
Subject: FW: Ombudsman launches Review of Supply Chain Financing [SEC=OFFICIAL]
Attachments: 30-10-2019 Ombudsman launches review of supply chain financing.pdf

From:
Date: 30 October 2019 at 7:57:13 am AEST
To:
Subject: FW: Ombudsman launches Review of Supply Chain Financing [SEC=OFFICIAL]

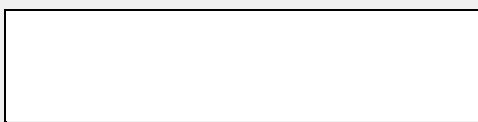
OFFICIAL

Hi

FYI below as discussed on Friday. Hope your week is going great!

Kind regards,

From: aapmedianet@aapmedianet.com.au <aapmedianet@aapmedianet.com.au>
Sent: Wednesday, 30 October 2019 8:56 AM
To:
Subject: Ombudsman launches Review of Supply Chain Financing



Medianet Release

30 Oct 2019 8:46 AM AEST - Ombudsman launches Review of Supply Chain Financing

MEDIA STATEMENT

30 October 2019

Ombudsman launches Review of Supply Chain Financing

The Australian Small Business and Family Enterprise Ombudsman Kate Carnell has launched a review of the impact supply chain finance has on the small business and family enterprise sector.

The review will examine the ways in which small and family businesses can use supply chain financing to manage cash flow and fund growth.

It will also look at the products being used by big business to offset extended payment times.

"Supply chain finance is a legitimate and effective tool to free-up cash flow for small and family businesses," Ms Carnell says.

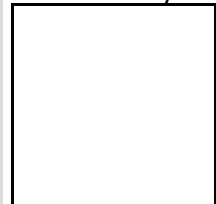
"However, it is totally unacceptable for big businesses to use supply chain financing arrangements as a replacement for reasonable payment terms being offered, 30 days or less from invoice.

"This review will provide a clearer picture on the range of supply chain finance options available on the market and which industries are using these products.
"More large businesses are offering supply chain finance to small businesses and we are keen to find out what's driving that.
"The review will investigate whether supply chain finance is being used by big business as a means to stretch out formal payment terms and as a strategy to manipulate the reporting of working capital and cash reserves."
The full scope of the Review of Supply Chain Financing can be found [here](#).
Small businesses and family enterprises who have had experience with supply chain financing can contribute to the Ombudsman's review via inquiries@asbfeo.gov.au
An interim report is expected to be released by the Ombudsman in March 2020, followed by a full report by the end of April 2020.

Media contact: Donna Acioli, 02 6121 5504 / 0413 935 792
Kate Carnell, 0415 662 266

Please see the following files attached:
[30-10-2019 Ombudsman launches review of supply chain financing.pdf]

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Subject: FW: Supply Chain Finance Review [SEC=OFFICIAL]
Attachments: SCF Project Plan.pdf

From:
Sent: Friday, 25 October 2019 11:47 AM
To:
Cc:
Subject: Supply Chain Finance Review [SEC=OFFICIAL]

OFFICIAL

Hi

I hope you are well and looking forward to a rest after Estimates week!

As I briefly mentioned last time we spoke, we have been planning around picking up on Recommendation 5 of our Payment Times and Practices review, and undertaking a review of Supply Chain Financing and the impact its use has on small and family businesses. I have **attached** a copy of the project plan for your information.

At this stage we are planning it as a review only (not a full inquiry) with a soft launch (media release, social media, and a landing page on our website). We will have the power to request documents where the Ombudsman deems it necessary. Should the Minister want us to be able to hold hearings, we would of course need a Ministerial referral.

Happy to give you a call to chat through options if you would like, and I am hoping you might let me know by Wednesday if the Minister would like to refer this one over as we are keen to get moving at the end of next week.

I'm also hoping to have a quick chat to you about a couple of other matters when you get some time – particularly an emerging issue around financial planners.

Kind regards,

Australian Small Business and Family Enterprise Ombudsman



Purpose

ASBFEO to review the impact of supply chain finance (SCF) in the economy, including the products being used as part of strategies offered by large businesses to offset extended payment times. Also, to examine the ways in which small businesses and family enterprises (SBFE) can use SCF to manage their cash flow and fund growth.

Timeframe

The research and investigation will commence in November 2019 with an initial report to the Ombudsman by end of March 2020. Full report end of April 2020.

Scope

- To describe the various SCF options available in the economy;
- To explain and calculate how these SCF options may assist SBFE, particularly cash flow management and funding for growth;
- To research and describe SCF within specific industry sectors, and whether specific industry sectors use particular SCF options;
 - To examine whether the use of specific SCF options to the exclusion of other options negatively affects SBFE.
- To research the incidence of SBFE losing the element of choice in which SCF provider they might use because of big business Debtor SCF arrangements/contracts;
 - To research the incidence, if any, of SBFE being coerced, pressured or disadvantaged by a big business Debtor in relation to the timely payment of SCF invoices;
 - To conclude as to the impact on cash flow of those SBFE who are bound by SCF arrangements;
 - To research potential kickbacks to big business Debtors using a particular SCF entity;
- To consider any broader impacts on SBFE who use SCF – ability to borrow;
- To research and discuss the reporting of SCF arrangements on the Balance Sheet (more broadly, the financial reporting) of big business Debtor companies to investigate the existence of SCF being utilised as a strategy to manipulate the reporting of working capital and cash reserves by big business; analyse any resulting detriment to investors and SBFE suppliers in the form of systemic risks or uncertainty;
- To research and learn from the International Experience of SCF, in particular the UK, EU and discover if Australia is different to international examples;
- Investigate why there is an increased adoption of SCF offerings in the market;
- Investigate the potential impact of SCF on meeting mandated government payment terms;

Background

Recommendation 5 in ASBFEO's Review of Payment Times and Practices Final Report (April 2019)

5. Impact of supply chain financing options

As part of the ASBFEO's review into Payment Times, directed by the Minister's office, consultations with large businesses revealed that supply chain finance platforms were being offered as an option for earlier payment to suppliers.

More recently, the issue has come to the attention of the Office through:

- **s47G** move in supplier payment policy. Offering SCF through a third party service provider. Suppliers are required to transition to 60 day trading terms (from the standard 30 days for small businesses) before being eligible to participate in the SCF program;
- Jenny Wiggins: AFR infrastructure journalist has written multiple articles on CIMIC Group and reverse factoring:
 - UGL (CIMIC subsidiary): construction industry company made a change in supplier payment terms from 30 days to 65 days End Of Month (EOM) and an offer of SCF for an undisclosed discount if suppliers want to get paid sooner;
- Nassim Khadem: ABC journalist reached out to the Office looking into the issue of big companies extending their payment terms for small business suppliers and then using middle men to sell invoices to a third party at a discount in return of prompt payment;
- GFG Alliance (Gupta): monopoly player in Whyalla region with payment terms 62 days EOM and SCF offering. Gupta had an ownership interest in the company providing SCF in 2016 (19 August – 28 December). The SCF company also contributed to much of GFG's complex funding arrangements across the world;
- Research has uncovered internationally:
 - Carillion (UK): failure of a construction company that was involved in a large number of major government projects. Carillion's abuse of the UK government's SCF scheme, which was developed in partnership with a well-knowns SCF entity, was intended to help small businesses with their working capital. Instead Carillion propped up its own cash flow at the expense of small businesses, offering an 'Early Payment Facility' (EPF). Within 6 months Carillion had extended payment terms to 120 days and the only way for small businesses to access earlier payment was through the EPF. Carillion was a signatory to the government backed Prompt Payment Code.
 - Abengoa (Spain): failure of an energy company after a SCF company arranged financing through an off-balance vehicle before Abengoa filed for bankruptcy, 2015.

Reviews and consultations

In undertaking research and conducting the project the ASBFEO will:

- Consult with third party service providers of supply chain finance;
- Consult with big business debtors that are known to use SCF strategies;
- Consult with financial advisory service firms **s47G** who advise big business Debtor companies to undertake this practice;
- Consult with UK Government, UK Small Business Commissioner, UK Financial Reporting Council, journalists (Robert Smith, Financial Times) to understand the UK experience with Carillion and the potential impact for Australian small businesses;
- Consult with regulators: ACCC **s47C** ASIC, ABCC;
- Consult with AASB, CAANZ, CPA – reporting disclosures and transparency in financial statements;
- Consult with Moody's – accounting transparency reporting;
- Consult with ABA and Banks – potential impact on small businesses ability to borrow;
- Consult with BCA re supplier payment code, Consult Australia;
- Hear from SBFE about their experiences with SCF.