ASIC
Australian Securities & Investments Commission

| Supply Side Finance | | |
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| November 2022 | | |
| **Contact** | **Senior Executive Leader** | **Executive Director** |
| s 22 [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |

**Key Messages**

In its recent report, the PJC concluded that there is no evidence that the current regulatory settings for Supply Chain Financing (SCF) need adjusting. Legislative changes are a matter for Government.

An International Accounting Standards Board (IASB) exposure draft may lead to changes to Australian accounting standards that remove any doubt that a buyer using SCF arrangements must disclose in its financial reports the effects on liabilities, cash flows and liquidity risk.

Some large corporations have raised concerns with a lack of clarity of the requirements of the Payment Times Reporting Scheme (PTRS). The PTRS is not regulated by ASIC.

**Background**

A company using SCF effectively borrows money from a financier. The financier pays suppliers on the company's behalf earlier than otherwise but suppliers receive a smaller amount than invoiced. The company typically pays the financier the full amount owed in accordance with the company's normal credit terms.

SCF arrangements are currently exempt from the licensing, hawking and disclosure obligations under the Corporations Act. Whether SCF should be regulated as a financial product or otherwise is primarily a matter for Government.

There have been concerns that some companies using SCF arrangements could pressure suppliers to accept excessive discounts for early payment.

Possible financial reporting concerns first arose with the reporting of UK construction company Carillion which failed in 2018 and have included:

showing the liability to the financier in working capital rather than debt, which may avoid breaching debt covenants or facilitate borrowing on more favourable terms;

showing improved operating cashflows as payments to suppliers are reduced; and

not disclosing liquidity risks (e.g. alternative funding may not be readily available if the financier fails).

An IFRS Interpretations Committee agenda decision in December 2020 covered disclosing liquidity risk associated with the use of financial liabilities, the need to disclose material information on liabilities and a requirement to disclose material non-cash transactions.

The IASB issued an exposure draft in November 2021 that propose to specifically require disclosure of the effects of SCF arrangements on liabilities and cash flows. The proposals also highlight the required disclosure of liquidity risk and non-cash changes in financing liabilities. Comments were due 28 March 2022. The IASB intends to decide the future direction this work in November 2022.

**Greensill**

The Greensill group collapsed following the non-renewal of credit insurance and an investigation by the German banking regulator, BaFin. These developments led to Credit Suisse freezing the Greensill wholesale investment funds. Without this funding source, Greensill could no longer extend new loans in its SCF facility.

Greensill Capital Pty Limited (the Australian parent company of the group) and its Australian subsidiaries are regulated by ASIC. The UK subsidiary, Greensill Capital (UK) Limited, was the primary operating business of the group and was responsible for the SCF arrangements and securitisation arrangements in Australia and globally. This company is beyond the remit of ASIC. s 37(1)(a) [redacted]

**PJC report**

A PJC report covering its inquiry on SCF was tabled before Parliament on 23 March 2022. The report concluded that "while certain activities undertaken by Greensill were high risk and unwise, they appear unrepresentative of the activities conducted by SCF providers in Australia. The committee did not receive evidence to suggest the current regulatory settings for SCF need adjusting".

The PJC noted that:

- Greensill's operations in Australia were limited in scale and Greensill's collapse did not pose a systemic financial stability risk;
- Auditors need to exercise scepticism and push back if disclosure is inadequate;
- Investors and ratings agencies should pay attention to instances where an entity extends its payable terms beyond the industry norm.
- The PJC received evidence (consistent with our understanding) that aspects of Greensill's business model were unique and high risk:
- The use of trade credit insurance and associated underwriting practices were questionable. Greensill made exaggerated claims about the extent to which its trade credit insurance protected securitised bonds sold to investors against loss.
- Greensill dealt with higher risk businesses and was exposed to large invoices from a small number of underlying businesses. More than half of receivables financed were for related-party transactions. In 2020, 11% of business was for future receivables.
- Business relationships between Greensill and GFG Alliance (GFG) led to concerns about the impact of the Greensill collapse on businesses such as the GFG steelworks in Whyalla. GFG appears to have negotiated alternative finance.

ASIC is not aware of any other significant impact of the Greensill collapse on Australian businesses. The second and third largest borrowers were Vodafone Australia and CIMIC, but both predominantly have a supplier/borrower relationship that sits within the same corporate group and were not significantly impacted.

**Background - Payment Times Reporting System**

The PTRS is regulated by the Payment Times Reporting Regulator. Essentially, businesses with consolidated annual income of $100 million or more must report for each 6 month period within their income tax year (with the impact of supply chain financing disregarded) on:

- the standard payment period they offer to small business suppliers;
- the shortest and the longest standard payment periods offered to their small business suppliers; and
- any changes made to these periods.