April 4, 2022

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2021-007

Dear Ms. Salo:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants welcomes the opportunity to comment on the Financial Accounting Standards Board's (FASB's or Board's) Proposed Accounting Standards Update (ASU), "*Liabilities – Supplier Finance Programs (Subtopic 405-50) – Disclosure of Supplier Finance Program Obligations*." FinREC supports the Board's objective 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. FinREC generally agrees with the proposal but recommends revising the proposed scope guidance as well as certain enhancements to the proposed disclosure requirements that we believe could provide better clarity and transparency to users of financial statements. FinREC also encourages the Board to consider a separate project to address the balance sheet presentation of obligations covered by supplier finance programs and the cash flow statement presentation of changes in those obligations.

The remainder of this letter provides more specific feedback on the proposed ASU for your consideration.

Scope

FinREC believes the proposed scope guidance, specifically the characteristic in paragraph 405-50-15-2c, may not appropriately capture the overall population of supplier finance programs. Consider the following scenarios:

> Scenario 1: Supplier agrees to extended payment terms of 90 days with a buyer because the supplier will be able to access a financial intermediary to receive/demand payment in a shorter period (30 days). Therefore, the supplier invoice requires payment in 90 days. Buyer agrees to pay that same financial intermediary when the supplier invoice is due (90 days).
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> Scenario 2: Supplier provides normal payment terms of 30 days to Buyer. Buyer arranges for a financial intermediary to pay Supplier within 30 days. Buyer agrees to pay the financial intermediary after 90 days.

FinREC believes the supplier finance programs in both Scenario 1 and 2 should be in scope for the proposed disclosures as they exhibit similar economic characteristics. In both of these scenarios, Buyer has 90-day payment terms and Supplier is paid by the financial intermediary within 30 days.

FinREC observes, however, that the characteristic in paragraph 405-50-15-2c described as "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" is not present in Scenario 2.

Therefore, FinREC recommends revising the characteristic in paragraph 405-50-15-2c which may not be present in certain supplier finance programs as illustrated by Scenario 2. FinREC understands from Basis of Conclusions paragraph BC15 that ASC 405-50-15-2c was included in the guidance to ensure that credit card and certain other arrangements are scoped out of the ASU. If the intention is to scope out certain arrangements, FinREC recommends more directly scoping out those arrangements or providing for other scoping guidance that does not inappropriately narrow the scope.

Disclosure Enhancements

FinREC believes the amendments in this proposed Update provide a better foundation to decision-useful information for investors and other financial statement users. That said, FinREC believes the proposed disclosures could be enhanced by requiring entities to disclose when payment terms under the supplier finance program are extended beyond the contracted payment terms with the supplier.

Consider an example related to the supplier finance program described in Scenario 2. Also assume the Buyer has $50 million payable to the financial intermediary at the reporting date. In this example, FinREC believes Buyer should be required to disclose that it has $50 million of supplier payables with 30-day payment terms that have been extended to 90-day payment terms under the supplier finance program.

Aggregation

FinREC agrees with the proposed disclosure guidance allowing 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.

Interim Reporting

FinREC believes entities should be required to provide the proposed quantitative disclosures only in an interim reporting period when, as determined by the entity, a significant event or transaction related to a supplier finance program has occurred that has a material effect on the entity (consistent with the proposed principal in Topic 270 interim reporting).

Transition and Effective Date

FinREC believes entities will need time to implement processes, systems and controls to prepare the proposed rollforward of obligations outstanding at the end of the reporting period. In addition, entities may be unable to gather the information necessary to prepare the proposed rollforward on a retrospective basis.

FinREC believes the effective date of the new disclosure requirements could be as early as fiscal years ending after December 15, 2022, if the proposed rollforward is implemented prospectively in periods after the period of adoption. That said, if the proposed rollforward is required upon adoption for the most recent balance sheet date or on a retrospective basis for each balance sheet date presented further implementation time would be necessary.

Members of FinREC are available to discuss our feedback with Board members or staff at their convenience.

Angela J. Newell
Chair
Financial Reporting Executive Committee