Parliamentary Joint Committee on Corporations and Financial Services

ANSWERS TO QUESTIONS ON NOTICE

Oversight of the Australian Securities and Investments Commission, the Takeovers Panel and the Corporations Legislation No. 1 of the 46th Parliament

Agency: Australian Small Business and Family Enterprise Ombudsman
Question No:
Topic: Supply Chain Financing
Reference: Spoken p.8 (18 June 2021)
Senator: Deborah O'Neill

Question:

Senator O'NEILL: I'll ask one clarifying question just on the back of that. Given what we've seen of supply chain financing, I just think that the euphemism of that term actually offends me from the start. This is like ripping off the money that you expected to earn from delivering a service. That's what it should be called, but that's not what it's called. Nonetheless, as this is a product now that has been revealed to be one that corrupts good business practice and has such a negative impact on small businesses, is it a product that should be banned?
Mr Billson: I don't know whether it should be banned. It has its place, and I'll give you an example here. If you and I are in business and we had a 30-day arrangement, and we're bringing stock in and needed a cash injection to pay for that stock in seven days, we might weigh up that versus an overdraft or some other mechanism and think that it's worth us taking a bit of a trim to get that cash in because that's good business sense for us. So it has its place. Where it shouldn't be part of our commercial landscape is where people are pushing out ridiculous payment times and then saying, 'Hang on, you can alleviate this pain that we've caused you yourself by taking a trim on your invoice through supply chain financing.' That is not okay.
CHAIR: Then, particularly, if a secret commission is being paid back to---
Senator O'NEILL: Yes, a little kickback.
Mr Billson: That's our argument: call it out. There's a whole lot of AASB—Australian Accounting Standards Board—procedures about how to report that.
CHAIR: Yes, disclosing commissions—
Mr Billson: Yes. We're just saying, call it out—be transparent—because it is legitimate under those circumstances we described. It's very poor form and very distasteful if it's based on the premise that you're not paying your small business suppliers for 90 days or something.
Senator O'NEILL: On notice, could you give some consideration to the way in which the facility of the kind that you've just spoken about, which could be a legitimate business practice that isn't exploitative, could be crafted and contained so that it didn't continue to spill over into small business in the way that it clearly has?

Answer:

Supply Chain Finance (SCF) can be an efficient source of funding for small business suppliers, allowing them to access capital when needed. These tools are effective when suppliers are able to opt in or out freely, and have the freedom to select which invoices to trade, and when to get paid.

In the final report of the 2020 Supply Chain Finance Review undertaken by my Office we suggest that good principles for SCF programs should include:

- SCF only being offered where appropriate (ie. in most instances 30 days or fewer) payments are in place.

- Always be optional.
- Transparency and full disclosure of practices employed by the customer should be accessible on the Payment Times Reporting Framework, in annual reporting and in ASX disclosure documents.
- Education from the customer to the suppliers around the offering and how it may benefit a business.
- Collaboration between the large business customer and small supplier on implementation of the program, to enhance supplier-customer relationships.
- Clarity of any incentives paid to the customer (usually the large business) by the SCF Company to provide transparency in choice to the supplier.