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Electric Blues: Cost-Benefit of Taxing Electric Car Usage

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ELECTRIC BLUES: COST-BENEFIT OF TAXING ELECTRIC CAR USAGE

Australia is Becoming the Poor Relation of Clean Technology Take-up

The news was both literally and metaphorically an electric shock to the clean technology industry in Victoria, Australia. Mr. Tim Pallas, the Treasurer of the State of Victoria announced a state budget initiative to start taxing electric vehicle (EV) owners from 2021 for every kilometre they drive.

The Reason? It will make road charging "fairer" for all motorists.

The Logic? Traditional motorists pay for the use of roads via the tax on petrol and diesel. EV users drive on taxpayer funded roads for free.

The Need? The state government now has 'eye-watering' debt and deficits because of the financing required to prop-up the economy during an extended 8-month COVD-19 lock-down period.

The state government's new EV charge will levy 2.5 cents per kilometre driven by electric and other low emissions vehicles and 2 cents for plug-in hybrid electric models. It expects to raise A$30 million by the new charge, over four years, and claims that this will offset some of the A$45 million spending it hopes to undertake to boost the take-up of EVs, with charging points across the state and plug-in facilities in new buildings.**[i]**

The counter arguments are many: (1) that such a tax fails to account for 'externalities'; i.e. the benefits of EVs to society – such as improved health outcomes; (2) that EVs will make a major contribution to improving our environmental scorecard for the benefit of future generations; (3) that taxing EVs ignores the fact that the fossil-fuel energy is already subsided to the tune of A$1,480 for every Australian per year; (4) that the State of Victoria will be one of the few places in the world with not only minimal EV incentives but actual disincentives; etc.

The Victorian EV tax scheme is not without its supporters. Large corporates, especially those making a profit out of road usage (e.g., toll-road operators) are heavy supporters of such a tax. Those providing taxation services are also supportive. KPMG tax partner David Sofra suggested: ''In my view the new taxes ensure EVs make a fair contribution towards funding our public road system, and supported by the accompanying initiatives, are unlikely to disincentivise consumers and businesses from making the switch to electric."**[ii]**

The reason for the support of the EV tax by tax accountants appears to be the possibility of the additional taxation services that arise in implementing any new tax. The only way that the government will be able to charge on a km usage basis is for the owners to provide logbooks

Prof. Janek Ratnatunga
CEO, ICMA Australia

and fill in quarterly tax returns. Large corporate users of EVs will get their accountants to undertake this task to ensure compliance. This will be an added cost to them on top of paying the EV usage tax.

As one can see, wading through the multiplicity of such opinions, assumptions and numbers will indeed be a challenge for management accountants!

Start-of-Pipe vs. End-of-Pipe Costs

The *Electric Vehicle Council*, the national body representing the EV industry in Australia, reported that the *running costs* of EVs are low compared to petrol cars – with virtually no engine maintenance – and electricity costs equivalent to less than 40 cents a litre of fuel.**[iii]** Whilst this is an opinion from a lobby group, there is no doubt that *end-of-pipe* 'running costs' are significantly lower in EVs. Also, with no carbon emissions coming from the tail of an EV, there are certainly no end-of-pipe greenhouse gas emissions.

The picture is quite different at the 'start of the pipe', however. While no greenhouse gases are emitted directly from EVs, they run on electricity that is – in Australia and many parts of the world – largely still produced from fossil fuels. Energy is also used to manufacture the vehicle at the start of the pipe – especially the battery. Around half of the emissions from battery production come from the electricity used in manufacturing and assembling the batteries. The other significant long-term concern is that the growing numbers of EVs present a serious waste-management challenge for recyclers at the end-of-life.**[iv]**

In a seminal paper**[v]** titled *Carbon Business Accounting: The Impact of Global Warming on the Cost and Management Accounting Profession,* the authors promoted the used of Life-Cycle Costing (LCC) techniques; and the need to include factors such as:

- how many years it took to develop the vehicles.
- how the material used was processed and how far these had to travel to get to manufacturing stage.
- how far auto workers travelled, and whether or not they used public transportation
- the energy used in manufacturing.
- the percentage of materials that can be effectively recycled.
- the percentage of labour produced by robots versus humans.
- variable estimated lifetime of components?
- cost of fuel used over an estimated lifetime of 150,000 kilometres.
- expected parts that would need to be repaired?

These lifetime costs, which include converting greenhouse gas emissions to carbon prices must be considered when comparing the greenness of hybrids and EVs – especially because of the high emissions linked to making batteries, and the significant costs of recycling at the end of its useful life.

There have been large uncertainties around the emissions associated with EV battery production, with different studies producing widely differing numbers. As battery prices fall and vehicle manufacturers start including larger batteries with longer driving ranges, battery production emissions can have a larger impact on the climate benefits of EVs. Also, producing batteries in regions with relatively low-carbon electricity or in factories powered by renewable energy will significantly reduce the lifetime emissions of greenhouse gases.

Do EVs Produce Less Greenhouse Gas Emissions?

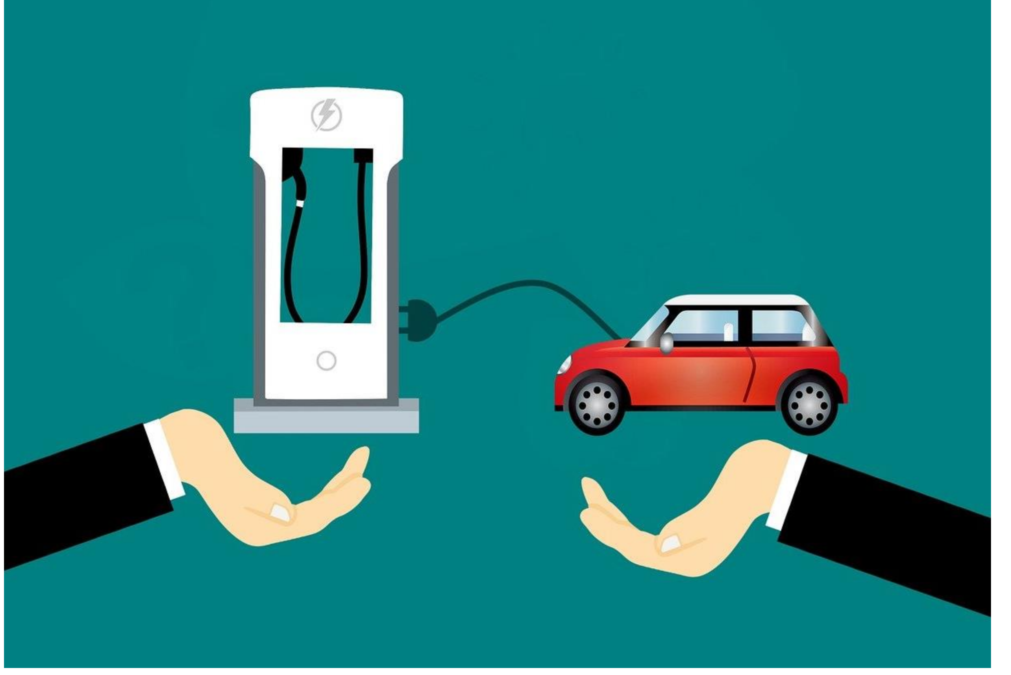
Studies done 13-14 years ago found that, from a whole-of-life viewpoint, hybrids emitted more greenhouse gases than petrol cars. However, with the advances in the technology for the manufacturing and recycling of batteries, the results for both hybrids and EVs have been significantly positive in terms of 'greenness'. One study found that emissions from EVs have emissions up to 43% *lower* than diesel vehicles. Another detailed that "in all cases examined, electric cars have lower lifetime climate impacts than those with internal combustion engines".**[vi]**

A very recent and extremely comprehensive scientific study published in the journal *Nature Sustainability* found conclusively that plug-in vehicles emit less greenhouse gases than petrol and diesel models over a car's lifetime. The study was based on 'whole-of-life' principles – that included the mining of metals or lithium for batteries, manufacturing, driving 150,000 kilometres and finally scrapping.**[vii]**

The report found that average lifetime emissions from EVs are up to 70% lower than petrol cars in countries like Sweden and France (which get most of their electricity from renewables and nuclear). According to lead author Florian Knobloch, of the Environmental Science Department at *Radboud University* in the Netherlands, "In most of the world, in countries accounting for 95% of road transport, EVs would reduce emissions compared to average petrol cars".**[viii]**

There have, however, a few recent studies where the differences were not that significant. One recent study from a group of German researchers at the thinktank *Institute for Economic Research (**ifo**)* suggested that, "the CO_2 emissions of battery-electric vehicles are, in the best case, slightly higher than those of a diesel engine".**[ix]** It must be noted that, much of pro-diesel research is often funded by vehicle manufacturers, and can be subject to bias. It was well publicised how VW and other German car manufacturers used a 'defeat device' to reduce the recorded emissions of their diesel cars.**[x]**

These differences in results arise from the assumptions used by researchers. The results as to if the EVs or diesel vehicles technology comes out on top depends on a lot of factors including: (1) which specific vehicles are being compared; (2) what electricity grid mix is assumed; (3) if marginal or average electricity emissions are used; (4) what driving patterns are assumed; and (5) even the weather.



Australia – The Poor Relation of Clean Energy Policy

In contrast to what is happening in more advanced countries, without adequate incentives to buy EVs and without stringent fuel efficiency standards, Australia (especially Victoria) is destined to become a dumping ground for car manufacturers' least fuel efficient, most polluting models that car manufacturers cannot sell in advanced markets.**[xi]**

The five cheapest electric models available in Australia cost between A$44,000 and A$64,000 and are expensive compared to the cheapest petrol models – which start at less than A$15,000. The cheapest EVs in the UK and US sell for about A$30,000 much more affordable than in Australia.**[xii]** An EV road tax will only

exacerbate this problem of relative affordability, and drive consumers towards petrol and diesel models.

The US and EU and other markets have set a quota for the volume of carbon dioxide that can collectively be emitted across the fleet of a manufacturer's internal combustion engine cars. This is not the case in Australia – meaning vehicle manufacturers could choose to run out their end-of-line petrol models here while they ramp up sales of EVs in more attractive markets.

According to the *International Energy Agency (IEA),* sales of EVs topped 2.1 million globally in 2019, surpassing 2018 – already a record year – to boost the stock to 7.2 million electric cars. EVs accounted for 2.6% of global car sales and about 1% of global car stock in 2019, registering a 40% year-on-year increase. As technological progress in the electrification of two/three-wheelers, buses, and trucks advances and the market for them grows, EVs are expanding significantly. Ambitious policy announcements have been critical in stimulating the EV rollout in major vehicle markets in recent years.**[xiii]** The results for 2020, are still to come, and the COVID-19 lockdowns will prevent any comparisons. However, future expectations are high, with Tesla building giant new Gigafactories under construction in Berlin, Shanghai and Austin, Texas, which could potentially increase production to approx. 2.1 million cars by 2025.

As a result, Tesla's market valuation has increased 6-fold, from US$80 Billion to US$ 550 Billion in the space of 11 months in 2020. Tesla is now worth more than the combined value of VW, Hyundai, GM and Ford! Further, there are massive differences between the carbon footprint of manufacturing EVs. Tesla, for instance, uses clean solar power at its current Gigafactory in Nevada to assemble battery packs and reduce emissions. Around 50% of the battery lifecycle emissions come from the electricity used in battery manufacture and assembly, so producing batteries in a plant powered by renewable energy – as is the case for any Tesla factory – substantially reduces lifetime emissions.

An Equitable Solution

Returning to the issue of an EV usage tax, it would be far better to develop a more equitable system that ensures that all road users pay their fair share, not only of the cost of building and maintaining roads, but of the cost to society based on their choice of vehicle.

One quick solution is to reduce or stop government subsidies to the fossil fuel industry. The *Australia Institute* estimates that those in the fossil fuel business receive more than $10 billion per year in government subsidies, with the mining industry receiving the lion's share. One of those subsidies is the enticingly named *Fuel Tax Credit Scheme*. It is worth more than $5 billion per year.**[xiv]** These subsidies can instead be diverted to plugging the COVID-19 related debt and deficits. There was a large public debate about giving the car industry $1.5 billion over four years prior to Australia walking away from its car manufacturing expertise; but there has been no debate on why the government is giving the mining industry billions every year. Had we retained our car manufacturing base; we perhaps could have been a contender for one of Tesla's EV manufacturing Gigafactories.

Another solution is to re-visit the carbon price initiatives. These initiatives now have significant domestic and international support, always an importance consideration politically. The general populace and industry are realising that one cannot do business on a dead planet. Most credible scientific research support the conclusion that EVs help limit climate change by producing considerably less emissions because of the high efficiency of electric motors. Even an electric car run on coal-fired power is less polluting than a petrol one in most of the world except in nations such as India and Poland where drivers recharge batteries with electricity from high-polluting coal-fired power plants. A properly constructed price on carbon-based fuels would account for this fossil-fuel energy usage at both 'start-of-pipe' and 'end-of-pipe'.

A price on carbon (e.g., via a carbon credit scheme or a carbon tax) was meant to ensure that drivers of all cars – petrol, diesel, hybrid and electric – paid their share of the costs associated using fossil fuels and the resultant environmental impact (i.e., global warming) of the emissions they produced.**[xv]** Such a scheme was in place in Australia (in fits and starts under different names) but Prime Minister Tony Abbott (a climate denier if giga proportions) repealed the final variation of a carbon pricing scheme in 2014. The main political reason for this repealing was Australia's dependence on its coal industry. The very recent ban by China of coal imports from Australia on December 15, 2020, may be a blessing in disguise. It may force the Australian government not to be so dependent on the mining and exporting fossil fuels and instead reconsider introducing carbon pricing as a mechanism for developing and supporting the renewables and clean technology industries.

Whilst carbon pricing schemes are not applied universally, nowhere else in the world (not even in what used to be Donald Trump's America) are EVs the subject of a special tax. In fact, even in Australia, the Australian Capital Territory (ACT) has said it will offer zero interest loans, stamp duty exemptions and two years of free registration for EV buyers.

Further, European countries have embraced government incentives for EVs. Prime Minister Boris Johnson (Conservative, UK) pledged that Britain will ban the sale of petrol and diesel cars by 2030, pledging to be the first G7 country to switch to EVs and fully decarbonise road transport.**[xvi]**

The attitudes of carmakers towards EVs are also changing. Carmakers Jaguar LandRover, Bentley

and Vauxhall as well as the operator of the local Nissan plant all welcomed Boris Johnson's pledge and said they would be ready for the ban.**[xvii]** Also, if you study the marketing of traditional carmakers such as Volkswagen, and its website for European countries for example – the new electric range is promoted front and centre.

Double Taxation of EVs

There is also a credible argument that the Victorian state government's decision to introduce a user charge for EVs signals a dangerous step towards a privatised road user charge scheme in Victoria, where profit hungry toll-road operators and other transport related companies make inordinate profits at the expense of our climate.**[xviii]** Whilst it is not the purpose of this article to pursue the merits of such an argument; there must be some form of guarantees given by the government that money collected from such a tax is directly used on infrastructure for EVs; and that EV drivers will not be double-taxed, i.e. an EV use tax *plus* a road use tax paid to privatised toll operators (plus a fee for record keeping and tax reporting).

Full Disclosure: I do not own an EV as yet. Maybe I will need to move interstate or overseas to do my part to mitigate the impact of climate change.

Professor Janek Ratnatunga, CMA, CGBA

CEO, ICMA Australia

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

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AGM

ANNUAL GENERAL MEETING

PRESIDENTS REPORT 2019-20 – THE 24TH YEAR

The Year 2020 has been a year like no other in our lifetimes. Like the rest of the world, the Institute in its 24th year, having been incorporated in 1996, was significantly impacted in its operations both in Australia and internationally.

Within Australia our administrative office has been effectively closed since March, 2020 and our staff and Council have adapted to the new COVID-Normal mode of working.

Pre-Pandemic – Hall of Fame awards and conferences – Australia & International

The Institute started its 24th year focused both on consolidating membership services and laying the groundwork growth both in Australia and internationally in new Asian Markets. The focus within Australia was on the continuing professional development of our Australian members via webinars and symposiums; and through improving the quality of our website and our publication *'On Target'*. The focus overseas was the continuing professional development of our overseas members via symposiums and conferences; and venturing into new Asian Markets.

After the last AGM (and prior to the Pandemic) the Hall of Fame inductions; professional symposiums and seminars and international conferences that were held in Australia and Internationally are listed below:

- The *Accounting Hall of Fame®* and the *Management Accounting Hall of Fame®* awards were presented in Melbourne on 20th November 2019. The inductees in Australia were:
  - Ms Adele Ferguson, AM
  - Dr Samer Shahin
  - Mr Ronald Pitcher, AM
- The *Frontiers of Accounting* Symposium was held on 21st November, 2019 – The Keynote speakers were: Prof Damminda Alahakoon; Prof Paul Mather; Prof Carol Tilt; Prof Paul De Lange; Prof Nava Subramanium and ICMA President Prof Brendan O'Connell. Prof John Miller, AO, Patron ICMA gave the Welcome Address.

Professor Brendan O'Connell
President, ICMA Australia

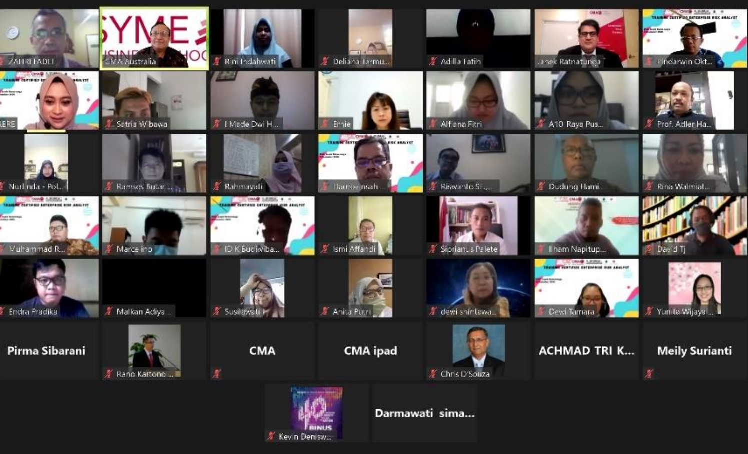
- The *Inaugural Global Accounting Hall of Fame* Induction Dinner was held at on Friday, 29th November 2019, at Suntec Singapore International Convention & Exhibition Centre. Prof Janek Ratnatunga attended and made a presentation on the occasion. The inductee was:
  - Dr Gerard Ee Hock Kim
- *The International Management Accountant (IMAC)* 2019 and *Management Accounting Hall of Fame®* Awards were held on 2nd December, 2019 in UK Petra Surabaya. Prof Janek Ratnatunga and Dr Chris D'Souza attended and made presentations at the conference. The inductee was:
  - Professor Slamet Sugiri

- The *Strategic Management Accounting Forum 2019* was held in Manila, Philippines on 7th December, 2019. Prof Brendan O'Connell, Prof Janek Ratnatunga & Dr Chris D'Souza attended and made presentations at the conference. The *Accounting Hall of Fame®* and the *Management Accounting Hall of Fame®* inductions were also done at the event. The inductees were:
  - Mr Jeffrey C. Lim
  - Dr Noe G. Quiñanola
- The IMAC 2020 to be held in Hongkong on Dec 10th 2019 was cancelled due to the unrest and political situation in Hong Kong.
- The *Management Accounting Hall of Fame®* Awards award 2019 and CMA Australia Grand Conference 2019 titled "*Frontiers of Accounting – Maximizing Firm Value*" were held in Hanoi, Vietnam, on Dec 14th, 2019. Prof Brendan O'Connell, Prof Janek Ratnatunga & Dr Chris D'Souza attended and made presentations at the conference. The inductee was:
  - Dr Nguyen Thi Hong Thuy
- The *International Management Accountant (IMAC) 2019* and the *Inaugural Indian Management Accounting Hall of Fame®* induction was held in Kolkata, India on Dec 16th, 2019. Prof Brendan O'Connell, & Dr Chris D'Souza attended and made presentations at the conference. The inductee was:
  - Rev Dr Felix Raj

The profiles of Hall of Fame awards winners can be seen on the website: http://accountinghalloffame.org

Pandemic

As can be seen from above activities, we had a crowded program scheduled for the 2019 – 2020 year many in countries across Asia and the Middle East. We managed to complete our programs scheduled from June 2019 to early March 2020, till the lockdowns brought all our traditional markets to a standstill.



As the Pandemic rapidly spread across the world, we had to cancel all our face to face programs from the middle of March. Prof Janek Ratnatunga and Prof Brendan O'Connell returned to Australia safely in February.

Dr. Chris D'Souza was in Dhaka in Bangladesh delivering a program early March when India shut its borders and so his program was rescheduled to deliver a program at SMU in Singapore. However, the day before he could reach Singapore, they shut their borders as well. After some frantic travel rescheduling, ICMA managed to get him back to Australia just before the borders closed and airline flights dried up.

The month of April saw the revenue of ICMA significantly reduce and this reduction continued into May. Even June was much below the previous year. This revenue decline made ICMA eligible for Job Keeper and cash flow boosts from the Federal Government and some more grants from the Victorian Government. This boost provided the management a cushion to survive the COVID-related depletion in its revenues.

ICMA Reviews, Responds, Reimagines and Recovers

I am glad to report that in the months following the outbreak of the pandemic, ICMA reviewed, reimagined and recreated its operations by delivering seminars, webinars, membership evens over Zoom.

As a direct result of the proactive adaptation by our executive, our revenues have recovered to within 5% of previous years. The flip - side of this is that we are no longer eligible for the Job Keeper allowance. Though membership numbers are challenging, we are working on strategies to address this.

The following are some of the Webinars delivered internationally from Australia:

- April 23rd, 2020 – Why Audit Opinions are 'Untrue' and 'Unfair' – Prof Janek Ratnatunga.
- April 30, 2020 – Drivers of Corporate Success Post COVID-19 – Dr Chris D'Souza
- May 6, 2020 – The Rising Importance of Integrated Reporting, Climate Change Reporting & Environmental Management Accounting – Prof Brendan O'Connell
- May 22, 2020 – Webinar – Information Session – How to become a Certified Management Accountant – Dr Chintan Bharwada and Chris Perera
- May 30, 2020 – The Social CRM: Taming the Wild Child of Big Data and CRM – Prof Janek Ratnatunga.

- June 4, 2020 – Post-COVID Opportunities for Businesses and How Senior Finance Professionals Can Help – Prof Brendan O'Connell
- June 10, 2020 – Visionary Leadership – Driving Post COVID-19 Success! – Dr Chris D'Souza
- June 24, 2020 – Costing Life: Air, Water and Food – Prof Janek Ratnatunga.
- July 2, 2020 – Finance Leadership during a Crisis: Respond, Recover and Reimagine – Prof Paul Mather
- July 22, 2020 – Sustainable Marketing – No longer just a "green" word, but a strategic mindset – Dr Chintan Bharwada
- Aug 20, 2020 – 50 Shades of 'New Normal' (Part 1): Whipping Companies to Embrace an Alternate Societal Lifestyle – Prof Janek Ratnatunga.
- Sep 3, 2020 – Webinar: 50 Shades of 'New Normal' (Part 2): The Emergence Of 'Crazynomics' – Prof Janek Ratnatunga.
- Sep 10, 2020 – 50 Shades of 'New Normal' (Part 3): The Clash of Global Interconnections – Prof Janek Ratnatunga.
- Sep 16, 2020 – What organisations do in times of Crisis – What they should do – Prof Brendan O'Connell
- Oct 22, 2020 – Information Session – How to become a Certified Management Accountant – Dr Chintan Bharwada & Prof Janek Ratnatunga.
- Nov 19, 2020 – Digital Marketing and Business Growth – Dr Chintan Bharwada
- Dec 9, 2020 – Valuation and Distress Analysis in the Post COVID Era — Prof Janek Ratnatunga.

The following are some of the CMA Programs were delivered Zoom from Australia:

- March 20th to 23rd, 2020 – 4 day Zoom training for Strategic Business Analysis conducted for SMU University Singapore. – Prof Janek Ratnatunga. & Dr Chris D'Souza.
- June 6th to 8th, 2020 – 3 days Zoom training for Strategic Cost Management conducted for SMU University Singapore. – Prof Janek Ratnatunga. & Dr Chris D'Souza.
- July 11th to 14th, 2020 – 4 day Zoom training for Strategic Business Analysis conducted for SMU University Singapore. – Prof Brendan O'Connell, Prof Janek Ratnatunga & Dr Chris D'Souza.
- Aug 21st/22nd & Aug 28th/29th, 2020 – 4 day Zoom training for Strategic Business Analysis conducted in Dhaka Bangladesh. – Dr Chris D'Souza.
- Sept 12th to 14th, 2020- 3 days Zoom training for Strategic Cost Management conducted for SMU University Singapore. – Prof Janek Ratnatunga. & Dr Chris D'Souza.
- Oct 2nd to 5th, 2020- 4 day Zoom training for Strategic Business Analysis conducted for SMU University Singapore. – Prof Brendan O'Connell, Prof Janek Ratnatunga & Dr Chris D'Souza.

Syme Business School

When one door closes another one opens. After the closing of the TEQSA door the Pandemic opened the door for Syme Business School to organise Zoom programs some of which are listed above and below.

As a result of this, ICMA is happy to announce that Syme Business school made a profit for the first time during the financial year 2019-20 and is continuing to operate profitably. Consequently, they managed to repay the entire loan of $130,000 taken from ICMA prior to the close of the Financial Year.

The following micro-credentialling certifications were delivered to ICMA members, in association with the Academy of Finance Australia (AFMA) and Mercu Buana University, Jakarta.

- Certified Analyst in Project Management (CAPM)
- Certified Analyst in Project Finance (CAPF)
- Certified International Business Analyst (CIBA)
- Certified Enterprise Risk Analyst (CERA)
- Certified Business Analyst (CBV)
- Certified Digital Marketing Specialist (CDMS)

Syme Business School is 100% owned by ICMA.

Publications, Research and Library

Publications:

The eNewsletter *On Target* continued to be published and the web-analytics indicates that it gets on average 5,000 visits and 6,000-page views per month.

Management Accounting Frontiers (MAF) continued to be published in 2019.

The *Journal of Applied Management Accounting Research (JAMAR)* which changed editorial direction in 2017 to publish peer-reviewed practice oriented applied papers for the management accounting profession, continued to publish two issues in 2019.

Research:

Research and professional development also continued in the two organizations set up by the ICMA:

- The Institute of Certified Carbon Analysts and Auditors (ICCAA) and
- The Institute for the Advancement of Corporate Reporting and Assurance (IACRA).

The Frontiers of Accounting Symposium was held on 21st November, 2019

Prof John Miller, AO, Patron ICMA gave the Welcome Address.

Library:

The Library now has over 12,200 texts and professional and academic publications, and has now one of the best libraries in Australia in the professional areas of management accounting and risk management.

Committees & Boards

The ICMA has a number of Committees and Boards for its Governance.

Education Committee

- Education Advisory Board
- Professional Education Sub-Committee
- Continuing Education Sub-Committee
- Academic Education Sub-Committee

Membership Committee

- Membership Advisory Board
- Membership Services Sub-Committee
- Industry and Government Engagement Sub-Committee
- Ethics Sub-Committee

Finance Committee

- Finance, Audit & Risk Advisory Board

The Council thanks all who voluntarily served on these Committees and Boards for their time and dedication.

Services Provided by the Secretariat.

- Providing Continuing Professional Education (CPE) to members via *Calwest University* in the USA and the *Academy of Finance and Management Australia* (AFMA). Special arrangements were made with these two organisations to provide education programs at discount prices to members due to COVID-19 restrictions.
- Maintaining the corporate website that is in keeping with the enhanced international profile of ICMA
- Maintaining a *Member's Only* area on the website.
- Emailing monthly the Members Update, and Publishing in pdf format 6 copies of the *On-Target*
- Increasing the holdings of the library by over 200 texts and professional and academic publications during the year.
- Having a world-class *Customer Relationship Management (CRM)* system to handle the membership, invoicing, examinations and accounts.
- Conducting examinations in all Branch locations and in over 20 countries where students undertake the CMA program online.
- Continue with the *CEO Blog*, with links to Facebook and Twitter

Thanks!

- My colleagues will agree that the input of our CEO and Education Committee Chairman, Prof Janek Ratnatunga, our Treasurer, Dr Chris D'Souza; and our Editor of On Target Direct, Dr. Chintan Bharwada.
- The Editors and the international panel of referees for their work in publishing *Management Accounting Frontiers (MAF*) and *Journal of Applied Management Accounting Research (JAMAR).*
- Special thanks also go to:
  - Prof Michael Tse, our Global Chairman
  - David Cartney, our Vice-President
  - Hans Ferdinand, our Secretary
  - Jehan Ratnatunga, our webmaster
  - Chris Perera, our Executive Officer
- Finally, a vote of thanks to our auditor Ben Kaplan who has once given his time to discharge his duties very professionally.

Membership Committee Chairman's Report

The Membership Committee Chairman John Donald was unable to come for the AGM and Dr. Chris D'Souza presented the report. Membership was significantly impacted by Covid19. The second half of the year saw a fall in membership renewals as well as new memberships.

We had a 2% decrease in CMAs and a much higher -40% decrease in the lower levels of membership (CAT/RCA/GMA) – overall financial membership declined by +3% . The new Membership Designation of University Student Membership should enable us to have a feeder group for future growth in Memberships.

Although membership growth is not a KPI of ICMA, which instead aims for quality by positioning itself as the only specialist professional body for senior executives with education programs at the master's degree level, members represent the lifeblood of the Institute.

The overall membership of the ICMA now stands at approximately 14,000 members (8,208 members + students) in 60 countries.

Education Committee Chairman's Report

Prof Janek Ratnatunga, the Education Committee chairman provided an overview of the Education Program of CMA Australia:

Education Program of CMA Australia:

The Program has Nine Levels:

- Certified Accounting Technician (CAT)
- Registered Cost Accountant (RCA)
- Registered Business Accountant (RBA)
- Graduate Program (For School Leavers) – GMA & AMA
- Graduate Conversion Program (For Non-Accounting Graduates/ Professionals) – GMA& AMA
- CMA Program (For Accounting Graduates/Professionals) – CMA
- CGBA – For Non-accounting Graduates
- MBA, CMA program for Global Leaders
- DBA, CMA program for Applied Research

The Program can be undertaken via:

- University Degree (Undergraduate/Masters)
- Recognised Provider Institution
- Corporate In-House

Prof Ratnatunga also reported that to facilitate its educational objectives in addition to its own nine-level CMA education program, the Institute has accredited several universities which have master's degree subjects that are equivalent to the CMA program. Some of these universities also provide in-house training and examinations of the CMA program. Accounting graduates can do CMA accredited units at these universities to qualify for CMA status. The details of these universities and the subjects accredited are listed on the CMA Website.

CMA Australia also has *Recognised providers* in Australia and in many different countries the details of which are listed on our website.

Certificates of Proficiency

The following *Certificates of Proficiency* Programs were designed and offered in 2019-2020.

- International Financial Reporting Standards
- Risk Management (online)
- Islamic Banking and Finance
- Family Business.
- Foreign Exchange Management
- Transport and Shipping
- Supply Chain Management
- Project Management (online)
- Project Finance (online)
- Takaful (Islamic) Insurance
- International Business Analysis (online)
- Logistics Management
- Wealth Management
- Telecommunications Pricing
- Company Secretarial Practice
- Crisis Management
- Forensic Accounting and Auditing
- Human Resource Management
- Sustainable Procurement
- Cross-Cultural Negotiations
- Performance Budgeting
- VAT Law & Practice (UAE)
- Performance and Valuation
- Accounting Practice (Vietnam)
- Performance & Valuation
- Business Valuation (online)
- Digital Marketing (online)

Membership Pathways

The Institute of Certified Management Accountant (ICMA) offers a number of *membership pathways* as follows:

- University Graduates in Accounting
- University Graduates in Finance
- MBA Degree Holders
- University Graduates with Non-Accounting Degrees
- Diploma and Advanced Diploma Holders in Accounting
- Members of Other Professional Accounting Bodies
- Members of Other Professional Non-Accounting Bodies
- Part Qualified Students of Other Professional Accounting Bodies
- School Leavers
- Academics
- Distance Education Scholarship Program
- Emerging Professional Scholarship Program

Treasurers Report

Dr Chris D'Souza presented the Treasurer report. Despite the Pandemic we are pleased to report that in its 24th year your Institute substantially improved its Financial position, largely due to the government assistance which offset the Pandemic setback to our operations.

We also overcame last year's setback to Syme Business School and successfully implemented some new strategies which saw SBS earn revenue and start recoup its losses – it made a Profit of approx. 50K in 2019-20 and paid off the entire load of $130K to ICMA and continues to be profitable in the current year as well.

During the Financial Year 2019-20, the Membership Income of the association grew by 6% over previous year and total Income grew by 4% over previous year.

Professor Brendan O'Connell, FCMA

President, ICMA Australia

ASX100 COMPANIES AHEAD OF GLOBAL FIRMS IN ACKNOWLEDGING CLIMATE RISKS

Australia's top 100 companies are ahead of the world's largest 250 firms (the G250) in multiple criteria for good climate risk reporting, KPMG international and Australian analysis has found.

A KPMG global study, Towards Net Zero, published today, sets out twelve best practice criteria for climate risk disclosures but finds less than half of G250 companies currently meet either those benchmarks, or follow the recommendations of the Taskforce for Climate-related Disclosures (TCFD), regarded globally as the gold standard for reporting on climate risk and decarbonisation.

But supplementary research by KPMG Australia finds that 58 percent of Australia's top 100 companies are now following the TCFD – up from just 16 percent three years ago. This lead is particularly notable in acknowledging climate change as a financial risk to the business, now detailed by 78 percent of ASX100 companies, compared to 56 percent of the G250. Australia ranks second, behind only France in this respect.

ASX100 companies match global counterparts in terms of publishing climate risk and TCFD disclosures in the annual report, a separate sustainability or TCFD report. Areas where they fall behind are reporting the impacts of climate change using scenario analysis and reporting science-based targets showing how they intend to transition to net zero carbon emissions. 42 percent of the ASX100 link their reporting to the Paris Agreement's 2-degree warming target.

Australia-based Adrian King, KPMG Global Chair of Sustainability, Climate Change and ESG Services, said: "The world has 30 years to cut carbon emissions to net zero if we are to limit global warming to 2 degrees Celsius and avoid climate change catastrophe. Business is at risk not only from the physical effects of climate change but also the financial impacts of transitioning to a net zero economy. This is now recognised by investors, lenders, insurers and companies themselves as a significant risk to their business's financial stability. Reporting on climate risk is an essential first step.

"The COVID-19 crisis has seen calls by the IMF and others for mandatory climate risk reporting, which several countries are now bringing in, but our research shows a substantial rise in the number of large Australian companies reporting against the TCFD framework. This is very encouraging in the absence of public policy directives, and is being driven by business itself, investor demand and regulators' calls for action. But there is certainly still a lot of room for improvement, especially in the areas of scenario analysis and science-based carbon targets."

Criteria for best practice

In its global report, KPMG sets out 12 criteria* for best practice climate risk disclosures, grouped under four headings: governance, identification, and impacts of climate-related risks and reporting on a net

zero transition. The Australian supplementary research then compares ASX100 performance against these criteria with the G250 and breaks the findings into industries.

KPMG's 12 criteria for best practice reporting on climate risk recommends companies dedicate a clear section to climate risk and TCFD disclosures in the annual financial or integrated report, and/or publish a stand-alone climate risk or TCFD report. 32 percent of the ASX100 and 31 percent of the G250 report their climate-related information in this way. However, 27 percent of ASX100 companies put climate-related and TCFD disclosures solely in their sustainability report.

Industries and sectors

Globally, the technology, media and telecommunications sectors are out in front with respect to reporting climate change as a financial risk. In Australia, the mining sector, financial services and construction and materials most frequently acknowledge that climate change is a financial risk to their business. While these industries acknowledge climate risk, only 62 percent of mining, 50 percent of financial services, and 57 percent of the construction sectors state that they report in line with the TCFD recommendations.

UN Special Envoy for Climate Action and Finance, Mark Carney, in a foreword to the global report, said that KPMG's analysis exposes "significant gaps that exist in reporting, particularly around scenario analysis and forward-looking metrics, and it rightly emphasises the need for rapid improvement in both the quantity and quality of disclosure."

Following the TCFD recommended scenario analysis approach in public reporting is still relatively immature. 20 percent of ASX100 companies and 22 percent of the G250 use such analysis to model the impacts of climate change on their business. Banks, electricity, and construction and materials sectors are among the top sectors using scenario analysis in their reporting of climate risk.

Setting carbon reduction targets is another area for improvement, with 67 percent Australian companies doing so, compared to 76 percent of the G250. But far fewer set targets consistent with the climate science of keeping global warming to well below 2 degrees – 27 percent of G250 and 17 percent of the ASX100.

HOW COUNTRIES ARE RAISING DEBT TO FIGHT COVID AND WHY DEVELOPING NATIONS FACE TOUGHER CHOICES

By Shamel Azmeh, *University of Manchester*

COVID continues to ravage societies around the world, and a key issue is how governments can afford to fight it. As economies are disrupted, governments are stepping in to increase their spending to bail out companies, pay the cost of health measures, and subsidise workers' wages.

Before COVID, when people argued that the state should be able to offer free healthcare and free education, among other services, and welfare measures, a standard political response was that state resources were limited. Asked by a nurse in 2017 why her wages hadn't increased from 2009 levels, then British prime minister, Theresa May, said: "There is no magic money tree that we can shake that suddenly provides for everything that people want."

Except, a few years later, the government has not only been able to pay the wages of millions, it has also created rescue packages for thousands of firms and offered people vouchers to eat out in restaurants. A number of European countries have also taken the unprecedented step of underwriting the wages of millions of workers in response to the pandemic.

How is the British state and others capable of this radical increase in spending at a time when revenues from taxes are collapsing?

'Magic money tree'

The answer to this lies in the debt market. Over the past few months, world governments have drastically increased their borrowing to cover the costs of the pandemic. It might appear logical that the cost of credit will go up during uncertain economic times. The reality, however, is that capital often goes to safer sovereign debt during economic downturns, particularly as the equity markets become unstable and volatile.

Over recent months, rather than struggling to find lenders or having to pay more for debt, the governments of the major economies have been awash with credit at historically low rates. In October, the EU, until now a small player in the debt market (as borrowing mostly is by national governments of member states), began a major borrowing campaign as part of the efforts to fight COVID through the SURE programme (Support to mitigate Unemployment Risks in an Emergency) which was created in May.

The first sale of bonds worth €17 billion was met with what some described as "outrageous demand", with investors bidding a total of €233 billion to buy them. This intense competition was for bonds that offered a return of -0.26% over ten years, meaning that an investor who holds the bond to maturity will receive less than they paid today.

The EU is not the only borrower that is effectively being paid to borrow money. Many of the advanced economies have been in recent years and months selling debt at negative rates. For some countries, the shift has been dramatic. Even countries such as Spain, Italy and Greece that were previously seen as relatively risky borrowers, with Greece going through a major debt crisis, are now enjoying borrowing money at very low rates.

The reason for this phenomenon is that while these bonds are initially bought by "traditional" market actors, central banks are buying huge quantities of these bonds once they are circulated in the market. For a few years now, the European Central Bank (ECB) has been an active buyer of European government bonds – not directly from governments but from the secondary market (from investors who bought these bonds earlier). This ECB asset purchase programme was expanded to help weather the COVID crisis, with the ECB spending €676 billion on government bonds from the start of 2020 until September.

Other central banks in the major advanced economies are following the same strategy. Through these programmes, those central banks encourage investors to keep buying government bonds with the knowledge that the demand for those bonds in the secondary market will remain strong.

Poorer countries

Not everybody, however, enjoys a similar position in the debt market. While the rich economies are being chased by investors to take their money, the situation is radically different for poorer countries. Many poor countries have limited access to the credit market and rely instead on public lenders, such as the World Bank.

In recent years, this pattern began to change with a growing number of developing countries increasing their foreign borrowing from private lenders. Developing countries, however, are in a structurally weaker position than richer peers. The smaller scale of their capital markets mean that they are more reliant on external financing. This reliance means that developing countries rely on raising money in foreign currency, which increases the risk to their economies.

As many developing countries have less diversified exports with a higher percentage of commodities, the price decline in commodities in recent months has increased those risks. As a result, developing countries face a significantly higher cost of borrowing compared to the richer economies.

A few large developing countries, such as Indonesia, Colombia, India and the Philippines, have begun to follow the policy adopted by the advanced economies of buying government bonds to fund an expanding deficit. The risks of doing this, however, are higher than the richer economies, including a decline in capital inflows, capital flight and currency crises. A report by the rating agency S&P Global Ratings illustrated the differences between those two economies:

Advanced countries typically have deep domestic capital markets, strong public institutions (including independent central banks), low and stable inflation, and transparency and predictability in economic policies. These attributes allow their central banks to maintain large government bond holdings without losing investor confidence, creating fear of higher inflation, or triggering capital outflow. Conversely, sovereigns with less credible public institutions and less monetary, exchange rate and fiscal flexibility have less capacity to monetise fiscal deficits without running the risk of higher inflation. This may trigger large capital outflows, devaluing the currency and prompting domestic interest rates to rise, as seen in Argentina over parts of the past decade.

While the reaction of the market to this approach by developing countries has been muted so far, the report argued, this situation might change. Developing countries who do this could "weaken monetary flexibility and economic stability, which could increase the likelihood of sovereign rating downgrades".

Ratings downgrades

Over recent months, downgrading by rating agencies have been a major risk facing developing countries with many economies facing higher costs of borrowing as a result of such downgrades. These downgrades were often linked to decline in prices and exports of commodities, as was the case for diamonds for Botswana and oil for Nigeria.

In July, following the participation of Ethiopia, Pakistan, Cameroon, Senegal and the Ivory Coast in a World Bank-endorsed G20 debt suspension initiative, the rating agency Moody's took action against those countries arguing that participation in this scheme increased the risk for investors in bonds issued by these countries, leading to some developing economies avoiding the initiative in order not to send a "negative signal to the market". Zambia is on the verge of being the first "COVID default" and other developing countries could face a similar situation in coming months.

As a result of these dynamics, many developing countries are facing the tough choice of giving up any economically costly health measures or facing serious fiscal and economic crises. Access to credit has become a defining factor in the ability of governments to respond to the pandemic. As a result of access to cheap credit, developed economies are so far able to take such health measures while limiting the social and economic impact of the pandemic. Many developing countries do not have this luxury. Not everyone gets to shake the branches of the magical money tree.

About the author

Shamel Azmeh, Lecturer in International Development, Global Development Institute, *University of Manchester*

THE CASE FOR KEY AUDIT MATTERS IN AUDIT REGULATION

Changes to audit reports are valuable to independent investors and this benefit accrues to Non-Big 4 firms.

On 1 August 2019 the Senate referred an inquiry into the Regulation of Auditing inviting submissions from a range of key stakeholders, including leading academics, asking them to provide an understanding as to which regulations were working well; which regulations needed to be changed and; which regulations should go.

Submissions to the inquiry stressed the importance of introducing regulations just for the sake of it.

While the Senate Inquiry released its preliminary findings in March, the final results were released in November.

Monash Business School's Professor Robyn Moroney's research over the past ten years has focussed on the consequences of audit regulation. More recently she has become interested in Key Audit Matters (KAMs), an element of Enhanced Audit Report (EAR).

"A lot of my research has been about the consequences and unintended consequences of those regulations." Professor Moroney says

"A big area of research is around professional scepticism and how firms have responded to inspections."

Recently she explained her views on the topic of KAMs at a recent Monash Business School Masterclass.

Key Audit Matters

After years of consultation and deliberation, international standard setters introduced an Enhanced Auditor's Report (EAR) in response to concerns that the traditional audit report provided little information that was useful to users.

For listed entities, the EAR includes a new section identifying matters of most significance in the audit: Key Audit Matters (KAMs) or Critical Audit Matters (CAMs).

Key Audit Matters are those matters that in the auditor's professional judgment are of most significance in the audit of the financial statements of the current period.

While audit reports can include KAMs, it is up to the auditor to determine whether they need to be included.

Prior research has considered how EARs affect auditor, management and investors' judgments. The current study provides evidence on when KAMs impact judgements.

In this paper, they considered when the provision of KAMs is likely to affect non-professional investor perceptions regarding the value of the audit and the credibility of the auditors reporting on KAMs.

"Our finding has implications for regulators and standard setters because it shows that investors react to KAMs rather than the new audit report format per se and the number of KAMs has no effect on the perceived value of the audit," Professor Moroney says.

"Our study informs international standard setters in their post-implementation review of the adoption of EAR."

Big 4 and key findings

Based on the research, Professor Moroney is able to conclude three key findings:

- Investor perception of the value of the audit is enhanced when KAMs are included in the audit report
- Investor perception of the credibility of the auditor is enhanced when KAMs are included in the audit report; and
- The benefits of including KAMs accrue only to Non-Big 4 firms as value and credibility are already high for the Big 4.

"An important objective of the EAR is to help financial statement users better understand the audit through the use of KAMs," she says.

According to the research, firm size plays a key role as investors tend to place greater reliance on audits conducted by Big 4 firms and consider these firms to be more credible than Non-Big 4 firms; this means that the Big 4 firms likely have less to gain from reporting KAMs than Non-Big 4 firms.

Professor Moroney says that it appears investors perceive Big 4 firms provide a valuable audit and are credible, indicating a possible ceiling effect.

The study uncovered a potential unintended consequence of including KAMs in audit reports. When examining participants' responses to open-ended questions, the researchers found that KAMs have an effect on whether core messages, common to all audit reports, resonated with participants.

While participants, who read an audit report that included KAMs, are more likely to list the information that is new/extended in the new EAR they are less likely to list core messages, including the auditor's opinion than those who read an audit report without KAMs.

This suggests that the inclusion of KAMs may distract readers from core information included in an audit report.

Assisting auditors and investors

"Our study is subject to limitations. Our results may not generalise to companies that operate in different industries or when different types of KAMs are included in the EAR," Professor Moroney says.

They also opted not to include a manipulation check question regarding whether or not the audit report included one or more KAM/s.

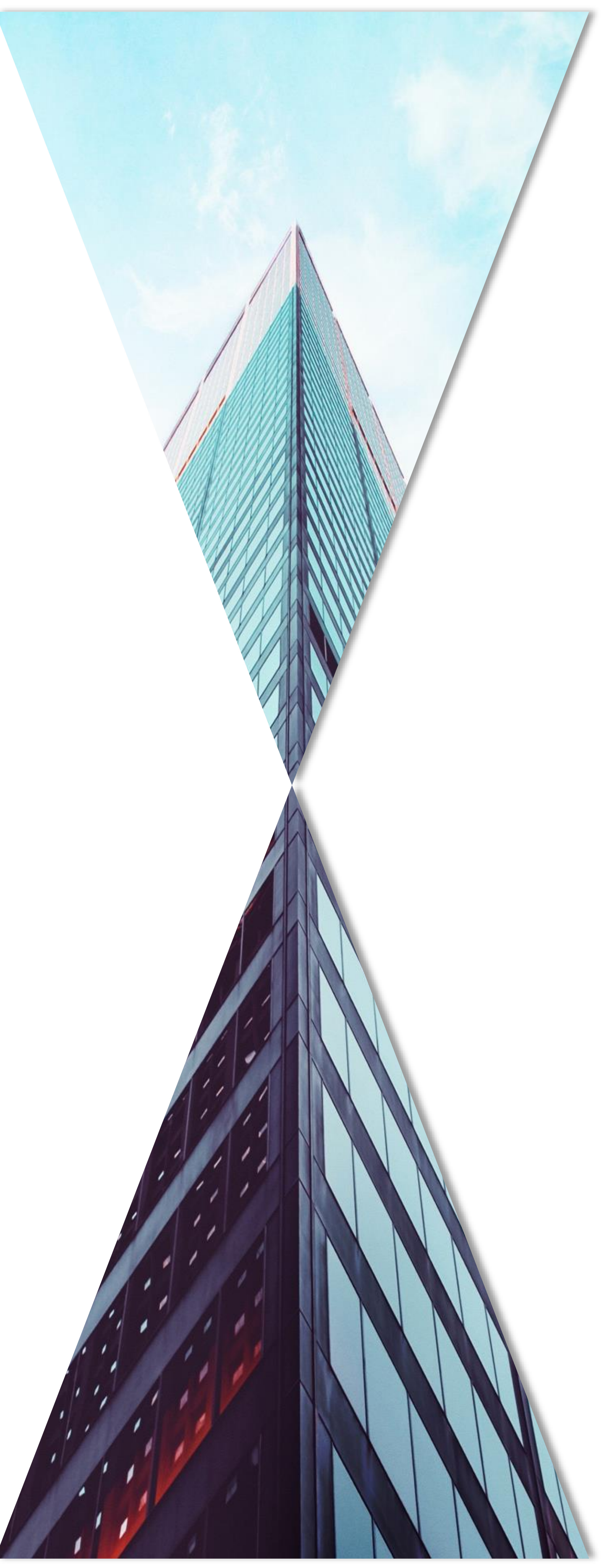
"As we did not measure this directly via a manipulation check question we cannot report definitively whether the manipulation was successful," she says.

This study has been published in a leading journal. The findings help standard setters, auditors, and investors gauge the value of KAMs by demonstrating the conditions under which KAMs make a difference to investor perceptions of the value of the audit and the credibility of the auditor.

About the Author

Robyn Moroney is Professor of Auditing, Department of Accounting at Monash University. She has published widely in various journals including Auditing: A Journal of Practice and Theory, Contemporary Accounting Research, European Accounting Review, Behavioral Research in Accounting and Accounting and Finance.

UPTICK IN ASX200 COMPANY REPORTS USING NON-STATUTORY PERFORMANCE MEASURES



There has been a rise in the use of non-statutory performance measures and reconciling items in company accounts since the COVID-19 era began, a new KPMG report shows.

The study of over 100 ASX200 company reports from 2019 and 2020 shows a large majority use at least one non-statutory measure of financial performance in their directors' reports. The use of non-statutory measures is supported by Australian and global regulators, outside the core financial statements, if they are then reconciled to statutory measures and given no more prominence, but an important new international standard will seek to mandate disclosure of non-statutory performance measures in the notes to accounts.

The key findings of the report include:

- 97 percent of companies reported at least one non-statutory measure in the Operating and Financial Review (the OFR is part of the directors' report) – Underlying profit was the most common non-statutory measure in the OFR
- The proportion of companies recording impairments of non-financial assets as reconciling items rose from 29 percent in 2019 to 51 percent in FY20, while restructuring and/or redundancy costs rose from 21 percent to 31 percent.
- 21 percent increase in use of non-statutory segment (ie business unit) measures for FY20 over FY19 due to COVID-19 environment.
- 88 percent of entities used non-statutory measures to determine performance incentives awarded to key management personnel

Zuzana Paulech, KPMG Audit Partner, said: "The use of non-statutory measures is valued by investors as a means for management to explain company performance, but there is also an acknowledged inconsistency in their use along with the quality of information provided supporting them. The international accounting standard-setter, the IASB Board, believes that by including these non-statutory measures in the financial statements, it will ensure global comparability and transparency and enhance the discipline with which they are prepared, making them subject to external audit."

"But in Australia, we have had ASIC regulatory guidance and active surveillance on the presentation of non-statutory measures in annual reports and other corporate documents for a decade. The focus of this guidance is to minimize the possibility of misleading users and it has meant that non-statutory measures communicated by Australian companies are, in the majority, presented in a more transparent and disciplined way – albeit outside the financial statements, which means they are not routinely subject to separate audit or review."

"Our analysis reveals a notable increase in the volume of adjustments to non-statutory measures in directors' reports during FY20. This shows the impact of the COVID-19 crisis on companies' performance and financial position, although only a small number identified specific reconciling items as arising solely from Covid. But the number of companies recording impairments of non-financial assets and restructuring and/or redundancy costs as reconciling items has risen significantly this year."

"We were surprised that only 75 percent used non-statutory measures as their segment measure of performance in the notes to the accounts, compared with the 97 percent of directors who used them in the OFR to explain and contextualise their company's performance and financial position – notably on underlying profit. We would generally expect similar measures to be used by management to assess performance of key business units, as is used to explain performance to investors in the directors' report."

The report confirmed that the large majority (88 percent) of companies used non-statutory performance measures when determining executive remuneration, mostly on short-term incentive plans. Most commonly used was a form of EBIT (Earnings Before Interest & Taxes).

The study notes that the International Accounting Standards Board, the global standard-setter, is planning to mandate the disclosure of specific non-statutory measures used be companies in public communications outside the financial statements, referred to as Management Performance Measures (MPMs) in the notes to the financial statements. The proposals look to increase the transparencey and discipline surrounding these measures by requiring information similar to existing Australian regulatory requirements be included in the notes to the financial statements.

Zuzana Paulech said: "The IASB Board's exposure draft (ED) curiously limits MPMs to sub-totals of income and expenses. In Australia it is not uncommon for companies to use measures like free cash flows and return on equity to communicate their financial performance. We believe it would have been better for investors if the ED had allowed these as well."

The KPMG report also says that the IASB Board's ED will reshape the income statement structure, to reduce diversity and enhance transparency.

THE ECONOMY ROARS BACK SAYS DELOITTE

There's a long way to go, but today's record rebound in the Australian economy – via the release of the latest quarterly National Accounts – is part of a heartening global trend.

The chart below compares the quarter with the largest fall in the economy versus the following quarter. For China, that is the March and June quarters. For everyone else, that is the June and September quarters.

The pain and the rebound in quarterly economic growth (%)

Not surprisingly, the countries that were hit hardest when COVID hit were generally the countries that have recovered the most thereafter.

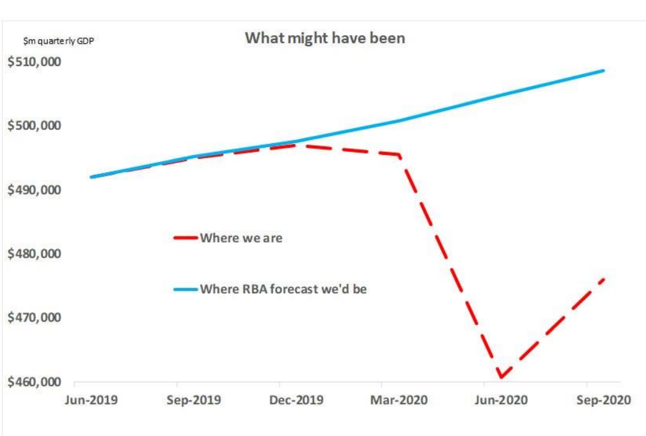
Australia's economy contracted a (comparatively) small 7.0% in June, so it's no surprise that our rebound (record quarterly growth of 3.3%) has also been smaller than the global average.

That's very good news. The fact that we took a far smaller upfront hit than most means that Australia is so far suffering from fewer scars than other nations, and our path back towards 'normal' looks set to be less fraught.

Yet there's a long way to go. Even with the record rebound announced today, Australia's economy is still 4.2% smaller than it was in the December quarter of 2019. And we'd have ordinarily kept growing, which is why our economy is 6.4% smaller today than the Reserve Bank had expected it to be in its pre-COVID forecasts.

Australia fares less well on that type of measure for two reasons. One was the severity of Victoria's lockdown. The other is that the economies of most nations don't have momentum from migrants. But Australia does – or did – have that momentum, and so the shortfall in people power is part of the wider COVID-driven shortfall in our economy.

Shortfall between the current size of the economy and pre-COVID RBA forecasts

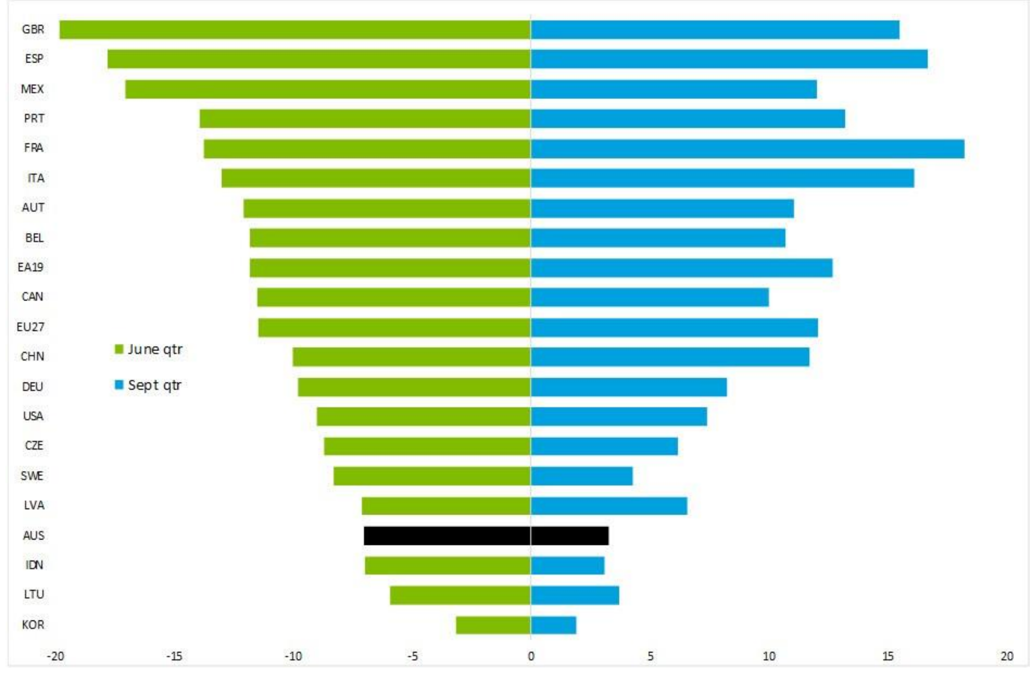


Source: RBA, Deloitte Access Economics.

Deloitte Senior Economist **Harry Murphy-Cruise** noted: "The bigger they fell, the more they rebounded.

"The good news is that Australia's economy wasn't as hard hit as most other nations. And, with Australia's COVID numbers extremely low, state borders opening up and vaccines on the horizon, that leaves us really well-placed.

"But the bad news is that the damage still remains deep, and that Australia still has a substantial repair task on its hands."



Source: OECD, ABS, Deloitte Access Economics.

BANKS CAN BETTER ADDRESS ECONOMIC AND FINANCIAL ABUSE

Commonwealth Bank, in partnership with UNSW's Gendered Violence Research Network, has released a new research paper with areas of focus for financial institutions to provide better support for people impacted by economic and financial abuse through intimate partner relationships.

The paper, authored by Jan Breckenridge, Professor and Co-Convenor UNSW Gendered Violence Research Network, and titled '*Understanding Economic and Financial Abuse in Intimate Partner Relationships',* is the first in a six-part series that will provide one of the most comprehensive compendiums of evidence and information about financial abuse within Australia to date.

CBA's Group Executive, Sian Lewis, said: "Financial abuse is a hidden epidemic affecting thousands of Australians who are experiencing domestic and family violence. Yet, there is limited academic evidence on the issue making it difficult to develop and deliver effective support for people impacted. The purpose of this research series is to improve our understanding of the issue so we as a bank, and as a society, can improve our responses and support."

To help financial institutions better address the issue, the paper outlines the key areas for consideration when analysing customer support measures, including:

- **Examining ways in which victim-survivors of economic and financial abuse may benefit from tailored financial products.** These may include microfinance, advance payments, savings initiatives, and asset-building programs to enable their financial inclusion and capacity.
- **Establishing a specialist Domestic and Family Violence (DFV) team to assess the potential for products and procedures to be misused by perpetrators to coercively control and abuse their partner.** Financial institution's products and procedures can be manipulated by perpetrators to create financial insecurity and hardship.
- **Providing training for specialist DFV teams that includes the links between economic and financial abuse and other forms of intimate partner violence, and the economic and financial abuse tactics that can occur after the end of the relationship.** This should include awareness of domestic and family violence more broadly, how to implement organisational guidelines ensuring safety of customers and referral options should there be a disclosure.
- **Financial institutions could provide content through youth education programs to further develop and support financial capability and financial management.** Research suggests young people may adopt gendered practices of financial management in their relationships that could lead to being more susceptible to economic and financial abuse, which disadvantage young women in particular.

"The paper not only sheds light on the prevalence of the issue, it helps to define and assess the impact of economic and financial abuse and identify gaps in our knowledge so we can improve our responses going forward. It was pleasing to see that many of the areas of focus already align with the work CBA has undertaken through our Next Chapter program. As we continue to evolve and improve our services and support for people impacted by economic and financial abuse, this paper will serve as a valuable source of information," said Ms Lewis.

In addition, the paper reveals a lack of consistency when it comes to defining financial and economic abuse. Based on a comprehensive review of academic literature, the paper found the terms are often used interchangeably, creating challenges for service and policy makers to effectively measure and deal appropriately with the distinct, but connected issues.

To provide more clarity around the definitions, the paper identified an expanded number of categories that constitute economic and financial abuse. Traditionally, economic and financial abuse has been classified into three categories; 'economic and financial control', 'economic and financial exploitation', and 'economic sabotage'. The research identified two additional categories of 'economic and financial manipulation' and 'economic and financial entanglement'.

"Our research distinguishes financial abuse as relating specifically to money and finances. Whereas economic abuse – while involving similar patterns of abuse – refers more broadly to the impact to resources, such as transportation, a place to live, employment and education more broadly. Without a clear and consistent definition, we can't accurately measure economic and financial abuse, nor can we accurately create the right services and systems needed to support those impacted," said Professor Breckenridge.

CBA has made the paper publicly available and has shared its findings with the Australian Banking Association, in the hope that other organisations, industry and government can also use and implement the findings.

Conducted by UNSW Sydney and funded by CBA, the research forms part of the bank's ***Next Chapter* program**. As part of the program, the bank has brought a range of services, support, resources, and research to the market to shed light on the issue of financial abuse and make it easier for victims and survivors to achieve long-term financial independence.

NEGATIVE RATES EXPLAINED: HOW MONEY FOR (LESS THAN) NOTHING IS HELPING OUT THE BUDGET

By Isaac Gross, ***Monash University***

A week ahead of Thursday's budget update, it finally happened.

Instead of the government paying to borrow in a way that would add to the burden on the budget (as has happened since time immemorial) it actually got *paid* to borrow.

Think about that. Investors with millions of dollars to lend went to the Australian treasury and said not only we won't charge you interest, but furthermore we will pay you 0.01% to make sure that you take it.

Not all of the borrowing the government did on that day was for negative interest rates; the rest was for slightly positive rates, but the dam has been broken.

The loan is short-term, being repaid in March 2021, and the payment to the government is still small relative to the scope of the budget. But future, bigger bond auctions might yield bigger payments at even lower (ie more negative) interest rates.

Who'd lend for less than nothing?

Australia is late to the party. Interest rates on government borrowings are below zero in Japan and much of Europe. Bloomberg news now says that a jaw-dropping US$18 trillion of global debt is trading at negative rates.

Germany for example can borrow at minus 0.8%. And while Treasury's borrowing last week was only for three months, investors are willing to lend to Germany at negative interest rates for 30 years!Who'd lend money for less than nothing? Many of us do it when we put money in deposit accounts.

Our banks might pretend they are giving us (a small amount of) interest, but in practice it's often drowned out by the fees, meaning we end up paying them to take our money.

We do it because it is convenient, and a lot safer than storing the money under our floorboards.

The same sort of convenience is at play when a large financial firm finds itself stuck with half a billion dollars.

Storing it can be daunting. A billion dollars of physical cash weighs around 10 tonnes (even more, if it isn't in $100-dollar bills), roughly equivalent to four Toyota Hilux!

Not only is cash a physical burden you also need to keep it secure which adds to the cost of holding it.

Lenders want safe storage

Getting an institution to take their money, even paying it to take it, thus isn't a bad alternative.

And for safe custody, minus 0.01% might be a better rate (a less negative rate) than the firm can get elsewhere. Lending at minus 0.01% costs some money, but buying a safe and hiring security may well cost more.And if the Australian dollar goes up before the loan expires, they might get back more than they lent when measured in foreign currency terms, negative interest rates notwithstanding.

The Australian government wanted to borrow $1.5 billion on that Thursday. It was flooded with $8.2 billion of offers, most of them offering a slightly positive interest rate.

It's how Australia compares that matters

That's how keen investors are to park money with the Australian government. It's why the dollar has been climbing as Australia increasingly looks to be a safer place to invest than countries still being ravaged by the coronavirus.

A lot depends on the alternatives. If rates dive further overseas, more deeply negative rates here will be enough to satisfy some lenders.

If good moderately-safe investment opportunities turn up outside of the government sector (if only) investors will look there instead.

Now that negative rates have arrived, there's no telling where they'll go.

About the Author

Isaac Gross, Lecturer in Economics, *Monash University*

REGIONAL OFFICE AND BRANCH NEWS

INDONESIA ZOOM WEBINARS

Throughout the Covid-19 pandemic, ICMA Australia Indonesia Brach continued its commitment to facilitate the capability development for CMA Members, professionals and academics in the fields of accounting and finance. In the November-December period 3 more webinars were held.

ICMA facilitated the events, which were moderated by ICMA Australia's Indonesia President, Mr. Daniel Godwin Sihotang. Mr. Nursakti Niko Rosandy, the Branch Treasurer, facilitated the events

A WARM WELCOME TO NEW MEMBERS (Oct & Nov 2020)

Abdulrahman, Mohammad
Abu Atwan, Maher
Agarwal, Vishal
Al Hashmi, Mohammad
Al Taki, Naiem
Alam, Md.
Alam, Mohammad Jahangir
Algama, Madhu
Al-Sabahi, Mokhtar
Amin, Ruhul
Andreou, Chrisavgi
Apm, Muhammed
Arsjah, Regina Jansen
Ashraf, Anif
Bohari, Nur Ezehar
Budiyanto, Rahmat
Butar Butar, Ramses
Chau, Kai Chuen
Cheong, Christine
Daniel, Reny
Dekhane, Amit
Dias, Constancio
Ebrahim Al Rais Al Marzooqi, Fatema
Edwards, Peter
Ellathu Kandy, Umer Nabeel
George thomas, Mebin
George, Sajeev
Gonzales, Mary Ann
Hanna, Sameh
Haryanto, Haryanto
Hill, Harrison
Hoque, Mohammad Nurul
Hossain Farazi, Mohammad Mostofa
Hossain, Md Mokarrom
Hossain, Mohd.
Hossen, Md. Sarwar
Huang, Nigel
Hyder, Mohammed Mohiuddin
Islam, Kazi Md
Islam, Md.
Islam, Mohammad
Jia, Lynette-Dishu
John, Leo
Jones, Ben
Kaiser, Mahmud
Khan, Mohammad
Khan, Rahat
Khan, Umair
Koo, Dreyfus
Kuncoro, Suryo
Lamuel, Jocelyn
Leung, Nga Wun
Liamri, Felicia
Mahmud, Md Rakibul
Maraabeh, Ali
Maracle, Mandy
Mario, Clement
Maslani, Maslani
Masud, Abdullah
Masum, Md.
Mayangsari, Sekar
McCully, Alexander
Minhas, Zayer
Mostafa, Md.
Nafarsefiddashti, Leila
Naim, Saekhun
Ng, Michael
Ng, Yuk Ling
Nguyen, Thu Phuong
Nguyen, Thy
Noordin, Zefirelli
Oktarius Zega, Mogantara
O'Mahony, Liam
Ottakathu Cheriya, Muhammed
Perrin, Craig
Phua, Jun
Prasetyo, Widyananda
Prayogo, Leonard Ronaldo
Putra Famuala Zega, Bayu
R, Rohith
Rahman, Hafizur
Rahman, Mahfuzur
Rahman, Mohammad
Raja Nainggolan, Palti
Roy, Murary Prasad
Roy, Pankaj
Sasongko, Budi
Shania, Irene
Sharma, Shimul Baran
Sidharthan, Sharika
So, Chi Bun
Solaiman, Syed
Song, Wei kit
Sriram, Deepti
Stephen, Bino
Stillitano, Antonietta
Sugiharto, Carolus Boromeus
Sulfitri, Virna
Supriyanto, Joko
Suryani, Arna
Suryaputri, Rossje V
Suzabar, Dian Faqihdien
Syabana, Boy
T c, Christy
T m, Vishnu
Talukder, Md. Tahorim Hossain
Tan, Don
Tan, Florence
Tan, Jensen
Tan, Michael
Tan, Yin
Tanjung, Fikry
Tanwar, Niraj
Thomas, Rehoboth
Tran, Helen
Tu, Yun Jui
Ullah, Mohammad
V, Swaroop
Vanissery, Sharafak
Wan Abdul Rahman, Wan Nadiah
Wang, Aihua
Wibawa Tirta, Kurniawan Budi
Yarkhan, Najeeb
Yemina, Adelia
Yeung, Tsz Kit Alban
Yulisfan, Yulisfan
Zapata, Michael Francis

CPD OPPORTUNITIES

Registration link: https://www.cmawebline.org/ontarget/

Webinars (Free for members)

Digital Marketing and Business Growth. Dr Chintan Bharwada 19 Nov 2020

Valuation and Distress Analysis in the Post COVID Era. Prof Janek Ratnatunga 09 Dec 2020

Online CPDs

Business Valuation

Enterprise Risk Analysis

International Business Analysis

Project Finance Analysis

Project Management Analysis

(Special Promotion Members get 90% off for a limited time)

CMA EVENTS CALENDAR

- **Webinar:** ***Digital Marketing and Business Growth.*** **Dr Chintan Bharwada** 19 Nov 2020
- **Webinar:** ***Valuation and Distress Analysis in the Post COVID Era.*** **Prof Janek Ratnatunga** 09 Dec 2020
- ***Certificate of Proficiency in Strategic Cost Management*****, SMU Academy, Singapore (5th Intake).** 16-18 Jan 2021
- ***Certificate of Proficiency in Strategic Business Analysis*****, SMU Academy, Singapore (5th Intake).** 29-31 Jan & 1 Feb 2021
- **Second CMA Global Zoom Program in Strategic Business Analysis, Syme Business School, Australia.** March 6-8 & 13-14 & 20-21, 2020

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

PT Angka Bisnis Indonesia (Business Number Consulting), Indonesia

Inspire Consulting, Indonesia

ManAcc Consulting, New Zealand

STRACC Learning LLP, India

Workplace Skills Development Academy (WSDA), Bangladesh

Ra-Kahng Associates Ltd, Thailand

Academy of Management Accountancy, Nepal

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