Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** ***ASU 2022-04, Disclosure of Supplier Finance Program Obligations***

**Check (applicable entity):**

P/C Life Health

Modification of Existing SSAP

New Issue or SSAP

Interpretation

Description of Issue:

In September 2022, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50) Disclosure of Supplier Finance Program Obligations.* The Board issued ASU 2022-04 to enhance the transparency of supplier finance programs. ASU 2022-04 is effective for fiscal years beginning after December 15, 2022.

The amendments in ASU 2022-04 apply to all entities that use supplier finance programs in connection with the purchase of goods and services (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 to access payment in advance of an invoice due date through 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. Suppliers generally agree to accept an amount less than owed to receive payment from the intermediary timelier than the invoice due date. The full amount owed by the buyer is then paid to the intermediary, resulting in a spread income to the financing intermediary.

The ASU amendments 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. These disclosures were supported as buyers who utilize these programs are getting a form of financing, but the amounts owed to the financial intermediaries have been reported differently, with some entities reporting as trade payables and others reporting as debt. As such, users of the financial statements do not have clear information on the use of these financing structures. ASU 2202-04 requires the buyer to make the following annual disclosures of qualitative and quantitative information about its supplier finance programs:

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.

*SSAP No. 105R—Working Capital Finance Investments* addresses programs similar to some of the ones described in ASU 2022-04, however it addresses such programs from the perspective of evaluating investments in such programs for admissibility for the investor in such programs. That is, the insurers tend to act as a finance provider or an investor in the supplier chain finance program, not the “buyer.” Insurers are not typically “buyers” in such programs as they are described in ASU 2022-04. The guidance in SSAP No. 105R would describe the “buyer” in the ASU 2022-04 as an obligor of the working capital finance program. Therefore, since the disclosures in ASU 2022-04 are for buyers/obligors of supplier finance programs, not for providers of liquidity – the investors, the disclosures do not seem relevant to require of the investors in such programs for statutory accounting.

Note that if an insurer were to sell its premium receivables, existing guidance in S*SAP No. 42—Sale of Premium Receivables* and *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* provide guidance which distinguishes sales from financing transactions. Therefore, the new GAAP disclosures in ASU 2022-04 are not recommended for incorporation into statutory accounting.

Existing Authoritative Literature:

*SSAP No. 105R—Working Capital Finance Investments*

1. This statement establishes statutory accounting principles for working capital finance investments held by reporting entities. This statement amends *SSAP No. 20—Nonadmitted Assets* (SSAP No. 20) to allow working capital finance investments as admitted assets to the extent they conform to the requirements of this statement.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The Working Group most recently updated SSAP No. 105R­­­­ with substantive revisions which were effective June 30, 2020. Revisions to SSAP No. 105R were from agenda item 2019-25: Working Capital Finance Notes which also resulted in *Issue Paper No. 163—Working Capital Finance Investment Updates*. In agenda item 2019-25 the Working Group reviewed ten industry requests and incorporated 7 out of 10 revisions to SSAP No. 105R.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:**

None

**Convergence with International Financial Reporting Standards (IFRS):** None

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to SSAP No. 105R to reject ASU 2022-04 as illustrated below. As insurance reporting entities are not the buyers (obligors) of supplier chain finance programs, the disclosures in ASU 2022-04 are not relevant. Reporting entities that invest in working capital finance programs are the providers of capital (investors) not the buyers (obligors) of such programs. Revisions to SSAP No. 105R:

## *ASU 2022-04, Disclosure of Supplier Finance Program Obligations* is rejected.

Staff Review Completed by: Robin Marcotte– NAIC Staff, November 2022

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2022/Fall - December/Meeting/F - 22-18 ASU 2022-04 supply chain .docx