FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: December 20, 2021
Comments Due: March 21, 2022

Liabilities—Supplier Finance Programs (Subtopic 405-50)

Disclosure of Supplier Finance Program Obligations

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 405 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2021-007, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until March 21, 2022. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment]
- Emailing comments to director@fasb.org, File Reference No. 2021-007
- Sending a letter to "Technical Director, File Reference No. 2021-007, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® 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. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Liabilities—Supplier Finance Programs (Subtopic 405-50)

Disclosure of Supplier Finance Program Obligations

December 20, 2021

Comment Deadline: March 21, 2022

CONTENTS

Summary and Questions for Respondents

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

The Board is issuing this proposed Update to enhance the transparency of supplier finance programs. Stakeholders have 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) for 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 proposed 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 Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would 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 proposed Update would 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 would disclose the following information about a program:

1. The key terms of the program
2. For the obligation amount that the buyer has confirmed as valid to the finance provider or intermediary:
    a. The amount outstanding (that is, the amount that remains unpaid by the buyer) as of the end of the period (the outstanding confirmed amount)
    b. A description of where that amount is presented in the balance sheet
    c. Changes in that amount during the period, including the amount of obligations confirmed and the amount subsequently paid.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be 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 over time. The amendments in this proposed Update would 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.

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

When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied on a retrospective basis for each period in which a balance sheet is presented.

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update. Early application of the proposed amendments would be permitted.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Would the amendments in this proposed Update provide decision-useful information for investors and other financial statement users to consider the effect of supplier finance programs on an entity's working capital, liquidity, and cash flows? Please explain why or why not.

Question 2: Are any additional disclosures or enhancements to the proposed amendments needed to understand the effect of supplier finance programs on an entity's working capital, liquidity, and cash flows? If so, please explain what that information is and how it would be used.

Question 3: Is the proposed scope guidance, including the indicator in paragraph 405-50-15-3, understandable and operable, and does it appropriately capture the overall population of supplier finance programs? If not, please explain why and what alternative would be more appropriate. Please also indicate whether any additional indicators should be included in the proposed scope guidance and the basis for including those indicators.

Question 4: Should an entity be required to disclose the rollforward of obligations outstanding at the end of the reporting period that the entity has confirmed as valid to the finance provider or intermediary under a supplier finance program (see paragraph 405-50-50-3(b)(2))?

a. For investors and other financial statement users, would that rollforward provide decision-useful information? If so, how would that information be used and for what purpose? Please provide specific examples of what calculations would be done and how that information could influence investment and capital allocation decisions.
b. For preparers and practitioners, what are the incremental cost and operability concerns with disclosing the rollforward in comparison with the cost of disclosing only the outstanding confirmed amount? Please be specific and explain the nature, significance, and frequency (one time or recurring) of the incremental cost.

Question 5: The proposed disclosure guidance allows an entity that uses more than one supplier finance program to aggregate disclosures, so long as useful information is not obscured by the aggregation of programs with substantially different characteristics. Is that proposed disclosure guidance understandable and operable or is additional guidance needed to distinguish characteristics that would be considered substantially different? If so, please explain what information would be useful for investors and other financial statement users to differentiate between substantially different supplier finance programs and how that information would be used.

Question 6: Are the proposed disclosure requirements operable and auditable in terms of systems, internal controls, or other similar considerations related to the required information? If not, please explain which proposed disclosure requirements would pose operability or auditability issues and why.

Question 7: Would any of the proposed disclosures require special consideration for entities other than public business entities? If so, please explain which proposed disclosures would require special consideration and why.

Question 8: Should an entity be required to disclose the outstanding confirmed amount and the rollforward of those obligations at each interim reporting period, or should it be required to provide such quantitative disclosures only in an interim reporting period when, as determined by the entity, a significant event or transaction related to the programs has occurred that has a material effect on the entity (consistent with the proposed principle[1] in Topic 270, Interim Reporting)? Please explain your position.

a. For investors and other financial statement users, would requiring that disclosures be provided each interim period (in addition to annual periods) provide more decision-useful information than requiring that disclosures be provided upon the occurrence of a significant event or transaction related to the programs that has a material effect on the entity? If so, how would those additional interim disclosures be used? Please provide specific examples, including what calculations would be done and how that information could influence investment and capital allocation decisions.
b. For preparers and practitioners, would requiring that disclosures be provided each interim period (in addition to annual periods) add more cost than requiring that disclosures be provided on an interim basis upon the occurrence of a significant event or transaction related to the programs that has a material effect on the entity? Please be specific and explain

[1]The principle refers to the disclosure guidance on significant events or transactions that have a material effect on an entity in the amendments in the proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*, issued on November 1, 2021. Those proposed amendments state:

> **270-10-50-9** . . . In addition to the disclosures required by this Topic, if a significant event or transaction has occurred that has a material effect on an entity that is not required explicitly to be disclosed in this Topic, an entity shall provide, in the interim financial statements, information that would explain the effects of the significant event or transaction on the entity. . . .

the nature, significance, and frequency (one time or recurring) of the incremental cost.

Question 9: In the period of initial application, should all the proposed disclosure requirements be implemented on a retrospective basis for each balance sheet date presented? If not, please explain which proposed disclosure requirements should be implemented on a prospective basis and why.

Question 10: How much time would be needed to implement the proposed amendments? Should entities other than public business entities be provided an additional year to implement the proposed amendments? If so, please explain why.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–3. 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 <u>underlined</u>, 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.~~<u>Arrangements</u>
<u>e.</u> <u>Supplier Finance Programs.</u>

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 incurred 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 incurred 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.

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 An entity shall disclose all the following information about its supplier finance programs:

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.

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. 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 secured legal assets 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 has no involvement in establishing 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 payment terms that Entity A has with its suppliers that are participating in the supplier finance program are 90 days.

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 with a major bank, Entity A agrees to pay the 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. Entity A does not provide secured legal assets or other forms of guarantees under the arrangement. Entity A has no involvement in establishing the terms or conditions of the arrangement between its suppliers

and the bank and does not participate in their transactions. The payment terms that Entity A has with its suppliers that are participating in the supplier finance program are 90 days.

> > 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 the 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	(2,315)	(2,257)
Confirmed obligations outstanding at the end of the year	$ 853	$ 733

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 202X-XX, *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. 202X-XX, *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 beginning after [date to be inserted after exposure], including interim periods within those fiscal years in accordance with paragraph 270-10-50-9. **[Note: Paragraph 270-10-50-9 is included in the proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*, which was issued on November 1, 2021.]**

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.
c. Early application of the pending content that links to this paragraph, including application in an interim period, is permitted for financial statements that have not been issued or made available for issuance as of [date to be inserted after exposure].

The amendments in this proposed Update were approved for publication 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. Cosper
Marsha L. Hunt

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 proposed 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 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 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 potential risk of the longer payment terms with suppliers and sources of working capital.

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 over time. 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. Even if an obligation covered by a program is within the scope of Topic 470, Debt, that Topic provides disclosure requirements for long-term obligations but 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 would provide financial statement users with relevant information for analyzing the effect of the programs on a buyer's working capital, liquidity, and cash flows.

Benefits and Costs

BC10. Overall, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs. The proposed amendments would 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 would allow financial statement users to better consider the effect of the programs on a buyer's working capital, liquidity, and cash flows. On the basis of research and outreach, the Board believes that the proposed amendments would be operable, and the Board does not anticipate that most buyers in a supplier finance program would incur significant costs complying with the proposed amendments. The proposed amendments would not create new measurement, recognition, derecognition, or presentation requirements, and research has indicated that some buyers already provide the information that would be required by the proposed amendments in their financial statements. Additionally, the use of supplier finance programs is often supported by technology that should make the information needed to comply with the proposed amendments easily accessible to buyers.

Basis for Conclusions

BC11. 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 for several reasons. First, 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. Second, the SEC staff previously communicated its views on the derecognition and balance sheet presentation of obligations covered by those programs. Third, 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 believes that reconsidering balance sheet presentation requirements would delay the immediate investor need for disclosure improvements.

BC12. 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 also did not believe that transparency could be enhanced by changing cash flow statement presentation requirements without also changing balance sheet presentation requirements.

Scope

BC13. The Board decided that the amendments in this proposed Update would 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)). 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 would be an indicator that a supplier finance program may have been established. The Board also noted that this indicator may not be determinative because payment processing services often require similar commitments and would not be considered supplier finance programs. The Board decided that the scope would be operable on the basis of outreach conducted with practitioners and preparers.

BC14. The Board did not intend to exclude arrangements from the scope of the amendments in this proposed Update on the basis of how a buyer presents the obligations in its balance sheet. That is, obligations under a supplier finance program would be subject to disclosure regardless of whether they are presented in accounts payable or in another balance sheet line item.

BC15. Stakeholders questioned whether the disclosures would apply to certain arrangements such as credit cards, payment processing, and normal factoring. The Board believes that traditional credit cards would be excluded from the scope of the amendments in this proposed 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 would direct the finance provider to pay the supplier. Similarly, the Board believes that payment processing arrangements would not result in an intermediary providing suppliers with an option to request early payment. The Board believes that normal factoring arrangements are excluded from the scope of the proposed 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.

BC16. 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 be 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.

BC17. The Board decided that the amendments in this proposed Update would apply only for 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.

BC18. The Board decided that the amendments in this proposed Update would apply to both public and nonpublic entities. The Board received feedback through the Private Company Council in which it noted that, in its experience, private companies rarely act as buyer parties in the programs. However, through outreach with financial statement users, the Board learned that the proposed amendments would provide users with relevant information in those instances, even if they are rare.

Disclosure

BC19. 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 Topic in the Codification. The amendments in this proposed

Update are the result of the Board's consideration of the concepts in Chapter 8 as well as feedback received from outreach with stakeholders.

BC20. 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 would be 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 would be required to disclose the key terms of the program and the balance sheet line item in which the outstanding confirmed amount is presented.

BC21. Providing qualitative and quantitative information about the programs in the notes to financial statements would provide 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 would better inform those 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 not be useful on its own. The outstanding confirmed amount and a rollforward of changes in that amount from the prior period (that is, quantitative disclosures) would 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) would allow investors and analysts to assess the nature of the program and would 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.

BC22. 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.

BC23. The Board also considered but decided not to require that the 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 is often not available to the buyer because it is subject to a separate agreement between the finance provider and the supplier. The Board believes that 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. Some Board members noted that a buyer would not be precluded from disclosing additional information about its arrangements if the buyer determined that was appropriate.

BC24. The Board decided to provide management with discretion to identify which program terms are the key terms that must be disclosed. The Board considered but decided not to specify which program terms are key terms because that could lead to those terms being viewed as scope criteria or balance sheet presentation criteria. In addition, some Board members believe that management is in the best position to identify the key terms of a program. The Board provided an illustrative example of a hypothetical key terms disclosure to assist in identifying the key terms of a buyer's program. However, that example is intended neither to provide an exhaustive list of all possible key terms nor to imply that certain terms must be disclosed.

BC25. The Board considered requiring a 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 believes that developing that guidance would delay the project's completion.

BC26. The Board decided not to require that the buyer in a program disclose both the rollforward and the outstanding confirmed amount at interim periods. 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 guidance 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.

Three Board members disagreed with that decision because (a) outreach with buyers and finance providers indicated that the information required to prepare those disclosures would be readily accessible and would not be costly to obtain and (b) outreach with financial statement users indicated that consistent disclosure of that information at interim periods would provide significant benefit. Financial statement users indicated that consistent interim disclosure of the information about supplier finance programs is critical to their ability to understand the activity in the period, changes from period to period, and potential magnitude of an entity's supplier finance programs. Accordingly, those Board members concluded that application of the interim disclosure requirements in the proposed Update on Topic 270 addressing material changes from year-end, cited by the majority, would not result in sufficient interim disclosure.

Effective Date and Transition

BC27. To improve the comparability of financial information, the Board decided that in the period of initial application, the amendments in this proposed 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 proposed amendments would 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 proposed amendments easily accessible to buyers. The Board believes that the expected benefits of retrospective application would justify the related expected costs.

BC28. The Board decided that early application of the amendments in this proposed Update should be permitted for financial statements that have not been issued or made available for issuance as of the issuance date of a final Update. The Board will determine the effective date after it considers stakeholders' feedback on the proposed amendments.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.