11 December 2019

Department of Employment, Skills, Small and Family Business
Via email: Paymenttimes@employment.gov.au

Dear Sir/Madam

Payment Times Reporting Framework (Stage 2)

We welcome the opportunity to provide feedback to the Department of Employment, Skills, Small and Family Business on the Payment Times Reporting Framework (Stage 2) Consultation Paper (Consultation Paper).

Appendix A provides our detailed submission with answers to the key questions within the consultation paper and Appendix B provides more information about Chartered Accountants Australia and New Zealand.

We have previously provided comments on the *Payment Times Reporting Framework Discussion paper* (discussion paper) which was a part of the first-round consultations in 2019. Key matters expressed relating to the discussion paper have been reiterated in this submission.

Key points

- It is critical that adequate flexibility is embedded into the Payment Times Reporting Framework (PTRF) to keep pace with the changing environment that Australian businesses must adapt to, in particular technology.
- Reporting requirements should be kept as simple as possible and be clearly linked to the objectives of the Reporting Framework.
- We recommend the PTRF is developed with accompanying practical guidance that clearly articulates the benefits of reporting as we consider this would help reporting entities to adopt the framework and would encourage compliance.
- We understand that enforcement mechanisms may be appropriate for certain circumstances, however we suggest this is carefully considered so that businesses intending to ‘do the right thing’ are not inadvertently penalised.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

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Group Executive
Advocacy & Professional Standing
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Appendix A

General Comments

We recognise the importance of payment times to small business and support the Departments ongoing commitment to improving payment outcomes for this sector. However, we note that Australian businesses vary in complexity and are subject to a wide range of existing reporting requirements. We consider it critical that adequate flexibility is embedded into the PTRF to keep pace with the changing environment that Australian businesses must adapt to, in particular technology.

In February 2019, the Board of Taxation released the Post-Implementation review of the Tax Transparency Code (TTC) consultation paper (TTC paper) which addressed issues relating to tax transparency reporting including changes and enhancements that would make the TTC easier to adopt and to increase usefulness for users. The TTC paper included suggestions from the board "that minimum standards and 'best practice' will encourage more signatories to enhance their disclosures over time to bring them in line with best practice disclosures. Those businesses that are not able to initially meet best practice standards can work towards this standard".

We suggest the Department considers principle issues raised within the TTC paper as this may assist in enhancements to the PTRF for easier adoption and usefulness to users. In particular section 1 Minimum standards and best practice and section 2 New minimum standard – 'basis of preparation' statement. We recommend the PTRF is developed with accompanying practical guidance that clearly articulates the benefits of reporting as we consider this would help reporting entities to adopt the framework and would encourage compliance.

Specific Consultation Questions:

1. Are these the correct reporting areas for the PTRF to provide transparency of practices while minimising the reporting burden?

Overall, we consider it important for the reporting requirements to be kept as simple as possible and linked to the objectives of the Reporting Framework. We support the 13 proposed reporting areas. We understand that field 9-11 relate to payment times with small business, although the table does not specifically state this. To avoid any confusion, this should be explicitly stated.

We recommend including an additional mandatory reporting field for businesses that use supply chain finance (reverse factoring). This disclosure should include:

- links to the reverse factoring arrangement;
- whether supply chain finance is a mandatory requirement for doing business with the entity and;
- if any additional costs are required to be incurred by suppliers (e.g. to access the supply chain finance or labour costs or charges for suppliers to submit invoices on the buyer's system).

2. Should large businesses report on their small business invoices as a total dollar value or as a proportion of their total procurement?

We support allowing a reporting entity to have a choice between reporting the total value or proportion of small business procurement.

3. What information should be included on payment terms in the PTRF? For example, could we consider an approach similar to the UK model?

In relation to information that is reported regarding payment terms, we recommend developing best practice guidance so that reporting entities can tailor their response in the most appropriate fashion. For example, an entity may have several payment terms depending on the type of supply – the entity should have the option of being able to provide examples of those payment terms. In our opinion, generic questions, such as that used by the UK, would appear to have limited benefit. An appropriate source of guidance could by the tax transparency guidelines (as noted above).

4. What are the positive and negative effects of identifying small businesses? If there are negative effects, how could they be mitigated?

We have received a mixed response from our members on the identification of small business suppliers. Some of our members have raised concerns about the unintended consequences that may arise from this identification as it may impact their ability to trade with large business (e.g. a tender for a production contract could be lost as the small business is judged on size not experience or expertise). On the other hand, some have highlighted advantages for being identified as it may lead to more business (e.g. businesses might be seeking to deal with small business for more personalised service) Opt-in and opt-out models were both suggested by our members. An opt-out model may help minimise the negative consequences whilst still maintaining high participation.

5. Which approach/es do you favour for small business identification, and why?

We favour a combination of two options, a public small business look-up tool (the tool) and an expenditure threshold. These two options could be used together or separately to allow for best identification.

6. If we were to use an expenditure threshold would a $1 million annual spend with a supplier be a reasonable value for the expenditure threshold?

In our opinion, an expenditure threshold offers a simple, quick solution for reporting entities to identify small business payments. Whilst this may not be perfect in identifying only small businesses, it does provide a method that will capture most small businesses through an easy adjustment to existing systems. Some of our members have expressed concern about the quantum of the proposed threshold at $1M. It is common for small businesses to have one large customer. As a consequence, a small business may have more than $1M of contracts with a large customer and will, under the proposed reporting framework, not be considered small. In these situations, the small business is highly dependent on good payment practices of their customer.

The Tax Act generally defines small business as less than $10M turnover. The $1M threshold would mean that a business with more than 10-15% of its business with one customer would not be considered small for payment time reporting purposes. We strongly recommend that the expenditure threshold for small business under the payment time reporting framework be substantially increased.

We note that the small business look-up tool could also aid with the identification of small business in this situation and may be a preferred approach for some reporting entities. There will be an ongoing requirement for business to ensure the ‘look-up’ is updated on a timely basis – given small businesses grow. It is therefore important that the tool be developed with the appropriate system interfaces, offer the service at no additional cost and be updated on a timely basis. The government is currently supporting the modernisation of business registers program. This is expected to be a major project that will enable easy real time access to publicly available information about all businesses, especially small business. If a look up tool is developed, then alignment with the modernising business registers program is critical.

It is noted that on 21 November 2018 the Prime Minister also announced that “Through a new procurement policy we will require those same large businesses seeking to tender for government contracts to match our 20-day payment policy.” At this stage, further development of this policy has not been made public. It is not clear how the government will expect large business to identify small business under this policy. It could, once again be based on expenditure or more specific definitions of small business.

7. What are the advantages and disadvantages of reporting at a group or entity level?

8. What are the advantages and disadvantages of providing large businesses with a choice?

We recommend the requirements provide flexibility to enable organisations to choose whether it is more appropriate for them to report for the whole group or at a sub-group level depending on the ease of accessing the data from their accounting systems and the appropriateness of disclosures. We understand that within corporate groups, there may be varying standard payment terms for suppliers between trading divisions within a group due to the different market segments that they operate in. For example, a group may operate mines, supermarkets and hardware and have very different payment terms for these industries and maintain separate accounts payable systems. We suggest that reporting at the group level may only be appropriate when the payment terms are consistent throughout the organisation. It is important to note that reporting at a trading division level, may still be consolidated (and therefore not individual reporting entity level) – but that the consolidation is at a lower level.

Providing capacity in item 6 'related entity reporting' of the proposed reporting areas may be needed to enable a reconciliation (or at least a link) of the parts reported to the consolidated group. Once again, this is an issue that has been considered as part of the tax transparency reporting.

9. What types of information should be collected by the PTRF on supply chain finance?

As mentioned previously, we suggest a mandatory reporting field within the PTRF to disclose the use of supply chain financing (reverse factoring). The reporting field should also include tick box options for the business to disclose if supply chain financing is a mandatory requirement for suppliers and if any costs are incurred for suppliers to access invoice information or to submit invoices in required software (specific details may not be required). This information would allow for greater transparency and could contribute to comparative industry data (i.e. if a particular industry typically uses supply chain finance)

13. Are there other issues the Department needs to be aware of in developing the reporting IT interface for the PTRF?

We note the proposal for the manual upload of data to a web portal using a CSV format. This file format is a common format enabling extraction from software programs or excel. However, it is a simple file format that relies on the data being in exactly the right layout, is difficult to verify, which could increase the risk of error when exporting/importing the data for the PTRF. We suggest consideration be given to the development of web-based forms as this could enable a simple method for practitioners to report and enable them to check their information before submitting.

Businesses already handle multiple log-ins for various government reporting portals and therefore, we suggest alignment to existing government reporting portals (such as ABN Lookup validation via the Australian Business Register) to minimise the cost to government and the complexity to business.

14. Should the PTRF allow companies to use their financial year as a basis for reporting or should it be based on a calendar year?

We recommend that the reporting period be linked to the entity's financial year end but allowing sufficient time for the data to be collated, checked and reported.

15. What are your views on the above categories of expenditure?

The PTRF should allow for flexibility to allow businesses to assess the best way in which they can disclose information. Each business will have different policies to capturing expenditure (e.g., spending limits), types of expenditure and limitations to reporting systems may exist. We suggest that an inclusion of a de minimums limit (either a dollar value or a %) could be applied as an option to allow businesses to assess if certain expenditure should be excluded from their assessment.

Some businesses may choose to settle certain invoices via instant payment options such as credit cards, bank transfers and BPay. We note that businesses will also have policies in place that allow employees to make instant payments for expenses (with a capped limit) via credit cards and these may be captured as an employee reimbursement. Typically, these expenses are captured within a separate accounting system and therefore would not be included standard supplier payment times. An increase in instant payments would align with the PTRF's objectives, however they are likely to be excluded from expenditure captured under the PTRF.

We recommend consideration be given to allow businesses to disclose additional ways they have proactively worked to improve payment times, which could include the use of instant payments, as this may assist in fostering a positive message to the community.

16. What are your views on the two options to determine the start of the payment period? Are there others?

Our members have expressed that the invoice date provides the clearest starting point when determining the payment period and is also the most commonly used in practice. They also note that standard payment terms typically allow sufficient time for disputes to be resolved and therefore disputed invoices should be not be excluded from the payment times reported.

4.5 What approach to compliance should be adopted?

The purpose of the PTRF is to improve payment times for small business as well as improve transparency of payment practices and aiming to minimise the compliance and administrative burden associated with the PTRF. We understand that enforcement mechanisms such as civil penalties, court injunctions and criminal sanctions may be appropriate for certain frameworks, in particular where there may be purposeful avoidance or misrepresentation. However, we consider that imposing potentially harsh penalties may inadvertently punish those businesses that are intending to 'do the right thing' particularly for the PTRF, which is intended as a positive encouragement for business. We recommend that Department focuses efforts on awareness raising, practical guidance and monitoring of reporting once the reporting framework is established.

Other Comments

Extending PTRF

Some of our members have expressed the potential benefit of improved payment times for all Australian businesses, regardless of size. We suggest the Department considers if reporting under the PTRF could be extended to cover small and medium businesses. The extension would provide greater transparency and encourage better payment terms for all businesses in Australia. It would also avoid a potential unintended consequence of extended payment times when a small business grows. Whilst we appreciate this may not be possible at this initial stage, we recommend it is considered once the framework is established.

Independent assurance

We consider independent assurance to be an important factor for users in determining the reliability of information disclosed by entities. At this stage, we don't consider mandatory pre-lodgement assurance to be appropriate for Payment Times information as there is not enough evidence to suggest the costs would outweigh benefits to users. However, we note that it will be important to monitor this as the reporting develops and therefore we recommend this be considered as part of a post implementation review. Further, we consider that there may be demand for independent assurance over the Payment Times information reported on a targeted risk-based approach by the regulator.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.
Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.
We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.
We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.
We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.