

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2022-04  
September 2022

### Liabilities—Supplier Finance Programs (Subtopic 405-50)

#### Disclosure of Supplier Finance Program Obligations

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

For additional copies of this Accounting Standards Update and information on applicable prices and discount rates contact:

Order Department  
Financial Accounting Standards Board  
801 Main Avenue  
PO Box 5116  
Norwalk, CT 06856-5116

*Please ask for our Product Code No. ASU2022-04.*

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of January, February, March, May, October, and November by the Financial Accounting Foundation, 801 Main Avenue, Norwalk, CT 06851. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is \$345 per year. POSTMASTER: Send address changes to Financial Accounting Series, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116. | **No. 516**

Copyright © 2022 by Financial Accounting Foundation. All rights reserved. Content copyrighted by Financial Accounting Foundation may not be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the Financial Accounting Foundation. Financial Accounting Foundation claims no copyright in any portion hereof that constitutes a work of the United States Government.



# Accounting Standards Update

No. 2022-04  
September 2022

## Liabilities—Supplier Finance Programs (Subtopic 405-50)

### Disclosure of Supplier Finance Program Obligations

An Amendment of the *FASB Accounting Standards Codification*®

---

Financial Accounting Standards Board



Accounting Standards Update 2022-04

Liabilities—Supplier Finance Programs (Subtopic 405-50)

Disclosure of Supplier Finance Program Obligations

September 2022

CONTENTS

	Page Numbers
Summary.....	1–3
Amendments to the <i>FASB Accounting Standards Codification</i> ® .....	5–12
Background Information and Basis for Conclusions .....	13–23
Amendments to the GAAP Taxonomy.....	24



# Summary

---

## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to enhance the transparency of supplier finance programs. Stakeholders observed that there is a lack of transparency about supplier finance programs because (1) there are no explicit disclosure requirements in generally accepted accounting principles (GAAP) specific to those programs and (2) a buyer party (described below) may present obligations covered by those programs in the same balance sheet line item as accounts payable or in another balance sheet line item depending on the facts and circumstances of the arrangement.

The amendments in this Update address investor and other financial statement user requests for additional information about the use of supplier finance programs (the programs) by the buyer party to understand the effect of those programs on an entity's working capital, liquidity, and cash flows.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that use supplier finance programs in connection with the purchase of goods and services (herein described as buyer parties).

Supplier finance programs, which also may be referred to as reverse factoring, payables finance, or structured payables arrangements, allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date, which is paid by a third-party finance provider or intermediary on the basis of invoices that the buyer has confirmed as valid.

Typically, a buyer in a program (1) enters into an agreement with a finance provider or an intermediary to establish the program, (2) purchases goods and services from suppliers with a promise to pay at a later date, and (3) notifies the finance provider or intermediary of the supplier invoices that it has confirmed as valid. Suppliers may then request early payment from the finance provider or intermediary for those confirmed invoices.

## What Are the Main Provisions?

The amendments in this Update require that a buyer in a supplier finance program disclose sufficient information about the program 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. To achieve that objective, the buyer should disclose qualitative and quantitative information about its supplier finance programs.

In each annual reporting period, the buyer should disclose the following information:

1. The key terms of the program, including a description of the payment terms (including payment timing and basis for its determination) and assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary
2. For the obligations that the buyer has confirmed as valid to the finance provider or intermediary:
  - a. The amount outstanding that remains unpaid by the buyer as of the end of the annual period (the outstanding confirmed amount)
  - b. A description of where those obligations are presented in the balance sheet
  - c. A rollforward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid.

In each interim reporting period, the buyer should disclose the amount of obligations outstanding that the buyer has confirmed as valid to the finance provider or intermediary as of the end of the interim period.

## **How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?**

Currently, there are no explicit GAAP disclosure requirements that provide transparency to an investor or other user about a buyer's use of the programs. The amendments in this Update improve financial reporting by requiring new disclosures about the programs, thereby allowing financial statement users to better consider the effect of the programs on an entity's working capital, liquidity, and cash flows over time.

The amendments in this Update do not affect the recognition, measurement, or financial statement presentation of obligations covered by supplier finance programs.

## **When Will the Amendments Be Effective and What Are the Transition Requirements?**

The amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for



the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

During the fiscal year of adoption, the information on the key terms of the programs and the balance sheet presentation of the program obligations, which are annual disclosure requirements, should be disclosed in each interim period.

The amendments in this Update should be applied retrospectively to each period in which a balance sheet is presented, except for the amendment on rollforward information, which should be applied prospectively.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

---

## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Topic 405

2. Amend paragraph 405-10-05-1, with a link to transition paragraph 405-50-65-1, as follows:

### **Liabilities—Overall**

#### **Overview and Background**

**405-10-05-1** The Liabilities Topic includes the following Subtopics:

- a. Overall
- b. Extinguishments of Liabilities
- c. Insurance-Related Assessments
- d. Obligations Resulting from Joint and Several Liability  
Arrangements
- e. Supplier Finance Programs.

3. Add Subtopic 405-50, with a link to transition paragraph 405-50-65-1, as follows:

**[For ease of readability, the new Subtopic is not underlined.]**

### **Liabilities—Supplier Finance Programs**

#### **Overview and Background**

##### **General**

**405-50-05-1** This Subtopic addresses the disclosures applicable for an entity that uses a supplier finance program in connection with the purchase of goods and services (the buyer in a supplier finance program). A supplier finance program also may be referred to as a reverse factoring, payables finance, or structured payables arrangement.

## **Objectives**

### **General**

**405-50-10-1** The objective of this Subtopic is to establish disclosures that enhance the transparency of a supplier finance program used by an entity in connection with the purchase of goods and services (the buyer in a supplier finance program).

**405-50-10-2** This Subtopic does not address either of the following:

- a. A buyer's recognition, measurement, or financial statement presentation of an obligation in connection with a supplier finance program
- b. The accounting and disclosure for other parties involved in a supplier finance program.

## **Scope and Scope Exceptions**

### **General**

#### **> Entities**

**405-50-15-1** The guidance in this Subtopic applies to all entities that use supplier finance programs in connection with the purchase of goods and services (buyers in a supplier finance program).

#### **> Transactions**

**405-50-15-2** The guidance in this Subtopic applies to obligations in connection with supplier finance programs. A supplier finance program is an arrangement that has all the following characteristics:

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

**405-50-15-3** Although not determinative, an indicator that an entity may have a supplier finance program is the commitment to pay a party other than the supplier

for a confirmed invoice without offset, deduction, or any other defenses to payment.

**405-50-15-4** In determining whether an entity has established a supplier finance program and, therefore, is subject to the disclosures required by this Subtopic, all available evidence shall be considered, including arrangements between the entity and its finance provider or intermediary and between the entity and its suppliers whose invoices the entity has confirmed as valid to the finance provider or intermediary.

## **Disclosure**

### **General**

**405-50-50-1** The objective of the requirements in this Subtopic is for an entity to disclose sufficient information 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. To achieve that objective, an entity shall disclose qualitative and quantitative information about its supplier finance programs.

**405-50-50-2** An entity shall consider the level of detail necessary to satisfy the disclosure objective. 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.

**405-50-50-3** In each annual reporting period, an entity shall disclose all the following information about its supplier finance programs:

- a. The key terms of the program, including, but not limited to:
  1. A description of the payment terms, including payment timing and the basis for its determination
  2. Assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary.See paragraphs 405-50-55-1 through 55-3 for an illustrative example.
- b. 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) and the following information about those obligations:
  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.

**405-50-50-4** In each interim reporting period, an entity shall disclose the amount of obligations outstanding that the entity has confirmed as valid to the finance provider or intermediary under the supplier finance program at the end of the reporting period.

## Implementation Guidance and Illustrations

### General

#### > Illustrations

##### . > Example 1: Disclosure about the Key Terms of a Supplier Finance Program

**405-50-55-1** Based on the limited facts and hypothetical fact pattern described in paragraph 405-50-55-2, this Example illustrates how an entity might apply the guidance in paragraph 405-50-50-3(a) to disclose the key terms of a supplier finance program, including a description of the payment terms (which includes payment timing and basis for its determination) and the assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary. This Example is not intended to illustrate every aspect of the key terms of a program that should be disclosed by a buyer entity. Identifying the key terms of a supplier finance program is a matter of judgment, based upon the facts of the arrangement.

**405-50-55-2** Entity A enters into a supplier finance program with Bank B in which Entity A agrees to pay Bank B on the invoice maturity dates the stated amount of invoices that Entity A has confirmed on Bank B's supplier finance platform. Entity A pays Bank B an annual subscription fee for the supplier finance platform and a service fee for related support. Entity A or Bank B may terminate the agreement upon at least 90 days' notice. The agreement with Bank B does not require that Entity A provide assets pledged as security or other forms of guarantees for the supplier finance program. Bank B does not advise Entity A of the maximum size of the program. Bank B also enters into a separate arrangement with Entity A's suppliers and provides them with the option to request early payment from Bank B

for invoices confirmed by Entity A. Entity A does not determine the terms or conditions of the arrangement between Bank B and Entity A's suppliers. Entity A does not participate in the transactions between its suppliers and Bank B. The supplier invoices that have been confirmed as valid under the program require payment in full within 90 days of the invoice date.

**405-50-55-3** Entity A determined that it should disclose the following information on the key terms of its supplier finance program:

Under a supplier finance program, Entity A agrees to pay a bank the stated amount of confirmed invoices from its designated suppliers on the original maturity dates of the invoices, an annual subscription fee for the supplier finance platform, and service fees for related support. Entity A or the bank may terminate the agreement upon at least 90 days' notice. The supplier invoices that have been confirmed as valid under the program require payment in full within 90 days of the invoice date.

**. > Example 2: Disclosure of a Rollforward of Obligations Confirmed as Valid under a Supplier Finance Program**

**405-50-55-4** 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.

**405-50-55-5** 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):

	<b>20X2</b>	<b>20X1</b>
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	(2,315)	(2,257)
Confirmed obligations outstanding at the end of the year	<u>\$ 853</u>	<u>\$ 733</u>

## Transition and Open Effective Date Information

### General

**> Transition Related to Accounting Standards Update No. 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations***

**405-50-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2022-04, *Liabilities—Supplier*

*Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations:*

- a. The pending content that links to this paragraph shall be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the pending content in paragraph 405-50-50-3(b)(2) that links to this paragraph, which shall be effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.
- b. In the period of initial adoption, an entity shall apply the pending content that links to this paragraph retrospectively to all periods in which a balance sheet is presented, except for the pending content in paragraph 405-50-50-3(b)(2) that links to this paragraph, which shall be applied prospectively.
- c. During the first fiscal year of applying the pending content that links to this paragraph, an entity shall apply the pending content in paragraph 405-50-50-3(a) through (b)(1) that links to this paragraph for each interim period.

## Amendments to Topic 270

4. Amend paragraph 270-10-50-7 by adding item II, with a link to transition paragraph 405-50-65-1, as follows:

**[Paragraph 270-10-50-7 has amendments to the existing pending content linked to paragraph 944-40-65-2 as well as the new pending content linked to paragraph 405-50-65-1. The new pending content is marked only for the amendment.]**

## Interim Reporting—Overall

### Disclosure

#### > Guidance Related to Disclosure of Other Topics at Interim Dates

**270-10-50-7** The following may not represent all references to interim disclosure:

**[The remainder of this paragraph is not shown because it is unchanged.]**

PENDING CONTENT

**Transition Date:** (P) December 16, 2022; (N) December 16, 2022 | **Transition Guidance:** 405-50-65-1



The following may not represent all references to interim disclosure:

**[Only the changes for this paragraph are shown below.]**

- II. For disclosure requirements on the amount of obligations outstanding under a supplier finance program, see paragraph 405-50-50-4.

**[In addition, amend the following pending content for paragraph 270-10-50-7 with no additional link to transition.]**

PENDING CONTENT

**Transition Date:** (P) December 16, 2022; (N) December 16, 2024 | **Transition Guidance:** 944-40-65-2

The following may not represent all references to interim disclosure:

**[Only the changes for this paragraph are shown below.]**

- II. For disclosure requirements on the amount of obligations outstanding under a supplier finance program, see paragraph 405-50-50-4.

Amendments to Status Sections

5. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

**270-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-7	Amended	2022-04	9/29/2022

6. Amend paragraph 405-10-00-1, by adding the following item to the table, as follows:

**405-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
405-10-05-1	Amended	2022-04	9/29/2022

7. Add paragraph 405-50-00-1 as follows:

**405-50-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
405-50-05-1	Added	2022-04	9/29/2022
405-50-10-1	Added	2022-04	9/29/2022
405-50-10-2	Added	2022-04	9/29/2022
405-50-15-1 through 15-4	Added	2022-04	9/29/2022
405-50-50-1 through 50-4	Added	2022-04	9/29/2022
405-50-55-1 through 55-5	Added	2022-04	9/29/2022
405-50-65-1	Added	2022-04	9/29/2022

*The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Richard R. Jones, *Chair*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Gary R. Buesser  
Frederick L. Cannon  
Susan M. Cospers  
Marsha L. Hunt

# Background Information and Basis for Conclusions

---

## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing the amendments in this Update to enhance the transparency of the use of supplier finance programs (the programs) by requiring that the buyers in those programs provide additional disclosures about the program's nature, activity during the period, changes from period to period, and potential magnitude.

## Background Information

BC3. Supplier finance programs, which also may be referred to as reverse factoring, payables finance, or structured payables arrangements, allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date that is paid by a third-party finance provider or intermediary on the basis of invoices that the buyer has confirmed as valid. The buyer in a program typically (a) enters into an agreement with the finance provider or intermediary to establish the program, (b) purchases goods and services from suppliers with a promise to pay at a later date, and (c) notifies the finance provider or intermediary of the supplier invoices it has confirmed as valid. Suppliers may then request early payment from the finance provider for those confirmed invoices under the program. The early payment transactions between the supplier and the finance provider or intermediary are subject to an agreement between those parties that the buyer understood would be established but generally is neither involved in negotiating nor is legally a party to.

BC4. Stakeholders, including investors and analysts, requested that the FASB add a project to enhance the transparency of financial statement presentation and disclosure of such programs after observing an overall increase in the use of those programs. In October 2019, the Board received an agenda request from practitioners asking for guidance on (a) the disclosures that should apply for the programs and (b) the appropriate cash flow statement presentation of changes in obligations covered by those programs. The Board learned through stakeholder outreach that the programs were widely used in certain industries but that the use of the programs was generally not apparent in buyers' financial statements or notes. Stakeholders attributed that observation to the lack of explicit GAAP

disclosure requirements for the programs and an existing accounting framework that often results in obligations covered by those programs being presented within accounts payable on a buyer's balance sheet. The Board's Investor Advisory Committee (IAC) discussed supplier finance programs at its November 2019 meeting, noting the increasing use of the programs and recommending that buyers be required to provide more disclosure about the programs to facilitate investor analysis.

BC5. Outreach with investors and analysts was conducted throughout the first half of 2020. Overall, investors and analysts had observed that in certain industries, buyers were (a) lengthening their payment terms with suppliers and (b) simultaneously establishing the programs to provide a potential means for suppliers to obtain access to earlier payments to lessen the impact of those longer payment terms. Those investors and analysts wanted to better understand the buyer's use of the programs to evaluate the sources of working capital and the potential risk of the longer payment terms with suppliers.

BC6. Some investors and analysts expressed concerns about the financial statement presentation of the obligations covered under such programs, indicating that in their view such obligations should not be presented as accounts payable but rather as short-term debt or in a separate balance sheet line item. Those stakeholders expressed nuanced views about which obligations covered by those programs should be presented outside accounts payable. For example, some of those stakeholders preferred that all obligations covered by a program have separate presentation, while other stakeholders preferred separate presentation of only a portion of the obligations that would be determined on the basis of the change in payment terms with suppliers. Other investors and analysts preferred that the Board not address the financial statement presentation of the obligations, but instead require buyers to disclose information about the programs to allow users to understand their nature, activity during the period, changes from period to period, and potential magnitude.

BC7. There are no explicit GAAP disclosure requirements that result in consistent disclosure of information about the nature, activity during the period, changes from period to period, and potential magnitude of a buyer's involvement in a program. More specifically, Topic 210, Balance Sheet, discusses accounts payable as being part of current liabilities but does not provide specific disclosure requirements or require disaggregation of accounts payable. Topic 275, Risks and Uncertainties, specifies disclosure requirements for certain risks including those arising from the concentration of business transacted with a particular lender, but that Topic only requires disclosure of such risks when there is the potential for a near-term severe impact as a result of the concentration. Topic 860, Transfers and Servicing, provides disclosure requirements for the suppliers in a program that sell receivables to the finance provider or intermediary, but not for the buyer. If an obligation covered by a program is within the scope of Topic 470, Debt, that Topic provides disclosure requirements for long-term obligations and has limited disclosure requirements for short-term obligations.

BC8. For public entities, U.S. Securities and Exchange Commission (SEC) Regulation S-X, Rule 5-02, *Balance Sheets*, requires separate presentation of certain types of accounts and notes payable, including amounts payable to banks for borrowings and amounts payable to trade creditors. In addition, SEC Regulation S-K, Item 303, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, requires that a public entity discuss its liquidity and capital resources, and the SEC staff issued guidance in June 2020 to remind public entities of the need to consider the effect of the programs, among other activities, when preparing that discussion. Some public entities disclose information about their programs in accordance with those SEC requirements.

BC9. Feedback from stakeholders including the IAC, academics, and a range of investors and analysts indicated that a combination of qualitative and quantitative disclosures could provide financial statement users with relevant information for analyzing the effect of the programs on a buyer's working capital, liquidity, and cash flows.

BC10. On December 20, 2021, the Board issued the proposed Accounting Standards Update, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*, for public comment with the comment period ending on March 21, 2022. The Board received 31 comment letters. During the exposure period and redeliberations, additional outreach with financial statement users and preparers was completed. Overall, comment letter respondents and outreach participants supported the Board's efforts to enhance the transparency of supplier finance programs and agreed that the proposed amendments would be decision useful and operable. Many stakeholders noted an increase in the use of the programs and acknowledged the need for disclosures about the programs to help investors and other capital providers understand the effect of the programs on an entity's working capital, liquidity, and cash flows. The Board considered stakeholder feedback on various areas for further improvement or clarification in reaching the conclusions in this Update, as further discussed below.

## Benefits and Costs

BC11. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC12. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The amendments provide financial statement users with the benefit of enhanced transparency about the nature, activity during the period, changes from period to period, and potential magnitude of an entity's supplier finance programs. That information is expected to allow financial statement users to better consider the effect of the programs on a buyer's working capital, liquidity, and cash flows on a timely basis. The Board acknowledged that an entity may incur costs to enhance its information technology systems and change its processes and controls. However, the Board concluded that the amendments are operable, and it does not anticipate that most buyers in a supplier finance program will incur significant costs in complying with the amendments. The amendments do not create new measurement, recognition, derecognition, or presentation requirements, and research has indicated that some buyers already provide the information that is required by the amendments in their financial statements. Additionally, the use of supplier finance programs often is supported by technology that should make the information needed to comply with the amendments easily accessible to buyers.

## Basis for Conclusions

BC13. The Board added a project to its technical agenda in October 2020 with an objective to add disclosures that would enhance the transparency of a buyer's use of supplier finance programs. The Board considered but decided not to address the balance sheet presentation of obligations covered by supplier finance programs. Financial statement users had mixed views on the appropriate balance sheet presentation of those obligations, but users consistently requested more detailed quantitative and qualitative disclosures about the programs. Users indicated that enhanced transparency from entities of the use of the programs was more critical in their view than providing additional guidance on when such amounts should be presented differently on the balance sheet, and the Board noted that reconsidering balance sheet presentation requirements would delay the immediate investor need for disclosure improvements.

BC14. The Board also considered but decided not to address the cash flow statement presentation of changes in obligations covered by supplier finance programs. The Board did not find that diversity in practice about such presentation was pervasive because cash flow statement treatment was found to be consistent with balance sheet treatment. The Board concluded that transparency would not be enhanced by changing cash flow statement presentation requirements without also changing balance sheet presentation requirements.

## Scope

BC15. The Board decided that the amendments in this Update should apply to buyers participating in supplier finance programs. The Board considered the

following two approaches when determining the most operable way to describe a supplier finance program for purposes of helping preparers and practitioners identify the arrangements that require disclosure:

- a. Create a prescriptive definition of a supplier finance program based on certain contractual terms
- b. Describe supplier finance programs more generally.

On the basis of stakeholder feedback indicating that supplier finance programs are a relatively new form of arrangement that continue to evolve, the Board decided to describe supplier finance arrangements more generally (that is, approach (b)).

BC16. The Board also decided to include an indicator to assist preparers and practitioners in identifying the programs. Specifically, the Board decided that a buyer's commitment to pay certain invoices to a third-party intermediary is an indicator that a supplier finance program may have been established. The Board noted that this indicator may not be determinative because payment processing services often require similar commitments and would not be considered supplier finance programs. In response to feedback, the Board clarified that a buyer's payment commitment under the programs generally is irrevocable (that means no offset, deduction, or any other defenses to payment) once the supplier invoice is confirmed as valid. In addition, the Board does not intend to limit the scope of the amendments in this Update to only those programs in which positive confirmation is provided by the buyer and observed that the confirmation provided by the buyer could be positive confirmation or negative confirmation. The Board decided that the scope is operable based on outreach conducted with practitioners and preparers and feedback received from comment letter respondents.

BC17. The Board did not intend to exclude arrangements from the scope of the amendments in this Update on the basis of how a buyer presents the obligations in its balance sheet. That is, obligations under a supplier finance program will be subject to disclosure regardless of whether they are presented in accounts payable or in another balance sheet line item.

BC18. Stakeholders questioned whether the disclosures would apply to certain arrangements such as credit cards, payment processing, and normal factoring. The Board concluded that traditional credit cards should be excluded from the scope of the amendments in this Update because the description of a program that the Board decided on indicates that the buyer's agreement with the finance provider results in the supplier being provided with an option to request early payment, whereas a traditional credit card directs the finance provider to pay the supplier. Similarly, the Board concluded that payment processing arrangements do not result in an intermediary providing suppliers with an option to request early payment, and therefore they are excluded from the scope of the amendments. The Board decided that normal factoring arrangements are not within the scope of the amendments because under those arrangements the buyer is typically not involved in the establishment of the arrangement with the finance provider, including confirmation to the finance provider on the validity of such receivables.

BC19. Some comment letter respondents observed that the guidance in the proposed Update on a supplier's option to request early payment from a party other than the entity may exclude from the proposed scope arrangements in which the entity's supplier does not have that option, but instead the buyer has the option to extend payment terms through paying a party other than the supplier. Those respondents suggested that the Board broaden the proposed scope to include those arrangements to prevent an entity from structuring its program to avoid disclosing the information required by the proposed amendments. The Board considered but decided not to revise the proposed scope guidance because (a) there is a lack of observed prevalence of arrangements with that structure, (b) those arrangements may already be accounted for and subject to disclosure under other Topics, such as Topic 470, and (c) changes to the proposed scope guidance to address this may unintentionally include in the scope other arrangements, such as lines of credit and payment processing, which would be inconsistent with the Board's intent.

BC20. The Board considered but decided not to broaden the project scope to pursue disclosures about all payables (such as a disaggregation of payables by payment term in days and a disclosure of the terms of contracts with third parties having a connection to payables) because it would result in a broader project that would delay the more immediate need to improve the disclosures of supplier finance programs. Also, such a project was viewed as significantly beyond the scope of the issue that stakeholders, including users, initially described. In addition, the Board considered that limiting the scope of the project to supplier finance programs was responsive to financial statement users' requests to require more disclosure about supplier finance programs specifically.

BC21. The amendments in this Update apply only to the buyer in a supplier finance program because disclosure requirements already exist in other Topics for the supplier and the finance provider. In addition, the request for enhanced transparency about the programs was made in relation to the buyer, and not to the supplier or finance provider.

BC22. The amendments in this Update apply to both public entities and nonpublic entities. The Board received feedback from the Private Company Council (PCC) that, in the PCC's experience, private companies rarely act as buyer parties in the programs. That observation also was confirmed by comment letter respondents. However, through outreach with financial statement users, the Board learned that the amendments, including rollforward information that is required annually, are likely to provide users with relevant information in those instances, even if they are rare. The Board considered but decided not to defer effective dates for private companies, noting that for those private companies that do have programs, information about the programs would be decision useful for investors and other users.



## Disclosure

BC23. Chapter 8, *Notes to Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, provides a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a Codification Topic. The amendments in this Update are the result of the Board's consideration of the concepts in Chapter 8 as well as feedback received from outreach with stakeholders. The amendments are incremental to any disclosures required by other Topics to which a supplier finance program may be subject.

BC24. The Board decided to require that a buyer in a supplier finance program disclose qualitative and quantitative information about the program in the notes to financial statements that is sufficient to allow a user to understand the nature, activity during the period, changes from period to period, and potential magnitude of the program. Quantitatively, a buyer is required to disclose the amount of obligations that it had confirmed as valid to a finance provider or an intermediary that is outstanding at the end of the period (the outstanding confirmed amount) and a rollforward of that amount showing the changes from the beginning of the reporting period to the end of the reporting period. Qualitatively, a buyer is required to disclose the key terms of the program and the balance sheet line item in which the outstanding confirmed amount is presented.

BC25. Qualitative and quantitative information about the programs in the notes to financial statements provides users with relevant information about a buyer's use of supplier finance programs that would allow them to understand the nature, activity during the period, changes from period to period, and potential magnitude of the program. That understanding better informs users' analyses of a buyer's working capital, cash flows, and liquidity. More specifically, feedback from stakeholders including the IAC and a range of investors and analysts indicated that both quantitative disclosures and qualitative disclosures about the programs were important to their analyses and that either type of disclosure would be less useful on its own. The outstanding confirmed amount and a rollforward of changes in that amount from the prior period (that is, quantitative disclosures) allow investors and analysts to assess the activity during the period, changes from period to period, and potential magnitude of the program. A description of the key terms of a program and its balance sheet presentation (that is, qualitative disclosures) allow investors and analysts to assess the nature of the program and provide context for the quantitative disclosures. Together, the qualitative and quantitative disclosures provide investors and analysts with information that is relevant to their analyses of working capital, liquidity, and cash flows. A majority of comment letter respondents supported the proposed quantitative and qualitative disclosures. Consequently, the Board affirmed those proposed amendments in redeliberations with certain refinements or clarifications based on the feedback received.

BC26. The Board initially decided to allow management discretion to identify which program terms are the key terms that must be disclosed. In the proposed Update, the Board provided an illustrative example of a hypothetical key terms disclosure for a buyer that only has one program to assist in identifying the key terms of the buyer's program. However, that example was intended neither to provide an exhaustive list of all possible key terms nor to imply that certain terms must be disclosed. Comment letter respondents suggested that the Board specify a list of key terms to enhance the comparability of the disclosure between entities. The Board considered the terms identified as important by those stakeholders and decided to require that entities disclose a description of the payment terms (including payment timing and the basis for its determination) and any assets pledged as security or other forms of guarantees as key terms. The Board concluded that the disclosure of those key terms will enhance the comparability of the information provided by entities. However, the Board acknowledged that there could be differences across entities in determining the payment terms of the obligations under their supplier finance programs and decided that an entity should disclose the basis for its determination to help users better understand the disclosed payment terms information. The terms listed in paragraph 405-50-50-3(a) are not meant to be all-inclusive. Similarly, the fact patterns described in paragraph 405-50-55-2 may not reflect the full spectrum of the programs that exist in practice. Entities should include all necessary information, including additional terms as needed, to meet the objective of the disclosure requirements in paragraph 405-50-50-1. In addition, when entities have more than one program, they should assess whether disaggregated disclosure is needed to meet the disclosure requirement in paragraph 405-50-50-2.

### *Interim Disclosures*

BC27. In the proposed Update, the Board decided not to require that the buyer in a program disclose both the rollforward and the outstanding confirmed amount at interim periods absent a significant change. The Board concluded that the interim disclosure requirements in the proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*, addressing material changes from year-end would apply and that absent a significant change, a further requirement to provide detailed disaggregated information about such programs on an interim basis was not warranted. The Board concluded that this is consistent with the concepts in Chapter 8 of Concepts Statement 8, for example, in paragraph D73, which states:

Because interim-period financial statements are essentially an update of the information in the most recent annual statements, notes are intended to convey new information or information about significant changes to matters discussed in notes to the most recent annual financial statements.

BC28. Comment letter feedback was mixed and lacked consensus among stakeholder groups. Stakeholders that supported disclosures on an annual basis

absent any significant changes indicated that such an approach is consistent with the interim disclosure principles outlined in Concepts Statement 8 and that they would not expect significant levels of intraperiod activity at interim periods. Stakeholders, particularly investors and other users, supported disclosure on an interim basis and stated that disclosure for each interim period is critical to understanding the activity during the period, changes from period to period, and the potential magnitude of an entity's supplier finance programs.

BC29. Some Board members observed that requiring rollforward disclosure each interim period does not appear to be supported by the concepts in Chapter 8 of Concepts Statement 8, as discussed previously, and could be repetitive in the absence of significant changes during the period. Some Board members noted that the disclosure on an interim basis is consistent with paragraph D80 in Chapter 8, which states:

Information may need to be included in notes to interim-period financial statements even if it can be estimated or is discernable from other information if it is especially important to the assessment of cash flow prospects.

BC30. The Board considered the feedback received and decided to require disclosure of the amount of the obligation outstanding for each annual and interim period and disclosure of the rollforward, the balance sheet presentation, and key terms on an annual basis. The Board concluded that this approach balances the costs and benefits of providing information about changes for each reporting period.

### *Disclosures Considered but Rejected*

BC31. The Board considered but decided not to require disclosure of the cash flow statement presentation of the changes in obligations covered by supplier finance programs because a user should be able to understand that cash flow statement presentation by understanding the balance sheet presentation of those obligations.

BC32. The Board also considered but decided not to require that a buyer disclose the amount of obligations that the finance provider had paid to the supplier earlier than the invoice date that were outstanding at the end of the reporting period—a subset of the outstanding confirmed amount. Stakeholders indicated that the information required to complete that disclosure often is not available to the buyer because it is subject to a separate agreement between the finance provider and the supplier. In the Board's view, the cost of requiring that information could be significant if buyers were not a party to the arrangement between the supplier and the finance provider and, therefore, would outweigh its perceived marginal benefit over disclosing the outstanding confirmed amount. In addition, the Board was concerned about requiring disclosure of information about arrangements to which the entity is not a party, including concerns about operability and auditability.

BC33. The Board considered requiring disclosure of an average payment term in days for suppliers in the program. However, the Board decided not to require that disclosure because the Board expected that preparers and practitioners would need extensive guidance about the calculation of an average payment term to ensure comparability of that metric. The Board noted that developing that guidance would delay the project's completion. Users requested that the Board require quantitative information about the payment terms of the program obligations to provide a better understanding of the impact of the program on a buyer's working capital, liquidity, and cash flows. Those stakeholders provided various suggestions, including disclosure of obligations by aging bucket or disclosure of obligations in which the due date was past a certain number of days or was extended beyond the original invoice maturity date. The Board concluded that requiring disclosure of the payment terms, including payment timing and the basis for its determination, as part of the disclosure of key terms will provide information for assessing the nature and timing of cash flows and will provide entities with flexibility to describe how they determine payment terms.

## Effective Date and Transition

BC34. The Board decided that the amendments in this Update should be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which should be effective for fiscal years beginning after December 15, 2023. The Board decided to permit early application of the amendments.

BC35. To improve the comparability of financial information, the Board initially decided that in the period of initial application, all the amendments in this Update should be applied retrospectively to each period for which a balance sheet is presented. The Board does not expect retrospective application to result in significant costs for preparers because (a) the amendments do not create new recognition, derecognition, or presentation requirements and (b) the programs are often supported by technology that should make the information needed to comply with the amendments easily accessible to buyers. The Board decided that the expected benefits of retrospective application justify the related expected costs.

BC36. Stakeholders provided feedback that in some cases, the rollforward information may not be readily available and would require enhancements to information technology systems and changes in processes and controls. Therefore, more time may be needed to apply the amendments in this Update retrospectively. Accordingly, the Board decided that the amendment on annual rollforward information should be applied prospectively for fiscal years beginning after December 15, 2023, and other amendments should be applied retrospectively for fiscal years beginning after December 15, 2022.

BC37. In the fiscal year in which the amendments in this Update are adopted, an entity should disclose in each interim period the information on the key terms of the programs and the balance sheet presentation of the program obligations, which are annual disclosure requirements.

## Amendments to the GAAP Taxonomy

---

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2023 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.