



What is the PPSR?

The Personal Property Securities Register (PPSR) is the single, national online database of security interests in personal property in Australia.

Personal property generally includes all forms of property other than land, buildings and fixtures.

Buyers can check the PPSR to see if the valuable second-hand goods they want to buy are debt-free and safe from repossession. A search fee is \$2.00.

For a business selling on terms — such as retention of title or commercial consignment, or hiring or leasing out goods for longer terms — properly registering helps protect its interest, for instance should a customer not pay or go broke. A registration fee starts from \$6.00 for 7 years.

PPSR CASE STUDY 14/V2

Capital raising — Christina's wholesale kitchens

Scenario – wholesaler on-sells invoices to improve cash-flow ...

Concepts covered:

- invoice/receivables financing
- retention of title
- priority of registrations
- proceeds.

Sole trader Christina runs a wholesale kitchen sales operation, selling commercial kitchen appliances, uniforms and bulk non-perishable food items to restaurants and catering firms.

She purchases her stock from a number of importers and domestic suppliers, often on retention of title terms of 30 days credit or longer.

Christina's credit terms for her retail clients are 90 days to pay from the date of the invoice.

One of Christina's reputable clients owes her \$30,000 on an invoice due for payment in two months, but she is running low on stock and needs to order more ovens.

She decides to finance the purchase of the new ovens by listing the invoice with E-invoice, an online service that specialises in advancing finance against invoices, at a discount on the invoice value.



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E-invoice searches the Personal Property Securities Register (PPSR) against Christina's name, to check for security interest registrations against the invoice.

E-invoice discovers that two of Christina's suppliers have already registered security interests against kitchen appliances supplied to her on retention of title terms, and registered them as purchase money security interests (PMSIs) covering the appliances.

By doing a search, E-invoice is satisfied it is adequately secured by registering its interest in the invoice on the PPSR against Christina's name.

E-invoice pays \$27,000 to Christina for the invoice, which is enough to cover her purchase of the new ovens.

If this is a scenario that could apply to your business, things you may wish to consider include:

A registration on the PPSR protects invoice purchasers like E-invoice – it can obtain priority over later registered security interests against the account.

And E-invoice can also obtain a special priority, with conditions. This 'super priority' is over claims by earlier registered PMSI holders who, in turn, can claim the accounts as proceeds of the inventory they originally supplied or financed.

In this case, even though the two kitchen appliance suppliers had prior registered security interests in the appliances (and automatically, in the proceeds of them which would include this invoice), E-invoice would still take priority over the invoice amount — provided it **gives notice to the two suppliers, at least 15 days before the earlier of either registration by E-invoice, or by the time E-invoice's interest attaches to the account.**

This gives the suppliers warning, and, depending on the terms of their security agreement with Christina and whether there is any breach of it, may enable them to enforce their interest in that time period.

Tip

- Under the law, if a wholesaler such as Christina sells accounts (monetary obligations which include receivables generated from supply of goods or services), the purchaser is treated as having a security interest in the invoice, even if it is an outright sale to the purchaser, as in this case.
- In this scenario, the law gives Christina's suppliers an automatic security interest in any proceeds from the appliances, which would include the accounts generated from their on-supply to Christina's retail customers. In other words, even though the financier has super-priority, the 'garden variety' explanation here is that E-invoice will need to repay the proceeds back to the suppliers when it realises (gets paid) the invoice.
- Sales of accounts should be registered on the PPSR as security interests to protect priority positions against later registered interests over those accounts. However, one of the benefits of the law is the ability for invoice financiers like E-invoice to register and obtain super-priority over earlier registered inventory financiers. This super-priority recognises the importance of debt factoring and similar financing methods, which can inject much-needed cash-flow funding to businesses, using accounts as collateral.

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The technical stuff

A PMSI (purchase money security interest) is defined to cover situations where the security interest is granted over particular collateral to secure debt which enabled that collateral to be purchased by the grantor.

If properly registered, a PMSI gives priority over earlier registered security interests over the same collateral, such as a bank with an earlier registered security interest over all of the grantor's present and after-acquired property.

This is a general scenario intended to provide typical examples.

This scenario is not legal advice about how the law applies to your particular business and dealings.

You may wish to seek professional advice from your accountant, financial adviser or lawyer.

For more information about the Australian Government's Personal Property Securities Register (PPSR) go to:

Website: www.ppsr.gov.au

Email: enquiries@ppsr.gov.au

Telephone: 1300 007 777