specifies the average payment terms: payables under SFA agreements typically have payment terms of 60 days from the invoice date, while comparable trade payables not covered by SFAs generally range from 30 to 45 days.

VOLKSWAGEN GROUP – ANNUAL REPORT 2024
Trade payables

€ million	Dec. 31, 2024	Dec. 31, 2023
Trade payables to		
third parties	28.965	30.157
unconsolidated subsidiaries	171	210
joint ventures	337	204
associates	294	322
other investees and investors	5	8
	29.772	**30.901**

Table 5 – Volkswagen Group: Breakdown of Trade Payables by counterparty (December 31, 2023 – 2024)- Source: Volkswagen Group – Annual Report 2024

This extended payment horizon highlights the working capital optimization objective of SFAs and supports the view that the company benefits from improved cash retention through such arrangements.

Despite the detailed quantitative disclosure and clear separation of SFA versus non-SFA payables, Volkswagen does not provide a dedicated narrative on liquidity risk specifically linked to SFAs in its risk management or liquidity notes. There is no explicit discussion of the potential risk concentration associated with reliance on third-party financing or the hypothetical impact of the withdrawal of such facilities. The absence of this narrative may suggest that the company considers the associated risk to be immaterial, or that it is implicitly covered by broader liquidity risk management frameworks.

Lenzing AG (Austria, Fibers):

Lenzing AG provides a comprehensive disclosure on its Supplier Finance Arrangements (SFAs) in its 2024 Annual and Sustainability Report, demonstrating a high level of compliance with the IFRS 7 and IAS 7 amendments. As of December 31, 2024, the company reported €114.059 millions of trade payables under reverse factoring agreements (2023: €81.177 million), of which €99.792 million had already been paid to suppliers by the financing institutions. These liabilities remain classified as trade payables in accordance with IFRS guidance, and are not reclassified as borrowings.

Lenzing AG – Annual and Sustainability Report 2024
Supplier Finance Arrangements – EUR '000

Reverse factoring agreements	31/12/2024	31/12/2023	As reported on the consolidated statement of financial position
Carrying amount of liabilities affected by the agreements	114.059	81.177	Trade payables
thereof payments already implemented by banks	99.792	65.349	

Payment services	31/12/2024	31/12/2023	As reported on the consolidated statement of financial position
Carrying amount of liabilities affected by the agreements	64.480	0	Other financial liabilities
thereof payments already implemented by payment services	64.480	0	

Table 6 – Lenzing AG: Disclosure of Supplier Finance Arrangements (31 December 2023,2024)
Source: Lenzing AG – Annual and Sustainability Report 2024

Furthermore, a separate category of €64.480 million was reported under other financial liabilities, referring to payments already implemented by payment service providers. This new disclosure indicates that Lenzing has broadened the structure of its financing arrangements to include third-party service providers in addition to traditional banks.
The company offers a detailed view of payment term structures. For example, Austrian reverse factoring agreements typically have payment terms of 120–180 days, compared to 45–90 days for non-SFA payables. Similar structures are reported for Brazilian suppliers, with payment terms of 10–90 days under both SFA and traditional arrangements. Notably, the company explains that these agreements do not significantly alter original payment terms, as the suppliers are paid earlier by banks, while Lenzing settles the amount on the initially agreed due dates.

Lenzing AG – Annual and Sustainability Report 2024
Range of due dates – Days

	2024		2023	
	Affected by reverse factoring agreement	Not affected by reverse factoring agreement	Affected by reverse factoring agreement	Not affected by reverse factoring agreement
Austrian reverse factoring agreement	120-180	45-90	120-180	45-90
Brazilian reverse factoring agreement	10-90	10-150	10-90	10-150

Table 6.1 – Lenzing ag: Payment Terms under Reverse Factoring Agreements (2023-2024)
Source: Lenzing AG – Annual and Sustainability Report 2024

Lenzing stands out by offering highly clear and organized statements about the liquidity risks of SFAs. The company recognizes concentration risk because only two financial institutions and one payment service provider handle the SFAs. Lenzing judges their financial risk to be low because they operate with multiple financial partners. The supplier financing agreements lack a significant financing component according to Lenzing's evaluation so their end would not lead to substantial additional funding requirements. The company includes all projected cash disbursements for SFAs within its liquidity management framework. As of the reporting date, SFA-related liabilities represented 29.5% of total trade payables (2023: The company reported that liabilities to payment service providers made up 38.9% of its other financial liabilities at the reporting date in comparison to 0.0% for the year 2023. Throughout the year there were no adjustments of non-cash nature to SFA-related liabilities.

Lenzing uses a solid financial risk framework across the entire group which follows strict internal guidelines and undergoes audits by internal control systems to manage risks from a wider perspective. The organization recognizes credit risk together with liquidity risk and currency exposure as its main areas of concern. Lenzing utilizes credit insurance along with banking tools like guarantees and letters of credit to protect against trade receivable counterparty defaults. Any receivables not paid within 270 days become classified as default but maintain low risk because they are supported by substantial collateral (90% of receivables). The analysis from 2024 shows that defaults did not experience any significant growth throughout the year.

Lenzing AG operates as a leading example for SFA disclosure and risk governance best practices. The report delivers detailed breakdowns of SFA exposure while differentiating bank and service-provider activities and mapping counterparty concentration along with SFA integration into the overall liquidity strategy. Detailed reporting meets IFRS 7/IAS 7 requirements while improving financial transparency for stakeholders and analysts evaluating the company's working capital and liquidity management.

Daimler Truck Holding AG (Germany, Commercial Vehicles):

Daimler Truck Holding AG (Germany, Commercial Vehicles)

In its 2024 consolidated financial statements, Daimler Truck Holding AG reports the use of Supplier Finance Arrangements (SFAs), providing detailed quantitative disclosures in

line with the revised IFRS 7 and IAS 7 requirements. As of December 31, 2024, the company disclosed €221 millions of trade payables under SFA programs (2023: €202 million), of which €210 million had already been disbursed to suppliers by financing institutions. This indicates that nearly the entire balance of SFA-related liabilities at year-end was effectively funded by third parties. Regarding payment terms, trade payables covered by SFAs generally exhibit maturities ranging from 30 to 90 days, while comparable liabilities not included in such programs range from 7 to 90 days. The company clarifies that these arrangements do not materially alter the contractual payment obligations to suppliers. Rather, participating suppliers receive early payment from financial intermediaries, while Daimler Truck settles the liabilities at the originally agreed dates, maintaining consistency in its working capital planning.

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Supplier finance arrangements

In millions of euros	At December 31, 2024	At January 01, 2024
Carrying amount of financial liabilities		
Presented within trade payables	221	302
- of which suppliers have received payment	210	-[1]
Range of payment due dates		
Trade payables that are part of the arrangement (days after invoice date)	30-90	-[1]
Comparable trade payables that are not part of an arrangement (days after Invoice date)	7-90	-[1]

Table 7 – Disclosure of SFAs – Daimler Truck Holding AG

Source: Daimler Truck Holding AG – Annual Report 2024

From an accounting standpoint, Daimler Truck explicitly states that the original trade payables remain recognized on the balance sheet, as neither legal extinguishment nor substantial modification of the obligations occurred upon entering into the financing agreements. In accordance with IFRS guidance, these liabilities are therefore not reclassified as borrowings, but remain under "trade payables," consistent with their nature and economic function. No additional interest costs are incurred by the group under these arrangements. The relatively broad range of payment due dates is attributed to the complexity of Daimler Truck's multinational structure, which involves jurisdiction-specific regulations, internal policy variation, and individual negotiations at subsidiary level. While the quantitative disclosure is comprehensive, the annual report does not include a dedicated narrative on liquidity risk associated with SFAs, nor does it assess the potential risk of dependency on these financing channels. The omission suggests that

management considers such risks immaterial or already mitigated by existing risk control frameworks. Nevertheless, the company's efforts to disclose the composition, size, and operational mechanics of its SFAs demonstrate alignment with the minimum disclosure objectives outlined in the 2024 amendments to IAS 7 and IFRS 7. In conclusion, Daimler Truck Holding AG provides solid transparency regarding the economic substance and accounting treatment of its supplier finance programs.

Nestlé SA (Switzerland, Food & Beverages):

Nestlé SA offers one of the most comprehensive and transparent disclosures on Supplier Finance Arrangements (SFAs) in its 2024 IFRS consolidated financial statements, *specifically in Note 7.2 "Trade and Other Payables."* As of December 31, 2024, liabilities related to SFAs amounted to 6,211 million, up from 4,681 million in the prior year. Of these, 4,817 million had already been paid to suppliers by financial institutions acting on behalf of Nestlé. These liabilities are retained within the "*Trade and Other Payables*" classification, as the original obligations have not been legally extinguished or substantially modified, in accordance with IFRS guidance.

In millions of CHF

	2024	2023
Due within one year		
Trade payables	16 685	14 195
Social security and sundry taxes and levies	1 692	1 665
Other payables	3 430	3 344
	21 807	**19 204**
Of which invoices from suppliers of goods and services in Supplier finance arrangements [a]	6 211	4 681

(a) Includes approximately CHF 4817 million for which suppliers have already received payment from the financial institutions as of December 31, 2024 according to information communicated by the financial institutions with limited liability and disclaimer provisions. The Group is not party to the decisions, including timing, about whether suppliers are paid before the due date of the invoice and does not systematically receive this information for operational purposes.

Table 8 – Nestlé Group: SFA Disclosed within Current Liabilities (2023 – 2024)

Source: Nestlé Group – Annual and Sustainability Report 2024

Nestlé also provides a detailed maturity profile for these payables. As of year-end 2024, approximately 3.3 billion of SFA-related invoices had payment terms between 121 and 180 days, while only 228 million fell under the "less than 60 days" category. In contrast, non-SFA supplier invoices are more concentrated in shorter maturity buckets, with 3.573 billion maturing in less than 60 days and only 73 million in the 121–180 days bracket. This contrast underscores the working capital benefits associated with the use of SFAs,

allowing Nestlé to retain cash for longer periods while suppliers receive early payment through the program.

The ranges of contractually agreed payment terms for invoices from suppliers in supplier finance arrangements and comparable suppliers not in supplier finance arrangements are the following:

Ranges of contractually agreed payment terms	Invoices from suppliers in SFA [a]	Invoices from suppliers not in SFA
Less than 60 days	228	3 573
From 61 to 120 days	2 593	3 392
From 121 to 180 days	3 300	73
More than 180 days	90	74
	6 211	**7 112**

(a) The amount of unsettled invoices with suppliers in SFA outstanding for more than 90 days as at December 31, 2024 is estimated at CHF 1.5 billion.

Table 9 – Nestlé Group: Distribution of Contractual Payment Terms for Invoices in SFAs and Non-SFas (2024)
Source: Nestlé Group – Annual and Sustainability Report 2024

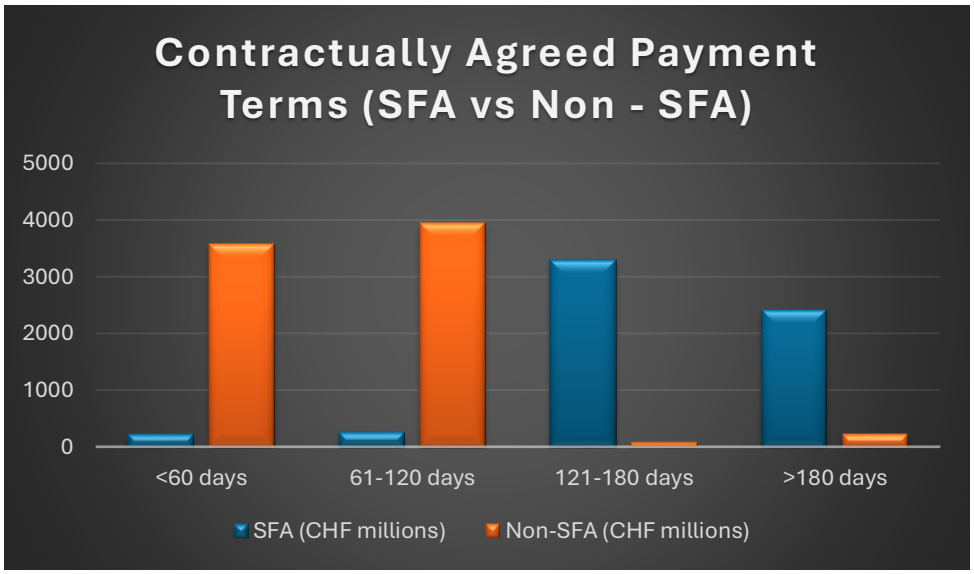

Figure 17– Nestlé Group: Distribution of Contractual Payment Terms for Invoices in SFAs and Non-SFas (2024)
Source: Author's Elaboration

Importantly, Nestlé emphasizes that these arrangements do not expose the group to significant liquidity risk. This is primarily due to the diversification of its financial counterparties: SFAs are implemented by group affiliates in over 50 jurisdictions, with each affiliate engaging multiple financial institutions. No arrangement includes contractual conditions that would require Nestlé to accelerate repayments ahead of

scheduled maturity. Therefore, the company avoids concentration risk by distributing its SFA exposure across a wide range of geographies and institutions. Furthermore, all related payments are treated as operational cash outflows in the statement of cash flows, reflecting their continued classification as trade payables. The group also confirms that there were no significant non-cash changes to the carrying amounts of liabilities under SFAs in 2024. Overall, Nestlé SA demonstrates a model implementation of the 2024 IAS 7 and IFRS 7 disclosure requirements. The company provides not only quantitative data, including the breakdown of SFA versus non-SFA payables and payment terms, but also a robust qualitative discussion of risk mitigation strategies, ensuring a high level of transparency for stakeholders and regulatory compliance.

Ericsson AB (Sweden, Telecommunications):

Ericsson AB provides information about its Supplier Payment Program (SPP) *in Note B8* of the 2024 IFRS consolidated financial statements. The program liabilities decreased to SEK 8,210 million by December 31, 2024 from SEK 8,255 million at the beginning of the year. SEK 6,398 million had been paid out to suppliers by financial institutions involved in the program which shows that most of these liabilities are bank exposures instead of obligations to trade creditors. The company shares an annual reconciliation of SFA activity that follows IAS 7 standards. The SFA program accounted for SEK[16] 24,984 million in new invoices issued while SEK 25,615 million was repaid to financial institutions with an additional SEK 586 million recorded from translation differences. By providing this detailed breakdown the company enables users to see clear distinctions between cash-based and non-cash-based changes.

According to Ericsson payment terms show that invoices within the SPP program have durations between 76 and 180 days while invoices from non-program suppliers display a wider range from 0 to 180 days. SFA program participation results in more predictable and lengthened payment terms which supports better working capital management. The SPP dictates that all liabilities must stay as trade payables without any modification into financial debt categories. The payments made to banks for supplier obligations appear in

[16] SEK is the currency code for the Swedish krona, the official currency of Sweden. “SEK” stands for “Svenska Enkrona.”

operating cash flows because IFRS standards recognize these transactions as operational activities. The company maintains that original liabilities have neither been derecognized nor substantially modified.

B8 Trade payables

	2024	2023
Trade payables to associates	413	434
Trade payables excluding associates	29,760	27,334
Total	**30,173**	**27,768**

Of the trade payables, invoices included in the supplier payment program (SPP) are as follows:

	2024
Opening balance	8,255
New invoices	24,984
Payments to bank	–25,615
Translation difference	586
Closing balance[1)]	**8,210**
[1)] Of which suppliers already received payments from bank at year end	6,398

Range of payment due dates for year end invoices

	2024
Trade payables in SPP	76 to 180 days
Trade payables not in SPP	0 to 180 days

Table 10 – Ericsson AB: Supplier Payment Program and Trade Payables Breakdown
Source: Ericsson AB Annual Report 2024

Overall, Ericsson AB delivers strong compliance with the core quantitative disclosure elements introduced by the 2024 IFRS amendments, including opening and closing balances, cash and non-cash changes, and average payment terms. Nonetheless, the absence of a dedicated liquidity risk disclosure suggests that the company may consider its exposure manageable or adequately addressed by general financial risk controls.

DSM - firmenich N.V. (Netherlands/Switzerland, Specialty Chemicals & Nutrition)
In its 2024 Integrated Annual Report, DSM-Firmenich N.V. provides a structured and transparent disclosure regarding Supplier Finance Arrangements (SFAs), in full alignment with the revised requirements of IAS 7 and IFRS 7. *As reported under Note 21*

– Current Liabilities, trade payables subject to SFAs amounted to €218 million as of December 31, 2024, of which €178 million had already been paid to suppliers by third-party financial institutions. This reflects the integration of external supplier financing mechanisms within the company's working capital strategy. These liabilities are presented under "*Trade and Other Payables*" and are not reclassified as borrowings or short-term debt, consistent with the IFRS 2024 guidance, which permits operational classification where the buyer retains primary payment responsibility. The company explicitly states that it adopted the amendments from January 1, 2024, and (under the IASB's transitional relief) did not present comparative 2023 figures, as allowed in the first year of application. Regarding maturity, DSM-Firmenich provides a clear comparison of payment terms: invoices under SFAs are typically due between 30- and 120-days post-invoice, while non-SFA payables span 0 to 120 days. This suggests that SFAs are used to moderately extend payment terms, supporting cash preservation objectives while ensuring early settlement to suppliers via financial intermediaries.

dsm-firmenich 2024 Integrated Annual Report
Supplier finance arrangements

	2024
Carrying amount of liabilities	
Presented within trade and other payables (beginning of the period)	207
Presented within trade and other payables (end of the period)	218
- Of which suppliers have received payment (by a third-party bank)	178
Range of payment due dates	
Liabilities that are part of supplier finance arrangements	30–120 days after invoice date
Comparable trade payables that are not part of a supplier finance arrangement	0–120 days after invoice date

Table 11 – DSM – Firmenich: SFA – Liability Amount and Payment Terms (2024)
Source: DSM – Firmenich – Integrated Annual Report 2024, Notes on Supplier Finance Arrangements

The company meets all core quantitative disclosure requirements, including:

- Opening and closing balances of SFA-related payables;
- The amount already paid to suppliers by third-party banks;
- Comparison of payment terms with non-SFA liabilities.

The consistency of classification and cash flow treatment (presumably within operating cash flows) suggests a conservative and IFRS-aligned accounting policy, even though qualitative transparency could be enhanced further in future reports.

Stellantis N.V. (Netherlands, Automotive OEM)

In its 2024 consolidated financial statements, *Stellantis N.V. discloses detailed information on its Supplier Finance Arrangements (SFAs) in Note 23*. As of December 31, 2024, the carrying amount of trade payables subject to SFA programs totaled €873 million, compared to €868 million at the beginning of the year. Of this amount, €817 million had already been settled by third-party financial institutions on behalf of suppliers. These liabilities are fully classified under "Trade Payables", without any reclassification to financial debt. The company explains that participation in the SFA program is voluntary for suppliers and that payment terms between Stellantis and its suppliers remain unchanged upon entering into the arrangement. Accordingly, the SFA liabilities retain their operational substance, and the related cash outflows are reported under operating activities, consistent with IAS 7. In terms of maturity, SFA-related payables typically range from 45 to 90 days, compared to 30 to 60 days for non-SFA payables. This moderate extension in payment terms reflects Stellantis' intent to optimize working capital while ensuring that suppliers receive early payment through external financing partners. The company also notes that suppliers may access preferential financing conditions due to Stellantis' credit rating, without the buyer imposing extended terms unilaterally.

The following table summarizes the carrying amount of liabilities that are part of supplier finance arrangements at December 31, 2024 and January 1, 2024:

	At December 31, 2024	At January 1, 2024
	(€ million)	
Presented within trade payables	€ 873	€ 808
Of which suppliers have received payment	817	708

The following table summarizes the range of payment due dates at December 31, 2024 and January 1, 2024:

	At December 31, 2024	At January 1, 2024
	(days)	
Liabilities that are part of the arrangement	45-90	45-90
Comparable trade payables that are not part of an arrangement[1]	30-60	30-60

(1) Except for Enlarged Europe, Middle East and Africa which has 60-90 days payment terms

Table 12 – Stellantis N.V.: SFA – Liabilities and Payment Terms (2024 vs 2023)

Source: Stellantis N.V. – Annual Report 2024, Notes on Supplier finance Arrangements

Importantly, no specific liquidity risk or concentration risk disclosures are provided in the financial notes. However, Stellantis emphasizes that there is no contractual obligation that modifies the nature of the payables, nor any liquidity triggers that would cause concern for reclassification or early repayment. This supports the company's position of treating SFAs as part of normal supplier payables under IFRS 7/IAS 7.

Active SFA program companies in the sample set fulfilled all essential quantitative disclosure obligations. Every sample company reported the carrying amount of SFA-related liabilities at year-end 2024 and indicated the balance sheet line which showed these liabilities under trade and other payables instead of classifying them as borrowings. Each revealed how much of the payables had been paid by the finance provider and explained the differences in payment terms. The format of presentation varied: While DSM-Firmenich presented data using a structured table some companies integrated that information into the prose of their reports or into existing tables within their trade payables notes. The arrangements' terms and conditions received short descriptions which typically noted supplier eligibility for early bank payments and buyer access to lengthy payment deadlines. The explanation provided aligns with IFRS's requirement to describe the nature of financial arrangements.

3.3 SFAs' IMPACT ON FINANCIAL STATEMENTS AND KEY RATIOS

The examination of supplier finance arrangements' effects on corporate financial statements as well as key financial ratios begins after reviewing empirical data and specific cases. This section is divided into two parts: Section 3.3.1 explores how supplier finance arrangements impact the balance sheet, working capital and cash flow while Section 3.3.2 evaluates their effect on essential financial ratios including liquidity ratios and leverage metrics. The analysis examines changes between FY-1 (2023) and FY0 (2024) to identify year-over-year differences that occur with the implementation of the new disclosure regime. The accounting rules for SFAs remained unchanged throughout 2024 which means observed differences result from operational shifts or better transparency instead of any changes to accounting policies.

3.3.1 EFFECTS ON BALANCE SHEET, WORKING CAPITAL AND CASH FLOW

On the balance sheet, SFAs manifest within liabilities, typically under trade and other payables. None of our sample companies reclassified SFA obligations as interest-bearing debt; thus, the 2024 balance sheets still show these amounts as part of current liabilities (trade payables). What changed in 2024 is the disclosure of the composition of those payables. In terms of absolute amounts, many companies' trade payables increased from 2023 to 2024, and part of that increase can be attributed to SFAs. In our sample:

Volkswagen's trade payables rose slightly from €29.77 billion in 2023 to €30.90 billion in 2024, and it was revealed that €0.735 billion of that increase was due to higher utilization of the reverse factoring program (payables under SFA up from €0.993bn to €1.728bn). So, while the total payables grew €1.13bn, about 65% of that growth came from expanded SFA usage (the remainder likely from ordinary business growth or inflation in payables). This indicates that without SFAs, Volkswagen's payables might have grown much less, or stated differently, SFAs allowed VW to carry a higher payable balance at year-end than it otherwise would.

DSM-Firmenich's consolidated trade payables grew from €2.071 billion to €2.276 billion (an increase of ~€205 million), nearly matching the disclosed increase in its SFA payables (from €207m to €218m, +€11m financed portion; note the total SFA-related liabilities rose by €11m, but total payables rose by €205m). This suggests that while DSM-Firmenich's overall payables grew (likely due to the first full year post-merger operations), its reliance on SFA financing also inched up, contributing a small part of the growth. The bulk of DSM's payables increase came from operational factors (more procurement, etc.), but SFA still accounts for roughly 9–10% of the payables on the balance sheet.

Lenzing AG implemented Supplier Finance Arrangement (SFA) programs with selected suppliers, partnering with two financial institutions and a payment service provider. At

year-end, SFA-related liabilities accounted for approximately 29.5% of the Group’s total trade payables. The payment terms for liabilities subject to SFAs ranged from 120 to 180 days, significantly longer than the 45–90 days terms for liabilities not included in such programs. These SFA-related payables were reclassified under "Other current financial liabilities" in the consolidated balance sheet, reflecting the nature of the obligation to the payment service provider. Lenzing also acknowledged a liquidity concentration risk, as its financing agreements with suppliers are currently limited to a few financial partners, which could expose the company to risks should those agreements be withdrawn. This accounting treatment and related risk disclosure highlight Lenzing’s prudent approach to liability management and its commitment to transparency in financial reporting.

These examples demonstrate that SFAs can increase balance sheet payables when compared to situations without such programs. Businesses extend their cash holding periods resulting in increased liabilities that represent funds which would normally go to suppliers. In terms of balance sheet classification companies maintained SFA amounts within existing accounts payable instead of creating new liability line items. Working capital liabilities demonstrate a significant increase as a result of this effect. Reclassifying portions of the balance sheet as short-term debt would not alter the total current liabilities but would modify the distribution between trade payables and short-term borrowings. Companies maintain that because the nature of the obligation remains trade-based with extended terms but no new contract they continue to classify it as a payable without reclassification. The IFRS Interpretations Committee had advised making case-by-case judgments while the new standards required disclosure without enforcing reclassification. Investors should consult the balance sheet notes in 2024 to understand which payables act like debt.

Another balance sheet aspect is cash and equivalents: By delaying payments through SFAs companies can display higher cash balances at year-end. Although Covestro’s cash position did fall from €625m to €509m in 2024 during a difficult year with substantial investment outflows the overall drop remained minimal due to increased payables through SFAs or other methods which helped preserve cash. Volkswagen's cash balance

would have been €1.196bn less if it paid suppliers on Dec 31, 2024 instead of having finance providers pay them earlier. SFAs work to either increase cash reserves or decrease short-term debt on the asset side. In our data, we did not always see a one-to-one correspondence because many factors affect cash, but generally companies with expanding SFA programs often showed either stable or improved liquidity on hand. While Supplier Finance Arrangements (SFAs) are theoretically designed to improve the buyer's liquidity position and optimize working capital management, primarily by extending supplier payment terms and increasing Days Payables Outstanding (DPO), the actual impact on the overall Cash Conversion Cycle (CCC) depends on the interaction of all three working capital components: Days Inventory Outstanding (DIO), Days Sales Outstanding (DSO), and DPO. The CCC is calculated as DIO + DSO – DPO, and although an increase in DPO should, in isolation, reduce the CCC and thereby enhance cash flow efficiency, this relationship may not hold if DIO and/or DSO increase at a faster pace.

Company	Year	Revenue (EUR m)	COGS (EUR m)	Inventory (EUR m)	AR (EUR m)	AP (EUR m)
Covestro AG	2023	14377	12071	2459	1898	1895
Covestro AG	2024	14179	12002	2851	1749	2101
Daimler Truck Holding AG	2023	55,89	43,968	9155	5,245	5,059
Daimler Truck Holding AG	2024	54,077	42,879	9012	4,298	4,629
OC Oerlikon Corp. AG	2023	2693	2042	395	433	296
OC Oerlikon Corp. AG	2024	2372	1725	411	415	340
Lenzing AG	2023	2521	2598	553	294	296
Lenzing AG	2024	2663	2123	646	318	386
Palfinger AG	2023	2445,9	1818,4	580	311,2	241
Palfinger AG	2024	2359	1734	622	251	210
Krones AG	2023	4720	2456	641	778	723
Krones AG	2024	5293	2658	664	808	802
Schneider Electric SE	2023	35902	20766	4519	7868	7596
Schneider Electric SE	2024	38153	21697	5411	8904	8893
Volkswagen AG	2023	322284	259964	53601	21849	30901
Volkswagen AG	2024	324656	263297	56720	21130	29772
Ericsson AB	2023	263351	158947	36073	42251	27768
Ericsson AB	2024	247880	136469	27125	44151	30173
Stellantis N.V.	2023	187957	151400	21414	18049	33008
Stellantis N.V.	2024	154713	135991	20861	18517	29684
DSM-Firmenich AG	2023	10627	8016	3390	2553	2071
DSM-Firmenich AG	2024	12799	8554	3290	2589	2276

Table 13 – Financial and Working Capital Data of Selected European Companies (2023 – 2024)
Source: Refinitiv – Author's Elaboration

Company	Year	DIO	DSO	DPO	CCC
Covestro AG	2023	74,35	48,19	57,3	65,24
Covestro AG	2024	86,7	45,02	63,89	67,83
Daimler Truck Holding AG	2023	76	34,3	42	68,3
Daimler Truck Holding AG	2024	76,7	29	39,4	66,3
OC Oerlikon Corp. AG	2023	70,6	58,69	52,91	76,38
OC Oerlikon Corp. AG	2024	86,97	63,86	71,94	78,88
Lenzing AG	2023	77,68	42,6	41,56	78,73
Lenzing AG	2024	109,4	43,6	65,4	87,6
Palfinger AG	2023	116,4	46,47	48,48	114,4
Palfinger AG	2024	130,92	38,83	44,2	125,55
Krones AG	2023	57,2	60,2	64,5	52,9
Krones AG	2024	91,18	55,71	110,13	36,76
Schneider Electric SE	2023	79	85,3	90,8	73,5
Schneider Electric SE	2024	90,2	89,6	96,6	83,2
Volkswagen AG	2023	74,9	24,7	43,2	56,4
Volkswagen AG	2024	78,62	23,75	41,27	61,1
Ericsson AB	2023	81,4	58,5	62,7	77,2
Ericsson AB	2024	72,54	65,01	80,7	56,85
Stellantis N.V.	2023	64	12,4	98,6	22,2
Stellantis N.V.	2024	55,99	43,68	79,67	20
DSM-Firmenich AG	2023	154,4	87,7	94,3	147,8
DSM-Firmenich AG	2024	140,4	73,8	97,1	117,1

Table 14 – Working Capital Efficiency Indicators: DIO, DSO, DPO, CCC (2023 – 2024) – Source: Author's Elaboration

Company Name	Trade Account Payables - Total (FY0, EUR)	Trade Account Payables - Total (FY-1, EUR)
DSM-Firmenich AG	2.276.000.000,00	2.071.000.000,00
Covestro AG	2.101.000.000,00	1.895.000.000,00
Daimler Truck Holding AG	4.629.000.000,00	5.059.000.000,00
OC Oerlikon Corp. AG	340.000.000,00	296.000.000,00
Lenzing AG	386.383.000,00	296.322.000,00
Palfinger AG	210.173.000,00	241.000.000,00
Krones AG	802.194.000,00	723.164.000,00
Schneider Electric SE	8.893.000.000,00	7.596.000.000,00
Volkswagen AG	29.772.000.000,00	30.901.000.000,00
Ericsson AB	30.173.000.000,00	27.768.000.000,00
Stellantis N.V.	29.684.000.000,00	33.008.000.000,00

Table 15 – Trace Account Payables (FY0 VS FY-1) for Selected European Companies Source : Refinitiv – Financial Database - Author's Elaboration

The analyzed sample contains multiple companies where this dynamic can be observed. Lenzing AG extended its Days Payable Outstanding from 41.56 days in 2023 to 65.4 days in 2024 which indicates possible implementation or enhancement of SFAs or comparable strategies for supplier payment management. The company's CCC expanded from 78.73 to 87.6 days (+8.87 days) despite the significant rise in DPO of 23.84 days. The main factor driving this negative trend is the substantial rise in DIO from 77.68 days to 109.4 days which shows that inventory is turning over more slowly and more capital remains invested in unsold products. The same pattern emerges at Palfinger AG where DPO reduced slightly from 48.48 to 44.2 days while DIO rose sharply from 116.4 to 130.92 days. The company's CCC expanded from 114.4 to 125.55 days showing inventory inefficiencies have greater impact than any benefits from payables management. Krones AG demonstrates a situation where SFAs and better payables management successfully achieved their designed positive outcome. The company saw its Days Payable Outstanding (DPO) rise dramatically from 64.5 days to 110.13 days which resulted in a substantial decrease in the cash conversion cycle (CCC) from 52.9 days to 36.76 days even though Days Inventory Outstanding (DIO) experienced a moderate increase. The ability of SFAs to minimize the CCC depends on whether DIO and DSO remain stable or show improvement.

An increase in CCC does not automatically mean that SFAs fail to work properly. The complexity of working capital dynamics becomes evident when deferred payment benefits to suppliers become ineffective due to inventory management issues or slow collection of receivables. A complete assessment of SFAs' effects on corporate liquidity demands examination of all working capital components instead of just DPO. Successful use of SFAs requires both negotiated payment terms and strong operational skills in inventory management and customer collections.

The statement of cash flows traditionally served as a platform for SFAs to misrepresent operational cash flows. According to IAS 7 with IFRIC clarification payments to finance providers must be recorded as operating cash outflows when payables fall into the operating category. A business will show higher operating cash flow (OCF) when it

delays payment to suppliers within a fiscal year because these payments are deferred. The updates to IAS 7 preserved the classification of these cash flows but mandated the disclosure of non-cash adjustments along with beginning and end balances of SFA liabilities to help users distinguish between OCF alterations from payable extensions and legitimate operational performance improvements.

Company Name	Cash Flow from Operations (FY0, EUR)	Cash Flow from Operations (FY-1, EUR)
DSM-Firmenich AG	1.778.000.000	1.265.000.000
Covestro AG	870.000.000	997.000.000
Daimler Truck Holding AG	5.080.000.000	4.950.000.000
OC Oerlikon Corporation AG Pfäffikon	363.000.000	405.000.000
Lenzing AG	38.400.000	107.000.000
Palfinger AG	282.300.000	162.600.000
Krones AG	452.000.000	337.622.000
Schneider Electric SE	3.660.000.000	3.037.000.000
Volkswagen AG	5.000.000.000	10.700.000.000
Ericsson AB	4.300.000.000	4.000.000.000
Stellantis N.V.	10.000.000.000	9.000.000.000

Table 16 – Cash Flow from Operations (FY0 vs FY-1) For Selected European Companies
Source: Refinitiv – Author's Elaboration

From our sample, we can infer the cash flow impact in 2024:

- Volkswagen AG: The Group reported strong OCF in 2024, driven partly by a positive change in working capital. According to its financial statements, €735 million of the increase in payables was attributable to reverse factoring arrangements. If this portion were excluded, Volkswagen's OCF would be €735 million lower. This amount, equivalent to financing a production facility, remained on the balance sheet due to the extended supplier terms enabled by SFAs. Therefore, part of the reported cash flow strength stemmed not from operational efficiency, but from delayed outflows to suppliers, a detail now quantifiable thanks to enhanced SFA disclosures.

- DSM-Firmenich AG: The company's OCF increased by more than €500 million compared to 2023. However, the 2023 figure included only 8 months of Firmenich post-merger, complicating direct year-over-year comparison. In 2024, DSM-Firmenich's trade payables increased by approximately €205 million, of which €11 million was explicitly linked to SFA-related financing. This implies that SFAs provided a modest contribution to cash flow. In this case, the impact on OCF is

relatively minor and limited to the change in usage of the program.

From an analytical standpoint, we can adjust OCF to remove the effect of SFA changes if we want to see "underlying" operating cash generation. Some analysts might calculate an adjusted OCF where they subtract the increase in SFA payables (treating it like borrowing) to gauge how much cash from operations came purely from operating activities. In these cases:

Volkswagen AG

In 2024, Volkswagen reported €5,000 million in operating cash flow (OCF). However, the company also disclosed that Supplier Finance Arrangements (SFAs) increased from €993 million in 2023 to €1,728 million in 2024, resulting in a delta of €735 million. This change represents a significant portion of the OCF and reflects a working capital benefit from extended payment terms via reverse factoring. By subtracting this delta from the reported OCF, the adjusted OCF, stripped of SFA-related timing advantages, amounts to €4,265 million. This highlights that a meaningful portion of the cash flow improvement was due to delayed payments rather than underlying operational strength.

DSM-Firmenich AG

DSM-Firmenich's reported OCF for 2024 was €1,778 million, reflecting the first full-year consolidation following the merger. The disclosed figures indicate a minor increase in SFA-related liabilities, from €207 million in 2023 to €218 million in 2024, producing a delta of €11 million. Adjusting for this, the company's underlying OCF is €1,767 million. Although the impact of SFAs is relatively small in this case, this adjustment improves transparency and shows that most of the cash flow generation came from operating performance rather than financial engineering.

Lenzing AG

Lenzing presents a case of high SFA dependency relative to its cash generation capacity. Its reported OCF was €38.4 million in 2024, while its SFA liabilities rose from €81.18 million to €114.06 million, a delta of €32.88 million. Once this SFA-related increase is excluded, the adjusted OCF drops sharply to €5.52 million. This reveals that over 85% of

Lenzing's operating cash flow was driven by extended payables facilitated through SFAs. Such a situation may raise concerns about the sustainability of cash flows if SFA access were reduced or removed.

Stellantis N.V.

Stellantis reported €10,000 million in operating cash flow for 2024, while SFA balances rose modestly from €808 million to €873 million, an increase of €65 million. The adjusted OCF, after removing this working capital benefit, is €9,935 million. Given the company's large scale, the SFA adjustment has only a marginal impact on overall cash flow metrics. Nevertheless, it demonstrates that even small increases in payables financing can influence liquidity figures, underlining the relevance of disclosure in maintaining transparency.

In summary, the effects on cash flows are that companies' OCF may be inflated by the net increase in SFA payables, and the new disclosures let us quantify that inflation. On the balance sheet, current liabilities are higher, working capital is lower (more favorable), and cash positions are indirectly bolstered. There is no direct effect on equity or reported profit (SFAs do not impact the income statement directly, aside from any slight change in interest expense if a company covers program fees – but generally those fees are borne by suppliers or included in cost of goods). It's worth noting that none of the companies indicated any impact on profitability from SFAs; the benefit is purely in terms of cash timing.

Company	OCF Reported (EUR millions)	SFA Opening Balance (EUR millions)	SFA Closing Balance (EUR millions)	Δ SFA (EUR millions)	OCF Adjusted (EUR millions)
Volkswagen AG	5000	993	1728	735	4265
DSM-Firmenich AG	1778	207	218	11	1767
Lenzing AG	38,4	81,18	114,06	32,88	5,52
Stellantis N.V.	10000	808	873	65	9935

Table 17 – Reported vs Adjusted Operating Cash Flow Considering SFAs Impact –
Source: Author's Elaboration

3.3.2 Effects on Key Financial Ratios

Key financial ratios help assess a company's solvency, liquidity, and overall financial health. Supplier finance arrangements, by altering the structure of payables and effectively providing an alternate source of financing, can influence several of these ratios. In this section, we discuss the ratios most notably impacted by SFAs and analyze the data from our sample companies to quantify those impacts for 2023 and 2024.

Liquidity Ratios: The primary liquidity ratios considered are:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \qquad Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

SFAs cause a slight decrease in these ratios since they elevate current liabilities (payables) while all other factors stay the same. The cash conserved from delaying payments to suppliers becomes a current asset like cash itself that boosts the current assets amount. The net effect on the current ratio is not straightforward without exact data: The current ratio will likely increase when retained savings remain as current assets on the balance sheet because both current assets and current liabilities increase equally as long as the initial ratio is above 1. When saved cash goes towards short-term debt payments or investments current assets might not show proportional growth. Most manufacturers in our sample maintained current ratios well over 1 for both examined years which demonstrated solid liquidity. The initiation or growth of SFAs usually resulted in minimal changes to current ratios between 2023 and 2024. Covestro maintained a stable current ratio of 1.5 during the year while its increased payables were neutralized by both a minor decrease in cash and cuts to other current assets. DSM-Firmenich achieved a current ratio slightly above 1 in 2024 but if SFAs were not used (resulting in €218m lower payables and €218m lower cash), the firm's current ratio would stay close to its original value since this scenario would reduce both current assets and current liabilities thus maintaining its liquidity position.

Leverage and Coverage Ratios: Some companies in our sample now present adequate quantitative information about Supplier Finance Arrangements (SFAs), specifically detailing the amounts banks have already paid to suppliers following recent IFRS

disclosure improvements. By including SFA-related liabilities analysts can modify reported net debt which leads to a more comprehensive and conservative assessment of a company's financial obligations. The debt-to-equity, debt-to-EBITDA, and interest coverage ratios typically leave out SFA obligations because IFRS standards do not formally categorize them as debt. Firms that heavily use SFA financing methods display lower leverage ratios and better liquidity ratios than they would if these off-balance-sheet financial commitments were classified as debt. We calculated an adjusted net debt figure which incorporates the payable amounts banks settled into the reported debt totals. The adjustment represents an implicit financial commitment which functions as short-term borrowing despite its different legal classification from debt. The analysis failed to apply to every firm within the sample. Financial reports from Daimler Truck, Ericsson, Palfinger, Krones, and Oerlikon failed to separately detail SFAs or identify bank-paid liabilities. The absence of detailed disclosure prevented any dependable and systematic adjustment for these cases.

The following companies provided enough data to estimate the adjusted net debt:

Volkswagen AG

Volkswagen provided comprehensive disclosures under IFRS, including both an opening balance (€993 million) and a closing balance (€1,728 million) for SFA-related liabilities. The €735 million increase in reverse-factored payables was included in operating cash flows under IAS 7. We subtracted this from the reported OCF of €5,000 million to derive an adjusted OCF of €4,265 million. Furthermore, €1,196 million of supplier payables had already been paid by banks. Adding this to the reported net debt of €102 billion results in an adjusted net debt of €103.2 billion, an increase of +1.17%. This adjustment highlights the degree to which Volkswagen's liquidity benefits from payables financing.

DSM-Firmenich AG

DSM-Firmenich disclosed a modest increase in SFA balances, from €207 million to €218 million, with €178 million of that already paid by banks. This resulted in a €11 million adjustment to OCF, reducing it from €1,778 million to €1,767 million. When this financed portion is added to the reported net debt of €2.563 billion, the adjusted net debt rises to

€2.741 billion, reflecting a +6.94% increase. Though relatively small, this adjustment improves comparability across firms and underscores the relevance of even minor SFA usage in debt assessments.

Lenzing AG

Lenzing disclosed two distinct SFA components: reverse factoring and payment services, with a combined increase of approximately €32.88 million (from €81.18 million to €114.06 million). The reported OCF of €38.4 million is reduced to just €5.52 million after adjustment, indicating that much of its operational cash flow in 2024 was tied to payables financing. In addition, €164.3 million had been paid by financial institutions on behalf of Lenzing. When this is added to its reported net debt of €1.654 billion, we obtain an adjusted net debt of €1.818 billion, equivalent to a +9.93% increase. This substantial jump reflects a higher reliance on external funding mechanisms to support liquidity.

Stellantis N.V.

Stellantis showed a slight increase in SFA-related liabilities from €808 million to €873 million, with €817 million paid by banks. This results in a minor adjustment to OCF (from €10 billion to €9.935 billion). The adjusted net debt increases from €14 billion to €14.817 billion, representing a +5.84% rise. While not material in relative terms, this still reflects Stellantis's operational strategy of enhancing working capital flexibility through payables finance.

Company	Net Debt (Reported) [€ millions]	SFA Paid by Banks (2024) [€ millions]	Adjusted Net Debt [€ millions]	% Increase in Net Debt
Volkswagen AG	102000	1196	103196	1.17%
DSM–Firmenich AG	2563	178	2741	6.94%
Lenzing AG	1654,4	164,3	1818,7	9.93%
Stellantis N.V.	14000	817	14817	5.84%

Table 18 – Impact of Supplier Finance Arrangements' on Net Debt
Source: Author's Elaboration

Supplier Finance Arrangements do not directly impact interest coverage ratios which are calculated by dividing EBITDA or EBIT by interest costs. Under Supplier Finance Arrangements (SFAs) buyers face no direct interest costs because suppliers typically shoulder the cost of early payment through discounts. The reviewed financial statements show no companies reported any additional interest expense from SFAs which verifies that EBIT and interest expenses remain stable.

An analyst might evaluate the imputed interest benefit that the buyer achieves through this arrangement. When Volkswagen AG reverse factored €1.728 billion in payables at a 3% annualized discount rate carried by the supplier it resulted in an effective interest saving of €52 million for Volkswagen. The buyer's income statement does not show this benefit yet it provides an indirect enhancement of both cash flow efficiency and working capital management. Although some suppliers modify their prices to offset program costs suppliers typically structure these arrangements to protect buyer margins from significant impact.

The use of SFAs does not change how interest expenses or EBIT are reported but they provide increased financial flexibility to the buyer. Our sample companies exhibit stable interest coverage ratios from an accounting perspective while some analysts may take hidden financial benefits into account during more thorough credit evaluations.

Equity Ratios: Financial statements show no change in the gearing ratio (debt/equity) and asset coverage (assets/debt) because SFAs normally appear as trade payables rather than formal debt. When analysts choose to analyze SFA-related liabilities as debt these financial ratios may appear to demonstrate increased leverage.

Profitability Ratios: The use of SFAs does not impact core profitability indicators like gross margin and operating margin because these structures do not change how revenues and costs are recognized. The effects are usually small and indirect with outcomes like preventing financial problems or delaying payments to suppliers.

ROE stays constant under the assumption that SFAs do not have direct effects on net income or equity. SFAs primarily offer advantages in managing cash flows and optimizing working capital instead of changing business profitability or the capital structure. SFAs did not generate significant changes in business performance or solvency

in 2024 but they brought about noticeable and quantifiable advancements in working capital and liquidity. The new transparency enables stakeholders to conduct detailed ratio analysis while companies and financial statement users discuss financial status and risks with complete visibility of SFAs. We have established a comprehensive empirical picture: The majority of European manufacturing companies have met the 2024 IFRS disclosure requirements which demonstrate the significant yet moderate role that SFAs serve in liquidity management and enable stakeholders to assess their economic effect on financial statements and ratios more accurately.

CHAPTER 4: EMERGING TRENDS AND STRATEGIC OUTLOOK IN SFAs

4.1 INTEGRATION WITH DIGITAL PLATFORMS AND FINTECH INNOVATIOS

The recent growth of Supplier Finance Arrangements (SFAs) has developed alongside digital transformation trends and specifically fintech platform advancements. SCF program orchestration becomes more efficient through these platforms which automate key processes including purchase order coordination and invoice validation as well as payment approvals. Integration with buyers procure-to-pay (P2P)[17] or enterprise resource planning (ERP)[18] systems allows for automatic capture of approved invoices which become immediately accessible to financial providers. Automation enables financial institutions to speed up their financing cycles while reducing administrative workloads. Early adopters created online portals allowing suppliers to access and choose invoices to discount while banks processed early payment transactions. Suppliers can obtain real-time information about outstanding invoices through an easy-to-use interface which also enables them to ask for accelerated payment processing by just one click. This approach allows buyer organizations to simplify supplier integration while managing working capital through effective payment schedule oversight. Financial technology advancements have made SFAs accessible to mid-sized companies by expanding their availability beyond just large multinationals. Certain SCF fintech lenders avoid using

[17] Procure-to-pay (P2P) is an integrated business process that covers the entire cycle from identifying needs and purchasing goods or services to receiving them and completing payment to the supplier.
[18] Enterprise Resource Planning (ERP) refers to integrated software systems used by organizations to manage core business processes—such as finance, procurement, supply chain, and human resources—in a centralized platform.

their balance sheets for loans by linking corporate buyers to a network of funders that include banks and institutional investors. SCF funding marketplaces have successfully increased competition and choice throughout the financial ecosystem. Businesses have the option to partner with established financial institutions like Citi and Deutsche Bank that have built exclusive SCF platforms or to work with fintech providers who deliver quick onboarding and access to liquidity across multiple banks. The introduction of real-time data alongside APIs[19] now enables companies to transmit approved invoices straight from their internal systems to SCF platforms. Suppliers get immediate notifications about invoices ready for early payment which significantly shortens the cash conversion cycle. The platforms offer advanced analytics dashboards which allow buyers and suppliers to monitor utilization levels and work capital gains alongside transaction volumes. Some recent initiatives have started to explore SCF models based on blockchain technology. Distributed ledger technology helps improve transparency while reducing fraud potential and enabling coordination between multiple parties. Bank of America joined forces with the Marco Polo Network to implement smart contract-based SCF transactions which digitized the complete process. Modern SFAs evolved into real-time financial services because fintech innovations played a crucial role in transforming their cumbersome administrative processes into fully digitized operations. Global corporations including Apple, Dell, Procter & Gamble, and Siemens demonstrate the strategic importance of these technologies through their widespread adoption. Future SFAs will likely develop into data-oriented systems while becoming more adaptable and better integrated into corporate finance's digital framework.

4.2 The Role of E-Invoicing and Automation in the Next Generation of SFAs

The use of e-invoicing has become essential in next-generation Supplier Finance Programs because it merges operational and financial systems and improves transparency and regulatory adherence. Now utilized as a machine-readable data structure e-invoicing extends beyond its initial purpose as a paper invoice replacement to enable complete automation of SCF programs. After digital validation, an invoice automatically follows

[19] APIs (Application Programming Interfaces) are sets of rules and protocols that allow different software applications to communicate and exchange data, enabling integration between systems and automation of processes.

programmable workflows to initiate eligibility checks, credit scoring, and early payment execution without needing human intervention. Event-driven architecture enables SFAs to effectively manage complex supply chains by eliminating manual errors while decreasing processing times. E-invoicing plays a strategic role in achieving regulatory alignment. The IFRS 2024 amendments to IAS 7 and IFRS 7 require businesses to reveal the influence of SFAs on cash flows and financing obligations. E-invoicing solutions enable precise tagging and classification of financial activities to provide auditable reports for SFA-related payables. E-invoices serve as ideal data sources for predictive analytics because their structured metadata which includes supplier ID numbers, due dates, financial amounts and approval timestamps enables funders and corporates to evaluate risks and forecast liquidity requirements while modeling supply chain dependencies. E-invoicing improves traceability and impact measurement according to ESG standards. Real-time invoice data serves to track supplier inclusion while identifying payment discrepancies between vendors and measuring the financial advantages of early-payment programs. ESG scoring systems have been embedded into the onboarding procedures of some platforms which connect SCF terms access with sustainability certifications. E-invoicing serves as both a compliance tool and a strategic decision-making and responsible finance catalyst throughout global supply networks.

CONCLUSION

The study examined Supplier Finance Arrangements (SFAs) to show their dual role as tools for working capital management and the risks they pose for financial transparency if misapplied. Businesses have broadly implemented SFAs because they bolster liquidity management while simultaneously granting buyers more extended payment terms and suppliers access to early payment options to strengthen supply chain partnerships. The widespread yet uncontrolled adoption of these financial instruments has prompted significant worries regarding the credibility and dependability of financial reporting. Improper usage of these arrangements has enabled the manipulation of vital financial

metrics and obscured leverage levels while tampering with cash flow statements which destroys the core principles of transparent financial reporting.

This thesis demonstrates through theoretical analysis and empirical research that strong regulatory measures are essential. The failure of major corporations such as Carillion exposed systemic dangers arising from companies not fully reporting their SFA-related financial obligations. The reviewed cases showed how SFAs hid debt-like obligations within trade payables which led to misconceptions about firms' actual liquidity and solvency for investors and analysts. The improper implementation of financial instruments generated uncertainty in accounting practices while diminishing market trust.

The 2024 revisions to IAS 7 and IFRS 7 mark a crucial milestone in how SFAs are regulated because they address current market challenges. The reforms implement mandatory disclosures about contractual terms and financial effects of SFAs to close the "hidden debt loophole." The regulatory changes represent a fundamental transformation in the approach to off-balance-sheet instruments by requiring their economic substance to be accurately reflected in corporate financial reporting.

The third chapter of this thesis presented empirical evidence demonstrating firms' initial responses to the newly established standards. A portion of companies improved their disclosure quality and updated accounting practices but others remain behind in these efforts. The varying degree of industry preparedness together with technological capabilities and internal governance maturity levels results in differences in implementation speed and effectiveness. The reforms established a foundation for better transparency but their success will depend on steady enforcement actions together with corporate responsibility and firms’ commitment to ethical financial reporting standards beyond basic compliance requirements.

The research investigated how technology combined with sustainable practices could revolutionize the SFA environment beyond basic regulatory compliance. The emergence of real-time data platforms, blockchain technology, artificial intelligence and fintech-based supply chain finance solutions is transforming the structure, monitoring and

reporting of SFAs. Through digitalization financial systems gain increased traceability capabilities and speedier settlement processes as well as stronger risk assessment tools. At the same time, the emergence of ESG-linked SFAs is redefining the strategic role of supplier finance: Supplier finance has evolved from being just a liquidity solution to now playing an essential role in promoting sustainability objectives and supporting responsible business practices throughout the supply chain.

Supplier finance arrangements currently intersect with the realms of financial strategy development, technological advancements, and regulatory changes. The future of these arrangements depends on how well companies can incorporate them into wider systems of corporate governance and risk management while also enhancing ESG performance. SFAs need to be understood as components within a comprehensive range of financial instruments that require transparent design and application and resilient oversight to maintain fairness throughout their operation.

Transforming SFAs from tactical tools into strategic enablers demands both technical compliance with standards and fundamental organizational cultural changes. Organizations must develop internal awareness while providing better training for finance experts and establishing stronger board supervision together with improved external stakeholder communication. The real challenge lies in translating regulatory intention into operational integrity: Organizations must transform disclosure practices into genuine expressions of financial reality rather than simple procedural tasks.

According to this thesis SFAs become effective tools for financial efficiency and corporate value creation when they receive proper disclosure and management with strategic deployment. They become major threats to financial system stability and corporate responsibilities when used to hide financial problems or distort investor views. Through the 2024 regulatory reforms which address current market risks both financial statements will regain trustworthiness and global capital markets will experience beneficial growth. Ongoing collaboration between regulators, businesses, auditing bodies and investors is crucial for advancing supplier finance toward sustainable growth through transparent and ethical practices.

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