



In This Issue

- [Introduction](#)
- [Background](#)
- [Main Provisions of ASU 2022-04](#)
- [Effective Dates and Transition](#)

FASB Issues ASU Requiring Enhanced Disclosures About Supplier Finance Programs

by Matthew Clark and Magnus Orrell, Deloitte & Touche LLP

Introduction

On September 29, 2022, the FASB issued [ASU 2022-04](#)¹ to enhance transparency about an entity's use of supplier finance programs. Under the ASU, the buyer in a supplier finance program is required to disclose information about the key terms of the program, outstanding confirmed amounts as of the end of the period, a rollforward of such amounts during each annual period, and a description of where in the financial statements outstanding amounts are presented.

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 Accounting Standards Update (ASU) No. 2022-04, *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 of 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 ASU 2022-04

ASU 2022-04 requires the buyer in a supplier finance program to disclose qualitative and quantitative information about the program. Such a program is defined as an arrangement that has all of the following characteristics:

- a. An entity enters into an agreement with a finance provider or an intermediary.
- b. The entity confirms supplier invoices as valid to the finance provider or intermediary under the agreement described in (a).
- c. The entity's supplier has the option to request early payment from a party other than the entity for invoices that the entity has confirmed as valid.

At a minimum, the buyer in a supplier finance program is required to disclose the following information at least annually:

- The key terms of the program, including payment terms and assets pledged as security or other forms of guarantees.
- The amount of obligations outstanding at the end of the reporting period that the buyer has confirmed as valid and:
 - A description of where those obligations are presented in the balance sheet. (If the obligations are included in more than one line item, the amount in each line item must be disclosed.)
 - Rollforward information for the annual period showing the amount at the beginning of the period, the amount added during the period, the amount settled during the period, and the amount outstanding at the end of the period.

Further, in each interim reporting period, the buyer must disclose the outstanding confirmed amount as of the end of the interim period.

The example below, which is reproduced from ASC 405-50-55-4 and 55-5 (added by the ASU), illustrates the disclosure of rollforward information.

ASC 405-50

Example 2: Disclosure of a Rollforward of Obligations Confirmed as Valid Under a Supplier Finance Program

55-4 This Example provides an illustration of the guidance in paragraph 405-50-50-3(b)(2) based on the assumptions that Entity A provides one comparative balance sheet and that its supplier finance program is denominated in Entity A's reporting currency.

55-5 The following illustrates the disclosures in a tabular format.

The rollforwards of Entity A's outstanding obligations confirmed as valid under its supplier finance program for years ended December 31, 20X2, and 20X1, are as follows (in thousands):

	20X2	20X1
Confirmed obligations outstanding at the beginning of the year	\$ 733	\$ 712
Invoices confirmed during the year	2,435	2,278
Confirmed invoices paid during the year	<u>(2,315)</u>	<u>(2,257)</u>
Confirmed obligations outstanding at the end of the year	<u>\$ 853</u>	<u>\$ 733</u>

The ASU requires the buyer to “consider the level of detail necessary to satisfy the disclosure objective,” which is “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.” A buyer that uses more than one supplier finance program “may aggregate disclosures, but not to the extent that useful information is obscured by the aggregation of programs that have substantially different characteristics.”

The ASU does 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

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

finance programs for entities applying IFRS® Accounting Standards. Comments on the ED were 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.

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 ASU 2022-04, 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.

Effective Dates and Transition

Effective Dates

The amendments in ASU 2022-04 are effective for all entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the disclosure of rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

Transition

With the exception of the amendment on disclosure of rollforward information, which entities only need to apply prospectively, entities must apply the amendments in the ASU retrospectively by providing the required disclosures for each period for which a balance sheet is presented.

During the fiscal year of adoption, information about the key terms of the programs and the balance sheet presentation of the program obligations must be disclosed in each interim period.

Dbriefs for Financial Executives

We invite you to participate in [Dbriefs](#), Deloitte's live webcasts that give you valuable insights into important developments affecting your business. Topics covered in the [Dbriefs for Financial Executives](#) series include financial reporting, tax accounting, business strategy, governance, and risk. Dbriefs also provide a convenient and flexible way to earn CPE credit — right at your desk.

Subscriptions

To subscribe to Dbriefs, or to receive accounting publications issued by Deloitte's Accounting and Reporting Services Department, please register at [My.Deloitte.com](#).

The Deloitte Accounting Research Tool

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*. DART subscribers and others can also [subscribe](#) to *Weekly Accounting Roundup*, which provides links to recent news articles, publications, and other additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit [dart.deloitte.com](#).

Heads Up is prepared by members of Deloitte's National Office as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see [www.deloitte.com/us/about](#) to learn more about our global network of member firms.