# FASB issues ASU

## Enhanced transparency about supplier finance program obligations

September 30, 2022

## Buyers of goods and services to disclose information about their use of supplier finance programs.

### Source and applicability

- ASU 2022-04, Disclosure of Supplier Finance Program Obligations
- All entities that use supplier finance programs in connection with the purchase of goods and services.

### Fast facts, impacts, actions

A supplier finance program is an arrangement in which an entity (i.e. the buyer of goods or services) enters into an agreement with a finance provider or an intermediary to settle the buyer's obligations with suppliers. These programs may also be referred to as reverse factoring, payables finance or structured payables arrangements.

To address stakeholder feedback about the lack of transparency in financial statements concerning these programs, ASU 2022-04 creates Subtopic 405-50 to require buyers to disclose information about supplier finance programs that is sufficient to allow users to understand their nature, activity during the period, changes from period to period and potential magnitude.

- The disclosures are to include qualitative and quantitative information about the buyer's supplier finance programs, such as key terms, and the amount of obligation outstanding at the end of the reporting period that the buyer has confirmed as valid to the finance provider or intermediary.

- Most of the disclosures are required only in annual financial statements (except the amount of obligation outstanding, which is disclosed at each interim reporting period; but see Effective dates and transition for additional interim disclosures in the year of adoption).

The ASU affects neither the recognition, measurement or financial statement presentation of supplier finance obligations, nor the accounting and disclosure by other parties in supplier finance programs.

The ASU will become effective for annual periods beginning after **December 15, 2022**, for all entities. Therefore, a buyer should begin to determine whether it has programs in the ASU's scope and develop the processes and controls necessary to comply with the new disclosure requirements. See Effective dates and transition.

## Background

In a supplier finance program, the buyer purchases goods or services from suppliers with a promise to pay at a later date and confirms to the finance provider or intermediary of the supplier invoices that are eligible for payment. The buyer's supplier has the option to request early payment from the finance provider or intermediary for those 'validated' invoices. At a later date, the buyer pays the invoices to the finance provider or intermediary.

Currently, there are no explicit US GAAP requirements that result in consistent disclosure of information about the nature, activity and magnitude of a buyer's involvement in supplier finance programs over time. In the view of financial statement users, transparency about supplier finance programs is currently lacking due to this absence of explicit US GAAP requirements, and because a buyer may present its obligation 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.

Financial statement users have indicated that disclosures would provide relevant information to analyze the effect of such programs on a buyer's working capital, liquidity and cash flows over time.

## ASU adds a Subtopic

The ASU adds Subtopic 405-50 to require disclosures about a buyer's supplier finance program obligations.

### Scope

Instead of creating a prescriptive definition of a supplier finance program based on certain contractual terms, Subtopic 405-50 describes supplier finance programs more generally with an indicator to help preparers identify the arrangements that require disclosure. The indicator that the buyer has established a supplier finance program is the buyer's commitment to pay a party other than the supplier for a confirmed invoice without offset, deduction, or any other defenses to payment. However, the indicator will not be determinative in all cases because payment processing services often require similar commitments and may not be considered supplier finance programs.

In determining whether a buyer has established a supplier finance program, all available evidence is considered, including arrangements:

- between the buyer and a finance provider or an intermediary; and
- between the buyer and its suppliers whose invoices the buyer has confirmed as valid to the finance provider or intermediary.

### Required disclosures

The objective of the disclosure requirements is for the buyer to disclose sufficient information to enable financial statement users to understand the nature, activity during the period, changes from period to period and potential magnitude of its supplier finance programs.

To achieve that objective, a buyer discloses qualitative and quantitative information about two aspects of its program annually.

| Disclosure area | Required details |
|---|---|
| Key terms of the program | Key terms include a general description of the payment terms (including payment timing and basis for the determination), and assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary. |

| Disclosure area | Required details |
|---|---|
| Obligation amount that the buyer has confirmed as valid to the finance provider or intermediary | Required disclosures regarding this obligation are:<br>• the amount outstanding that remains unpaid by the buyer as of the end of the reporting period (the outstanding confirmed amount);<br>• a description of where that amount is presented on the balance sheet (whether presented in accounts payable or in another balance sheet line item) and, if presented in more than one line item, the amount presented in each line item; and<br>• a rollforward of the obligations showing the opening balance, the amounts added to the program, the amounts settled under the program and the closing balance. |

In each interim reporting period, the buyer discloses the amount of obligations outstanding that it has confirmed as valid as of the end of the interim period.

The buyer has to carefully consider the level of detail necessary to satisfy the disclosure objective. If it uses more than one supplier finance program, the buyer may aggregate disclosures, but not to the extent that the aggregation obscures useful information about programs that have substantially different characteristics.

Although the ASU does not affect the presentation of supplier finance program obligations, a description of where an obligation is presented on the balance sheet is a required disclosure. Significant diversity exists in the structure and terms of these programs, and therefore a careful analysis of the substance of an arrangement is necessary to determine the appropriate presentation on the balance sheet and in the statement of cash flows.

For balance sheet presentation, see section 3.7.70 of KPMG Handbook, Debt and equity financing. For statement of cash flows presentation, see section 12.4.10 of KPMG Handbook, Statement of cash flows.

## SEC and international considerations

### SEC guidance

During the 2019 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff reminded registrants about the types of disclosures it expects to see in their MD&A if they have entered into or plan to enter into supplier finance programs and such programs are material to the current period or are reasonably likely to materially impact liquidity in the future.

In June 2020, the SEC's Division of Corporation Finance published guidance providing additional views regarding operations, liquidity and capital resources disclosures registrants should consider concerning business and market disruptions related to COVID-19.

Registrants should consider the SEC staff's remarks and this published guidance from the Division of Corporation Finance in determining the sufficiency of their disclosures. Question 3.7.160 of KPMG Handbook, Debt and equity financing, discusses MD&A disclosures for supplier finance programs.

### International exposure draft

In November 2021, the International Accounting Standards Board (IASB) published an exposure draft with proposed amendments to IFRS® Accounting Standards that would require a buyer to disclose information about its use of supplier finance programs. The proposed amendments to IFRS Accounting Standards require similar information to be disclosed as the ASU. However, the proposed amendments to IFRS Standards would also require the buyer to disclose:

- the carrying amount of the outstanding financial liabilities that are part of the programs for which suppliers have already received payment from the finance provider or intermediary;
- the range of payment due dates for both outstanding financial liabilities that are part of the programs and for trade payables that are not part of the programs.

Comments on the international exposure draft were due by March 28, 2022. The IASB is currently deciding on project direction.

## Effective dates and transition

The following applies to all entities.

| | |
|---|---|
| **Annual and interim periods – Fiscal years beginning after** | December 15, 2022, except for the rollforward disclosure, which is effective for fiscal years beginning after December 15, 2023. |
| **Early adoption permitted?** | Yes |
| **Transition requirements** | During the first year of adoption, the information regarding the key terms of the programs and the balance sheet presentation are to be disclosed in each interim period even though this information will only be part of annual disclosures thereafter.<br><br>The amendments in this ASU are to be applied retrospectively to each period in which a balance sheet is presented, except for the amendment on rollforward information, which is to be applied prospectively. |

Contributing authors
Angela Tran, Mahesh Narayanasami

KPMG Financial Reporting View
kpmg.com/us/frv

This newsletter is part of our Defining Issues® collection of newsletters and articles with insights and news about financial reporting and regulatory developments.

Sign up here to receive news and insights delivered to your mailbox.

kpmg.com/socialmedia