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Ms Mary Jeffries
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Dear Ms Jeffries

Payment Times Reporting: Draft Rules feedback

KPMG Australia (KPMG) welcomes the opportunity to provide a submission in response to the Payment Times Reporting (PTR) Draft Rules 2024 amendments (“**Draft Rules**”).

KPMG believes that the PTR Scheme has significantly improved the payment terms provided to small business suppliers across Australia’s largest reporting entities. The PTR Scheme has driven real cultural change and the prompt payment of small business suppliers is now receiving board and director level attention. However, there is always room for improvement, and we welcome the Review into the PTR Act and the subsequent amendment of the Payment Times Reporting Act 2020 (PTR Act 2020).

As a leading professional services firm, KPMG has assisted many Australian reporting groups for PTR since late 2020 and our feedback has been gathered from the experiences our technical experts have gathered through this work. Please find our feedback and queries regarding the Draft Rules at Attachment 1.

Please do not hesitate to reach out if you would like to discuss this important matter further.

Yours faithfully

Vince Dimasi
National Lead, Working Capital Advisory & Payment Times Reporting
KPMG Australia

Attachment 1:

Exposure draft themes/ questions

1 Reporting entity identification and group reporting

Topic	Section # / Paragraph #	Observation/ Query	Recommendation
Definitions – Total Income	Part 1 Section 5	The Draft Rules do not clarify whether Other Comprehensive Income is included in determining whether an entity and its controlled entities meets the \$100m revenue threshold.	We would recommend the Draft Rules include a clarification.
Definitions – Control	Part 1 Section 5	The Draft Rules do not clarify where entity control consolidates another entity, but holds partial equity (e.g. 60% interest), i.e. would only the revenue portion attributable to the entity be captured in assessing whether the revenue threshold is met.	We would recommend the Draft Rules include a clarification.
Definitions – Payment term	Part 1 Section 5	The updated definition of payment terms in the Draft Rules now focuses on what is stated on an invoice both for payment terms and invoice date rather than what has been contractually agreed with the supplier.	We would recommend the Draft Rules to be updated to reflect the payment terms agreed with the supplier in a contract and if no contract is available, then a purchase order or invoice.
Definitions – Recipient Created Tax Invoices (RCTIs)	Part 1 Section 5	We note that the Draft Rules refer to RCTIs and does not confirm their exclusion from the reporting metrics calculation. Please confirm whether an RCTI will now be considered falling under the category of a Trade Credit Arrangement? This conflicts with the current guidance material for PTR Act 2020.	Based on the current guidance material (under PTR Act 2020) specifically excluding RCTIs, we recommend making explicit reference to an RCTI and whether they will be included or excluded from 2024 reporting requirements.
The meaning of a Trade Credit Arrangement	Part 2 Section 7	We note that the definition of a Trade Credit Arrangement has	We would recommend making a clear distinction between goods and

		<p>been updated and now includes the reference <i>'for the supply of a good or service by a small business supplier, can be made, or is made, at least one calendar day after the supply of the good or service'</i> This appears to be in contradiction to the current guidance (under PTR Act 2020) which relies upon the contract with the small business rather than when a reporting entity may choose to pay an invoice.</p>	<p>services that have been contractually agreed as prepaid and those that can be paid for at a later date.</p>
<p>Entity information to be given to the Regulator</p>	<p>Part 2 Section 8</p>	<p>We note that the Draft Rules require the Reporting Entity or Nominee to provide information regarding the entities within the consolidated group for which the data will be included in the PTR submissions.</p> <p>One data point refers to ABN/ACN/ARBN and therefore is the assumption that overseas consolidated entities without an ARBN will be excluded from the reporting?</p> <p>Many large groups use overseas service entities to make payments to suppliers and if reporting is based on the entity that makes the payment, supplier payments may be excluded from reporting.</p>	<p>We would recommend either including all consolidated entities within the data for the PTR submission or altering the basis of reporting from 'payments made by an entity' to 'payments the entity is contractually obliged to pay'.</p>
	<p>Part 2 Section 8 (1)(j)(i)- (ii)</p>	<p>We note that the Draft Rules now reference that an authorised contact <i>'may include advisory firms'</i>. Additional clarity on what advisory firms would be responsible for or have access to would be beneficial to ensure responsibilities are clearly defined.</p>	<p>We would recommend clearly defining the scope of the advisory firms responsibilities.</p>
	<p>Section8(1)(g)</p>	<p>The example provided in the Exposure Draft Explanatory Memorandum provides an example where there is a permanent change in year-end</p>	<p>We recommend that further guidance be provided for entities (e.g. retail entities where their precise year-end date changes yearly).</p>

		but no other guidance for other circumstances are provided.	For example, these types of entities may have permission for their year-end to end on the last Sunday of the month. Guidance as to what should be disclosed for these entities (and the approach adopted in the report submitted) would provide certainty for a large number of reporters and assist with the comparison of metrics.
Materiality	Part 2 Section 8 (2)(a), Part 3 Section 10(5)(b)/(c)	We note reference to materiality in this section <i>'any other details without which the report is likely to be misleading in a Material respect'</i> but there is no set materiality threshold reference.	We would recommend providing a materiality threshold reference so that reporting entities are able to assess the requirements under this section.
Approval information	Part 3 Section 10(4)	The draft rules currently state that there is 'no requirement to submit a signed declaration'. However, there is no reference to the responsible member declaration not now being required.	We would recommend confirmation be provided to companies that the separate responsible member declaration is no longer required, and it will form part of the CSV file.
Proportion of payments to Small Businesses	Part 3 Section 11(2)	Based on the calculation of proportion of small business spend, it appears that all spend will be included (rather than spend relating to Trade Credit Arrangements), this appears in contrast to the current PTR Act 2020 which refers to spend relating to a Trade Credit Arrangement.	We would recommend following the same logic for both small business suppliers and total procurement spend to ensure comparability and to reduce the workload for reporting entities.
	Part 3 Section 11(2)(step 3)(a)	This step of removing certain spend from the <i>'complete payments dataset'</i> appears to remove overseas spend to suppliers outside Australia <i>'payments to entities that do not have an ABN, ACN or ARBN'</i> . This could significantly reduce some reporting entities Total Procurement and therefore artificially inflate their small	We would recommend keeping overseas supplier spend in the calculation for proportion of payments to small businesses when using the <i>'complete payments dataset'</i> .

		business spend proportion percentage.	
	Part 3 Section 11(2)(step 2)(c)	The details required for working papers includes reference to which entity makes payment to the supplier. This is in contrast to the current guidance material (under PTR Act 2020) which requires the contracting entity to report the payment. The reason contracting entity was previously utilised was to ensure invoices paid by a third party (outside the group) were reported.	As reporting entities currently report invoice payment times based on the contracting entity, we would recommend keeping it as contracting entity or to make it clearer that this is a change in methodology to explain the potential increase in small business spend percentage.
Content – Small Business TCA payment times and terms	Part 3 Section 13(2)(a)	The calculation for most common term appears to be based on the number of payments made rather than number of contracts held with small business suppliers. We have found that when using this methodology, if a Reporting Entity makes a large volume of payments to a certain supplier, this can skew this metric and not represent the true contracting relationships across the small business supplier base.	We would recommend basing the calculation of most common term on supplier contracts.
	Part 3 Section 13(2)(b)	<p>The Draft Rules appear to include a new metric relating to the difference between most common supplier payment terms and most common customer payment terms.</p> <p>The resulting metric will then confirm if the most common customer payment terms are longer, shorter or the same as the most common supplier payment term.</p> <p>Based on the current Draft Rules, it is unclear how a reporting entity will calculate this metric and will it be:</p> <ul style="list-style-type: none"> For just small customers? 	<p>The additional payment term metric, could create an additional workload for reporting entities if they are to calculate the most common payment term for small business customers that they have traded within the same six month reporting period.</p> <p>The resulting metric of longer, shorter or the same also may be difficult for the reader to distinguish the comparability, as most businesses (large or small) would expect to have shorter customer payment terms than supplier payment terms.</p>

		<ul style="list-style-type: none"> • Customers traded within the same six month reporting period? • Based on number of receipts from customers or number of contracts with customers? • What the precise formula, source data and methodology is to calculate the most common payment term. 	We would recommend either including a number of calendar days difference metric to offer actual value from the metric or remove as an additional metric.
	Part 3 Section 13(2)(e)	<p>The Draft Rules appear to include an additional payment term metric to estimate future payment terms.</p> <p>If the reporting entity is unable to provide an estimate, would they be able to replicate the response from (a), (c), or (d) or leave blank?</p>	We would recommend providing additional guidance for this new payment term metric or reverting to the previous method of changes within the six months of data collected.
	Part 3 Section 13(3)	When calculating the small business TCA spend, the Draft Rules require the additional removal of deposits and other spend without a trade credit arrangement.	We would recommend following the same logic for both small business suppliers and total procurement spend to ensure comparability and to reduce the workload for reporting entities to enable just one dataset.
Slow Small Business Payers List	Part 4 Section 18	The Draft Rules refer to the slowest 20% of reporting entities to be measured using the ANZSIC division as opposed to Industry. From our experience, some ANZSIC divisions may only have a small number of reporting entities. If an ANZSIC division only had a few entities, would the same calculation method for a slow payer apply?	We would recommend considering the number of reporting entities within each ANZIC division to determine whether Industry would be a more reliable cohort to determine slow small business payers.
	Part 4 Section 19	The Draft Rules reference the ability for a Slow Small Business Payer to be taken off the list.	We would recommend making it clear that this would be the only way for a

		Is an improvement in payment times to 95th percentile less than 30 days the only way a reporting entity can be removed from the slow small business payers list?	slow small business payer to be removed from the list.
Transition period	Part 20 Section 100	<p>The Draft Rules state 'Despite the repeal of the Payment Times Reporting Draft Rules 2020, as in force immediately before the commencement of Schedule 1 to this instrument, the Payment Times Reporting Draft Rules 2020 continue to apply, on and after 1 July 2024, in relation to a payment times report for a reporting period beginning before that date.'</p> <p>Practically, if a reporting entity has missed its obligations to report before 1 July 2024 and needs to submit missed reports. How will they do this under the new Portal?</p>	We would recommend that if the expectation is that entities who have failed to report to date, must comply from when they became a reporting entity (not just from 1 July 2024), to offer practical guidance for how they will submit the reports and enough information provided to allow them to report under the old submission files and guidance materials.