ASU 2022-04
Disclosures Related to Supplier Finance Programs

On September 29, 2022, the FASB issued Accounting Standards Update (ASU) 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. ASU 2022-04 requires new disclosures for supplier finance programs, which also may be referred to as reverse factoring, payables finance, or structured payables arrangements.

Description of Supplier Finance Program. Supplier finance programs 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, generally, is neither involved in negotiating nor is legally a party to the agreement. These programs effectively allow suppliers to use the credit of their buyers and, particularly in cases where the buyer is substantially larger than the supplier, may allow the supplier to finance working capital at a lower rate of interest (as compared to the supplier's own financing sources for working capital, such as a line of credit).

Practice Note: 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 without offset, deduction, or any other defenses to payment.

As indicated in Basis for Conclusion (BC) 5 of the ASU, stakeholders 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. 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 sources of working capital and the potential risk of the longer payment terms with suppliers.

Practice Note: As indicated in BC22 of ASU 2022-04, the Private Company Council informed the FASB that private companies rarely act as buyer parties in the programs. That observation also was confirmed by comment letter respondents and is consistent with our experience with CPEA members. However, through outreach with financial statement users, the FASB learned that the amendments, including roll-forward information that is required annually, are likely to provide users with relevant information in those instances, even if they are rare. The FASB considered but decided not to defer effective dates for private companies noting that, for those private companies that do have programs, information about the programs would be decision useful for investors and other users. Private companies may be a participant in these types of programs more frequently as a supplier, especially as interest rates continue to rise. The disclosures in ASU 2022-04 apply only to buyers.

The amendments in ASU 2022-04 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 should disclose qualitative and quantitative information about its supplier finance programs.

In each annual reporting period, the buyer should disclose the following information:

- 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
- For the obligations that the buyer has confirmed as valid to the finance provider or intermediary:
    - The amount outstanding that remains unpaid by the buyer as of the end of the annual period (the outstanding confirmed amount)
    - A description of where those obligations are presented in the balance sheet
    - A roll-forward 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.

The amendments in ASU 2022-04 do not affect the recognition, measurement, or financial statement presentation of obligations covered by supplier finance programs.

Effective Date and Transition

The amendments in ASU 2022-04 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

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 be disclosed in each interim period.

The amendments in ASU 2022-04 should be applied retrospectively to each period in which a balance sheet is presented, except for the amendment on roll-forward information, which should be applied prospectively.

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