# Board Meeting Handout
## Agenda Prioritization
## September 22, 2021

### Meeting Purpose

1. The September 22, 2021 agenda prioritization meeting is for the Board to consider adding three potential projects to its technical agenda. The Board will be asked to decide whether those projects should be added to its technical agenda and addressed directly by the FASB or by the Emerging Issues Task Force (EITF). The Board also will be asked to determine the scope of each new project.

2. The Board will evaluate the potential projects based on the following agenda-decision criteria:

   (a) Is there an identifiable and sufficiently pervasive need to improve generally accepted accounting principles (GAAP)?

   (b) Are there technically feasible solutions, and are the expected benefits of those solutions likely to justify the expected costs of change?

   (c) Does the issue have an identifiable scope?

3. The following table lists the three potential projects that the Board will consider:

| | **Potential Projects** |
|---|---|
| A | Investments in Tax Credits |
| B | Embedded Derivatives: Equity-Indexed Annuities and Modified Coinsurance Arrangements |
| C | Annuitization Benefits: Certain Discount Rate Changes in Other Comprehensive Income (OCI) |

## A. Investments in Tax Credits

4. The questions for the Board on this potential project are as follows:

| Questions for the Board |
| --- |
| 1. Does the Board want to add a project to its technical agenda on investments in tax credits? If "yes," does the Board want to <u>either</u>:<br><br>a. Evaluate whether the current criteria for an investment to be accounted for using the proportional amortization method is operable for investments in tax credit structures other than low-income housing tax credit (LIHTC) structures?<br><br>b. Expand the types of investments in tax credit structures that can apply the proportional amortization method beyond LIHTC structures?<br><br>2. If the answer to Question 1 is "yes," do Board members want to share any perspectives on the project being addressed by the EITF? |

**Issue Background**

5. The Board received an agenda request asking to permit the proportional amortization method within Subtopic 323-740, Investments—Equity Method and Joint Ventures—Income Taxes, to be used for investments in new markets tax credits (NMTC). The agenda request also noted that the Board could consider a broader project to simplify the accounting for all tax credit investments.

6. Subsequently, the Board received an additional agenda request in support of the proportional amortization method for NMTCs. That request also asked that the proportional amortization method be expanded to all investments that are made primarily for the purpose of receiving tax credits and other tax benefits.

7. Currently, the proportional amortization method is permitted only for investments in LIHTC structures.

***History and Overview of the Accounting for Investments in Tax Credits***

8. In 1995, the EITF reached a consensus on EITF Issue No. 94-1, "Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects." The consensus provided that an entity that invested in a qualified affordable housing project through a limited partnership investment could elect to account for the investment using the effective yield method if certain conditions were met.

9. For LIHTC investments that did not meet the criteria to elect to use the effective yield method, the investments would be accounted for using the cost or equity method of accounting. The equity method of accounting requires separate reporting of the investment performance and

the tax credits whereby the investment performance is reported within pre-tax income and the tax credits would be recorded within after-tax (net) income. The investment performance is typically a loss because qualified affordable housing projects mainly operate at a break even from a cash flow perspective and the limited partnership records depreciation expense on the project and interest expense from other project financing. Therefore, because the tax credits are presented separate from the investment performance the after-tax net benefit from the investment performing as intended is not evident in a single line item of the investor's financial statements. The cost method of accounting results in a similar gross presentation in the income statement.

10. Feedback received stated that the conditions that an investor would have to meet to be able to elect to apply the effective yield method are too restrictive and, therefore, should be reconsidered. Furthermore, some stakeholders provided feedback that applying the equity or cost method of accounting, which results in separately presenting pre-tax investment performance from the tax benefits provided by the tax credits, distorts investment performance by reporting pre-tax losses on otherwise profitable investments and makes investment performance difficult to understand.

11. In response to feedback received on Issue 94-1, the EITF redeliberated whether the conditions to apply the effective yield method should be revised and, ultimately, reached a consensus in December 2013 that they should be revised. That resulted in the issuance of Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*, which is codified in Subtopic 323-740.

12. The amendments in Update 2014-01 revised the criteria that a LIHTC investment would need to meet for an entity to be able to account for it using the proportional amortization method. Paragraph 323-740-25-1 provides the following guidance:

> A reporting entity that invests in qualified affordable housing projects through limited liability entities (that is, the investor) may elect to account for those investments using the proportional amortization method…provided all of the following conditions are met:
>
> a. It is probable that the tax credits allocable to the investor will be available.
>
> aa. The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.
>
> aaa. Substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).
>
> b. The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.
>
> c. The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment.

13. Additionally, the amendments in Update 2014-01 replaced the effective yield method with the proportional amortization method. The proportional amortization method still results in both the amortization of the investment and the tax benefit received being presented on a net basis in an entity's statement of operations as a component of income taxes from continuing operations. Under the proportional amortization method, the investment amortization would be calculated to be recognized in proportion to the tax credit allocated in the given period. Paragraph 323-740-35-2 provides the following guidance describing accounting under the proportional amortization method:

> Under the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor. The amortization amount shall be calculated as follows:
>
> a. The initial investment balance less any expected residual value of the investment, multiplied by
> b. The percentage of actual tax credits and other tax benefits allocated to the investor in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the investor over the life of the investment.

14. For those LIHTC investments that do not meet the criteria to apply the proportional amortization method in Update 2014-01, the cost or equity method of accounting in accordance with Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, would still be applied.

15. Before the issuance of Update 2014-01, an Exposure Draft was issued for public comment. There were 73 comment letter respondents representing a broad cross-section of stakeholders. One of the questions asked in the Exposure Draft was whether the proposed guidance should be extended to other types of investments for which the economic benefits are realized primarily as a result of tax credits and other tax benefits. Of the 32 respondents that answered that question directly, 29 supported extending the guidance to other tax credit programs and 3 opposed the expansion.

16. However, in an effort to issue Update 2014-01 in a timely manner to address an emerging accounting issue, the EITF limited its consensus only to LIHTC investments. That is, investments made in projects for the purpose of receiving tax credits through other federal or state tax programs would not be able to apply the proportional amortization method, even if the criteria outlined in paragraph 323-740-25-1 were met. At the time, the EITF asked the staff to do additional research on expanding the guidance in the Update to apply to other tax credit investments and bring it to the Board for an agenda decision at a later date based on the support for expansion during the comment letter process.

17. In April 2014, the staff presented to the Board its research and outreach results and an agenda decision criteria analysis to determine whether a project should be added to the technical

agenda to address accounting for other tax credit investments beyond LIHTC investments. Ultimately, the Board decided not to add a project to the technical agenda to extend the proportional amortization of accounting beyond investments in LIHTC projects mostly because of the perceived meaningful differences between LIHTC investment structures and investments in other projects that get tax credits from other programs. Additionally, the Board acknowledged that, at the time, a project on recognition and measurement of government grants was on the Board's technical agenda, and, therefore, that project may consider investments in those tax credit programs.

***Overview of Significant Tax Credit Programs and Recent Tax Credit Program Developments***

18. U.S. federal and state governments have created a number of targeted tax credit programs to incentivize and subsidize certain activities, such as the creation of affordable housing, investments in low-income communities, rehabilitation of historic buildings, and the development of renewable energy resources. Those credits offer investors a dollar-for-dollar reduction in federal tax liability up to a specified amount in exchange for providing capital to the project. An investor's return on capital comes mainly from the tax credit and the depreciation deductions to which it is entitled. In addition to the LIHTC program mentioned above, there are three main federal tax credit programs described in further detail below that are the tax credit programs that garner the most significant investments from entities to receive the tax credits. In addition, there are many state tax credit programs that may garner investments from financial institutions for the purpose of receiving tax credits. Some state programs are similar to the federal programs that exist for LIHTC and the other programs described below, while some may fit activities desired by the state but have no federal counterpart.

*NMTC*

19. The NMTC program is a federal program designed to encourage private sector equity investments for business creation and growth in both low-income and moderate-income rural and urban communities. The objective of the program is to provide a vehicle for the low-income communities to gain access to investment and capital. Section 45D of the Internal Revenue Code allows for a tax credit by virtue of making an investment in a community development entity (CDE), which in turn directs investment capital to businesses located in low-income communities. The NMTC program was originally established in 2000 and was recently extended through 2025 (although there is an effort currently being made to make the program permanent).

20. NMTC structures are multitier structures. The tax credit investor invests in an investment fund in conjunction with a leveraged lender. The investment fund then makes a qualified equity

investment (QEI) in CDEs, which in turn make qualified low-income community investment loans into the qualified business (QALICB). The CDEs are allocated tax credits.

21. Tax credits are equal to 39 percent of the total qualified equity investment and are earned over a 7-year period, which also is the recapture period for the tax credits. The investment agreements include both (a) a put option for the investor to sell its equity investment to a qualified business (or an affiliate) for a fixed nominal fee and (b) a call option for the qualified business to purchase the investor's share at fair value (which is likely very small based on the nature of the transaction). The put/call option is almost always exercised; therefore, the equity investor does not earn a significant return beyond the tax credits.

*Historic Rehabilitation Tax Credits (HTC)*

22. The HTC program is a permanent federal tax incentive program designed to encourage the preservation and reuse of historic buildings. Many states also have passed legislation providing tax incentives for historic building preservation. The HTC program was originally established in 1976 and was modified to its current form in 1986 under Section 47 of the Internal Revenue Code. Historic tax credits are earned as 20 percent of qualified rehabilitation expenditures over 5 years.

23. There are several different ways that an HTC project may be structured, including through multitiered master lease agreements. Some (but not all) agreements call for a preferred return of capital for the equity investor.

*Renewable Energy Tax Credits (RETC)*

24. The two main types of renewable energy tax credits are the Renewable Energy Production Tax Credit (PTC) and the Renewable Energy Investment Tax Credit (ITC). The PTC is a federal tax incentive designed to encourage the production of electricity from renewable resources, such as wind and solar. The program was established under Section 45 of the Internal Revenue Code. The general business income tax credit is 1.3 cents to 2.5 cents (depending on the resource), multiplied by the kilowatt hours of electricity produced by the taxpayer during a 10-year period beginning on the date the facility was originally placed into service. Other less well-known renewable energy resources that are eligible for this credit include biomass, geothermal, landfill gas, hydropower, and waste to energy. Currently, PTCs are expected to expire for most renewable energy technologies beginning construction after December 31, 2021, but there are calls to extend the credit into the future.

25. The ITC is a federal tax incentive designed to encourage the purchase of equipment that uses renewable energy, most notably solar, to generate electricity. The ITC was originally established in 1976. The ITC is earned as a function of eligible basis. Beginning in 2022,

business purchasers earn a 10-percent tax credit on the basis of an energy property installed (the rate was previously higher). Paragraphs 740-10-25-45 through 25-46 include specific guidance on how to account for temporary differences related to investment tax credits, using either the deferral or flow-through method. Under the deferral method, the carrying basis of the asset is reduced by the ITC; thereafter, the economic benefit of the ITC is reflected in pre-tax income as an ongoing reduction of the depreciation expense. Stakeholders that the staff spoke with that had ITCs and utilized the deferral method stated that the financial statement geography concerns with the equity method of accounting are not as significant for ITCs as they are for other tax credit investments.

*26.* There may be multiple ways that RETC projects are structured. However, most are structured using a "partnership flip" structure. In this structure, before the agreed-upon flip date, the tax credit investor would receive most of the tax credits, taxable income/losses, and, in some cases, distributable cash. After the date of the flip, the tax credit investor only earns a small amount of taxable/income loss, and the sponsor would earn most of it. Often, the investor also agrees to exit the structure on the date of the flip. Other common structures include an inverted lease structure in which the developer leases the assets to an operator that is owned by the developer and tax equity investor or a sale lease-back structure.

## B. Embedded Derivatives: Equity-Indexed Annuities and Modified Coinsurance Arrangements

27. The questions for the Board on this potential project are as follows.

| **Questions for the Board** |
|---|
| 1. Does the Board want to add a project to its technical agenda to address the accounting for embedded derivatives? |
| 2. If the answer to Question 1 is "yes," does the Board: |
| a. Have feedback on the project objective or scope? |
| b. Request that the staff conduct additional research or outreach on specific areas or issues? |

**Issue Background**

28. The Board received an agenda request on the application of the embedded derivative accounting guidance in Topic 815, Derivatives and Hedging, to certain long-duration contracts issued by insurance entities. The Board also received two additional letters from stakeholders commenting on the agenda request.

29. Specifically, the request focuses on two types of embedded derivatives:

    a. **Equity-Indexed Contracts**—With an equity-indexed contract, a policyholder may earn a return on the basis of the return of one or more equity market indexes. Under Topic 815, equity-indexed features are typically bifurcated and accounted for separately because equity market returns are not deemed "clearly and closely related" to debt hosts. The request is that the guidance in Topic 815 be amended to exempt insurance entities from bifurcating forward-starting equity options.

    b. **Modified Coinsurance Funds-Withheld Receivables/Payables**—In a modified coinsurance arrangement (commonly referred to as a "modco" arrangement), one insurance company passes through to another insurance company the performance of a reference investment portfolio. Under Topic 815, the portfolio-linked feature of modco funds-withheld receivables/payables is viewed as an embedded derivative that is not clearly and closely related to the creditworthiness of the issuer and, therefore, is bifurcated and accounted for separately. The request is that the guidance in Topic 815 be amended to exempt insurance entities from bifurcating the embedded derivative, and that new guidance be introduced in Topic 944, Financial Services—Insurance, for the accounting of modco funds-withheld receivables/payables.

***Equity-Indexed Contracts: Current Accounting Guidance***

30. The FASB's Derivatives Implementation Group (DIG) addressed the application of the derivatives guidance to certain insurance products. In particular, Statement 133 Implementation Issue No. B29, "Embedded Derivatives: Equity-Indexed Annuity Contracts with Embedded Derivatives," addressed the application of the embedded derivatives guidance to equity-indexed annuities. Implementation Issue B29 specified that the equity-index feature represents a series of forward-starting options on the equity index over the duration of the contract, and the series of forward-starting options should be bifurcated and accounted for as one compound embedded derivative.

31. The DIG's conclusion in Implementation Issue B29 is codified in the following paragraphs:

> **815-15-55-69** For the periodic ratchet design product, the insurance entity has committed to issue a series of options on the index over the duration of the contract. All of those forward-starting options meet the definition of a derivative instrument and require separate accounting under paragraph 815-15-25-1 from the perspective of the insurance entity unless a fair value election is made pursuant to paragraph 815-15-25-4. Paragraph 815-15-25-7 requires that the embedded feature with multiple components be separately accounted for as one compound embedded derivative.
>
> **815-15-55-70** In valuing those options, there are three main components to be considered:

a. Future S&P 500 index (or other index, as applicable) values will need to be estimated to determine both the future notional amounts at each ratchet date and the future strike prices of the future forward starting options.
b. Future annual cap and participation rates, which are often at the discretion of the contract issuer, subject to contractually specified minimums and maximums, will need to be estimated.
c. Noneconomic factors related to policyholder-driven developments such as policy surrenders or mortality.

**815-15-55-71** Given the three components, the forward starting options should be valued using the expected future terms (that is, index values and cap and participation rates), but in no event should the value be less than the minimum amounts contractually agreed on in the contract. Expected terms represent management's estimates of cap and participation rates, rather than contractually guaranteed amounts. The estimated value reflects the notion that the contract provides for a level of equity-indexed return that can be estimated even when considering the issuer's options to adjust the policyholder's participation and cap rates. In subsequent periods when the terms of the forward-starting options become known, the actual terms should be substituted for the expected terms for purposes of valuation.

***Modco Arrangements: Current Accounting Guidance***

32. Statement 133 Implementation Issue No. B36, “Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments,” now codified in paragraphs 815-15-55-101 through 55-109, addressed the application of the embedded derivatives guidance to credit-linked notes and modco arrangements and specified the following:

**> > Example 4: Clearly and Closely Related Criterion—Credit-Sensitive Payments, Embedded Credit Derivatives**

**815-15-55-101** The following Cases illustrate the application of paragraph 815-15-25-46:

a. Credit-linked note (Case A)
b. Reinsurer’s receivable arising from a modified coinsurance arrangement (Case B).

**815-15-55-102** In both of these Cases, the embedded derivative generally will require bifurcation. However, the criteria in paragraph 815-15-25-1(b) through (c) shall be considered before concluding that the embedded derivative should be bifurcated and accounted for separately. The nature of the embedded derivative and the host contract in both Cases should be determined based on the facts and circumstances of the individual contract.

**> > > Case A: Credit-Linked Note**

**815-15-55-103** Entity A issues to an investor a fixed-rate, 10-year, $10 million credit-linked note that provides for periodic interest payments and the repayment of principal at maturity. However, upon default of a specified reference security (an Entity X subordinated debt obligation) the redemption value of the note may be zero or there may be some claim to the recovery value of the reference security (depending on the terms of the specific arrangement). Generally, the term *reference security* refers to the security whose credit rating or default determines the cash flows under a credit derivative. Usually, the terms of credit-linked notes explicitly reference Committee on Uniform Security Identification Procedures (CUSIP) numbers of securities in the marketplace. In an event of default of the specified reference security, there is no recourse to the general credit of the obligor (Entity A). In exchange for accepting the default risk of the reference security, the note entitles the investor to an enhanced yield. The transaction results in the investor selling credit protection and Entity A buying credit protection.

**815-15-55-104** The credit-linked note includes an embedded credit derivative. The credit risk exposure of the reference security (Entity X) and the risk exposure arising from the creditworthiness of the obligor (Entity A) are not clearly and closely related. Thus, the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the debt host contract and, accordingly, the criterion in paragraph 815-15-25-1(a) is met.

**815-15-55-105** Paragraph 815-15-25-6 explains that the fair value election for hybrid financial instruments that otherwise would require bifurcation does not apply to hybrid financial instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Section 944-20-15, other than financial guarantees and investment contracts.

**815-15-55-106** Consideration should be given to whether the embedded derivative could possibly not be subject to this Topic as a financial guarantee under paragraph 815-10-15-58 and, in that circumstance, the embedded derivative would not warrant bifurcation.

**> > > Case B: Reinsurer's Receivable Arising from a Modified Coinsurance Arrangement**

**815-15-55-107** Reinsurance Entity B enters into a modified coinsurance arrangement (also referred to as a modco arrangement), which is a reinsurance arrangement in which funds are withheld by the ceding insurer, thereby creating an obligation for the ceding entity to pay the reinsurer at a later date. Concurrently, the reinsurer (Entity B) recognizes a funds-withheld receivable from the ceding insurer as well as a liability representing reserves for the insurance coverage assumed under the modco arrangement. (The amount of Entity B's receivable is the ceding entity's statutory reserve, whereas the amount of Entity B's liability is the reserve under GAAP.) The terms of the ceding entity's payable (and Entity B's funds-withheld receivable) provide for the future payment of a principal amount plus a return (that may be negative) that is based on a specified proportion of the ceding entity's return on either its general account assets or a specified block of those assets (such as a specific portfolio of its investment securities). That portfolio is typically composed primarily of fixed-rate debt securities.

**815-15-55-108** With respect to the modified coinsurance arrangement, the ceding entity's funds-withheld payable and Entity B's funds-withheld receivable include an embedded derivative that is not clearly and closely related to the host contract. The yield on the payable and receivable in the host contract in this Case is based on a specified proportion of the ceding entity's return on either its general account assets or a specified block of those assets (such as a specific portfolio of the ceding entity's investment securities). The risk exposure of the ceding entity's return on its general account assets or its securities portfolio is not clearly and closely related to the risk exposure arising from the overall creditworthiness of the ceding entity, which is also affected by other factors. Consequently, the economic characteristics and risks of the embedded derivative feature are not clearly and closely related to the economic characteristics and risks of the host contract and, accordingly, the criterion in paragraph 815-15-25-1(a) is met. This analysis applies whether the host contract is determined to be a debt host or an insurance contract. For example, if the host contract is determined to be the modified coinsurance arrangement (including the funds-withheld receivable-payable but excluding the embedded derivative), the economic characteristics and risks of the embedded derivative feature are not clearly and closely related to the economic characteristics and risks of the host contract and, accordingly, the criterion in that paragraph is met.

**815-15-55-109** The other criteria in paragraph 815-15-25-1 generally would be met, thereby requiring that the embedded derivative be bifurcated and accounted for separately.

## C. Annuitization Benefits: Certain Discount Rate Changes in Other Comprehensive Income (OCI)

33. The questions for the Board on this potential project are as follows.

| Questions for the Board |
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| 1. Does the Board want to add a project to its technical agenda to address the accounting for a change in discount rate assumptions for annuitization benefits under Topic 944?<br><br>2. If the answer to Question 1 is "yes," does the Board:<br><br>a. Have feedback on the project objective or scope?<br><br>b. Request that the staff conduct additional research or outreach on specific areas? |

**Issue Background**

34. The amendments in Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts,* (LDTI) improved the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance company.

35. One LDTI amendment was the replacement of the discount rate for insurance liabilities from a company-specific "asset" rate (that is, the expected yield on an insurer's investment portfolio) to a standardized "liability" rate that is independent of an insurer's investment strategy.

36. Another LDTI amendment was the introduction of the market risk benefits accounting model, which resulted in market-based options or guarantees that were previously accounted for under the annuitization benefit (insurance accrual) accounting model to be accounted for under the market risk benefit (fair value) accounting model.

37. The Board received an agenda request pertaining to the following amendment in Update 2018-12, whereby the phrase *estimated investment yields* was replaced with “an upper-medium grade (low-credit-risk) fixed-income instrument yield”:

> **> > > Annuitization Benefits**
>
> **944-40-30-26** The additional liability required under paragraph 944-40-25-27 shall be measured initially based on the benefit ratio determined by the following numerator and denominator:
>
> a. Numerator. The present value of expected **annuitization** payments to be made and related incremental **claim adjustment expenses**, discounted at an upper-medium grade (low-credit-risk) fixed-income instrument yield applicable to ~~estimated investment yields expected to be earned during~~ the **payout phase** of the contract, minus the expected accrued account balance at the expected annuitization date (the excess payments). The excess of the present value payments to be made during the payout phase of the contract over the expected accrued account balance at the expected annuitization date shall be discounted at the contract rate.
> b. Denominator. The present value of total expected assessments during the **accumulation phase** of the contract, discounted at the contract rate.
>
> Total expected assessments are the aggregate of all charges, including those for administration, mortality, expense, and surrender, regardless of how characterized.

38. Under current GAAP that was not amended in Update 2018-12, the entire remeasurement of the annuitization benefit liability is recorded in earnings. The request is to introduce OCI into the accounting model for annuitization benefits whereby the portion of the change in the annuitization benefit value attributable to a change in the upper-medium grade discount rate would be reported in OCI.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

# Board Meeting Handout

# Disclosure of Supplier Finance Program Obligations

# September 22, 2021

## Meeting Purpose

1. The purpose of the September 22, 2021 Board meeting is to discuss user outreach and continue initial deliberations on disclosures and transition. The Board also will discuss whether to proceed to drafting a proposed Update for vote by written ballot.

| Questions for the Board |
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| **Rollforward**<br><br>1. Does the Board want to require a buyer to disclose a rollforward of the outstanding confirmed amount?<br><br>**Interim**<br><br>2. Does the Board want the required quantitative discloses, that is, the outstanding confirmed amount and a rollforward of that amount (if the Board decides to require the rollforward in question (1)), to be provided in interim periods?<br><br>**Transition**<br><br>3. Does the Board want the disclosure requirements to apply (a) prospectively or (b) retrospectively for each period in which a balance sheet in presented?<br><br>4. Does the Board want to allow early adoption for financial statements that have not been issued or made available for issuance as of the issuance date of amendments in a final Update?<br><br>**Issuance of a Proposed Update** |

5. Has the Board received sufficient information and analyses to make informed decisions on the issues presented? If not, what other information or analyses does the Board need?

6. Subject to what the FASB learns through comment letters, does the Board think that the expected benefits would justify the expected costs? If so, does the Board give the staff permission to draft a proposed Update for vote by written ballot?

7. What comment period does the Board select for the amendments in the proposed Update?

## Background

2. At the June 30, 2021 Board meeting, the Board decided to require the buyer in a supplier finance program to disclose the key terms of the program, the amount of obligations confirmed by the buyer that is outstanding at the end of the reporting period (the outstanding confirmed amount), and a description of where that amount is presented in the balance sheet. The Board also directed the staff to perform limited outreach with financial statement users on the usefulness of a rollforward of the outstanding confirmed amount.

## Rollforward

3. The staff met with financial statement users including credit rating agencies, an investment bank, and asset managers to discuss the usefulness of a rollforward of the outstanding confirmed amount.

4. The Board will discuss whether to require a buyer to disclose a rollforward of the outstanding confirmed amount, which would include the outstanding confirmed amount at the beginning of the reporting period, the amounts added to the program, and the amounts settled through the program in the period.

## Interim

5. The Board has decided that the buyer in a supplier finance program should disclose certain quantitative information: the outstanding confirmed amount and a rollforward of that amount (if the Board decides to require the rollforward in question (1)). The Board will discuss whether that quantitative information should be required in interim-period financial statements by creating a specific interim disclosure requirement.

## Transition

6. The Board will discuss the transition method for the disclosure requirements—specifically, whether to require (a) prospective application or (b) retrospective application for each period in which a balance sheet is presented. The Board also will discuss whether to allow early adoption for financial statements that have not been issued or made available for issuance as of the issuance date of amendments in a final Update.

## Issuance of a Proposed Update

7. If the Board has received sufficient information and analyses to make informed decisions on the issues presented and believes that the expected benefits would justify the expected costs, the Board will discuss whether to proceed to a draft of a proposed Accounting Standards Update for vote by written ballot.

8. If the Board gives the staff permission to draft a proposed Update, the Board will discuss the comment period for the amendments in the proposed Update.