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Hot topics treasury seminar

Supplier finance – a very hot topic

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Agenda

Supplier finance model

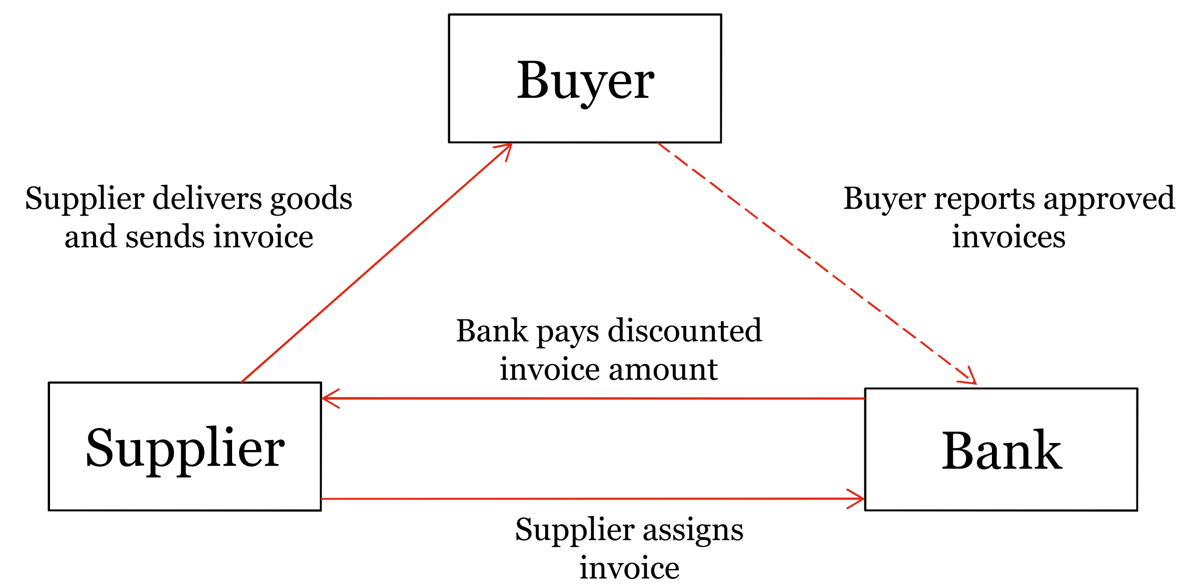
Accounting for the Buyer

Accounting for the Supplier

Questions

Supplier finance model

‘Classic’ structure



Requirements (preferred)

What helps to make supplier finance a succes?

- Difference in credit spread between Buyer and Supplier
- Bank is willing to take outright exposure on Buyer
- Supplier is eager for cash, e.g. environment with high early payment discounts
- Invoicing of delivered goods or services (no prepayments)
- Not accounting driven

What is achieved?

Advantages of supplier finance

Buyer	**Supplier**
Prolonged payment terms, possibly improve working capital	Get money reliably on set date
Improve invoice approval lead time	Competitive advantage over other suppliers
Increase ties with supplier	Financing at ‘ok’ rates
Help supplier	Reduce accounts receivables balance
Attract financing without affecting b/s ratios	
No costs involved	

Some drawbacks

The disadvantages

- Suppliers know what the price of extending payment terms is, so why bother
- Contracts may be complex from legal perspective
- Banks try to improve their credit position
- It may be difficult to get the desired accounting treatment

Accounting for the buyer

Principles in IFRS

IAS 39.39: an entity shall remove a financial liability from its balance sheet when, and only when, it is extinguished

That is when the obligation specified in the contract is discharged, cancelled or expires.

This condition is met when the financial liability is settled either by paying the Supplier or when the Buyer is legally released from primary responsibility for the liability (either by law or by the Supplier).

IAS 39.40 further specifies that if there is a substantial modification of the terms of an existing financial liability this should be accounted for as an extinguishment of the original and the recognition of a new financial liability.

IAS 39.AG62 specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Do's and dont's for the Buyer

To get required accounting outcome

- Legal title of payable should move from Supplier to Bank
- No further changes or credit enhancements with respect to the payable
- No kick backs from the bank to the Buyer
- No link between having Supplier being accepted and extension of payment terms
- Bank should act as paying agent, Buyer should remain in control of payment
- Preferable show that there is Suppliers accepting the offer and Suppliers just being paid through payment agent
- Implementation is crucial

Accounting for the Supplier

If accounts receivables should be taken out of the b/s

- All risks and rewards should transfer to the bank
- This should normally not be a problem, as the bank should be willing to do this
- There should not be any guarantees, deposits etc withheld
- Only operational disputes can be left out of the analysis
- Interest should be fixed for each sale: no clawbacks

Questions?

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