BDO BULLETIN

DISCLOSURE OF SUPPLIER FINANCE PROGRAM OBLIGATIONS

OCTOBER 2022

SUMMARY

The FASB issued ASU 2022-04, *Disclosure of Supplier Finance Program Obligations*, (the "ASU") to create new disclosure requirements to enhance the transparency of supplier finance programs for investors and other resource providers.

BACKGROUND

Supplier finance programs ("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 other intermediary based on 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. These programs often benefit both parties, because the buyer often negotiates a longer payment term for its purchases, and the supplier in essence finances its receivables at a lower interest rate than would be offered to that supplier if it had obtained its own financing and collects the funds immediately.

U.S. GAAP does not include specific authoritative disclosure guidance for buyer companies that use supplier finance programs in connection with buying goods or services. For example, ASC 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. Additionally, obligations subject to such arrangements may be presented in the same balance sheet line item as accounts payable. Accordingly, diversity in practice exists in the disclosure of these transactions.

As a result of this diversity and the lack of authoritative guidance, the FASB observed that financial reporting of a buyer's use of supplier finance programs has provided limited decision-useful information for users of the financial statements. In addition, stakeholders raised concerns with the FASB that financial statements provided limited information about the impact of such programs on a buyer entity's working capital, liquidity, and cash flows.

The ASU addresses some of these concerns by requiring all entities (buyers) that use supplier finance programs to provide both quantitative and qualitative disclosures in each annual and interim reporting period to increase the transparency about their use of the programs. However, the ASU does not impact recognition, measurement, or financial statement presentation, nor does it address accounting and reporting by the seller entity.

MAIN PROVISIONS

- The amendments apply to all entities (both public and nonpublic) that use supplier finance programs in connection with the purchase of goods and services.
- The ASU adds ASC 405-50, *Liabilities-Supplier Finance Programs*[1], to the Codification, which requires business entities to disclose, on an annual basis, the following information about such transactions:
  - Key terms of the program, including the following:
    - A description of the payment terms, including payment timing and the basis for its determination
    - Assets pledged as security or other guarantees provided to the finance provider or intermediary
  - The amount of obligations that the entity has confirmed as valid to the finance provider or intermediary under the program that remains unpaid at the end of the reporting period, as well as the following information:
    - A description of the balance sheet presentation, including the amount outstanding in each line item if the amounts are presented in more than one balance sheet caption
    - A rollforward of those obligations during the annual reporting period, which includes opening balance, additions, settlements, and ending balance
- In each interim reporting period, the buyer should disclose 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.
- 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 also be disclosed in each interim period.
- If a buyer entity uses more than one supplier finance program, the above disclosures may be aggregated unless the programs have substantially different characteristics.

EFFECTIVE DATES AND TRANSITION

For all entities in scope, the amendments are effective for financial statements issued for annual and interim periods 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.

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

BDO INSIGHTS

The ASU adds significant new disclosure requirements for both public and non-public entities, and some of the information may not be readily available from an entity’s existing systems and processes. Entities that use supplier finance programs should not wait to begin to gather this data, given the adoption date and the requirement to apply the guidance retrospectively.

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The ASU is available **here**.

[1] Liabilities-Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations