Dear Ben,

The PrimeRevenue team reviewed your position paper and we agree with your intention to protect small business. However, we have the following comments:

1. **Suppliers derive significant benefit from supply chain finance (SCF)**

There is a right way and a wrong way to implement SCF. When done correctly, SCF is a reverse factoring process where a supplier is given access to visibility of payments, reconciliation tools and the ability to get paid early (if they choose) for a nominal fee. It's 100% transparent and benefits not just buyers, but suppliers as well. Accelerated, visible, predictable payments help suppliers improve cash flow without taking on debt, which enables them to more easily fund growth and innovation as well as weather economic change. This helps each party to grow and to create more jobs. This is especially important as suppliers are under pressure to keep up with industry transformation or economic events.

For smaller suppliers, SCF provides a low-cost option for liquidity. The interest rate a supplier will pay for a loan or factoring will most likely be higher than the discount/processing fee paid using an SCF program, which is tied to the buyer's credit rating rather than the supplier's financial condition. Furthermore, while a loan can negatively impact the supplier's debt-to-equity ratio and other metrics, SCF is a true sale of receivables and has no negative effect on the supplier's balance sheet.

2. **When addressing payment terms, we need to consider the perspective from all involved parties.**

We understand the purpose of the ASBFEO is to protect small business in Australia, nevertheless, we strongly believe that we need to consider the whole economic ecosystem. Working capital and cash flow are key metrics for all companies, no matter the size. Hurting large/medium size players is not a positive step for the Australian economy and therefore, not a positive thing for small companies. Moving a large cadre of suppliers to 30-day payment terms would require a massive working capital increase potentially damaging many Australian companies, thus limiting their purchases from small businesses in Australia.

In relation to your argument that SCF should be available to small business to reduce payment terms from 30 days to better: the cost of onboarding and servicing suppliers makes this impractical. As you can see from the supplier survey shared with you, small companies see tremendous value in SCF. In order to deliver this value, buying organizations must invest in such SCF programs, which are time consuming, costly and rather complex to set-up. With mandatory 30-day payment terms, buyers will reduce implementing such programs as there is no incentive for buyer organizations to invest the necessary time and effort. Banks also incur costs from complying with KYC/AML regulations and ongoing operational activities in their back office. Currently, Suppliers are not charged for onboarding and not obligated to select early payment. As a result, there would be no SCF programs and everyone loses.

The question now becomes: *what type of incentive drives good behaviour in SCF programs?* As discussed with you during our meeting, the buyer should not be incentivized with a portion of the fees paid by supplier for early payment as this promotes predatory behaviour (illustrated by large corporations charging 7% and up to small suppliers). Hence the fair win-win between buyers and suppliers is the ability for the buyer to have a relevant term extension, while the supplier can get their money as soon as the invoice is approved, sometimes as early as 10 days or less after submitting an invoice, at the lowest rate possible.

3. **Your report focuses too much on the length of the terms and too little on late payments**

For all treasury departments, cash forecasting is an important and difficult exercise and the inability (or unwillingness) of their clients to pay on time is a consistent and pervasive challenge globally. Victims of late payments may struggle to pay their own staff and their own suppliers on time, and to some extent, threaten the survival of the company. Whatever the terms are, 30, 60 or 90 days, it is of utmost importance to ensure invoices are paid on time. SCF ensures that suppliers receive payment on time since payment is automatically drafted from the buyer's bank account at maturity.

4. **We do not believe "one size fit all payment term" is an appropriate response**

Standardizing Australian payment terms to 30 days could penalize domestic suppliers when competing against international suppliers. This could be detrimental to some suppliers depending on their cash conversation cycle (i.e. suppliers having to purchase goods today but will not receive revenue until 30 days or longer). A 30-day payment standard could force suppliers into traditional financing facilities which typically come at a much higher cost and weaken their ability to negotiate a more favourable outcome with their customer. Such a mandate also may cause buyers to source alternate suppliers outside Australia.

Payment terms do not universally align with the cash needs of a business. As such it would be imprudent to impose a single payment term across an entire swath of suppliers. Imposing such terms may help some whose cash needs align with the mandated payment terms as much as it will hurt many others whose cash needs are distinctly different than the mandated payment term. As an example, small businesses often operate on very thin cash reserves.

Take one that pays its employees every two weeks. If the mandated payment term is 30 days, the business will need to find cash for the intermediate week's payroll i.e. at 15 days. In many cases, that will mean borrowing at high rates or, if no borrowing is available, selling assets at distressed values.

It would be better to focus on increasing the availability of cost-effective sources of financing to small businesses so they can manage their cash needs more efficiently. The term of the invoice is not the primary determinant of access to funds and, as such, mandating a specified term will not increase the availability or reduce the cost of financing the operations of a small business.

As shared during our meeting, PrimeRevenue firmly believes in the value of SCF for the whole economic ecosystem, as long as the programs are implemented in responsible and ethical ways. We hope we have clearly laid out how these ethical programs can be enforced, and we hope you will consider our perspective for your final paper.