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KPMG Caught Out by US Watchdog: Why Do Australia's Regulators Remain Impotent?

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KPMG CAUGHT OUT BY US WATCHDOG: WHY DO AUSTRALIA'S REGULATORS REMAIN IMPOTENT?

Prof. Janek Ratnatunga
CEO, ICMA Australia

The Australian arm of one of the world's biggest and most prestigious accounting firms, *KPMG*, has been fined A$613,000 by the US accounting watchdog, the *Public Company Accounting Oversight Board (PCAOB)*, after a review found widespread cheating by staff on training tests over a four-year period.**[i]**

As an ex-KPMG Chartered Accountant myself, I was shocked for two reasons: (1) that an independent body was actually checking on what a Big-4 auditor was doing, and (2) that they were fined, rather than being given a slap across the wrist.

I was *not* shocked, however, about the endemic culture within KPMG that led to the fine.

The PCAOB report revealed that more than 1,100 staff –including 250 auditors – about 12 per cent of KPMG's Australian staff members – shared answers to pass mandatory training courses on professional independence, auditing and accounting, including tests to maintain accounting licences.

The PCAOB noted that it took into account KPMG Australia's *"extraordinary cooperation in the matter, including self-reporting, substantial assistance, and personnel and policy actions".* Regardless of KPMG's cooperation, however, the PCAOB did not hold back:**[ii]**

"From at least 2016 until early 2020, KPMG Australia violated PCAOB rules and quality control standards related to integrity and personnel management by failing to establish appropriate policies and procedures for administering and monitoring training tests, including tests designed to help the firm's audit professionals satisfy the requirements for maintaining their accounting licenses."

Why is a USA watchdog fining Australian auditors? What is Australia's own watchdogs, *the Australian Securities and Investments Commission (ASIC)* and the *Financial Reporting Council ('FRC')* doing about such a cowboy culture? And why is the *Chartered Accountants of Australia and New Zealand (CA ANZ)* – the professional body to which a majority of KPMG auditors belong – keeping silent?

From Self-Regulation to Statutory Regulation in the USA

The accounting profession in the United States has now shifted from self-regulation by peer review to statutory regulation by the *Public Company Accounting Oversight Board (PCAOB*).

The main reason for the U.S. policy on oversight changing over the years – from a fairly hands-off approach, to a negotiated oversight of self-regulation by the profession, and now to a statutory-based oversight that is independent of the profession – is mainly due to the *Enron* and *WorldCom* accounting and auditing scandals in the early 21st Century.

Following these scandals, a *Senate Banking Committee* was set-up in the USA to evaluate the effectiveness of the profession's self-regulatory framework, which included the peer review system and the *Public Oversight Board (POB)* – a forerunner to the PCAOB. The *Senate Banking Committee* found that the peer review system had never resulted in an adverse or qualified report on a major accounting firm in its 25 years of existence!**[iii]**

Even after *Enron* revealed its accounting errors, its auditor *Arthur Andersen* received a clean bill of health from the peer review system. How could this be? The answer was obvious, peer reviews were *"mutual back scratching"* exercises. Audit firms choose their own reviewers, who were likely to be connected through prior relationships and tended to receive 'friendly' reviews. This led to the inescapable conclusion that independent standards-setting and independent oversight, while perhaps not guarantees of reliable financial reporting and auditing, are indispensable elements of a strong financial reporting and auditing system.**[iv]**

The result was the US Congress's passage of the *Sarbanes-Oxley Act of 2002* by a near unanimous vote, which rejected self-regulation of the Auditing Profession and required instead independent oversight and standards-setting.

In addition to examining the profession's self-regulatory system, the USA *Senate Banking Committee* also examined the effectiveness of accounting and auditing standards-setters. Among other things, the Committee focused on whether private standards-setters' funding mechanisms fostered inherent biases.

Upon consideration, Senate Banking Committee Chairman Paul Sarbanes assessed the risk of undue influence over standards-setting as follows:

*". . . the current arrangements of the standard setting bodies, both FASB and the international standards-setters … are funded by basically going around with a tin cup. So, you go to the very people who are going to be most intimately affected by the standards, you ask them for money to support the operation, and if they don't like what they think the standard setting body is going to do, they're obviously either unwilling or reluctant to give money.**[v]***

Chairman Sarbanes went on to propose an independent funding source for both the new oversight board, as well establishing auditing and related professional practice standards applicable to public companies, and any accounting standards-setters.

The U.S. experience teaches the auditing profession many lessons, some of which are:

- that rigorous auditor oversight is critical to maintaining an environment in which auditors can stand up to clients and enforce comparability in financial reporting.
- To gain public confidence, oversight must be independent of the profession, both in fact and appearance.
- U.S. efforts at more modest oversight did not fail for lack of highly competent practicing auditors – they failed because they used highly competent practicing auditors.
- This is not to say that expertise in auditing should not play a role in oversight, but it must be expertise that is independent of the profession itself.

There was a lot more in the Sarbanes-Oxley Act in addition to oversight measures that is the focus of this article. For example, the auditor independence requirement where an auditor could not also provide consulting to that client, and the requirement of a personal sign-off on the Accounts by the CEO and CFO.

Unfortunately, these lessons have had little or no impact in the regulation of accounting standard setters and auditors in Australia.

The Parliamentary Inquiry in Australia: Much Ado About Nothing

On 1 August 2019, the Senate referred an inquiry into the regulation of auditing in Australia to the *Parliamentary Joint Committee on Corporations and Financial Services*. The ICMA made the first submission to the Committee (see Appendix 1) calling for an independent body for both setting accounting standards and regulating auditors. Its submission called for a complete overhaul of the system; and probably this was reason it was never contacted for a follow-up discussion!

To counter ICMA's submission, the powers that be organised a deluge of submissions from the audit firms and auditor friendly academics – ensuring that the flaws in accounting standards of not recognising intangible assets in the balance sheets was never discussed. It may seem that the non-recognition of intangible assets in the accounting standards is not relevant to the argument in this article, i.e. that we need more independent oversight of auditors.

However, what are the auditors auditing and certifying? They are certifying that the financial statements are "true and fair" *according to* the accounting standards. Thus, flaws in prevailing accounting standards issued by IFRS should be first step in any investigation of the accounting profession. After all, what is the point of independently overseeing an auditor who is certifying fiction!**[vi]**

The report of findings and recommendations of the Parliamentary Committee was released on 11 November 2020. The recommendations of the report were *'motherhood'* statements about improving the business community's *'perception of the auditing profession'* in light of audit failures, perceived lack of visibility of accountability of auditors, and auditor independence considerations.

The report included the following recommendations:

- That the *Financial Reporting Council ('FRC')* oversees a formal review of the sufficiency and effectiveness of reporting requirements under the Australian auditing standards in relation to the prevention and detection of fraud, and management's assessment of going concern. *[The issue that the reports totally ignore self-generated intangible assets and hence do not give a true valuation of knowledge-economy companies was completely ignored in the report].*
- That the *Australian Securities and Investments Commission ('ASIC')* formally review how it publicly reports the findings of its audit inspection program, with a focus on the transparency and relative severity of identified audit deficiencies. This could include the findings being presented on ASIC's website. *[I will address later why ASIC is not discipling KPMG for their latest scandal].*
- That the FRC and ASIC oversee consultation, development and introduction of defined categories and fee disclosure requirements in relation to audit and non-audit services, and a list of 'explicitly prohibited' non-audit services.
- That the Corporations Act 2001 be amended so that an auditor's independence declaration is expanded to require the auditor to specifically confirm that no prohibited non-audit services have been provided.
- That the Corporations Act 2001 be amended to implement a mandatory tendering regime such that entities required to have their financial reports audited must undertake a public tender process every ten years; or explain 'why not'.

Why are ASIC and CA ANZ silent in the KPMG Scandal?

Why is it that it was the US audit watchdog the PCAOB, and not the Australian watchdogs, ASIC and FRC, that has fined KPMG Australia to the tune of $US450,000 (A$615,000), for widespread and systematic cheating on internal audit integrity exams dating back to at least 2016? And why is *CA ANZ* trying to keep a lid on this and other multiple incidents of bad ethical behaviour amonst its members?

In fact, KPMG had informed three bodies about cheating within the firm: the *PCAOB, ASIC* and the *CA ANZ.*

It was reported by *the Australian Financial Review* (AFR) that *ASIC* had in fact, assessed the material and concluded it did not have the power to sanction KPMG partners and staff over internal training misconduct. An ASIC spokesman had told the AFR that:

"ASIC has no power to intervene directly on such matters … it is of course very disappointing. The audit profession is in a position of considerable authority and trust, and it is important that the corporate and broader communities can rely with confidence on their expertise, honesty and professionalism." **[vii]**

However, despite being first told about the matter 18 months ago, the AFR reported that CA ANZ, the main professional body that represents, trains and disciplines corporate auditors, has yet to investigate or take any disciplinary action against KPMG Australia partners or staff over the systemic exam cheating.

Typical of the glacial speed at which chartered accounting bodies worldwide move with regards to disciplinary matters involving the Big-4 professional service firms – KPMG, Deloitte, EY and PwC – it told AFR reporters that it was, *"monitoring the case"*. Had the PCAOB report from the USA not been published, it is most likely that CA ANZ would be monitoring the case forever.

None of the chartered accounting professional bodies in countries that have had major scandals from just a few years ago, have disciplined their Big-4 members (or the chartered accounting partners within these firms) for professional misconduct. These major scandals include:

- ***Ernst & Young (E&Y):*** In September 2016, public accounting firm E&Y agreed to pay $9.3 million to settle charges against three of the firm's audit partners.
- ***KPMG:*** In 2017 KPMG's South African branch came under fire and suffered a severe reputational damage when it was accused of facilitating the Gupta family in tax evasion and corruption.
- ***Deloitte:*** In 2017 the South African accounting watchdog launched an investigation of Deloitte's audit of *Steinhoff International* after the retailer disclosed accounting irregularities that triggered a share price collapse.
- ***PricewaterhouseCoopers (PwC):*** In 2018, PwC was banned from auditing listed companies in India for two years after being accused of negligence in its audit work at the now defunct *Satyam Computer Services.*

This is because globally, chartered accounting professional bodies like CA ANZ that are responsible for enforcing the professional standards of its members, receive major funding from Big-4 auditing firms – and almost always have Big-4 partners on their boards.

The Big-4 are also major sponsors of the *IFRS Foundation and the International Accounting Standards Board* that issues *International Financial Reporting Standards* (IFRS) – according to which 'true and fair' opinions are given. The whole process is totally incestuous.

Going back to the KPMG scandal, a spokeswoman for the CA ANZ gave the expected, and very typical, stonewalling answer to AFR reporters:

"CA ANZ administers its professional conduct oversight role with due process. As a result, we are unable to comment on the implications of the PCAOB decision for members at this time."

The reality is that most cases are swept under the table. In fact, during the *Parliamentary Joint Committee* inquiry into audit quality that was discussed earlier, a CA ANZ representative said the body had penalised just two members from a Big-4 firm during the past decade.

An interesting case of Mr. Steve Bourke, as highlighted by AFR, is a case in point. He was a PwC partner who the corporate regulator ASIC had accused of failing to gather enough evidence while auditing the collapsed education provider Vocation, At the time of the *Parliamentary* inquiry, CA ANZ said it was *"aware of and monitoring"* the ongoing allegations against Mr Bourke – who had denied ASIC's allegations against him.

According to AFR, this monitoring was dropped after Mr Bourke had voluntarily cancelled his registration with the corporate regulator as a registered company auditor. The punchline of the story reported in the AFR is that Mr Bourke, now a managing director at PwC, remains a CA ANZ member. The CA ANZ spokeswoman said *"information relating to members and investigations"* was confidential when asked about the status of the case by AFR.**[viii]**

Independent Oversight is Needed of Professional Bodies that can Undertake Audits

CA ANZ is one of the three generalist professional accounting bodies who have members that provide public practice services in Australia; and are recognised in s88B of the *Corporations Act (Australia)* to issue a certificate under paragraphs 708(8)(c) or 761G(7)(c) after compiling or auditing a financial report in public companies. The other two are *CPA Australia* and the *Institute of Public Accountants*. All these bodies supposedly hold their members accountable to the principles set out by their '*codes of conduct and professional standards'*. However, very few cases are enforced where the rulings are reported publicly, and almost never against the member who is linked to the Big-4.

All three bodies, as well as all chartered accounting bodies globally, also belong to *the International Federation of Accountants (IFAC)*, which is a global advocacy organization mainly for the financial accounting and auditing professions. In its website it states that it supports the development, adoption, and implementation of international standards for accounting education, ethics, and the public sector as well as audit and assurance. It says that it also supports four independent standard-setting boards, which establish international standards on ethics, auditing and assurance, accounting education, and public sector accounting; and issues guidance to encourage high-quality performance by professional accountants in small and medium business accounting practices.

However, despite these lofty ideals, IFAC is *not* an accreditation organization. It is merely a lobby group. Membership of IFAC is not obtained via an accreditation process, but instead, IFAC membership is obtained via an application process that must be sponsored by at least two current IFAC member organizations. No individual members belonging to its professional bodies globally has been brought in front of it for disciplinary action.

Therefore, it is time that all three generalist professional accounting bodies in Australia come under strict independent scrutiny of their auditor training programs and professional qualifications; similar to how the *Tertiary Education Quality and Standards Agency (TEQSA)* reviews higher education degrees issued by universities. This is the only way to ensure that Australian reputation in corporate

governance is maintained and capital markets are protected.

Impact on Profit vs. Reputational Damage

Some of the personnel and policy actions taken by KPMG (after the horse had bolted) in the aftermath of its exam cheating scandal included the departure of at least two partners. Dozens of employees, including 16 partners, are said to have been stripped of pay entitlements amounting to tens of thousands of dollars in penalties. In total, more than 1,130 individuals within KPMG's 6,700-strong Australian headcount have received disciplinary action over the affair – the least being verbal or written cautions for the sharing or receiving of exam answers. However, it is possible that the penalties imposed by KPMG more than covered the fine of A$ 615,000, which would have been less than one partner's salary!

This brings up an interesting management accounting conundrum. Why is the fine so low? When such low fines are imposed by regulators, coupled with the low probabilities of getting caught, the fine itself can be a revenue-generator for the company via salary savings and penalties. The real loss is *reputational damage* in the marketplace, but the Big-4 appear to shrug-off reputational damage as yesterday's news.

The only reason why KPMG was targeted by PCAOB is that KPMG undertakes audits on companies listed in the USA. No sanctions have, as yet been imposed by Australia's own financial regulators.

To gain public confidence, oversight must be independent of the profession, both in fact and appearance.

As such, it really is time for a proper *Royal Commission on the Accounting and Auditing Profession* with the *Terms of Reference* starting from the questions as to why have legislation requiring a statutory audit. If there is a corporate need for an audit of past transactions, then what should be the focus: detection of fraud, valuation of the company as a going concern, or some other? This will then lead to appropriate financial reporting standards (including valuations of intangible assets); auditor training and assessment; the regulation and licensing of auditors; audit quality; independent auditor oversight; the adequacy and performance of regulatory bodies; and the ability to take disciplinary actions against auditors.

The ICMA has been calling for this since 2018.

Prof Janek Ratnatunga

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive.

Appendix 1

Submission to the Regulation of Auditing in Australia by the Institute of Certified Management Accountants (Australia)

Whilst all of the listed Terms of Reference (TOR)**[ix]** would make for interesting in-depth investigation, the Institute of Certified Management Accountants, would like to raise issues pertaining to:

TOR 4- on audit quality, including valuations of intangible assets.

TOR 8- the effectiveness and appropriateness of legislation, regulation and licensing, and

TOR 10 – the adequacy and performance of regulatory, standards, disciplinary and other bodies.

In this submission we will briefly demonstrate that these three TORs are significantly interlinked and require urgent review by Parliament.

TOR 4, 8 and 10.

The audit report of financial statements uses the term 'true and fair' to express the condition that financial statements are truly prepared and fairly presented in accordance with the prescribed accounting standards. The problem is that it is the Auditors themselves who issue the accounting standards!

This is done by stacking the Boards of the Standard setting bodies by the auditors themselves, especially members of the Big-4, and thereby controlling the development, production and modification of accounting and auditing standards. Then they do an audit in accordance with the very standards that they have issued.**[x]**

Using a university analogy, it's like the Big-4 are setting the subject syllabus, preparing the exam paper, writing the answers to the exam and finally giving a grade. If there is a complaint, they are the adjudicators of the quality of their own work!

It is time for an independent body, appointed by Parliament, to be responsible for setting accounting standards.

A related issue is that preparing accounts based on IFRSs results in flawed financial statements and meaningless and fictitious audit reports.

In knowledge economy companies such as Microsoft, Amazon and Google, the auditors book valuations are over 5-10 times less than market valuations. At Microsoft, this is a difference in value of US$686 Billion in 2018! Against market values, all IFRS valuations would get a fail grade, but Auditors are certifying them as 'True and Fair'.**[xi]**

The outdated belief that the addition of all fair value of individual assets (less liabilities) will give an accurate reflection of the state of affairs of the company is based on an outdated economic paradigm of a largely industrial economy, where tangible assets were the engines of growth. The IFRS based values are totally flawed in today's knowledge economy; as most intangible assets are left out, and an organisation's capability values completely ignored. Regardless, such an flawed valuation is not necessary as a more accurate valuation can be provided by the market at any time. Asking auditors to provide a value is a costly and, ultimately, a meaningless task.

Legislation should be passed to reduce the scope of the traditional statutory financial audit to only reporting if transactions are correctly recorded and that the financial statements are prepared and fairly presented in accordance with Generally Accepted Accounting Principles (GAAP).

TOR 12 – any other related matter.

If the traditional statutory audit is limited in scope by Parliament, one must consider what should replace it for proper governance of organisations. It is strongly recommended that the replacement should be a statutory audit of expected future performance and how it affects current value, and not an audit of past performance and meaningless book values. Such audits are called 'Strategic Audits'.

A strategic audit is far different from the common perception of a financial audit. It is a continuous evaluation of all the strategic functions of any success-seeking firm. Numerous components (e.g. stakeholder audit, customer satisfaction audit, etc.) make up the totality of the strategic audit, although the scope of each component audit will vary depending on the organisation. Most shareholders will want strategic auditors to perform, at a minimum: (a) stakeholder audits; (b) information security audits; (c) environmental audits; (d) corporate ethics audits, and (e) leadership audits. The skill-set strategic auditors would require will be very different from those required by those who audit the past– based on flawed accounting standards.**[xii]**

[i] Sarah Danckert (2021), "US Watchdog fines KPMG Australia", *The Age*, September 16, p.26.

[ii] Consultancy.com.au (2021), "KPMG hit with big fine from US watchdog for exam cheating", 16 September. **https://www.consultancy.com.au/news/3983/kpmg-hit-with-big-fine-from-us-watchdog-for-exam-cheating**

[iii] Charles D. Niemeier (2007), "Independent Oversight of the Auditing Profession: Lessons from U.S. History', *German Public Auditors Congress of 2007*, Berlin, Germany, Nov 8. **https://pcaobus.org/news-events/speeches/speech-detail/independent-oversight-of-the-auditing-profession-lessons-from-u-s-history_32**

[iv] Ibid.

[v] Spiegel, P. and Peel, M. (2002), "Enron Considered Influencing Accounting Body", *Financial Times*, Feb. 13, p. 13.

[vi] Janek Ratnatunga (2019) "Why Audit Opinions are 'Untrue' and 'Unfair'", *Journal of Applied Management Accounting Research,* 17 (2): 23-30.

[vii] Edmund Tadros (2021) "Accounting body in go-slow on KPMG cheating scandal" *Australian Financial Review*, Sept 17. **https://www.afr.com/companies/professional-services/accounting-body-in-go-slow-on-kpmg-cheating-scandal-20210916-p58sdn**

[viii] Ibid

[ix] Parliament of Australia (2019), Terms of Reference of the Parliamentary Joint Committee on Corporations and Financial Services Inquiry, **https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing/Terms_of_Reference**

[x] Janek Ratnatunga (2018) "The Silence of the Auditors", *Journal of Applied Management Accounting Research*, 16 (1): 21-26.

[xi] Janek Ratnatunga (2018) "Auditing Opinions for Sale?", *Journal of Applied Management Accounting Research*, 16 (1): 17-19.

[xii] Janek Ratnatunga (2020) "The Case for Statutory Cost Audits", *Journal of Applied Management Accounting Research*, 18 (2): 35-42.

MEDIA RELEASE: WHY AUSTRALIA IS A SAFE HAVEN FOR CRIMINALS AND MONEY LAUNDERERS

Accountants, Lawyers, and Real-estate professionals are actively lobbying to avoid reporting suspicious transactions.

October 12, 2021: Newspapers and other media outlets have this week reported stories on corrupt activities involving casinos, money laundering, foreign influence, tax avoidance, offshore companies, tax havens, anti-corruption bodies, lax regulation, quantitative easing, and young families being shut out of overheated real-estate markets.

"All these issues are creating a perfect storm that is affecting ordinary Australians" says Prof Janek Ratnatunga, the CEO of the Institute of Certified Management Accountants (ICMA) in a hard-hitting opinion piece titled **"Accounting Graffiti: Connecting the Dots of the Pandora Fallout"**.

"*It is time to connect the dots".*

"These are not disparate issues", says Prof Ratnatunga, "They all stem from compliant accountants, lawyers and real-estate professionals; along with politicians and government regulators who knowingly look the other way."

He dives deep into the murky waters in which some high-profile professional firms operate, and highlights why the Australian government has been slow to place any regulatory requirements on them.

The recent release of the 'Pandora papers' have landed while the federal government is (supposedly) conducting an inquiry to probe the resilience of Australia's AML regime.

"It has been more than ten years since the arrival of the *AML/CTF Act* which requires banks and remitters to detect and report suspicious transactions to *AUSTRAC;* but '*tranche two'* that would make lawyers and accountants become AML reporting agents, is still to be legislated."

"These 'gatekeepers' can be used to disguise money laundering and terrorism financing through the misuse of legitimate financial and corporate services. They have the potential to, intentionally or unintentionally, hide the true ownership or control of funds or assets and can also misrepresent the source of funds or the true purpose of transactions", says Prof Ratnatunga.

"This is despite Australia being pushed to speedily enact these laws by the *Financial Action Task Force*, a global intergovernmental financial crime agency."

Clearly there is a need. Then why the delay?

Prof Ratnatunga says that it is due to the lobbying by the *Chartered Accountants (CAANZ)* and *Real Estate professionals (REIA).* These bodies have warned that tranche two could create *'onerous red tape'* that might not improve the overall system and could lead to *'unintended consequences'* such as higher costs for consumers. These professions are resisting any tightening of reporting requirements with simplistically framed 'red tape' and 'cost increase' arguments.

He says that reading between the lines, the CAANZ submission also warns that there is a chance that its members won't do this work anymore as they may get caught and fined.

In reality, he says that there are significant 'anticipated benefits' in legislating 'tranche two' – as financial crime ultimately affects everybody.

He then connects the dots of all the seemingly disparate issue in the media, by detailing how the *placement* of millions of dollars of dirty money for laundering in Casinos is being used to buy foreign influence and to also lobby the government to delay or water-down 'tranche two' legislation.

He says that this enables criminals to easily place the laundered funds in real estate, either directly or via resident nominees in the same community without scrutiny by AUSTRAC.

Such lax AML legislation makes Australia a 'Safe Haven' away from the clutches of both Australia and the governments in their own countries.

Australia appears to be quite happy to receive these funds as long as they are not used to fund terrorism.

It is incumbent upon Australia to meet the international standards and interrupt the illegal movement of money around the community.

"Such criminal activity has a significant impact on the ecosystem protecting the wider community; and ultimately result in property prices that shut-out the younger generation homebuyers who are struggling to get on the property ladder", he concludes.

CORPORATE M&A ACTIVITY BUOYS AUSTRALIAN FINTECH SECTOR

The past year has been one of excitement for Australia's fintech eco-system, which saw a significant level of M&A activity from incumbent local and offshore financial services providers. This excitement and validation for larger players in the ecosystem has driven the continued investment in the space, which saw strong support for the local fintech sector across a broad range of categories.

The KPMG Fintech Landscape 2021, which captures the breadth and depth of independent fintechs active and headquartered in Australia, provides a snapshot of the innovation taking place across the financial services technology sector. It shows a total of 718 currently active fintechs, up from 701 when the landscape was last released in December 2020.

Daniel Teper, National Fintech Lead, KPMG Australia commented: "The Australian fintech sector has grown up in 2021. Whilst we continue to see early stage opportunities in the overall ecosystem, it's at the big end of town that things really stepped up – this year we've seen record levels of corporate investment in the space, with transactions including NAB's acquisition of 86 400, Latitude's acquisition of Symple Loans and of course, the expected acquisiton of Afterpay by the US headquartered Square due to complete later this year. To put this in perspective, the Afterpay transaction would represent the largest ever takeover in Australian history, and has put Australian fintech firmly on the global map."

Key insights from the KPMG Fintech Landscape 2021 include:

- The number of fintechs solving middle and back office problems increased by more than 20%, driven by the increasing demand for automation and integration from incumbents and innovators alike
- Lending continues to be a hot category, with the number of fintechs in the space up by over 10% led by successful operators in the consumer lending, mortgage and buy-now-pay-later sectors, and supported by low interest rates and availability of investor funding
- The Neobank sector continues to evolve – 2021 saw the acquisition of two of Australia's founding neobank players (86 400 and Up), whilst challengers continue to progress with the granting of new banking licences (Alex Bank and Avenue Bank)
- Payments remains an active sector, with 15 new fintechs added to the landscape, although this was counterbalanced by acquisitions and a number of fintechs in the category that ceased trading
- Blockchain and Crypto Currency continues to evolve as market participants jockey to understand what the future structure of the category looks like

Categories	**2021**	**2020**	**Change**	**Change**
		(adjusted)	(#)	(%)
Blockchain and Crypto Currency	72	81	-9	-11.10%
Capital Markets	53	53	–	–
Crowdfunding	18	20	-2	-10.00%
Data and Analytics	40	39	1	2.60%
Insurtech	51	55	-4	-7.30%
Lending	107	97	10	10.30%
Middle & Back Office	75	62	13	21.00%
Neobank	8	10	-2	-20.00%
Payments	141	140	1	0.70%
Personal Finance Management	27	26	1	3.80%
Regtech	51	47	4	8.50%
Wealthtech	75	71	4	5.60%
Total	**718**	**701**	**17**	**2.40%**

KPMG Australian Fintech Landscape 2021

Dan Teper commented: "This year we have seen record levels of M&A activity involving larger financial institutions and strategic investors. Corporate participation has in part been driven by a response to the permanent shift in customer behaviours and preferences towards digital, as well as the need for traditional players to accelerate their own digital transformation agendas. It is also the clearest sign yet that parts of the ecosystem are starting to mature and gain relevance in the market, and that the incumbent financial services players are therefore having to take notice of the space."

"This activity has further validated the working thesis of many founders and investors – that successful fintechs can quickly scale and be genuine challengers to incumbent providers – and we expect that this will act as a catalyst for further innovation and investment in the sector across a broad range of categories as fintech continues to become a more mainstream and credible sector," he added.

IT'S TIME TO OVERCOME COMPLACENCY AND REMAKE AUSTRALIA'S ECONOMY

In a world where new rules are being created at an ever faster pace, the time is now for Australia to modernise its economy and pursue a more economically sophisticated path to define a resilient and globally competitive post-pandemic future.

A new Deloitte report – ***Australia remade: a country fit for the age of disruption***, the latest in the firm's ***Building the Lucky Country series*** – presents a new way to make sense of change and disruption, and allow policy makers and business leaders to take the necessary steps to pursue growth and shape the future of Australia by becoming more economically sophisticated and sustainable.

The report is based on:

- ***The Deloitte Economic Sophistication Index*** – a new economic lens through which to view the Australian economy compared to others around the world (Australia sits at a less than satisfactory 37th)
- ***Critical ecosystems*** – areas of opportunity that can spur Australia's next wave of economic growth
- ***Future scenarios*** – how would Australia fare if China turned off or turned down the export tap, or if global momentum for meaningful action on climate change caught Australia off-guard, or if Australia took deliberate action to improve its economic sophistication?
- ***A resilience framework*** – a strategy tool for policy makers and businesses that considers four levers – preparedness, innovation, capabilities and connections – to equip them to become more resilient and adaptable.

Deloitte Australia CEO, Adam Powick, said: "There's no doubt that Australia's economy has defied expectations for a long time, and before the COVID pandemic, we had experienced 28 years of uninterrupted GDP growth.

"That growth wave we've ridden has turned the phrase 'the lucky country' into shorthand for our success. But this isn't guaranteed for the next 50 years. Particularly as we bounce back from COVID, it will be more important than ever for our policy makers and business leaders to understand structural changes underway and how we can effectively compete in a more complex and fragmented world.

"Out of uncertainty and volatility, we have the opportunity to shape a new future for Australia – one where we prioritise long-term sustainable success over short-termism, where we embrace risk and foster greater innovation and commercialisation, where we add as much value as possible along the supply chain, and where we strengthen our connections with key trading partners in a deliberate and mutually beneficial way.

"We really do have a once in a lifetime opportunity here. Getting this right – and the size of our ambition and appetite for reform will be critical – can create a more economically sophisticated, sustainable and prosperous nation."

Deloitte Access Economics leader, and principal report author, Dr Pradeep Philip, said: "We live in a world surrounded by uncertainty and structural shifts, including technological advances, climate change, an aging demographic, evolving geopolitical tensions, and a devastating pandemic.

"In this environment, Australia's economic performance has been historically strong, but our economy has also become inherently fragile. Even as we're facing new challenges that are highly complex, we've also become complacent. And that's a big problem. Complacency poisons investing in the new. Letting the good times roll has come at a cost when we haven't built the capabilities and capacity to ensure the resilience of our economy.

"We have many of the building blocks to deliver future growth and prosperity – from access to strategic minerals and renewable energy assets, to proximity to Asia and good education infrastructure. But with a shifting global economic and geopolitical landscape, we need a new economic lens, new tools, and new methods to address disruptions and challenges, and target the areas where tomorrow's opportunities lie.

"This is a once-in-a-lifetime chance to remake our economy and be more than one described in terms of rocks, crops, and cameras. Australia must modernise its economy, shifting from the complicated to sophisticated, building value add and creating deeper connections in the global economy, to be fit for purpose in the decades ahead."

Shifting from complicated to sophisticated

The new research uses 'economic complexity' to provide insight into these opportunities – not complexity in terms of being more complicated, but in terms of understanding and increasing the levels of sophistication in an economy.

"Becoming more sophisticated means to build productive knowledge, innovation, adaptability and diversity into our economy – the key to building the resilience to weather change," Philip said. "And we need to transform and boost our economic sophistication and invest to unlock new growth and compete globally."

The analysis looks to address Australia's particular complexity challenges :

1. ***We're not as successful an economy as we think we are.*** While GDP is high, Australia's economy is not very complex – in fact, it's quite fragile
2. ***We've relied on luck and it's created complacency.*** Due to the stellar economic run over the past 30 years, too little thought has been given to greater economic diversification, and many opportunities have been missed as a result
3. ***We've neglected sectors with the greatest future potential.*** Rather than taking a long-term view, Australia has focused on sectors like mineral resources and agriculture that provided historical wealth
4. ***We're not well connected to the rest of the world.*** This makes it more challenging to improve economic complexity, especially with the rise of Asia on Australia's doorstep
5. ***We're at risk of the 'tyranny of distance' – again.*** With the world looking locally for supply chains, Australia is at risk because it isn't engaging enough in the Asia Pacific region.

Central to the report is a new ***Deloitte Economic Sophistication Index*** that ranks countries and their economies based on two measures: the value added to the goods and services an economy currently produces; and how well connected the industries that make these products and services are in global supply chains.

"Countries have different mixes of skills, ideas, technologies, equipment and materials that can be used to produce a different mix of goods and services," Philip said. "These factors – the productive knowledge or productive capabilities – determine the frontiers of what an economy can produce and how much it can grow."

Countries that rank high on the Sophistication Index – and Germany sits on top – are those that perform well across both value added and connectedness.

Ranked 37th on the other hand, Australia's prosperity has come at the cost of investing in and enhancing the productive and adaptable capabilities in its economy.

"It's a shock to realise we aren't doing as well as we think we are. We can, we need to, do so much better," Philip said. "With half a century of hindsight, it's little surprise that we have an economy characterised by low manufacturing capabilities and missed opportunities from not commercialising our strong research. We haven't built the business or structural foundations required for a diversified, resilient economy.

"Instead, we've been complacent with our success, and our lower value add and weaker connectedness with the global economy

compared to our high-income peers is a serious issue for our future prosperity."

Critical ecosystems…and unlocking opportunity

"The good news is that we have many comparative and competitive advantages that we can amplify and build on as we become more diverse, more sustainable and more connected, and more sophisticated, as an economy," Philip said.

"Our analysis points to seven 'critical ecosystems' that will matter for Australia in the years ahead. These will build on our existing strengths, create new competitive advantage and produce what the world needs. Some will allow us to amplify our natural advantages and build upon the foundations we know so well, while others will move us beyond these, to be more relevant, to be more connected and to find new opportunities for future growth."

A more complex, more sophisticated, economy can deliver genuine opportunity, and see Australia at the forefront of:

1. **Feeding the world** – demand for Australian food is strong, but the core industries involved in Australian food production – agriculture, forestry, and fishing – are among the least sophisticated
2. **Decarbonising the world** – with competitive advantage in natural resources, technologies, and energy, Australia can really take part in the move to global decarbonisation, by producing new sustainable energy
3. **Shaping the future of health** – Australia can create new value by using technology to turn its world-class health research into implementable health and wellbeing solutions
4. **Looking to the sky (and beyond)** – Australia has a strong track record in the areas we have chosen to play in space, but also needs to grow its capabilities from niche research and manufacturing to end-to-end products and services
5. **Manufacturing the future** – to play a greater role in global manufacturing, Australia should have a clear focus on moving up the value chain by connecting advanced manufacturing into areas of greatest economic opportunity
6. **Satisfying the senses** – there is no ecosystem more agile and ever-changing than one that follows consumer demands. Australian organisations need to continue to be responsive and innovative by co-designing products and services
7. **Servicing the world's businesses** – using virtual and digital technology, a significant opportunity exists to export B2B services such as engineering, telecommunications, professional services, and financial and insurance services.

What if China turns off the tap? Or Australia fails in its climate change transition? What if we acted to improve our sophistication?

In a world where uncertainty is certain, the report also examines a series of scenarios, and what a 'business as usual' approach compared to pursuing greater economic complexity might mean for Australia's Economic Sophistication Index ranking and, by extension, its future prosperity.

"What if geopolitical tensions with China worsen? Or global momentum for meaningful action on climate change catches Australia off-guard?" Philip said.

"China turning off the tap would significantly impact Australia's economic sophistication, and would run much deeper than the impact on headline economic statistics. Our future economic capability and resilience to shocks would be at significant risk, and our Index ranking would drop further – to 42nd in the global economy.

"And if Australia's action on climate change continues to lag and, in response, overseas governments introduce limits on our high emission intensity production flows? This too would be devastating for the Australian economy. The world would no longer want what we have, and our Index ranking would drop.

"But taking a more optimistic view of the future, what if Australia improved its level of economic sophistication? How would the economy look and how would Australia benefit where we lift our productive ability to the best performing country in each industry, ensuring our value add becomes world-leading?

"If we were successful, our Index score could more than double, placing Australia above even the highest performers today. But this would require a drastic shift in the structure of our economy. We would increase our business services sectors, build greater balance and diversity in our trade relationships. And if we were successful, we'd see our incomes rise and vulnerability to shocks fall. We'd be more nimble and better prepared to make the most of new opportunities."

A 'BAD ECONOMIC BET': WHAT WILL CLIMATE CHANGE INACTION COST AUSTRALIA?

From higher mortgages to hoarding outdated technologies, how will the government's current stance on climate change affect the economy for Australians?

How will the government's current stance on climate change affect the economy for Australians?

With the COP26 summit fast approaching, the pressure is on for Australia and other nations to commit to reaching a target of net zero emissions by 2050. This effort is in a bid to keep global warming to 1.5°C and prevent disastrous impacts for humanity.

One of the major tenets of this acceleration? A phase-out of coal – **the fossil fuel resource that Australia currently uses for 80 per cent of its electricity requirements**.

There is mounting **public pressure at home**, from **other world leaders** and even **British royalty**, for Australia's Prime Minister Scott Morrison (who as **treasurer infamously brought a lump of coal into parliament**), to attend the Glasgow summit and commit to targets. But with key figures in the Australian government still resisting **net zero**, which they see as coming into conflict with Australia's reliance on coal, this urgent call seems to be going unanswered.

Add to this that Australia is not on track to achieve the modest Paris Agreement targets it has already agreed to, and worries are spiking on the country's inaction on climate change. But what would this inaction cost Australia environmentally and economically?

According to **Professor Richard Holden**, Professor of Economics at the **UNSW Business School**, there are major implications. For example, while Australia might choose to stick with coal as its energy source of choice, global moves away from using unsustainable technologies will leave Australia with financially stranded assets.

"As the world transitions away from coal, any country with coal mining infrastructure is going to need to transition away from those, and Australia is an important country in that respect," he says.

There are ways to transition communities in Australia away from coal and towards new industries, says Prof. Holden.

"It's important to understand that this is a technological force that is happening. It might happen sooner, it might happen later, but it is going to happen, and Australia needs to prepare for that."

Creative destruction occurs as old technologies die, and new ones emerge

Prof. Holden points out that moving away from old technology and embracing the new is in no way unusual in economic history. In fact, there have been 'stranded assets' scattered throughout history as economies transition with the coming of new ideas.

"The Austrian economist Schumpeter famously called this process, creative destruction," he says. "There is a destructive aspect to it, but there's also a creative aspect. And that's what we should be trying to embrace."

While arguments from those in the Australian government against a net zero commitment include that **protecting the resource sector should be a priority, and a transition to new energy sources would damage regional Australia**, Prof. Holden says that putting place-based policies in place could protect communities during the change.

"The best thing that we can do is make sure that we make that transition as smoothly as possible," he says. "That involves putting in policies for regional towns and communities that are affected by the transition away from coal and helping workers into new jobs and industries."

For workers in the coal industry in regional areas such as Central Queensland and the Hunter Valley, this could be a way to ensure the communities flourish with a new lease of life, instead of propping up a dying industry, he adds.

"Many countries have already had to face this," Prof. Holden says. "For example, with industries like car manufacturing, here in Australia."

Hedging against sustainability 'a bad economic bet'

Another major commitment to be discussed at COP26 is that of climate finance: financing that supports actions that mitigate and adapt to climate change. In an Australian context, the country has **stopped contributions to the UN's Green Climate Fund** and continues to fund the fossil fuel industry.

But with financiers around the world recognising that action on climate change is inevitable (and that markets will shift to accommodate this) Prof. Holden says that backing companies who do not recognise this is a "bad economic bet". It's a point of view shared by many, from the **CEO of the world's largest fund manager, BlackRock** to **Australian Treasurer Josh Frydenberg**. "Finance is global," says Prof. Holden. "The reality is that if we want to have access to global capital markets – and as a capital thirsty country Australia benefits hugely from that – then we need to show what we can do in terms of our commitment to decarbonizing our economy."

"And the Treasurer was right in pointing out that if we fail to do that, then international capital markets will ensure that we pay more for our credit cards, more for our mortgages, more for our small business life, and so on. And that will have a very real effect on Australia."

With climate action change, comes economic opportunity

As well as the new technologies that would emerge in the shift to a green economy, there are further opportunities for economic growth when it comes to implementing an Emissions Trading Scheme, which is to be discussed at COP26.

A market-based solution such as an international trading scheme – something that has long been a politically contentious issue in Australia – would provide economic opportunity, says Prof. Holden.

"Economists have said since the early 1900s, that when you have a negative externality the way to deal with it is to internalise that through the price mechanism," he says.

"To have a market-based solution that provides opportunities for green technology producers and adopters in Australia provides markets for our ingenuity, our ideas, and our renewable energy. We're already seeing **cables being built as we speak, between Darwin and Indonesia and Singapore** as a way of exporting green energy."

Forget the cost of climate change action – consider the cost of inaction

In terms of the costs of adapting to and mitigating climate change, Prof. Holden says that this will depend on the exact technologies needed and how they evolve. But he warns that while it might be costly, not endeavouring to do so would cost even more.

The 2019/20 Australian bushfires were a devastating reminder of the destruction that can happen due to climate change.

"The cost of not adapting is going to be orders of magnitude larger than the cost of doing that," he says. "And we're fortunate to have great technological capability in terms of these adaptations."

"We've already seen droughts in Australia, and the bushfires just before COVID hit. Extreme weather events are increasingly frequent, and Australia is not immune. So, we'll have to do more, and we should do more of that as a way of dealing with climate change."

COVID, LOCKDOWNS, TAX TIME: SCAMMERS POSE TRIPLE THREAT

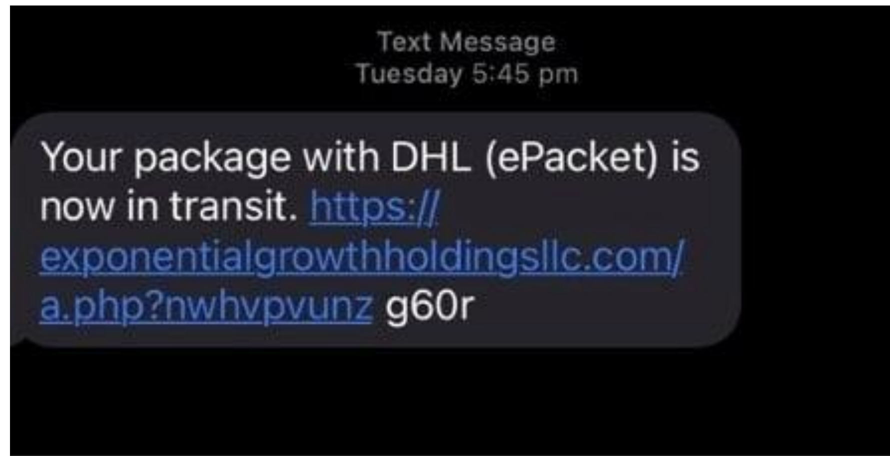

Fig 1. A message claiming to be from DHL which contains a link to a fake website. Clicking this link could infect your device with malware, spyware or a virus.

Current conditions the perfect 'breeding ground' for scams.

The pandemic, ongoing lockdowns and tax return time are leading to a perfect scam storm, says Dr Suranga Seneviratne from the School of Computer Science.

Dr Suranga Seneviratne is a computer scientist and cybersecurity expert from the Faculty of Engineering who warns that conditions caused by the pandemic are leaving Australians vulnerable to a scam surge. He provides timely advice for on how to spot scams and avoid becoming a target.

"The COVID-19 pandemic has hit Australia again. Many of us were caught off guard and we have all had to quickly react and adjust. Changed work conditions – or lack thereof, home-schooling, social isolation and information overload are making many of us,even the tech savvy, vulnerable to scams," said Dr Suranga Seneviratne.

"Scammers target vulnerability and thrive on disorder – current conditions are the perfect breeding ground for this type of nefarious activity.

"Now, more than ever, we should be on high alert for possible cyber-crime and scam activities targeting us."

Lessons from lockdown 1.0

"Last year we witnessed several pandemic-specific scamming activities. The early days of the pandemic saw attempts to distribute malware using apps and websites disguised as providing COVID-19 information," said Dr Seneviratne.

"There were also phone, SMS, and email campaigns around the world where the attackers targeted mobile users with convincing stories, such as pandemic relief packages, test results, information about travel restrictions, and early access to vaccination. During the same time, regular scam activities – such as romance scams and fake advertisements – also increased locally as well as globally.

"For example, according to the Australian Competition and Consumer Commission (ACCC)'s latest report [link?], losses from scam activities sky-rocketed in 2020 – increasing by a staggering 23 percent compared to 2019. The US Federal Trade Commission reported similar trends in the US."

What's happening this time around?

"While it remains to be seen whether scam activities have increased during the current outbreak, there's evidence that attackers are "seizing the moment" with crafty stories designed to exploit people's heightened vulnerability," said Dr Seneviratne.

"Just last month, Australian mobile users were targeted by the 'Flubot' scam. Targeted users received a seemingly innocuous SMS with a link to a supposed voice mail message. Once the link was clicked, users were asked to install a voicemail app, which was in fact malware. Some thought this message was related to their COVID test results.

"During the pandemic, people have been getting calls from unknown numbers for all sorts of reasons, and not all of them have been nefarious. This increased communication, coupled with many people being more preoccupied than usual, has caused many otherwise cautious people to absent-mindedly click malware links or answer calls from scammers.

"Business emails have also been compromised by scammers. Some businesses or individuals may be behind their payments due to the pandemic or dealing with challenging remote working conditions. Attackers have been pretending to be suppliers, trying to scam money from businesses."

"Fake postage or logistic texts and emails, claiming to be DHL, Australia Post and Toll have been rife too, with scammers capitalising on the increase in orders and trade by post."

"Now that we are in a new financial year, increasingly, scammers are posing as the Australian Taxation Office and are requesting large sums of money. There have also been instances where people have received voicemails telling them they have a warrant out for their arrest because of tax evasion."

6 top tips for avoiding cyber scams

There are several easy, everyday actions we can all take that can protect us against cybercrime, such as: regularly updating our software; using antivirus solutions; creating secure passwords and; enabling multi-factor authentication.

There are also several scenarios in which you should proceed with caution:

1. **If you receive an unsolicited message with a link, don't click it.** Many text messages appear to be legitimate, but on closer inspection are not (see fig.2).
2. **If you receive a text alerting you to a voicemail, don't click the link.** Instead use your telco provider's voicemail number to find out if you actually have received one.
3. The same goes with the bank or other similar institutions. **If you get a message, don't click on it. Instead, directly log into the bank from your computer or the app.** Many banks are now moving away from sending texts containing links. Rather they only send messages like "there was some suspicious activity in your account, please log in to your online banking portal and check".
4. **Never give out your personal information over the phone on an unsolicited call.** There are many occasions that we receive legitimate calls from unexpected numbers at unexpected times. However, if you give away personal information over the phone, it is strongly recommended that you first verify the identity of the other party. For example, if the person claims to be calling from the bank, ask for their name and enquire as to their request, then hang up and call the bank at a verified number and corroborate these details – the bank will be able to tell you if this was a legitimate request.
5. **Check email sender information.**
   While email filtering solutions are doing a reasonable job in preventing bulk phishing attempts from entering your inbox, highly targeted phishing and scam attempts can still make it into your inbox. Always check the email address of the sender and do a verification of whether it is really coming from the person it claims to be. For example, if one of your work colleagues emails asking for an urgent financial favour, verify whether it is the correct email. These phishing attempts will often get the names and contact information correct and combine it with a plausible story, but if you inspect closely you will realise the email address is not the one you know. For example, a fake University of Sydney email address might read: **john.Appleseed@sydney.au.edu** or **john.appleseed@sydney.co**. Especially on mobile devices, attacks often manipulate sender names so you only see part of the sender name, such as "Australia Post". But when you expand the actual email address, such emails will not have a valid Australia Post domain name (See Fig.2)
6. **Remember everyone is vulnerable to being scammed.** While all of this may seem obvious and straightforward, many tech-savvy people have fallen victim to these simple tricks and heightened stress is making us all more susceptible.

Fig 2. An email claiming to be Australia Post. Note the actual email address is "AustralianPost@azedf.z-mcit.org.uk". Be sure to watch out for small details like this.

COLLATERALISED LOAN OBLIGATIONS: WHY THESE OBSCURE PRODUCTS COULD CAUSE THE NEXT GLOBAL FINANCIAL CRISIS

At the heart of the **global financial crisis** of 2007-09 was an obscure credit derivative called the collateralised debt obligation (CDO). CDOs were financial products based on debts – most notoriously, residential mortgages –which were sold by banks to other banks and institutional investors.

The profitability of these CDOs largely depended upon homeowners' ability to repay their mortgages. When people began to default, the CDO market collapsed. And because CDOs were interwoven with other financial and insurance markets, their collapse bankrupted many banks and left others requiring government and central bank support.

Many thought this would put an end to the market for complex structured credit derivatives, but it didn't. As of 2021, a **close cousin** of the CDO known as the collateralised loan obligation or CLO was approaching the equivalent value of the CDO market at its peak. A record number of CLOs were **issued in August**, and the market as a whole is **approaching US$1 trillion** (£726 billion) in value. Many within the financial services industry **say that** there is nothing to worry about, but there are good reasons why they could be wrong.

How CLOs differ from CDOs

Collateralised loan obligations **are underpinned** not by mortgages but by so-called leveraged loans. These are corporate loans from syndicates of banks that are taken out, for example, by private-equity firms to pay for takeovers.

Proponents of CLOs argue that leveraged loans have a **lower record** of defaults than subprime mortgages, and that CLOs have less complex structures than CDOs. They also argue that CLOs are **better regulated**, and carry weightier buffers against default through a more conservative product design.

None of this is untrue, but this do not mean risk has disappeared. Mortgages, for example, had **low rate of defaults** in the 1990s and early 2000s. But since CDOs enabled banks to sell on their mortgages to free up their balance sheets for more lending, they began lending to riskier customers in their search for more business.

This relaxation of lending standards into subprime mortgages – mortgages issued to borrowers with a poor credit rating – increased the eventual default rate of CDOs as people who could ill afford their mortgages stopped repaying them. The danger is that the same appetite for CLOs **may similarly** reduce standards in leveraged lending.

In one respect, CLOs may even be worse than CDOs. When homeowners failed to repay their mortgages and banks repossessed and sold their houses, they could recover substantial amounts that could be passed through to CDO investors. However, companies are rather different to houses – their assets are not just bricks and mortar, but also intangible things like brands and reputation, which may be worthless in a default situation. This **may reduce** the amount that can be recovered and passed on to CLO investors.

Network effects

In a **recent paper**, we examined the similarities between CDOs and CLOs, but rather than comparing their design, we examined legal documents which reveal the networks of professionals involved in this industry. Actors working together over

a number of years build trust and shared understandings, which can reduce costs. But the mundane sociology of repeat exchanges can have a dark side if companies grant concessions to each other or become too interdependent. This can drive standards down, pointing to a different kind of risk inherent in these products.

The US-appointed Financial Crisis Inquiry Commission (FCIC) found evidence of this dark side in **its 2011 report** into the CDO market collapse, underlining the corrosive effects of repeat relationships between credit-rating agencies, banks, mortgage suppliers, insurers and others. The FCIC concluded that complacency set in as the industry readily accepted mortgages and other assets of increasingly inferior quality to put into CDOs.

Unsurprisingly, creating CLOs requires many of the same skill sets as CDOs. Our paper found that the key actors in the CDO networks in the early 2000s were often the same ones who went on to develop CLOs after 2007-09. This raises the possibility that the same industry complacency might have set in again.

Sure enough, the quality of leveraged loans has deteriorated. The proportion of US-dollar-denominated loans known as **covenant-light or cov-lite** – meaning there are fewer creditor protections – **rose from** 17% in 2010 to 84% in 2020. And in Europe, the percentage of cov-lite loans is believed to **be higher**.

The proportion of US dollar loans given to firms that are over six times levered – meaning they have been able to borrow more than six times their earnings before interest, tax, depreciation and amortisation (EBITDA) – also rose from 14% in 2011 **to 30% in 2018**.

Before the pandemic, there were alarming signs of borrowers exploiting looser lending standards in leveraged loans to move assets into subsidiaries where the restrictions imposed by loan covenants would not apply. In the event of a default, this limits creditors' ability to seize those assets. In some cases, those unrestricted subsidiaries were able to borrow more money, meaning the overall company owed more in total. This has strong echoes of the financial creativity that drove riskier borrowing in 2005-07.

So how worried should we be? The CLO market is certainly very large, and corporate defaults could soar if it turns out that the extra money pumped into the economy by central banks and governments in response to the COVID crisis provides only a temporary reprieve. The **major buyers** of these derivatives again seem to be large, systemically important banks. **On the other hand**, according to some accounts, these derivatives are less interwoven with other financial and insurance markets, which may reduce their systemic risks.

Nevertheless the market is at least large enough to cause some disruption, which could cause major ructions within the global financial system. If the networks behind these products are becoming blind to the risks and allowing CLO quality to slowly erode, don't rule out trouble ahead.

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BUSINESSES SUFFERING 'COMMITMENT ISSUES' ON FLEXIBLE WORKING

- **79% of companies intend to make moderate to extensive hybrid work changes, but only 40% have communicated their plans to workforce**
- **Lack of clarity has created disconnect with employees who want flexible working arrangements**
- **90% of employees want flexibility, but 35% of employers want a full return to office post-pandemic**

The vast majority of employers around the world have not yet communicated any plans for the post-COVID-19 pandemic workplace, fueling a potential disconnect with employees who are seeking permanent new ways of working, according to the EY Work Reimagined Employer Survey 2021.

The survey canvassed more than 1,000 business leaders across nine countries and 25 industry sectors, examining their views on the impact of the COVID-19 pandemic on the workplace, including their perspectives on the risks and opportunities of hybrid working. The findings were then compared with the results of the recent **EY Work Reimagined Employee Survey 2021.**

The findings show that 79% of employers are planning to make moderate to extensive changes, in order to allow more hybrid working, reflecting the views of 90% of employees, who say they want flexibility in when and where they work. However, only 40% have communicated these plans, creating a potential disconnect with employees on crucial issues such as flexibility, culture, and productivity.

The remaining employer respondents are either still planning or waiting to communicate any decisions about their new ways of working – which will in part reflect the very different stages of the COVID-19 pandemic around the world.

Liz Fealy, EY Global People Advisory Services Deputy Leader and Workforce Advisory Leader, says:

"Employers have heard loud and clear that employees are demanding flexibility, in the post pandemic working world. The biggest danger facing most employers is that they fail to provide clarity around their hybrid work and return to office plans. Many organizations seem to have commitment issues around flexible working – they know they need to adapt but are holding back on implementing any firm plans.

"We know that many employees are prepared to quit if they don't get the flexibility they need and so employers who fail to move with the times do risk losing their people. Organizations that want to flourish need to ensure that their plans are well defined and communicated, and that they balance business and employee priorities in refining these plans to help create a win-win for the business and the workforce."

Despite the overwhelming recognition of the importance of flexible working; the survey reveals that 35% of employer respondents want all of their employees to return to the office full time post-pandemic. While some of these employers are in industries that require on-site presence, there are other organizations that can work virtually, but want it to happen in person.

Fifty-one percent of employer respondents say that they want to decrease business travel post-pandemic, but 66% of employee respondents say they want it to resume.

On key issues relating to culture and productivity there are also notable disconnects. Almost three quarters (72%) of employer respondents believe that workplace culture has improved since the onset of the COVID-19 pandemic, compared to 48% of employee respondents; and 82% of employer respondents believe productivity can now be measured from anywhere, compared to 67% of employee respondents.

Risks on the horizon

Employers who took part in the survey were also asked about risks beyond physical health, that they believe may come with the shift toward hybrid working. Almost half (45%) say one of the biggest risks will be their ability to establish fairness and equity among employees when some jobs require a fixed schedule or location, creating a 'have and have not' dynamic based on roles. Forty-three percent say a key concern is how to retain talent and offer flexibility; and 40% point to hybrid working as a risk to culture, creativity and collaboration.

Other risks identified include developing next generation talent (39%), establishing and measuring productivity (36%), upskilling/reskilling employees for new ways of working (30%), adopting new technologies to support hybrid working (28%), supporting employee well-being (28%)

In making these preparations, workplace safety is also a major consideration. The survey reveals that 43% will require staff to be fully vaccinated before returning to the office. A similar proportion (42%) plan to incentivize vaccination, for example, through paid time off for employees, subject to legislative requirements.

Liz Fealy added:

"These various and complex risks make it harder for employers to define their back to office plans for a diverse workforce and leave many exposed to the possibility that employees will move to companies where flexibility is clearly implemented."

REGIONAL OFFICE AND BRANCH NEWS

GLOBAL ZOOM CMA PROGRAM

The third Global Zoom CMA Program was held over 3 weekends in in September 2021. It was an immense success with 84 participants from 25 countries. It commenced at 2pm AEDT and finished at 10pm each day. There were those who tuned in from Canada at Midnight the day before; and from New Zealand who finished after midnight the day following! There were also participants from Europe, Africa, the UAE, Bangladesh, Indonesia, Sri Lanka and also Australia.

The presenters were Prof Janek Ratnatunga, Prof Brendan O'Connell and Dr. Chris D'Souza; and the Zoom Host was Dr Chintan Bharwada; ICMA's COO. Given the incredible logistics involved, it was a team-teaching effort on all the days. From the comments posted in the chat boxes; it was extremely well received.

Special commendation must go to Dr Ana Sopanah who was responsible for a large contingent of participants from Indonesia; and also Mr. Sazzad Hassan, the Regional Director of Bangladesh, Mr. Kapila Dodamgoda, the Regional Director of Sri Lanka and Shakeeb Ahmed of the Regional Director of UAE.

ZOOM WEBINAR: CFO OF THE FUTURE: BEYOND BUSINESS PARTNER

Throughout the Covid-19 pandemic, ICMA Australia has continued its commitment to bring world-class seminars to its members.

On October 7, 2021, CMA ANZ was proud to present one of our members Alena Bennett, CMA, at a webinar titled: “CFO of the Future: Beyond Business Partner.”

She said that "Business Partner" which has been the endgame, the holy grail for CFOs and their teams, whilst not a new concept, is still a hard hurdle for many CFOs to reach and overcome. For those that have mastered what it takes to be a business partner, job satisfaction might be waning. Why, you might ask? Because it's the wrong goal, she said. “We need to be thinking beyond the business partner so that business partnering becomes the new BAU.”

Alena Bennett, CA, CMA delivering her talk

Alena then shared her reflection of the CFO career journey in a way that will allow one to say 'oh, that's me'. She'll also shared what happens beyond business partner and provided participants with the opportunity to think bigger about their career and what 'leading with significance' means to each [person.

Alena is also a Chartered Accountant with international public practice and corporate experience and a trained educator and published author, Alena is the go-to for Chief Financial Officers and their teams looking for next-level success

BANGLADESH DELIVERS SBA PROGRAM

On October 1-2 and 8-9, 2021, the Bangladesh Regional provider, Hassan Associates and ICMA successfully moved the delivery of the Strategic Business Analysis Program online using the Zoom platform, with Professor Janek Ratnatunga and Dr. Chris D’Souza successfully delivering the course from their homes in Melbourne.

The screen shot below shows presenters Dr Chris D’Souza (Row 1, No.1) and Prof Janek Ratnatunga (Row 5, No.1). Also in the screen shot is Mr. Sazzad Hassan, CMA, the Regional Director for Bangladesh (Row 5, No.4).

INDONESIA ZOOM WEBINARS

Throughout the Covid-19 pandemic, ICMA Australia Indonesia Branch continued its commitment to facilitate the capability development for CMA Members, professionals and academics in the fields of accounting and finance. In the September -October period 2 more webinars were held. ICMA facilitated the events, which were moderated by ICMA Australia's Indonesia President, Mr. Daniel Godwin Sihotang, Dr Ana Sophana, Mr. Nursakti Niko Rosandy, the Branch Treasurer.

A WARM WELCOME TO NEW MEMBERS (Aug & Sept 2021)

Abdellatif, Rehab
Abdo Mahmoud, Mohamed
Adam, Hany
Adenuga, Olufemi
Aivohozin, Rolys
Ajrianto, Brian
Akindolire, Anu
Akinmusire, Millicent
Alamgir, Shoaib
Alkaraan, Fadi
Aloys, Agendia
Alsayani, Yahya
Andrade, Pedro
Arbia, Giovanni
Bahiwag, Gilbert
Baligod, Jaimeeka
Bansil, Harvinder
Belfort, Mario
Bennett, Alena
Bharwada, Chintan
Bharwada, Chintan
Bhika, Jathil
Botes, Anton
Bui Hao, Tuan
Butucaru, Mihaela
Çağlar, Ozan
Cahill, Adrian
camilo, Fabiano
Capuno, Noeme
Chan, Lok Hei
Chileya, Dibden
Chowdhury, Shamayun Ahmed
Corpuz, Tats
Costales, Leandro
Cummins, Ivan
Dabawala, Divyesh
Dall'Aglio, Nicola
Dang Ngoc, Nam
Darmasaputra, Alan
De Alwis, Sandeep
De Guzman, Marradeth
Devlin, Noel
Diano, Marie Angelica
Dimou, Costas
Dinh Thi, Hanh
Do Thi Minh, Hong
Dovander, Johan
Duong Ngoc Thuy, Dung
Dy, Mylah
Dzialo, Roland
Egbiki, Cusmas
Egele, Sarata
Elisabeth, Jessyca
Enaholo, Ebeagbo
Farrand, Kirsty
Federighi, Sandra
Fedor, Kushnerov
Fernando, Emmanuel
Gatt, Alexander
Gomez, Angel Diolina
Gondo, Adeline
Gumia, Karl Niño
Gupta, Mohit
Ha Thanh, Thuy
He, Zhe
Hettiarachchi, Don
Hoang Le, Phuong
Hoang Minh, Duc
Hossain Farazi, Mohammad Mostofa
Hossain Farazi, Mohammad Mostofa
Hwang, Hyewon
Ibardy, Margaret
Ivanova, Nina
Jain, Amit
Jayasekera, Rahul
Jayaweera, Umagiliya
Joco, Sheva Darlene
Johani, Hilda
Joson, Evangeline
Karamanis, Dimitrios
Karunwi, Adeoye
Kelly, Rob
Khan, Bakhtawar
Khan, M Ali
Khutsafalo, Kagiso
Kleyn, Sheila
Kofi Quansah, Benjamin
Koliakos, Antonis
Krishnankutty, Jayakrishnan
Kurniawati, Dian
Kusumawardhana, Valian
Kweka, Elias
Lam, Ming Tat
Le Hong, Lam
Le Thi, Hien
Lebbie, James
Levakis, Constantinos
Li, Dennis
Low, Kin Ming
Lukwiya, Caesar
Lunardi, Harry
Macapagal, Djaanne
Macapagal, Djaanne
Maduagwu, Samuel
Malilay, Anna Marie
Marcella, Syerent
Marigliano, Luigi Maria
Marong, Alhaji Bakary
Marquez, Ma. Maricar
Martinez, Xhienna Marie
Martini, Stefano
McGreevy, Ryan
Migoye, Steve
Mirmaningsih, Monika
Modugu, Kennedy
Molnar, Robert
Morano, Diane Christine
Muhammad, Asad
Mullins, Martina
Mullins, Stephen

Nabeel, Muhammad
Nagendram, Mano
Nelapati, Karunakar
Nguyen Ba, Ngoc
Nguyen Hoai, Trung
Nguyen Huy, Tung
Nguyen Ngoc, Cuong
Nguyen Ngoc, Lien
Nguyen The, Thuan
Nguyen Thi Minh, Phuong
Nguyen Thi Quynh, Diep
Nguyen Thi Thu, Hoai
Nguyen Thi, Phuong
Nguyen Van, Di
Nguyen Viet, Phuong
Nguyen Xuan, Tuong
Nguyen, Ngoc Anh Duy
Nguyen, Ngoc Anh Duy
Nguyen, Ngoc Trang
Nguyen, Ngoc Trang
Nguyen, Phuoc Loc
Nguyen, Phuoc Loc
Nzioka, Benjamin
Nzioka, Benjamin
Nzioka, Benjamin
Nzioka, Benjamin
Nzioka, Benjamin
Ou, Jia
P V, Janeesh
Padhiar, Hitesh
Pan, Leo
Patel, Jigar
Pazhambilli Nhalil, Saheer
Pereira, Joaquim Jose
Perera, Ranil J

Peter, Binu
Pham Duc, Tuan
Pham Minh, Toan
Plotado, Regina
Prabathash, Venuja
Prasetyo, Ivana
Prasstyo, Dimas
Qasim, Muhammad
Qirjazi, Alba
Quinn, Matthew
Rabiu, Folorunso
Rajagopalan, Anandan
Rajkumar, Ranjith
Revell, Kylie-Maree
Rivera, Hershey Joy
Rupcic, Bernarda
Safina, Galina
Sallah, Michael
Sapong, Angela Mae
Saquing, Zyrah Ann Mari
Sasidharan, Vikas
Savellano, Dennis
Schoeman, Kobus
Sibay, Esat
Šimunić, Tanita
Sivayogarajan, Raj
Sohail, Anjum
Solamillo, Ariel
Stanley, Frederic
Staughton, Lucy
Sugun, Saranya
Swinburne, Iain
Taylor, Scott
Todd, Arthur
Tong, Shu Tak

Trigg, Neil
Trinh Duc, Minh
Tse, Che hang
Unger, Aline-Chantal
van Niekerk, Yolande
Varghese, Sunil
Velarde, Christian Jay
Venditto, Antonio
Vettikkattil Paulose, Benny
Vlamis, Alexandros
Vo Thi Lan, Anh
Vu, Thanh Ngan
Vu, Thanh Ngan
Wakati, Kenneth
Weerakoon, Samith
Weng Lap, Yeong
Whittle, Jovelyn
Wijaya, Yeny
Wijesinha, Ranel
Willow, George
Wolf, Patience
Wong, Felix
Wong, Yi Wen Tricia
Wu, Stanley Man Chun
Yrastorza, John Simone
Yu, Sing
Yu, Sing
ZHANG, BO
Zheng, Xin

CMA EVENTS CALENDAR

Sept 4-6 & 11-12 & 18-19, 2021: Third CMA Global Zoom Program in Strategic Business Analysis, Syme Business School, Australia. (Online).

October 1-2, 2021: Webinar in Strategic Business Analysis (Part 1), Hassan Associates, Bangladesh. (Online).

October 8-9, 2021: Webinar in Strategic Business Analysis (Part 2), Hassan Associates, Bangladesh. (Online).

October 29, 2021: "Environmental Social Governance (ESG) for-Sustainability-Colloquium", Victoria University.

November 11, 2021: Asia-Pacific Management Accounting Association 2021 Annual Conference (APMAA 2021) "Green Swans-based Management Accounting System towards Future-Fit Society" (Online).

November 13-15 & 18-21, 2021: First Sri Lanka Zoom CMA Program organised by Academy of Finance, Sri Lanka. (Online).

January 8-10, 2022: Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore (7th Intake). (Online).

January 8-10, 2022: Webinar in Strategic Cost Management, Hassan Associates, Bangladesh. (Online).

January 21-24, 2022: Certificate of Proficiency in Strategic Business Analysis, SMU Academy, Singapore (7th Intake). (Online).

February 18-19, 2022: Webinar in Strategic Business Analysis (Part 1), Hassan Associates, Bangladesh. (Online).

February 25-26, 2022: Webinar in Strategic Business Analysis (Part 2), Hassan Associates, Bangladesh. (Online).

February 19-21 & 24-27, 2022: Second Sri Lanka Zoom CMA Program organised by Academy of Finance, Sri Lanka. (Online).

March 5-7 & 12-13 & 26-27, 2022: Forth CMA Global Zoom Program in Strategic Business Analysis, Syme Business School, Australia. (Online).

March 19-21 & 24-27, 2022: Third Sri Lanka Zoom CMA Program organised by Academy of Finance, Sri Lanka. (Online).

July 16-18, 2022: Certificate of Proficiency in Strategic Cost Management, SMU Academy, Singapore (8th Intake).

July 29-31 & Aug 1, 2022: Certificate of Proficiency in Strategic Business Analysis, SMU Academy, Singapore (8th Intake).

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Singapore Management University Academy (SMU Academy)

Business Sense, Inc. , Philippines

HBS for Certification and Training, Lebanon

SMART Education Group, UAE

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

Segal Training Institute, Iran

Business Number Consulting, Indonesia

Inspire Consulting, Indonesia

ManAcc Consulting, New Zealand

STRACC Learning LLP, India

Hassan Associates, Bangladesh

Ra-Kahng Associates Ltd, Thailand

Academy of Management Accountancy, Nepal

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FFR Group APAC, Malaysia

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Management
Accountants