

Board Meeting Handout

Leases (Topic 842)—Lessors—Leases with Variable Lease Payments

June 30, 2021

Meeting Purpose

1. At the June 30, 2021 Board meeting, the Board will discuss a sweep issue related to the transition and effective date provisions for the Accounting Standards Update No. 2021-XX, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*, for entities that are not public business entities (hereinafter referred to as nonpublic business entities). The recommended change was highlighted to the external reviewers for specific feedback. No comments or concerns were received in the external review process.

Question for the Board

1. Does the Board agree with the staff recommended changes to the transition and effective date for the Update?

Background

Transition and Effective Date for Nonpublic Business Entities

2. At its April 14, 2021 meeting the Board decided on the following regarding the transition and effective date for the amendments in a final Update:
 - (a) The amendments in this Update are effective for fiscal years beginning after December 15, 2021, for all entities, and interim periods within those fiscal years for public business entities and interim periods within fiscal years beginning after December 15, 2022, for all other entities. This is consistent with the effective date of Topic 842 for nonpublic business entities.
 - (b) Entities that have adopted Topic 842 before the effective date of this Update have the option to apply the amendments in this Update either (i) retrospectively to leases that commence or are modified on or after the adoption of Topic 842 or (ii) prospectively to leases that commence or are modified on or after the date that an entity first applies the amendments in this Update.
 - (c) Entities that have not adopted Topic 842 on or before the effective date of this Update should follow the transition requirements of Topic 842 so that those entities do not perform a separate transition to adopt the amendments in this Update.

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- (d) Early adoption is permitted but not before adoption of Topic 842.
- 3. In determining the transition and effective date for the amendments in this Update for nonpublic business entities, the Board noted that if this final Update were effective after the effective date of Topic 842, nonpublic business entities may incur incremental time and cost to understand and apply two different transition provisions and classification requirements in successive periods. Therefore, the Board decided to align the effective date of this Update with that of Topic 842 to avoid two separate transitions for nonpublic business entities.

Staff Observation and Recommendation

- 4. In drafting this Update, the staff observed that the Board's intent in providing one transition may not be realized if a nonpublic business entity elects to early adopt Topic 842 before fiscal years beginning after December 15, 2021, which is the mandatory effective date of Topic 842 and this final Update. For example, consider a private company that elects to early adopt Topic 842 and applies the associated guidance for its fiscal year beginning on August 1, 2021 (that is, before the fiscal years beginning after December 15, 2021, which is the effective date this Update). That private company would be required to apply separate transition provision for this Update because it already would have adopted Topic 842 before the effective date of this Update.
- 5. To allow the nonpublic business entities that elect to early adopt Topic 842 to have a single transition for that Topic and the requirements in this Update, the staff recommends the following changes to the transition provisions.
 - a. Entities that have adopted Topic 842 before the issuance date (not effective date) of this Update have the option to apply the amendments in this Update either (i) retrospectively to leases that commence or are modified on or after the adoption of Topic 842 or (ii) prospectively to leases that commence or are modified on or after the date that an entity first applies the amendments in this Update.
 - b. Entities that have not adopted Topic 842 on or before the issuance date (not effective date) of a final Update should follow the transition requirements of Topic 842 so that those entities do not perform a separate transition to adopt the amendments in this Update.

6. The staff believes that this change is consistent with the Board's intention in finalizing the transition and effective date for this final Update. The staff notes that this revised transition provision for nonpublic business entities aligns with transition guidance for the proposed Accounting Standards Update, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*.

Board Meeting Handout
Disclosure of Supplier Finance Programs Involving Trade Payables
June 30, 2021

Meeting Purpose

1. The purpose of the June 30, 2021 Board meeting is to present research and analysis related to the scope and the potential disclosures to be provided by a buyer party in supplier finance programs involving trade payables (the programs).

Questions for the Board

Issue A—Narrow-Scope Scoping Language

1. Does the Board believe that a narrow scope is operable? If so, which of the following alternatives does the Board prefer for purposes of describing the arrangements that would be subject to disclosure in a narrow-scope approach?
 - (a) Alternative A1—Buyer-confirmation-focused scope
 - (b) Alternative A2—Plain-English scope with buyer confirmation as an indicator.

Issue B—Narrow-Scope Disclosures

2. Which of the following alternatives does the Board prefer for purposes of requiring disclosure of the nature and terms of a program?
 - (a) Alternative B1—Require disclosure of the key terms of the program and specify the terms that are required to be disclosed.
 - (b) Alternative B2—Require disclosure of the key terms of the program and do not specify the terms that are required to be disclosed.
3. Does the Board want to require disclosure of the amount confirmed by the buyer outstanding at period end and perform outreach with users to understand the usefulness of providing a rollforward of that amount?

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4. Does the Board want to require disclosure of the amount paid early by the finance provider outstanding at period end?
5. Does the Board want to require disclosure of the balance sheet presentation of the amount confirmed by the buyer outstanding at period end?
6. Does the Board want to require disclosure of the cash flow statement presentation of any of the following amounts?
 - (a) The amount paid early by the finance provider in the current period, if that amount is considered a cash flow to the buyer
 - (b) The amount confirmed by the buyer in the current period or prior periods but settled in the current period
 - (c) The amount paid early by the finance provider in the current period or prior periods but settled in the current period.
7. Does the Board want to perform additional outreach with users to (a) determine whether the disclosure of payment terms overall or disclosure of payment terms before implementation of the program would be necessary context and (b) refine the description of the average payment term disclosure (average time remaining, average time taken to make payments, average original contract term)?

Issue C—Broad Scope Disclosure Approach

8. If the Board believes that neither of the narrow scopes described in Issue A are operable, then does the Board want to shift the focus of the project away from a narrow scope toward research on a broader scope disclosure approach?
9. If the Board believes that either of the narrow scopes described in Issue A are operable, then does the Board want to conduct supplemental research on a broader scope disclosure approach with the aim of either adding a second phase to this project or adding a separate project to the technical agenda to pursue that approach?

Background

2. At the October 21, 2020 Board meeting, the Board added a project to its technical agenda to develop disclosure requirements that enhance transparency about the use of the programs. At that Board meeting, Board members expressed an interest in learning more about several items, including:
 - (a) The definability of the programs for scoping purposes
 - (b) The buyer's ability to access certain information that financial statement users would like the buyer to disclose
 - (c) A disclosure requirement for payment term information for all trade payables.
3. To develop alternatives, the staff first performed outreach with finance providers to understand how the programs are structured from a contractual perspective. The staff used the feedback from that outreach to prepare for discussions with preparers (buyer parties in the programs) and practitioners that provided input on potential scoping language, potential disclosures, and payment term information more broadly.
4. The current scope of the project is narrowly focused on the programs. However, the Board directed the staff to perform additional research on payment term information more broadly and some stakeholders suggested that the scope should be broadened to consider disclosures about all trade payables. The staff will ask the Board to discuss a narrow-scope approach before asking the Board to discuss potential research into a broader scope approach because the Board's views on the operability of the former may affect the rationale for further researching the latter.

Issue A—Narrow-Scope Scoping Language

5. The Board will discuss the operability of scoping language applicable to the programs. That language would be used for purposes of describing the arrangements that would be subject to the disclosures to be discussed in Issue B. On the basis of research and stakeholder feedback, the staff developed the following alternatives for the Board's consideration:
 - (a) **Alternative A1—Buyer-confirmation-focused scope:** The scope would be based upon the buyer's confirmation of invoices, a contractual aspect of the programs.
 - (b) **Alternative A2—Plain-English scope with buyer confirmation as an indicator:** The scope would be based upon a general description of the program with the buyer's confirmation of the invoices used as an indicator.

6. Under Alternative A1, a preliminary draft of the wording for a narrow, buyer-confirmation focused scope could state:

A supplier finance program involving trade payables is an arrangement under which all the following conditions exist:

- a. The entity establishes a paying agent relationship with an intermediary for amounts owed to the entity's suppliers.
 - b. The entity confirms the validity of supplier invoices to the intermediary.
 - c. The entity irrevocably commits to pay the intermediary the confirmed invoice amount. The notion of an irrevocable commitment may still be achieved in arrangements in which the entity can change the payment amount after confirming an invoice. For example, this condition may still be met when both:
 1. The entity can change the stated amount of the confirmed invoice until a supplier has received early payment from the intermediary
 2. The entity can apply adjustments associated with a confirmed invoice to future invoices from the supplier.
 - d. The entity irrevocably agrees that payment to the intermediary will occur on the maturity date of the confirmed invoice.
7. Under Alternative A2, a more plain-English scope with an indicator could be written similar to the following:

A supplier finance program involving trade payables is an arrangement in which an entity arranges for a paying-agent intermediary to provide the entity's suppliers with the option to receive early payment from the intermediary for invoices that the entity has confirmed as valid. The amount of the early payment is at a discount to the invoice amount, and that discount is based on the credit rating of the entity.

The entity's commitment to pay the paying-agent intermediary a particular amount on a particular date for invoices that the entity has confirmed as valid is an indicator that the entity has established a supplier finance program involving trade payables.

Issue B—Narrow-Scope Disclosures

Program Nature and Terms

8. The Board will discuss the following alternatives on a requirement for buyers to disclose the key terms of a program:
- (a) **Alternative B1**—Require disclosure of key terms of a program and specify which terms to disclose.
 - (b) **Alternative B2**—Require disclosure of key terms of a program and do not specify which terms to disclose.

Amount Confirmed by Buyer

9. The Board will discuss (a) a potential requirement for buyers to disclose the monetary amount of confirmed invoices that are outstanding as of the end of the current period and (b) whether

to perform incremental outreach with financial statement users to understand the usefulness of a rollforward of that amount.

Amount Paid Early by Finance Provider

10. The Board will discuss a potential requirement for buyers to disclose the monetary amount of confirmed invoices that have been paid early by the finance provider that are outstanding at period end.

Balance Sheet Presentation

11. The Board will discuss a potential requirement for buyers to disclose the way that the monetary amount of confirmed invoices that are outstanding as of the end of the period are presented in the balance sheet.

Cash Flow Statement Presentation

12. The Board will discuss a potential requirement for buyers to disclose the way that the following amounts were presented in the statement of cash flows:
 - (a) The amount paid early by the finance provider in the current period, if that amount is considered a cash flow to the buyer
 - (b) The amount confirmed by the buyer in the current period or prior periods but settled in the current period
 - (c) The amount paid early by the finance provider in the current period or prior periods but settled in the current period.

Average Payment Term

13. The Board will discuss a potential requirement for buyers to disclose the average payment term for suppliers participating in the program and whether to perform incremental outreach with financial statement users around that potential disclosure.

Issue C—Broad Scope Disclosure Approach

14. The Board will discuss whether to research potential disclosures that would apply to a broader scope based on all trade payables. If the Board decides that a narrow-scope approach is operable, the Board will discuss the broader scope as a supplement to the narrow scope. If the Board decides that a narrow-scope approach is not operable, then the Board will discuss whether to shift focus to the broader scope.