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File Reference No. 2021-007
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Proposed Accounting Standards Update, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations (File Reference No. 2021-007)*

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations* (the proposal or proposed amendments), issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's efforts to enhance the transparency of supplier finance programs. Overall, we believe that the proposed amendments would provide financial statement users with information so that they can understand the effect of those programs on an entity's working capital, liquidity and cash flows. However, we believe several aspects of the proposed amendments can be further clarified.

Our responses to the questions in the proposal are included in the Appendix to this letter.

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We would be pleased to discuss our comments with the Board or its staff at its convenience.

Very truly yours,

Appendix – Responses to Questions for Respondents included in the FASB’s proposal

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.

We support providing users with decision-useful information related to the effect of supplier finance programs. However, we defer to users to comment on whether the proposed disclosures would provide them with decision-useful information.

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.

We observe that, in practice, buyers sometimes enter into side agreements with their suppliers to incentivize the supplier to participate in factoring programs established between the buyer and intermediaries. These side agreements often contain terms that are important for understanding the nature of the overall supplier finance arrangement.

We observe that the proposed scope guidance in ASC 405-50-15-2(a) only refers to an agreement between an entity and a finance provider or intermediary as a characteristic of a supplier finance program. We believe the terms of any agreement(s) between the buyer and its suppliers should be considered when determining “the key terms of the program” for purposes of the disclosure in proposed paragraph ASC 405-50-50-3(a).

Although proposed paragraph ASC 405-50-15-4 would clarify that “all available evidence shall be considered, including arrangements between the entity and its finance provider or intermediary and between the entity and its suppliers” when determining whether the buyer has entered into a supplier finance arrangement, we suggest that ASC 405-50-50-3(a) be clarified to say that the same principle should be applied when determining the “key terms” of the overall arrangement that should be disclosed.

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.

Generally, we support the proposed scope and the Board’s decision not to provide a prescriptive definition of a supplier finance program based on certain contractual terms.

However, based on our experience, buyers may not be privy to the details of the arrangements made between their suppliers and a third-party intermediary. While the buyer may confirm invoices as part of its arrangement with the finance provider or intermediary, it may not be able to readily determine whether the supplier finance program explicitly allows the entity’s supplier to request early payment.

In addition, a supplier's request for early payment may not be a necessary part of an arrangement that provides the buyer with financing. Consider an arrangement where the buyer and the supplier have not negotiated extended payment terms, and the finance provider or intermediary pays the supplier pursuant to the terms of the supplier's invoice. However, under the arrangement between the buyer and the finance provider or intermediary, the buyer is not required to pay the finance provider or intermediary until a later date. In this arrangement, the supplier does not have the option to request early payment from the finance provider or intermediary, but the buyer is, nevertheless, provided financing by the finance provider or intermediary. It would appear that this arrangement would not be captured by the proposed scope of the guidance, as specified in proposed paragraph ASC 405-50-15-2(c), because the supplier does not have the option to request early payment.

We believe such an arrangement should be in the scope of the proposed disclosure requirements. Therefore, we suggest that the characteristic described in proposed paragraph ASC 405-50-15-2(c) be expanded to include circumstances where the buyer has the option to reimburse the finance provider or intermediary at a date subsequent to the date the finance provider or intermediary pays the supplier pursuant to the terms of the supplier's invoice.

We further observe that paragraph 15 of the proposal's Background Information and Basis for Conclusions (BC15) includes examples of arrangements that the Board would exclude from the scope of the guidance (e.g., traditional credit cards, normal factoring arrangements). We suggest that the Board include these examples of arrangements that it considers to be outside of the scope in the guidance rather than just in the Basis for Conclusions.

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.

We believe that preparers are in a better position to comment on the incremental cost and operability concerns of providing the information required for the rollforward in comparison with the cost of disclosing only the outstanding confirmed amount. To the extent that this information can be gathered by preparers, we do not expect the proposed disclosures to result in a significant increase in the overall cost of the audit.

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.

We generally support the proposed guidance in ASC 405-50-50-2 that would allow buyers that use more than one supplier finance program to aggregate disclosures, but we recommend that the Board clarify what “substantially different” means by providing the characteristics of programs that could be considered “substantially different,” such as:

- ▶ Different intermediaries (counterparties) used
- ▶ Different fee arrangements (even when using one finance provider or intermediary) that may signify that different services are being performed by the finance provider or intermediary
- ▶ Geographical differences between programs (e.g., domestic versus international)

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.

We do not foresee issues related to auditing the information that would be required under the proposed guidance. We defer to preparers to comment on their ability to gather the required information in a cost-beneficial manner, especially historical information needed to implement the proposed guidance on a retrospective basis.

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.

In our view, there are no proposed disclosures that would require special consideration for entities other than public business entities.

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

With respect to Question 8(a), we believe that users are in a better position to respond to this question.

With respect to Question 8(b), see our response to Question 4 regarding our views on incremental audit costs that would stem from the proposed disclosures. Similar to that response, if the proposed disclosures are required on an interim basis, we do not expect there to be a significant increase in the overall cost of the audit.

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.

It is possible that some entities may not have the information required for the rollforward and would need to put in place processes to obtain that information and subject it to proper internal controls. Other entities may have the required information but may not have subjected it to internal controls. To address these issues and reduce the cost of implementation, we believe the FASB should give entities a choice of applying the disclosure requirements on a prospective basis.

If the Board ultimately decides to require this information on a retrospective basis, it should provide entities with sufficient time to gather the necessary information and implement sufficient controls.

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.

We believe that preparers are in a better position to respond to this question.