

28 February 2020

Kate Carnell AO
Australian Small Business and Family Enterprise Ombudsman
GPO Box 1791
CANBERRA ACT 2601

By email: inquiries@asbfeo.gov.au

Dear Ms Carnell

Submission on the Supply Chain Finance Review Position Paper

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia appreciate the opportunity to provide feedback on the above Position Paper, which outlines the key preliminary findings of the Supply Chain Finance Review ("the Paper").

Small businesses and family enterprises form a significant segment of the Australian economy and society, and as important stakeholders of CA ANZ and CPA Australia we believe in the fair and equitable treatment of this segment. In this context, we share some of the concerns raised in the Paper on the risks that Supply Chain Financing (SCF) may pose for small business and more broadly.

General comments on the Paper

We are aware that SCF arrangements have recently come under increased scrutiny, including the disclosure and financial reporting of such financing by some businesses. Insufficient, inaccurate and/or poor disclosure on SCF arrangements (including reverse factoring) can contribute to a lack of understanding of corporate performance in this area. Although there are a number of accounting standards within the Australian Accounting Standards framework (see our response below) that are relevant to the disclosure of SCF arrangements, we believe there is scope for the development of guidance regarding financial statement disclosures by businesses that have entered into SCF arrangements.

We note that since the publication of the Paper, the Department of Industry, Science, Energy and Resources has released Exposure Draft legislation on Payment Times Reporting, which includes a proposal to require larger businesses to disclose whether and how much they use SCF arrangements. CA ANZ and CPA Australia will look to address this issue in a separate submission on that Exposure Draft.

We also note that the Paper reports several findings around the potential impact of SCF on small business. One of the major concerns raised by members of our two organisations about SCF is the lack of understanding of SCF in the market. There may therefore be value in the ASBFEO working with the legal and accounting professions to develop an information and education campaign on SCF for small businesses and their trusted independent advisers.

Specific comments on the Paper

Question 5: Appropriate coverage by accounting standards

a. Should the Australian Accounting Standards Board (AASB) be consulting with its international counterparts to provide clarity as to how to capture and treat SCF in financial reporting?

Australia is a standard-taker and the International Accounting Standard Board (IASB) is the “international counterpart” for Australia. The AASB uses International Financial Reporting Standards (IFRS) issued by the IASB to develop, issue and maintain Australian Accounting Standards (AAS).

Whilst AAS do not specifically mention SCF, the following AAS are relevant to financial reporting disclosure on SCF arrangements:

- AASB 7 *Financial Instruments: Disclosures*
- AASB 9 *Financial Instruments*
- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*

Businesses that engage in SCF arrangements and prepare financial statements in accordance with AAS are required to apply high levels of professional judgment to determine and reflect the substance of SCF arrangements in financial statements. Corporate entities also have an obligation under the Corporations Act 2001 for the financial statements to give a “true and fair view” of the financial position and performance of the company.

Nevertheless, guidance taking into consideration the relevant accounting standards, will potentially be helpful to financial statement preparers in applying professional judgment in presenting the accounting treatment of SCF arrangements. Further, such guidance could enable users of financial statements to form a more informed view on the impact of SCF arrangements on the financial position, performance and cash flows of the business.

At its [November 2019 meeting](#), the AASB discussed SCF and the [Action Alert](#) from the meeting shows the AASB decided to write to the IASB to raise the need for guidance on SCF and to encourage the IASB to consider the matter for its agenda. We support these efforts by the AASB. We further note that the IASB Capital Markets Advisory Committee has considered whether this [issue](#) could be one of the potential suggestions for future projects undertaken by the IASB.

b. Should auditors be given formal guidance to ensure consistency in the financial reporting (by note or otherwise) of entities using any form of SCF?

We note that management and directors are responsible for the preparation of the financial report in accordance with the applicable financial reporting framework. The objective of an audit is to obtain reasonable assurance on whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and issue an auditor’s report that includes an opinion¹. Therefore, any financial reporting guidance should be directed at management and

¹ Australian Auditing Standard [\(ASA\) 700](#) *Forming an Opinion and Reporting on a Financial Report*

directors in the first instance.

c. How do small and family business accountants become educated as to what SCF is and what its implications are for reporting?

Many small/family businesses do not have a requirement to prepare financial statements using the AAS issued by the AASB.² Consequently, accountants for small and family businesses may not be required to assist their clients with the impact of SCF arrangements in their financial statements.

We strongly support awareness raising and other activities for small and family business accountants and their clients in this area and would therefore be happy to share additional perspectives and suggestions with the ASBFEO. We already provide a large amount of resources, e.g. in the form of guidance material, related to financial reporting.

Conclusion

We would welcome an opportunity to meet with the ASBFEO to further understand the concerns in relation to reporting around SCF arrangements and if possible, assist in developing further resources as needed.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.



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² E.g. only "large" [proprietary companies](#) are required to prepare financial statements in accordance with the accounting standards issued by the AASB.