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FASB Proposes Enhanced Disclosures About Supplier Finance Programs

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Overview

On December 20, 2021, the FASB issued a [proposed ASU](#)¹ to enhance transparency about an entity's use of supplier finance programs. Although the SEC staff and credit rating agencies have called for enhanced disclosures about such programs, the *FASB Accounting Standards Codification* does not currently include any disclosure requirements that apply specifically to them. Under the proposal, an entity would be required to disclose information about a supplier finance program that is sufficient to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. Comments on the proposed ASU are due by March 21, 2022.

Background

When an entity purchases goods or services on credit from a supplier, a trade payable arises for the invoice amount owed to the supplier. Sometimes the buyer enters into an arrangement with a bank or other intermediary under which the intermediary offers to purchase the receivables held by the supplier. Such arrangements are known by various names, such as "structured payable arrangements," "vendor payable programs," "open account structured vendor payable programs," "reverse factoring," "supplier finance," or "supplier-chain finance." Typically, the arrangement gives suppliers the option to settle trade receivables by obtaining a payment from the intermediary either (1) before the invoice due date at a discounted amount or (2) on the invoice due date for its full amount.

¹ FASB Proposed Accounting Standards Update (ASU), *Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*.

Depending on their terms, supplier finance programs offer the parties various potential benefits, such as:

- *The ability of suppliers to monetize trade receivables and reduce the associated credit exposure* — By selling their trade receivables to an intermediary, suppliers can receive payment before the invoice due date and reduce their credit exposure.
- *The ability of buyers of goods or services to obtain extended payment terms* — Suppliers may be more willing to offer extended payment terms to buyers of their goods or services if they can obtain early payment from intermediaries. Further, intermediaries may offer buyers extended payment terms.
- *The ability of intermediaries to benefit from early-payment discounts, rebates, and transaction fees and charges* — Intermediaries earn a spread on the basis of the relationship between their funding costs and the amount of early-payment discounts, rebates, and other fees and charges received from suppliers.
- *Operational benefits* — Because of an intermediary's involvement, the arrangement may enhance the processing, administration, and control of the associated payments for buyers and suppliers.
- *An extended early-payment discount period* — If an intermediary pays a supplier within the period during which the supplier offers an early-payment discount (e.g., a 2 percent discount for payment within 10 days of an amount due in 30 days, or "2/10 net 30"), the intermediary may offer the buyer a discount on the amount due for an extended period (e.g., a 1 percent discount for payment within 10 days of an amount due in 60 days, or "1/10 net 60").
- *A reduction in the amount due or other similar rebate* — The intermediary may offer the buyer a reduction of the amount due or a reimbursement of part of the amount paid on the basis of net amounts paid to suppliers. (A supplier may agree to pay the intermediary a fee or reduce the amount due because of benefits it receives from the arrangement, such as a lowered credit risk exposure on the amount due or earlier payment of such amount.)



Connecting the Dots

If an entity has supplier finance program obligations, it should consider how to appropriately present and disclose the amount payable. SEC Regulation S-X, Rule 5-02(19)(a), requires SEC registrants to present amounts payable to trade creditors separately from borrowings on the face of the balance sheet. Therefore, the SEC staff expects an entity to consider whether the existence of a supplier finance program changes the appropriate presentation of the payables in the program from trade payables to borrowings (e.g., bank debt). Further, the determination of whether the payable should be presented as an amount owed to trade creditors or as an amount borrowed from the intermediary may affect the appropriate cash flow statement classification. For more information about financial reporting implications of supplier finance programs, see [Section 14.3.1.3](#) of Deloitte's Roadmap *Issuer's Accounting for Debt*.

Main Provisions of the Proposed ASU

Under the proposed ASU, a buyer in a supplier finance program would disclose qualitative and quantitative information about its supplier finance programs. At a minimum, the buyer would be required to disclose the following information at least annually:

- a. The key terms of the program.
- b. The following information about the amount of obligations outstanding at the end of the reporting period that the entity has confirmed as valid to the finance provider or intermediary under the program (that is, the amount of obligations confirmed under the program that remains unpaid by the entity):
 1. Where those obligations are presented in the balance sheet. If those obligations are presented in more than one balance sheet line item, then the entity shall disclose the amount outstanding at the end of the reporting period in each line item.
 2. A rollforward of those obligations showing, at a minimum, all the following:
 - i. The amount of those obligations outstanding at the beginning of the reporting period
 - ii. The amount of those obligations added to the program during the reporting period
 - iii. The amount of those obligations settled during the reporting period
 - iv. The amount of those obligations outstanding at the end of the reporting period.

The proposed ASU would require the buyer to “consider the level of detail necessary to satisfy the disclosure objective [i.e., to enable users of financial statements to understand the nature, activity during the period, changes from period to period, and potential magnitude of the entity’s supplier finance programs]. If an entity uses more than one supplier finance program, the entity may aggregate disclosures, but not to the extent that useful information is obscured by the aggregation of programs that have substantially different characteristics.”

The amendments in the proposed ASU would not affect the recognition, measurement, or presentation of supplier finance program obligations on the face of the balance sheet or in the cash flow statement.



Connecting the Dots

On November 26, 2021, the International Accounting Standards Board (IASB®) issued an [exposure draft](#)² (ED) containing proposed disclosure requirements about supplier finance programs for entities applying IFRS® Standards. Comments on the ED are due by March 28, 2022. Under the IASB’s proposal, a buyer would be required to disclose information that enables investors to assess the effects of the supplier finance programs on its liabilities and cash flows. The proposal would amend IAS 7, *Statement of Cash Flows*, and IFRS 7, *Financial Instruments: Disclosures*.

Under the ED, the buyer would be required to disclose the following information about supplier finance programs:

- (a) the terms and conditions of each supplier finance arrangement (including, for example, extended payment terms and security or guarantees provided);
- (b) for each supplier finance arrangement, as at the beginning and end of the reporting period:
 - (i) the carrying amount of financial liabilities recognised in the entity’s statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;
 - (ii) the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and
 - (iii) the range of payment due dates (for example, 30 to 40 days after the invoice date) of financial liabilities disclosed under (i); and
- (c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

² IASB Exposure Draft ED/2021/10, *Supplier Finance Arrangements — Proposed Amendments to IAS 7 and IFRS 7*.

The buyer would be permitted to aggregate information for different supplier finance programs only when the terms and conditions of those programs are similar.

Unlike the FASB's proposal, the IASB's proposal would require the buyer to (1) specifically disclose amounts recognized as financial liabilities for which the suppliers have already received payment from the intermediary and (2) disclose payment due dates separately for trade payables that are or are not part of a supplier finance program.

Proposed Effective Dates and Transition

Effective Dates

The FASB has not yet determined potential effective dates for the amendments in the proposed ASU but plans to do so after considering stakeholder feedback. Early adoption would be permitted.

Transition

The amendments in the proposed ASU would apply to all entities that use supplier finance programs in connection with the purchase of products or services (i.e., the buyers in such programs). Entities would apply the amendments retrospectively by providing the required disclosures for each period for which a balance sheet is presented.

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