



Commercial Asset Finance Brokers Association of Australia Limited

ABN 32 129 490 133

National Professional Body of the Equipment Finance Industry

25th August 2014

Head of Secretariat
Financial System Inquiry
GPO Box 89
SYDNEY NSW 2001

RE: FINANCIAL SYSTEM INQUIRY – Second Round Submissions

The **Commercial Asset Finance Brokers Association of Australia Limited (CAFBA)** welcomes the opportunity to provide comment on the Interim Report from the Financial System Inquiry.

As outlined in our Submission on 31st March 2014, **CAFBA** is the peak national body of commercial equipment finance brokers, whose prime area of business is the distribution of commercial equipment finance facilities to their clients. **CAFBA** members are career professionals who understand the funding process and recognise the products of the available lenders in the Equipment Finance Market for their predominantly small business clients.

We would like to acknowledge the comments in the Interim Report that **“a well-developed broker market for SME lending would likely increase competition among lenders and improve access to finance for SMEs. In recent years, brokers have become more prevalent in some areas of small business lending, particularly equipment finance.”**

CAFBA has seen an increase in membership growth over the past few years, and has been vigilant in raising industry standards.

In this submission on the Interim Report CAFBA would like to concentrate on the issues raised in **Section 3, “Small to Medium Sized Enterprises”**

1. Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Reform

A current impediment to small business lending that is a “solution without a problem” is the onerous requirements and confusing interpretations by lenders regarding AML/CTF.

AML/CTF legislation has not stopped identity fraud. Professional brokers and financiers are burdened by the cost and administration of the regulation, which has not stopped criminals finding ways around it.

CAFBA acknowledges that there is a level of fraud in the equipment finance industry, as there is in other industries; however it is not a favoured means of money laundering or raising funds for terrorism. Lenders acknowledge that equipment finance is a “low level risk” for CTF, but it is still bound with the same requirements as “high level risk” products like cash deposits. The target of AML/CTF legislation largely falls outside the equipment finance space and fraud is generally minimised by normal due diligence. While identification of borrowers/guarantors and verification of financial information is of critical importance, it is superfluous to extend this to the extent of locating and certifying Trust Deeds and verifying beneficiaries. Some of these Trust Deeds have been in place for decades, but are required to finance assets such as a motor vehicle to be used in the normal course of business.

In the Equipment Finance sector borrowers receive assets, not cash. The security position of financiers should be strengthened by PPSR which identifies and secures assets, and reduces the need for overlaid protections under AML/CTF.

CAFBA proposes an Exemption for the Commercial Equipment Finance Industry from the AML/CTF regime.

This will further alleviate the inconsistency in interpretation and requirements by lenders under the AML/CTF. As an example, one Bank with four (4) different brands (after mergers), has four (4) different sets of requirements in satisfying AML/CTF. This is confusing, costly, and ultimately stifles business and growth.

2. Australian Tax Office – effect on its approach to tax debt on small business borrowing

Since the GFC access to finance for small business has been more difficult to obtain. This has been the subject of many public discussions, with seminars arranged to address the problem. CAFBA is a prominent member of the Council of Small Business Organisations of Australia (COSBOA). At COSBOA’s Access to Finance for Small Business Summit held in Canberra in May 2013, attended by the Australian Tax Office (ATO), the issue was raised regarding the ATO’s willingness to offer arrangements to pay tax debt, which has wider economic implications.

When borrowers are seeking a loan, particularly after the GFC, lenders were extremely reluctant to approve loans where there was an arrangement in place with the ATO to pay an historical tax debt. In an effort to better manage small business cash flow, accountants were making submissions to the ATO to defer tax debt, believing it an easier option and more economically viable than seeking or using an existing bank overdraft or other facilities.

The implications of this were that when a borrower sought a loan from a bank to expand or to finance additional equipment to grow the business, the loan was declined in view of the tax debt and the ATO’s priority in any adverse situation. Further to this, the borrower, by entering into the arrangement with the ATO could be in breach of existing borrowing covenants on outstanding loans, without realising it.

Whilst CAFBA acknowledges the willingness of the ATO to assist small business by deferring the tax debt, the negative impact is that it was stifling the client's ability to borrow and therefore grow.

CAFBA recommends that the ATO seeks a Disclosure Document from the taxpayer that they have sought advice from their Financer Broker or Banker on the implications of entering into the tax arrangement on existing or future borrowings. Implementing this simple procedure would mitigate any potential breaches on existing facilities and also assist any future borrowings.

CAFBA would also like to see an acknowledgment from lenders that their policies on customers with a tax arrangement to pay tax, but with an otherwise impeccable credit history and demonstrated ability to borrow and capacity to repay, are not unfairly targeted by lenders and denied access to finance.

3. Competition

CAFBA is still of the view that there is a lack of competition in lending to small to medium sized enterprises since the GFC. With the withdrawal of foreign banks and consolidations of local banks, there is no breadth of lending available.

The Inquiry poses the question

What are the main barriers to greater broker activity in SME Finance? Are these barriers transitional or structural in nature?

For some time it has been acknowledged within our industry that a weakness in the commercial equipment finance broking space is the lack of succession planning and new broker entrants. To address this problem CAFBA is embarking on a Mentor/Mentee program by developing a tailored training program for new entrants. This will include writing a specialist syllabus and training new entrants. As of this July, the minimum educational requirement for a CAFBA member is to hold a Certificate IV in Finance Broking. This additional CAFBA syllabus will provide further specialist product knowledge to equip new members to become professional equipment finance brokers. This will provide a career path and employment opportunities for graduates and also those considering a new career.

This is a major initiative by CAFBA, which at the moment is self-funding. We would like the opportunity to discuss government assistance to advance our work, with either a grant or scholarship program. This would not only benefit the industry but the economy generally.

4. APRA Prudential Standard APS113

CAFBA would like to acknowledge the comments in the Interim Report, particularly APRA's indication that they would be "willing to consult on raising the \$1 million retail/corporate boundary to \$1.5 million".

Whilst this is a step in the right direction, CAFBA believes, as outlined in our earlier submission, the threshold should be raised to \$3 million.

The current limit of \$1 million (and also the mooted \$1.5 million) is far too low and impacts on far more business borrowers than is necessary. It is an impediment to infrastructure investment for expanding businesses.

CAFBA proposes:

- An immediate increase in the threshold to \$3 million
- Annual indexation of the threshold linked to CPI
- APRA to resubmit its case for continuation of APS113 every five years.

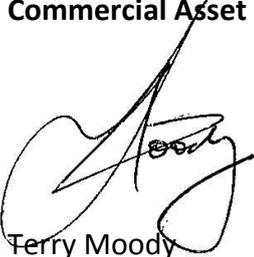
5. Privacy Reforms

With the changes to the Australian Privacy laws introduced on 12th March 2014 came with it a new raft of compliance and regulations that has tied business up in additional red tape for no measurable benefit. With much well-intended legislation comes the unintended red tape and burden to business. The new Privacy Consent Form is not consistent across financial institutions, with many having their own interpretation. This has the effect of limiting choice of brokers by putting unnecessary roadblocks in the way. Additionally there is much uncertainty to the operation of this in a practicable way eg scope to introduce a “annual” privacy consent with a 12 month duration, to avoid the additional burden of having to sign a new document every time the borrower requires additional credit. **CAFBA** will continue dialogue with the relevant departments to pursue sensible amendments.

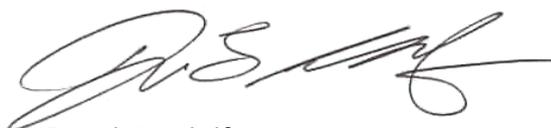
CAFBA appreciates the opportunity to provide additional comment on the FSI’s Interim Report, and would be available to meet or discuss with the Inquiry any of the issues we raise.

Yours faithfully,

Commercial Asset Finance Brokers Association of Australia Limited



Terry Moody
President



David Gandolfo
Vice President