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Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

**File Reference No. 2021-007**

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU, Update or proposal), *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations.*

We appreciate the FASB's efforts to enhance the transparency of supplier finance programs. Overall, we believe the Board's proposal would address several important elements of stakeholders' requests for additional information about these arrangements. However, as discussed later in our response to Question 2, we believe the decision usefulness of reporting entities' information likely would be improved if the proposal provided additional guidance or examples of what might constitute "key terms" of a supplier finance program that should be disclosed. As explained in our response to Question 5, we also believe additional guidance is needed for differentiating programs. Without additional guidance, we believe important information about the obligations covered under these programs may be obscured if disclosures related to multiple programs are aggregated.

Our responses to each of the questions posed in the proposal are included in the remainder of this letter.

**Responses to Questions for Respondents**

> **Question 1:** Would the amendments in this proposed Update provide decision-useful information for investors and other financial statement users to consider theeffect of supplier finance programs on an entity's working capital, liquidity, and cash flows? Please explain why or why not.

We believe requiring disclosures about the key terms of supplier finance programs, including the rollforward of the obligations confirmed under the program(s) that remain unpaid by the entity, would address several important elements of stakeholders' requests for additional information about these arrangements and would improve the comparability of disclosures across reporting entities.

Please see our response to Question 2 for our recommendations to further enhance the decision usefulness of the proposed disclosures.

> **Question 2:** Are any additional disclosures or enhancements to the proposed amendments needed to understand the effect of supplier finance programs on anentity's working capital, liquidity, and cash flows? If so, please explain what that information is and how it would be used.

We believe that the proposed disclosures should enable investors, creditors and analysts to understand the effect of supplier finance programs (as defined in the ASU) on a buyer entity's cash flows. However, as discussed below and in our response to Question 5, providing additional guidance for identifying key program terms and to differentiate between substantially different supplier finance programs, would further enhance the decision usefulness of the proposed disclosures.

As noted during the FASB's outreach, some investors and analysts believe that the obligations covered under supplier finance programs should be presented as short-term debt or in a separate balance sheet line item, rather than as accounts payable. Paragraph BC6 of the proposed ASU states in part that "stakeholders expressed nuanced views about which obligations covered by those programs should be presented outside accounts payable. For example, some of those stakeholders preferred that all obligations covered by a program have separate presentation, while other stakeholders preferred separate presentation of only a portion of the obligations that would be determined on the basis of the change in payment terms with suppliers. Other investors and analysts preferred that the Board not address the financial statement presentation of the obligations, but instead require buyers to disclose information about the programs to allow users to understand their nature, activity during the period, changes from period to period, and potential magnitude."

Paragraph BC11 indicates that, because users view enhanced transparency from buyer entities of the use of the supplier finance programs as being more important than providing additional guidance on when such amounts should be presented differently on the balance sheet, the FASB decided not to reconsider the balance sheet and statement of cash flows presentation requirements of obligations covered by these programs at this time since doing so would delay the immediate investor need for disclosure improvements.

Paragraph BC24 indicates that the Board decided to provide management with discretion to identify key program terms to be disclosed (i.e., pursuant to paragraph 405-50-50-3a), rather than specify key terms, because specifying key terms could lead to those terms being viewed as scope criteria or balance sheet presentation criteria. However, we believe the decision usefulness of reporting entities' information likely would be improved if the proposal provided additional guidance or examples of what might constitute "key terms" of a supplier finance program that should be disclosed. Examples of terms or conditions that we believe would be key to a user's understanding of how a buyer entity's use of the program can potentially affect the entity's cash flows, include, but are not limited to, the following:

- Collateral arrangements or guarantees (e.g., a parent-company's guarantee of a consolidated subsidiary's obligations to the finance provider or intermediary under the program),
- Other credit arrangements with the finance provider or intermediary, including whether there are any cross-default provisions,
- Tri-party arrangements involving the buyer entity, supplier, and finance provider or intermediary, and
- Discounts or rebates for which the buyer entity becomes eligible, solely because of the supplier finance program.

The preceding list is not meant to imply that the existence of such terms must always be disclosed. However, because these are factors that often are considered relevant when determining the classification of these program obligations under SEC reporting requirements (particularly when similar terms and conditions do not exist in the standalone contracts with vendors), we generally believe disclosure of this information would be helpful. We recognize that other applicable GAAP already may require some of these terms and conditions to be disclosed elsewhere in the financial statements. In those circumstances, cross-references to those other related disclosures would be helpful to the users of the financial statements.

We believe the additional guidance described above may help reporting entities identify and provide more relevant information requested by financial statement users to assess which obligations covered by these programs they believe are more characteristic of traditional accounts payable to vendors versus short-term financing activities. However, to understand the extent to which use of these programs affect the timing of an entity's cash flows, we believe information about payment terms also would need to be disclosed.

Paragraph BC25 of the proposed ASU states in part that the "Board considered requiring a disclosure of an average payment term in days for suppliers in the program. However, the Board decided not to require that disclosure because the Board expected that preparers and practitioners would need extensive guidance about the calculation of an average payment term to ensure comparability of that metric." However, a disclosure about the range of payment terms for obligations under these programs (e.g., 60 to 90 days) compared to the range of payment terms with vendors that do not participate in these programs (e.g., 30 to 45 days) should not be difficult for reporting entities to provide and would give users of the financial statements an indication of the extent to which payment terms vary. Such disclosure also would indicate the extent to which the entity's liquidity and working capital could potentially be impacted if the program(s) were terminated and the entity was no longer able to sustain the longer payment terms with suppliers.

**Question 3:** Is the proposed scope guidance, including the indicator in paragraph 405-50-15-3, understandable and operable, and does it appropriately capture theoverall 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.

We believe the proposed indicator in paragraph 405-50-15-3 (i.e., "the commitment to pay a party other than a supplier for a confirmed invoice") is understandable and operable. However, we defer to the views of financial statement users as to whether other indicators (or scope guidance) should be used to capture a broader population of programs that serve a similar purpose for buyer entities.

**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.

With respect to Question 4(a), we defer to the views of investors and other financial statement users.

As noted in the ASU's Basis for Conclusions, use of these programs often is supported by technology that makes relevant information accessible to the buyer entity. As a result, with respect to Question 4(b), we do not envision any significant challenges with being able to audit the proposed disclosures. The amount of incremental audit costs reporting entities would incur to comply with the proposed disclosures would depend on the materiality of the amounts associated with the program(s) in scope, including the extent and nature of the buyer entity's internal control structure, as well as the internal control structure and technology provided as a service to the buyer entity by the finance provider or intermediary. Audit costs would increase to the extent such controls have not been previously evaluated and tested as part of the buyer entity's audit, and also to the extent the controls at the finance provider or intermediary were not regularly subject to audit by a third party (and result in issuance of a service auditor report pursuant to AT-C 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*).

Incremental audit costs would consist of both one-time costs and recurring costs. One-time audit costs would be incurred to document and test the design, implementation and operating effectiveness of controls that had not been tested before. Recurring audit costs would be incurred to test the design and operating effectiveness of such controls annually, as well as to substantively audit the rollforward amounts each year. Overall, we do not expect these incremental costs to be significant relative to the overall audit costs.

**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 wouldbe useful for investors and other financial statement users to differentiate between substantially different supplier finance programs and how that information would be used.

Without additional guidance for differentiating programs, we believe important information about the obligations covered under these programs may be obscured if disclosures related to multiple programs are aggregated. As noted in our response to Question 2, there are certain terms and conditions of supplier finance programs that, when present, are more characteristic of short-term financing arrangements than traditional vendor accounts payable and could serve as the beginning of a framework for differentiating programs. However, we recognize that providing additional guidance for differentiating program characteristics also could lead to those terms being viewed as balance sheet presentation criteria, which we understand the Board is trying to avoid at this time. Alternatively, the Board should consider rewording the proposed guidance in paragraph 405-50-50-2 to state that aggregation of information from different programs is permitted only when the terms and conditions of those arrangements are substantially the same. As currently proposed, the guidance in paragraph 405-50-50-2 could be interpreted to imply that only aggregation of information from programs that are "substantially different" could obscure useful information. Emphasizing the importance of programs being "substantially the same" for purposes of aggregating information from different programs for disclosure should further reduce the likelihood of useful information being obscured.

**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.

Please see our response to Question 4(b) where we discuss our views about the operability and auditability of the information required to comply with the proposed disclosures.

**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.

We generally agree with the Board's expectation noted in the ASU's Basis for Conclusions that the proposed disclosures should not result in significant costs to buyer entities because (a) the proposal does not create new recognition or presentation requirements and (b) these programs often are supported by technology that makes the relevant information required to be disclosed readily accessible. We further acknowledge the feedback the Board received from the Private Company Council that private entities rarely act as buyer parties in these programs. Given these factors, we do not believe the proposed disclosures 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 defer to the views of investors and other financial statement users to provide feedback on which approach would provide the most decision-useful information for interim periods presented. We also recommend that the Board consider the feedback received on its proposed ASU, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*, before concluding on this reporting consideration.

With respect to Question 8(b), please refer to our response to Question 4(b) regarding the nature and extent of additional audit costs that may be incurred if these quantitative disclosures would be required on an interim basis in addition to annual periods.

**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.

We defer to the views of investors and other users of financial statements, provided the costs and challenges (if any) preparers may face if required to present the proposed disclosures retrospectively for each balance sheet date presented do not outweigh the incremental benefits to users.

**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 defer to preparer feedback to determine how much time may be needed to implement the proposed amendments. However, we recommend that entities that are not public business entities be given an additional year to implement, with the ability to early adopt. We believe that the additional year would allow these entities, which typically have smaller accounting departments, to benefit from review of public company disclosures from the first year of adoption.

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We appreciate the Board's efforts to enhance the transparency of supplier finance programs by requiring a buyer in such programs to disclose information about the program that allows a user of the financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to RoAnna Pascher at 732.515.7333 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

RSM US LLP