

A practical guide to reporting Supply Chain Finance programs under the latest FASB rules

FASB regulations now require corporations to disclose their supplier finance arrangements. The Working Capital Forum brought together experts from EY and Taulia to offer a practical guide to reporting under the new regulations

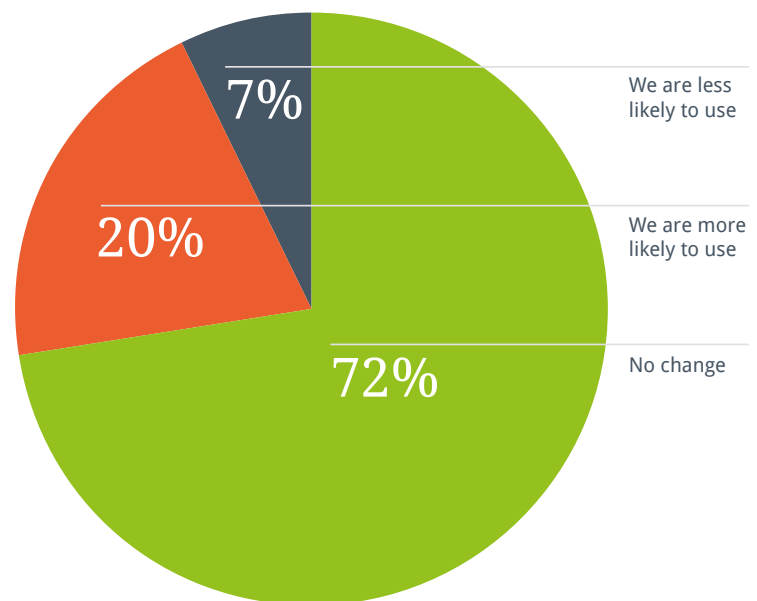
If anyone needed confirmation of the level of interest in the new FASB Accounting Standards Update (ASU) covering supply chain finance reporting, then the presence of more than 550 viewers for the Working Capital Forum webinar on the topic will have provided it.

The **update**, first released in September 2022, requires companies covered by U.S. GAAP to include details of their supply chain finance (SCF) programs in their company reporting.

The changes are unlikely to affect the continuing use of supplier finance as a working capital tool, with almost three quarters of companies polled by The Working Capital Forum saying the new rules would have no effect on their use of SCF and one in five saying the greater clarity would make them more likely to use it. (see Chart 1). Still, they do place additional requirements on corporations for which their treasury and finance teams should be ready.

Chart 1

What effect will the requirement to report your SCF programs have on your use of supplier finance?



Source: Working Capital Forum Poll, 2023

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Getting the accounting treatment right

The FASB disclosure requirements are not intended to change accounting practice. Still, many SCF programs start with treasury and sometimes aren't subjected to accounting analysis.

As Alex Fredericks, partner at EY, points out, the first step to getting reporting right is getting the accounting treatment right - and that's not as simple as it might sound. "There's no codified GAAP guidance from the FASB on supply chain financing programs", says Fredericks, "so we're left to think about the accounting from some SEC speeches 10 or so years ago¹."

"Make sure treasury is talking with their counterparts in finance and controllership to get the accounting correct on these programs. It's very important to make sure that the trade payables don't need to be reclassified as debt."

What's in scope?

The Accounting Standards Update (ASU) from FASB is quite clear about what puts a supply chain finance program within the scope of the new reporting requirements.

A program is in scope – and should be reported – if:

- ➔ It requires an entity to enter an arrangement with a finance provider or some other intermediary.
- ➔ There is a confirmation process for obligations that run through the program.
- ➔ There is an option for the supplier to be paid earlier, under the program, than they may otherwise have been.



Alex Debbink, Senior Manager – Financial Accounting Advisory Services, EY

Preparing the way

For most treasury and finance teams, the first step towards compliance will be to understand what's happening across the organisation, according to EY's Alex Debbink, who points out that many clients are taking inventory of supplier finance programs they may have in place, ensuring they don't risk being reclassified as debt. "Let's call it 'letting the skeletons fall out of the closet'", he says.

The eventual disclosure plan needs to be coordinated across key stakeholders and shouldn't be done in isolation. "You absolutely should benchmark and see what's being disclosed by others with similar programs."



Ali Ansari, Managing Director – Product Management, Taulia

EY's three-stage plan to be ready for FASB reporting

Explore whether arrangements are in place that fit the scope of the Accounting Standards Update, perhaps some that have not been disclosed in past periods

01

Consider the impact of coming changes and how to manage risk by re-evaluating program terms and disclosures

02

Construct an implementation plan that includes all stakeholders – obtain data and update financial statements and disclosures and Management Discussion and Analysis disclosures

03

Source: EY 2023

¹ (Comerford 2003 and 2004)

What to expect from your platform provider

Gathering the required data is always going to be easier when supplier finance program run on a fintech platform that instantly provides the numbers.

As Ali Ansari, managing director, product management at Taulia, puts it, "We are an embedded solution, so we have access to a lot of data that we pull from the ERP, and all that information is available through the buyer's dashboards."

That data will include:

- ➔ A description of the program's key terms
- ➔ Confirmed obligations outstanding
- ➔ Invoices confirmed + paid

If and when additional data is required by FASB or its international equivalent IASB, that too will be available through the Taulia dashboard and is easily verifiable as an audit trail exists within the ERP, adds Ansari.

Three Key Takeaways

At the end of the conversation, all three participants were asked for a single action point that they would suggest for busy treasury and finance teams. They were:



1. Get the scoping right

Understand all the different programs you have, which ones are in scope, and make sure you have a plan in place to get the appropriate data and to prepare the disclosure.



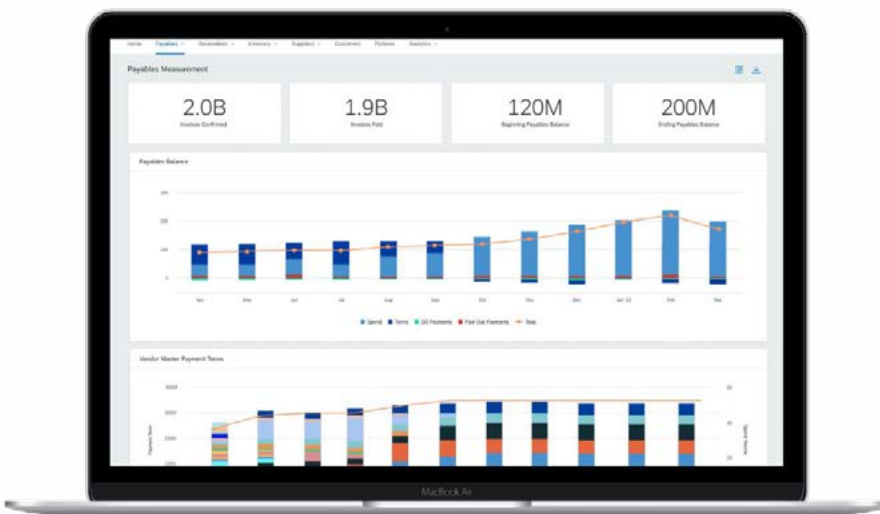
2. Make sure you have all the information available

Get the key data you need ready now - or at least know where you can get it when you need it. Then you won't be struggling against deadlines



3. Inclusive Communication

Make sure you have the right internal stakeholders as part of the conversation. Don't wait until you're getting sign-offs on Q1 review to have a discussion with your audit team.



The Taulia dashboard: key data for SCF reporting

The continuing value of SCF

Supply chain finance continues to be a valuable working capital tool, and new reporting requirements will not change that. As Ansari reminds us, it is also a crucial tool for getting liquidity into the smaller companies in supply chains. "Almost 80% of those that take early payment on the Taulia platform are SMBs."

Webinar Participants



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This report is based on the first in a series of educational webinars produced by the Working Capital Forum in partnership with Taulia. A recording of the webinar can be accessed online at <https://taulia.com/resources/webinars/fasb-regulations-webinar/>



For more information on the topics covered in this report, visit www.taulia.com