6 September 2022

Payment Performance Branch
Small and Family Business Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: support@paymenttimes.com.au

Dear Sir/Madam

Payment Times Reporting: Updated Guidance Material

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback on the Payment Times Reporting (PTR) draft updated guidance material consultation paper (consultation paper).

We support the objective of the Payment Times Reporting Framework (PTR scheme) to improve the transparency of payment times to small business. It is important that accompanying guidance is clear and practical and improves the overall effectiveness of the PTR scheme.

We have provided some general comments and addressed the specific questions in the consultation paper. Our comments combine feedback received from our members, many of whom are involved with meeting PTR reporting obligations within their organisations, and from employees within CA ANZ and CPA Australia, which are reporting bodies under the Payment Times Reporting Act 2020 (the Act).

General comments

Effectiveness of the PTR scheme

We question the effectiveness of the PTR scheme to date and whether it is improving payment times and practices.

We recognise that the intention of the PTR scheme is to provide publicly available information about large business's payment performance with small business suppliers and aims to assist small businesses when making decisions. However, it is currently unclear whether the bi-annual reporting information is being utilised by small business. Moreover, it is unclear how it may be changing payment practices of large business.

Feedback received from our members has been mixed. Whilst some large organisations have enhanced internal processes to improve payment times because of the PTR scheme, the overall benefits of the scheme do not appear to outweigh the increased resourcing required to report. For members in small business, awareness remains low. Concerns have also been raised that the PTR scheme has turned into another compliance 'tick box' exercise.

The PTR regulator's role

Although outside of the remit of this consultation, the regulator update indicates that the PTR regulator has not used its compliance and enforcement powers in the period 1 January to 30 June 2022. The update suggests that they *may consider* using their powers from now on. However, it is disappointing that the regulator update does not include an indication of the level of compliance by reporting entities of lodging reports.

We understand that the core function of the PTR regulator is to receive PTRs from large businesses every 6 months and publish those reports. In the first PTR regulator update (issued in July 2022) we note that there has been little to no improvement in payment times, with a shift of just 0.4 days between the two first reporting periods. We also note that the regulator intends to publish updates on the PTR activities twice a year. However, it is unclear how this information is being utilised to encourage behavioural change. For example, the regulator update showed only 47% reporting entities paid small businesses within their own payment terms. As sufficient time has now passed for reporting entities to understand, prepare and submit reports, it will be important for the regulator to shift focus onto activities that will help to improve payment times (with enforcement continuing to be used a last resort).

In addition to the planned information sheet on enforcement powers, we suggest Treasury considers a roadmap which outlines potential next steps to addressing the policy intent, with reference to the information received from payment times reports submitted by reporting entities.

We would be open to having further discussions with Treasury on options to improve payment times.

Streamline through other government registries

As a part of the streamlining activities being carried out by the Australian Business Registry Services (ABRS), we suggest Treasury evaluates if there is the ability to incorporate the identification of small business through the ABRS.

Materiality

Our members questioned why the concept of materiality has not been factored into the PTR scheme. Although we understand it is important to include all payments to small businesses to ensure all suppliers are captured, consideration could be given to a de-minimis threshold.

Audit

Currently, there is no option or guidance in relation to acceptable audit processes for those reporting entities who wish to utilise internal audit processes to ensure that they are compliant with PTR.

We recommend guidance is included which addresses how internal audit processes can be incorporated into the PTR process and appropriate disclosures.

MyGovID

We understand that, currently, only individuals who are Australian citizens or Australian visa holders can obtain a MyGovID (linked to their personal information) in order to make submissions on the PTR portal. This requirement has raised challenges, particularly for reporters that have offshore teams. For example, a reporting entity with its accounts payable team based in New Zealand required an individual from outside of the team to use their personal MyGovID to submit PTR reports. This task is outside of the remit of this individuals' job description.

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Members have also raised concerns about their personal MyGovID being linked to their organisation's PTR.

Approval of PTRs and declarations from principal body

We have received feedback that the approval process for PTRs is burdensome. The requirement for a responsible member of an entity to approve and sign their declaration of a PTR, which covers operational activities, has some of our members questioning if the process of approval is appropriate.

Sign off and approval by management would be more appropriate as they have greater oversight of the payment process, with the ability to implement and progress timely change. For example, businesses that issue tax transparency reports or reports under the National Greenhouse and Energy Reporting (NGER) scheme require approval and sign off by management. We suggest Treasury re-evaluates approval requirements within the Act to bring them in line with other similar operational reporting requirements for business.

Consultation comments and feedback

- **if there are sections of guidance where clarifications or further details would be helpful**

Supply chain financing

We note in Guidance Note 1: key concepts (section 101 and 102) that the inclusion of discounts within the examples do not correctly reflect supply chain financing.

The inclusion of settlement discounts in the scenarios reflects dynamic discounting and is a transaction between two parties (at the discretion of the reporting entity) which is a commercial supply agreement.

Supply chain financing typically involves a third party, may not necessarily include a percentage discount and is at the discretion of the supplier.

To avoid confusion, we suggest Treasury re-evaluates the examples used within the guidance.

- **whether there is additional information, guidance or examples which could be included**

As these guidance notes will be used by a variety of different stakeholders, we consider that the use of illustrations (diagrams, timelines) to clearly outline requirements in addition to lengthy worded examples, will provide greater clarity and be easier to follow. For example, in Guidance Note 1, examples of corporate structures and income thresholds (table 2) could be clearly explained using diagrams which outline the different group structures and which identify the responsible reporting entity.

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- **any practical concerns or issues that may arise from following updated guidance**

Overall, we are concerned that some sections of the draft guidance add unnecessary complexity to the scheme, and these are outlined below.

Application of draft guidance notes or existing guidance

"*While the consultation is open, reporting entities may choose to use the draft guidance to prepare reports or applications. As consultation is during a reporting window for many entities, this is an opportunity to test the guidance notes during report preparation and provide feedback.*

Alternatively, reporting entities can continue to use the existing guidance on our website until guidance notes are finalised. The choice of guidance used by reporting entities prior to guidance note finalisation will not affect their compliance with reporting obligations."

As a part of the consultation process, we would expect changes to be made to the draft guidance because of public feedback. The above option to 'test the guidance notes' may create uncertainty and a lack of consistency, given organisations who choose to 'test the guidance notes' will have reporting which may not be comparable to past or future reporting.

Credit card payments

We note that in Guidance Note 1 sections 82 to 84 credit card payments under a trade credit arrangement have been included as a separate section in the draft guidance. We suggest simplifying the credit card reference to mirror what is already included in existing guidance and grouping this guidance under trade credit arrangements (sections 74 to 78)

'If an invoice is paid before it's received, and there's a trade credit arrangement in place, it has a zero-payment time. This is included in a report under the bracket of payments made within 20 days.'

Further, the current process for reporting entities to identify ABN information for invoices paid by credit card is manual. This is an administrative burden as current systems may not readily have the functionality to extract this information easily. As noted above, the concept of materiality, with the introduction of a de-minimis threshold for credit card payments, could assist reporting entities to report relevant information.

SBI tool and frequency of application

In sections 14, 15 and 18 of *Guidance Note 2 –preparing a payment times report*, it is recommended that reporting entities run the SBI tool either at the reporting period end date or at regular intervals (continuous approach) throughout the year, and to note which approach has been taken.

Member feedback indicates that the time and resources involved in the continuous approach are prohibitive. We are currently unclear as to whether increased adoption of this approach would provide improved overall outcomes and recommend that Treasury reviews the basis for providing both options to reporting entities.

Further, we encourage Treasury to develop an Application Programming Interface (API), which would allow a reporting entity to connect its accounts payable system with the SBI tool to streamline the reporting process and reduce the reporting burden, as well as encouraging regular application and/or a continuous approach by business.

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Identification of small business via SBI tool

In section 20 of Guidance Note 2, reference is made to actions that can be taken if the SBI tool output incorrectly identifies a business as a small business. This creates a further administrative burden on reporting entities to check the 'small businesses' identified by the SBI tool. The focus should be on resolving the underlying issue – that is the provision of an accurate SBI Tool – rather than providing businesses with additional actions to take if it is not working.

- **if there are specific requirements or obligations under the Act not covered by the draft guidance notes that you think should be included**

Current guidance provides information about invoice issue (receipt) dates, which assists in determining payment times for contractual arrangements. We note that the draft guidance does not include information about contractual arrangements. We consider it important that this be retained as many systems will include contractual payment terms when setting payment times for invoices received.

If you have any questions about our submission, please contact Karen McWilliams (CA ANZ) at karen.mcwilliams@charteredaccountantsanz.com or Gavan Ord (CPA Australia) at gavan.ord@cpaaustralia.com.au.

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