

STANDARD DEFINITIONS FOR TECHNIQUES OF SUPPLY CHAIN FINANCE



DRAFT

Issued by the Global Supply Chain Finance Forum

June 2015

JOINT PRODUCT OF THE INDUSTRY SPONSORING ASSOCIATIONS:



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Executive Summary

The “Standard Definitions for Techniques of Supply Chain Finance” set out in this document benefits from and builds upon several excellent initiatives and documents aiming to develop terminology and nomenclature related to a fast-growing, high-value but nascent form of financing, which applies equally in support of domestic commercial transactions as it does in the context of complex international supply chains.

The Supply Chain Finance Drafting Group represents multiple professional and industry associations with members around the world, and it has been a core principle of this initiative, that the activities of the team be collaborative, inclusive and consensus-based, to the greatest extent feasible.

The drafting effort, executed by a team of senior practitioners, has benefitted from the guidance of an international and multi-industry Steering Committee, and has actively sought a wide range of commentary and feedback from the market, including providers of supply chain finance solutions as well as end-clients.

The intent of this initiative is to help create a consistent and common understanding about supply chain finance (SCF) starting at the most basic level: that of definition of terminology, followed in the medium-term by advocacy in support of global adoption of the standard terms. It is recognized that SCF propositions has evolved at different rates and in varying directions by region and at the level of individual providers, however, the view is that there is clear benefit to industry, regulatory authorities, clients and other stakeholders, in the development and dissemination of standard definitions and terminology around supply chain finance.

Pages 8 -24 provide context and articulate the rationale, methodology and process followed by the Drafting Team in selecting the SCF techniques to define, and in determining which elements ought to be included in each definition. We have opted to deliver a document that provides more than a list of techniques and a related set of definitions, with a view to the larger objective of global adoption, and in recognition of the various audiences to which the document will be of interest. The definition of each technique (which includes an illustrative transaction flow) can stand on its own; the document includes a summary table for quick reference purposes.

Numerous variations of SCF techniques and structures exist today, and more will evolve, so that this document must of necessity be a ‘living document’ that will require periodic updating. The growing range of SCF providers and the application of technology to SCF solutions will further drive a need to keep up with market developments.

Global adoption of the suggested terminology – and the corresponding benefits which such adoption would bring – rests on advocacy which this document is intended to progress and support. We believe that such efforts should begin with publication.

This first edition of the “Standard Definitions for Techniques of Supply Chain Finance” articulates a ‘master’ definition for Supply Chain Finance and includes definitions for the following core techniques, and for the Bank Payment Obligation, which is to be understood as an enabling framework, rather than a technique, but which has significant potential and relevance in SCF and thus has been addressed here:

1. Receivables Purchase SCF category:

- Receivables Discounting
- Forfaiting
- Factoring and its variations
- Payables Finance

2. Loan or Advance-based SCF category

- Loans or Advances against Receivables
- Distributor Finance
- Inventory Finance
- Pre-shipment Finance

3. Enabling Framework

- Bank Payment Obligation (BPO)

A full glossary of terms and expressions used is provided. A description of approach and methodology is included in the Appendix, and an illustrative summary table can be found at page 61.

Part 1: Introduction

1.1. The establishment and work of the Global SCF Forum

It had been recognized by a number of leading industry associations and practitioners globally, that there is a need to develop, gather and disseminate **standard market definitions** related to Supply Chain Finance (SCF) a nascent but increasingly important dimension of the financing of domestic business and of international commerce across the world.

The expression “supply chain finance” (SCF) today covers a wide range of products, programmes and solutions in the financing of commerce, including international trade, and has been used to refer to a single product, or a comprehensive range of products and programme of solutions aimed at addressing the needs of buyers and suppliers, especially when working on open account terms, in the increasingly complex supply chains in which they are involved.

The current inconsistency in definitions, nomenclature and general language around the financing of trade linked to open account terms and to the support of global supply chains, is proving to be challenging for buyers, suppliers, finance providers, service providers and other stakeholders alike¹. This issue has immediate implications for the accounting and regulatory treatment of supply chain finance structures, and by extension, impacts market uptake and the engagement of traditional as well as emerging providers of SCF solutions.

The inconsistent– even contradictory- language currently in use is complicating advocacy efforts and diluting the effectiveness of communication aimed at fairly articulating the value proposition around supply chain finance, at a time when it is increasingly important to domestic commercial activity as well as to the facilitation of global trade. **The purpose of this document is to remove the uncertainty, ambiguity and lack of clarity when terminology is used in both technical industry discussions and in broader conversations.**

The Global Supply Chain Finance Forum (Forum) was established in January 2014 as an initiative of a number of sponsoring industry associations facilitated by the International Chamber of Commerce (ICC) Banking Commission, to address what has been recognized as a need to develop, publish and champion a set of commonly agreed standard market definitions for Supply Chain Finance and for SCF-related techniques. Through this document the sponsoring associations of the Forum have signified their support for these standard market definitions which they submit to the wider stakeholder community for consideration, adoption and recognition.

¹ ICC Global SCF Forum Drafting Group Terms of Reference 2014

The Forum is widely representative and inclusive, with bank and non-bank contributors, from five continents and from the six major industry associations forming the Forum membership.² The Forum has adopted a wide-ranging consultative process to develop global alignment around Supply Chain Finance definitions and nomenclature.

It is the hope of the Forum and its constituent sponsoring associations that this document will evolve with industry practice, serving as a practical and current guide for practitioners and interested parties, including finance providers, their clients, regulators and investors. In that spirit, this document seeks to clarify and actively shape the evolution of SCF terminology, by identifying and recommending a set of common globally accepted standard market definitions. The document includes contextual discussion, as well as specific definitions and transaction flow illustrations related to each key element defined herein.

The definitions that follow in Part 3 of this document are described by a single headline name, which is proposed as the standard identifying name of the SCF technique to which it refers; commonly encountered synonyms are listed separately. The Forum believes that use of the headline names is critical in ensuring consistency but understands that wide use is currently made of alternative expressions. This initiative offers the opportunity for market participants to reference their products and services to standard definitions, whilst retaining the freedom to differentiate and brand individual services in a fully competitive manner. Phrases such as ‘Our product X is a form of Payables Finance (ICC/GSCF definition ref. ABC)’ might become common as the terminology takes hold.

The Forum recognizes that the achievement of these objectives and intentions will require ongoing advocacy and championing, and will evolve over time: certain expressions and definitions in use today have been in industry “vocabulary” for decades or longer, and are used in marketing collateral, finance provider information systems, various guides and professional publications, such that the adoption of the recommendations reflected in this document is likely to happen in at least two broad phases: adoption and agreement in principle, followed by adoption in practice. The Forum recognises that this process will require ongoing support and nurturing. The process may in time lead to a demand for further work.

It should be clearly stated that although this project involved many market competitors working together in a cooperative environment, the subject of discussion related purely to the standardisation process being pursued and not to any matters of a competitive or sensitive nature. Members of the Forum were conscious of the ‘competitive environment’ and took explicit care in their deliberations not to exceed the brief or mandate of the initiative, by making recommendations that could inappropriately extend into the competitive realm.

² The ICC Banking Commission, The Bankers Association for Finance and Trade (BAFT), the Euro Banking Association (EBA), Factors Chain International (FCI), The International Factors Group (IFG), and the International Trade and Forfaiting Association (ITFA)

1.2. Master Definition of Supply Chain Finance

The following definition of Supply Chain Finance, including the summary at the end of the text box is intended to be used for reference throughout this document and is recommended as the base or master definition for Supply Chain Finance.

Supply Chain Finance (SCF) is a portfolio of financing and risk mitigation techniques and practices that support the trade and financial flows in end-to-end business supply and distribution chains, domestically as well as internationally. This is emphatically a ‘holistic’ concept that includes a broad range of established and evolving techniques for the provision of finance and the management of risk.

SCF is usually applied in relation to open account trade. **Open account** trade, refers to trade transactions between a supplier and a buyer where transactions are not supported by any banking or documentary trade instrument issued on behalf of the buyer or supplier. The buyer is directly responsible for meeting the payment obligation in relation to the underlying transaction. Where trading parties supply and buy goods and services on the basis of open account terms an invoice is usually raised and the buyer pays within an agreed time frame. Open account terms can be contrasted with trading on the basis of cash in advance, or trading utilising instruments such as letters of credit purely as a method of payment and not financing.

In a typical SCF arrangement, it is common to see a strong anchor party, buying from or selling to its business counterparties and one or more supply chain finance providers, with transactions processed over a technology-driven platform. The key primary drivers for the anchor party are improvements in financial performance, supply chain stability, a reduction in risk and balance sheet efficiency.

Finance providers offer their services in the context of the financial requirements triggered by purchase orders, invoices, receivables, other claims, and related pre-shipment and post-shipment processes along the supply chain. Trading parties often collaborate to create opportunities for the provision of supply chain finance. SCF is largely ‘event-driven’. Each intervention (finance, risk mitigation or payment) in the financial supply chain is driven by an event or ‘trigger’ in the physical supply chain. The development of advanced technologies and procedures to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions in the related financial supply chain.

SCF is not a static concept but is an evolving set of practices using or combining a variety of techniques; some of these are mature and others are new or ‘leading edge’ techniques or variants of established techniques, including classical trade finance, that continue to evolve. The techniques are often used in combination with each other and with other financial and physical supply chain services.

As a summary definition, SCF can be defined as ‘the use of financing and risk

mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements usually enabled by a technology platform.

1.3. The audience for this document

The standard market definitions are intended to be of value to a variety of audiences and interested parties, including but not limited to the following:

Finance Providers

The definitions will support the development of the SCF market, the growth of individual providers' businesses and effective communication with end-clients, by creating clarity and transparency as to products being offered. The use of standard market definitions will also facilitate dialogue between important internal stakeholders including business development, senior management, risk, compliance and product management.

Corporate, commercial and SME Clients

The terminology will greatly enhance the ability of customers to understand, compare and select optimal solutions to their supply chain finance needs and consider the offerings as an attractive alternative to other financing models. Clients will be able to weigh alternatives, their advantages and disadvantages, and engage in a clearer and more relevant dialogue with Finance Providers and other supporting communities.

Investors

Secondary market investors are expressing increasing interest in SCF assets given the inherent attractiveness of these mainly short term, self-liquidating and trade-related assets and transactions. Investors need clarity related to the nature of the structures and portfolios in which they might invest, and reassurance as to the risk characteristics, safety and regulatory integrity of the transactions. This includes details on security and transfer of rights, and the source of repayment. The definitions will permit Finance Providers' asset distribution teams and their colleagues in Trade Associations to deliver clear messages to investors.

Regulators

The definitions will support the broader understanding by regulators and government colleagues of the SCF asset class and should lead to the development of fit for purpose regulatory

provisions, knowledge of risks and mitigation, and improve the dialogue between industry practitioners and regulators.

Legal practitioners

Over time it is expected that the standard market definitions will be recognised by legal practitioners and find their way into legal documentation as a reflection of domestic and international market practice and convention. This is well-recognized as one cornerstone of the success and effectiveness of classical or traditional trade finance products, and will prove equally important to the evolution of SCF.

IT and infrastructure providers

SCF is increasingly a business deploying advanced technology and rapidly evolving IT support. Clearer business definitions and requirements will add value to the community of technology providers supporting market development by providing insights into processes, core definitions and product requirements, as well as improving time to market.

1.4. A note on the legal implications of the standard market definitions

The degree of stakeholder representation through participating banks, non-bank providers of SCF and industry associations and subsequent invitations to peer review makes this document the product of a highly inclusive and collaborative, consensus-based effort, and positions the recommendations included here particularly well for dissemination, advocacy and adoption on a global basis.

The extent to which the proposed framework, and the specific definitions under that framework, attain or maintain legal standing and impact will be determined by courts and legislators based upon the continuing evolution of SCF and its increasing prominence in commercial activity. Given that the document incorporates many existing definitions, and was explicitly developed following a review of existing market literature allows its contents can to immediately claim some degree of authority as a statement of market practice.

Some members of the Forum are either lawyers or possess legal training, and thus some consideration has been given, during the course of compilation editing and review, to the legal implications of the content of this document.

1.5. A note on the accounting and regulatory capital treatment of supply chain finance

The accounting and capital treatment and reporting of SCF structures has been identified as one impediment to the faster uptake of supply chain finance, partly due to the optics of SCF transactions and the potential legal and regulatory implications of using and reporting on such financing mechanisms. The issue is particularly acute in light of the current lack of alignment of accounting standards and practices across jurisdictions, including the main accounting disciplines (IFRS, IAS, USGAAP and others).

To the extent that SCF structures exhibit characteristics consistent (in terms of risk and default experience, for example) with traditional trade finance, and given the reality that SCF structures often incorporate traditional trade financing instruments, there may be a basis for advocating in favour of capital treatment that is at minimum comparable to the treatment accorded to traditional instruments. A consistent and widely accepted set of definitions related to SCF techniques should make a useful contribution to advancing the development of appropriate regulatory and accounting standards and to their consistent application across markets, jurisdictions and legal traditions.

1.6. A note on “Know Your Customer” and Anti-Money Laundering requirements

Know Your Customer (KYC) and Anti-Money Laundering (AML) rules and guidance do not always accommodate or reflect the actual risk profiles of SCF structures, often leading to unfavourable and unwarranted mischaracterisation. This is especially acute in Payables Finance where the on-boarding of SME Suppliers can become a major logistical and economic burden limiting the size, or even feasibility, of many proposed programmes. It is hoped that adoption of the definitions herein will help to facilitate a common understanding of the characteristics of SCF programs and techniques, thereby enabling the dialogue necessary to the development of appropriate requirements linked to KYC, AML and Financial Crime Compliance, while allowing the pursuit of legitimate, value-creating business through SCF.

1.7. Acknowledgments

The associations and organizations that have come together to collaborate in the conception, development and dissemination of this document wish to acknowledge the invaluable contributions of the project team, comprised of a Steering Group and a Drafting Group.

Sponsoring Associations

- The ICC Banking Commission (ICC) (project facilitator)
- The Bankers Association for Finance and Trade – BAFT
- Euro Banking Association – EBA
- Factors Chain International – FCI
- The International Factors Group – IFG
- International Trade and Forfaiting Association – ITFA

Steering Group Members

The Forum Steering Group comprised a group of senior executives with deep knowledge of the SCF domain who exercised governance and oversight and provided advice to the Drafting Group at all stages of the project. The members of the Steering Group to whom we extend our appreciation are:

- Daniela Bonzanini, FCI
- Tod Burwell, BAFT (Vice-Chair)
- Eugenio Cavenaghi, EBA
- Alexander R. Malaket, ICC
- Peter Mulroy, FCI
- Simon Peterman, IFG
- Paolo Provera, ITFA
- Daniel Schmand, BAFT
- Kah Chye Tan, ICC (Chair)
- Erik Timmermans, IFG
- Jose Vicente, EBA
- Markus Wohlgeschaffen, BAFT

Drafting Group Members

The Forum Drafting Group comprised a team of practitioners and domain specialists from a range of organizations, located in major markets across the globe. The Group (and its sub-teams) has conducted work through a combination of regularly-scheduled conference calls, and in-person meetings in Dubai, Frankfurt, Toronto, Paris, Singapore and London.

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- Roque G. Damacela, Standard Chartered Bank
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- Sean Edwards, Sumitomo Mitsui Banking Corporation
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The Global SCF Forum benefitted from the support of ICC staff providing project coordination and other assistance as needed, and the project sponsors extend sincere appreciation to:

- David Bischof
- Doina Buruiana
- Emily O'Connor

Reviewers and commentators

In addition to the core team, this document has been significantly enhanced through a broad and inclusive review process involving the membership of each partner association, the ICC National Committees and corporate users of SCF, as well as industry specialists who volunteered their time to provide comments and feedback on an advanced draft of this document. The project team wishes to acknowledge and express appreciation these organisations and entities which are listed in Appendix D.

Part 2: Context and background

2.1. Physical and Financial Supply Chains

It is important to understand the relationship between physical and financial supply chains, which provide context for the role of supply chain finance.

The **Physical Supply Chain (PSC)** is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer, either domestically or across borders. Physical supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. It is the underlying basis of economic functions which give rise to financial requirements and must be supported by activities in the financial supply chain. Physical Supply Chain Management describes the management activities involved in managing the PSC.

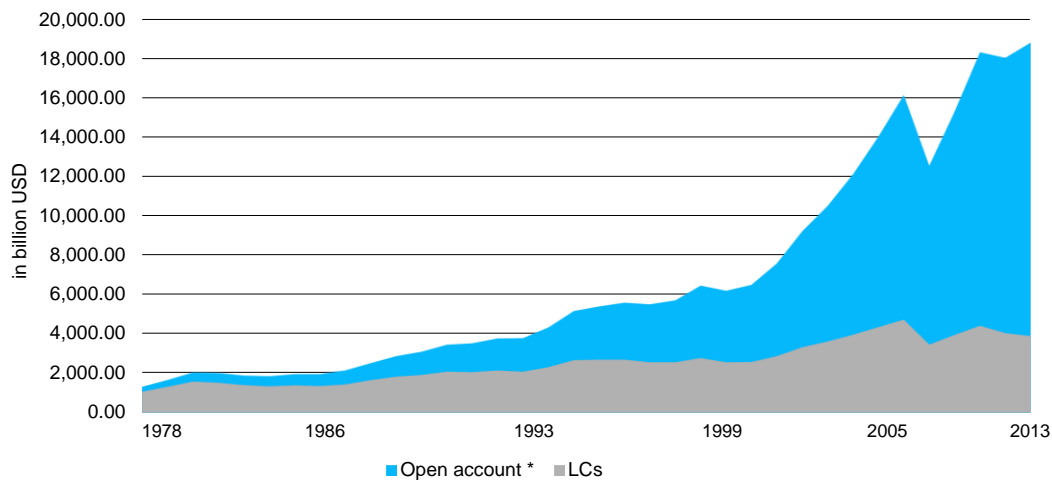
The **Financial Supply Chain (FSC)** is the chain of financial processes, events and activities that provide financial support to PSC participants. Financial Supply Chain Management refers to the range of corporate management practices and transactions that facilitate the purchase of, sale and payment for goods and services, such as the conclusion of contractual frameworks, the sending of purchase orders and invoices, the matching of goods sent and received to these, the control and monitoring of activities including cash collections, the deployment of technology, the management of liquidity and working capital, the use of risk mitigation such as insurance and guarantees, and the management of payments and cash-flow. FSC management involves the orchestration of a range of contributors to meeting FSC needs such as internal functions, trading parties, and service providers in the area of supply chain automation and in the whole range of financial services. Supply chain finance is one service cluster supporting the FSC.

2.2. New patterns in trade flows

It is frequently noted that the vast majority of international trade is supported and enabled by some form of trade finance, be it purely the provision of some form of financing and liquidity, or some form of risk mitigation or simply a payment solution. UN sources have estimated that 80-90% of trade flows are enabled by some form of trade financing, whether it be bank-intermediated, inter-company or otherwise sourced or provided.

The transition to a situation where the vast majority of trade takes place on open account terms and where traditional trade finance has seen a relative decline requires trade financing to evolve. Supply chain finance is the pre-eminent example of this evolution, and a direct response to this near-global shift to open account terms.

Figure 1: Development Foreign Trade (Exports) from 1978 until 2013



World trade volumes have seen a startling increase in open account transaction over the recent years. Already today more than 80 % of the total world trade volume (export) is settled by clean payment. This impressive ratio is expected to grow even further in the future. As a consequence banks are compelled to offer their corporate clients products that support fully automated processing as well as cost savings combined with payment assurance and financing options.

Source: Unicredit Group – 2015

The above graphic reflects the relative growth of traditional trade finance as against the exponential growth in open account trade activity, particularly in the last decade.

It is in part this very significant growth in open account trade, at which a good portion of supply chain finance is targeted, that provides an underlying urgency around achieving global clarity, transparency and common terminology relative to the financing of global supply chains. While the involvement of banks in SCF and open account trade flows has grown as a share of their trade financing portfolios year-over-year, the majority of open account flows are supported by the trading parties' own resources or by non-bank entities such as service providers offering logistics, B2B networks, e-invoicing and financial solutions. However, the value propositions around supply chain finance are evolving, and the degree of engagement of financial institutions is growing and accelerating, as is the continued interest and engagement of non-bank providers of SCF solutions.

Open account trade is no longer reserved for transactions involving established trading relationships, or trade in or with low-risk markets. The shift to open account trade is near-global in scope, and thus, so is the relevance of SCF techniques and structures.

The increasing engagement of developing and emerging markets in international trade, and the increasing policy focus on international trade as a mechanism to enable economic development and poverty-reduction in these markets contributes to urgency around the development of a common set of global definitions covering SCF techniques. Additionally, the fact that much economic and trade activity is driven by small and medium-sized enterprises (SMEs) underpins

a search for trade financing solutions that can meet the needs – and adapt to the characteristics of – SMEs.

Many SCF techniques are particularly well-suited to these dynamics, and the scope and rate of growth of SME-linked trade flows adds another dimension of urgency around the development of a common global terminology and nomenclature. SCF is likely to be increasingly applied to meeting the needs of SMEs operating in both domestic and international markets, as opposed to the narrower segment of large volume buyers and suppliers.

The potential positive impact of SCF on economies across the globe is beginning to be appreciated, though it is equally clear that there is an inconsistent, even at times contradictory view of what constitutes supply chain finance, how this discipline relates to trade finance and to broader realms like asset-based lending, working capital management and to some extent, finance in general.

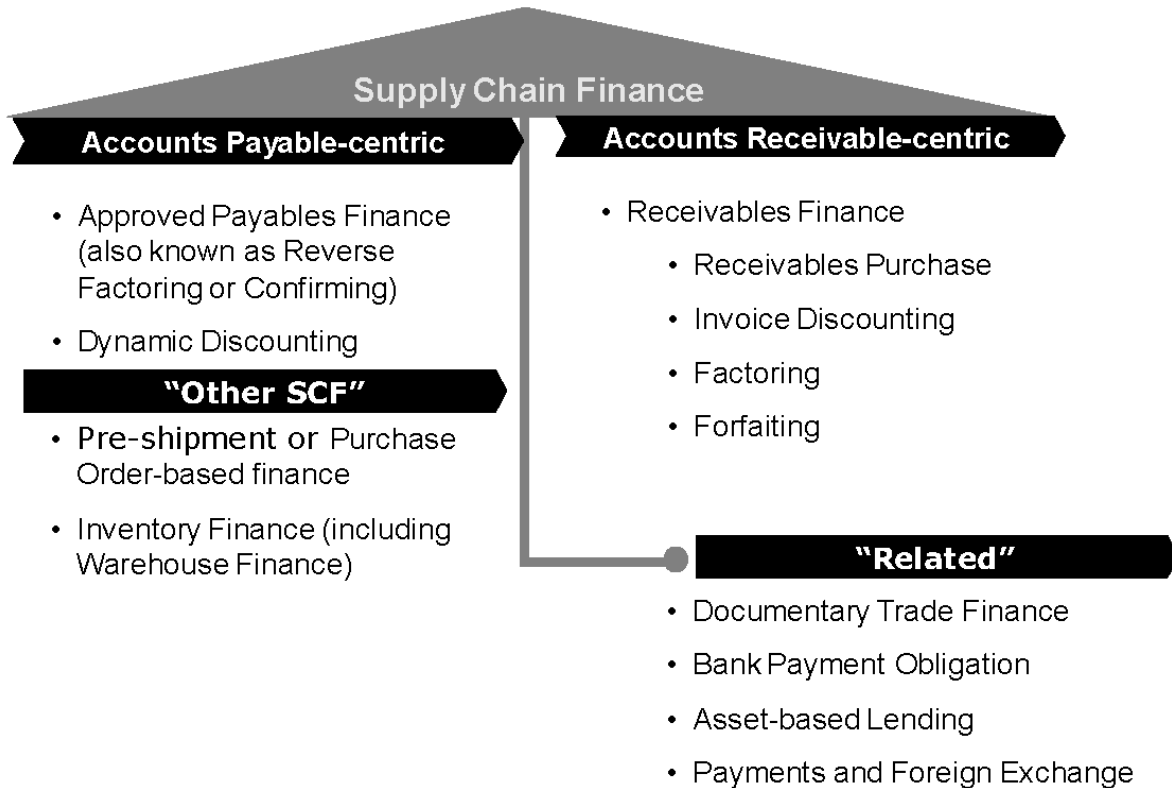
In practical terms, the challenge of education and information that surrounds SCF has contributed in part to an ongoing difficulty in “onboarding” new clients, particularly SME suppliers, onto supply chain finance programs. Senior bankers have observed that the key to successful onboarding is in developing trust and relationships with the supplier community, in part by illustrating the benefits of SCF programmes to SME suppliers with typically limited expertise in sophisticated forms of finance.

The value of a standard global terminology around SCF extends beyond pure financial transaction considerations, to the realm of automation, dematerialization of documentation and technology. Supply Chain automation based on dematerialization, from e-procurement, to e-invoices and to e-logistics, coupled with data-driven decision-making, enhances efficiency and creates efficient ‘triggers’ on the basis of which financing can be provided across international and domestic supply chains. Standard nomenclature will greatly facilitate the design, development and deployment of the supporting technology and web-based services for the SCF market.

2.3. Examples of existing definitional frameworks for SCF

Supply Chain Finance techniques and their relationship to adjacent spaces such as classical trade finance have been presented in a variety of models and conceptual frameworks in pre-existing explanatory documents. Two examples (there are numerous others) are set out below:

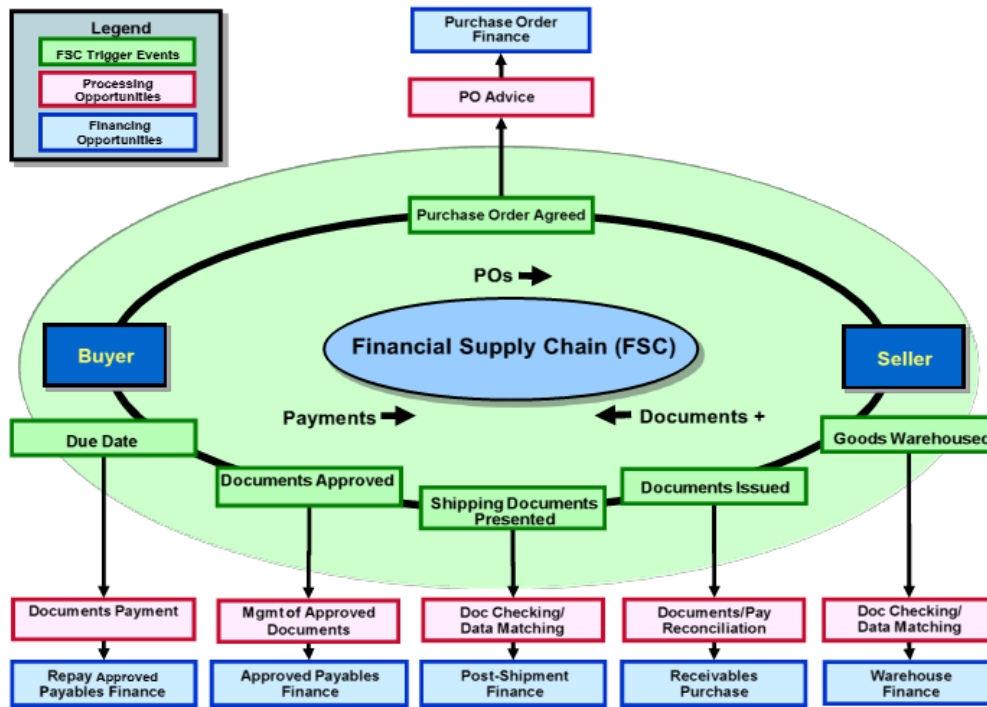
Figure 2: Financing Global Supply Chains



Source: The "Umbrella", EBA Market Guide to Supply Chain Finance - 2014

It must be noted that the umbrella view intends to illustrate logical linkages, and should not be interpreted to represent a hierarchy of techniques. Additionally, the "Related" category, while it is shown to be under the umbrella of SCF, encompasses techniques, products and categories of financing that arguably extend beyond SCF even in its broadest definition.

Figure 3: Open Account Processing and Financing Opportunities



Source: BAFT-IFSA Product Definitions for Open Account Trade Processing and Open Account Trade Finance - 2010

SCF as an overarching concept, or as a category encompassing a series of financing techniques, can also be viewed or understood with reference to a transaction flow, or with reference to a financial supply chain between buyer and seller, as illustrated in the graphic developed by BAFT.

The representation of SCF and its place in the market, which underpins this document, gratefully takes elements from both the BAFT transactional view and the EBA ‘umbrella’ view, recognizing that SCF techniques can be seen in the lifecycle of a commercial and trade transaction or supply chain, as well as in relation to traditional trade finance and other forms of financing.

An updated framework reflecting the views of the Drafting Group is included in Part 5.

Part 3: The standard definitions of SCF techniques

3.1. Approach and Scope

This Part 3 sets out the actual definitions of the Supply Chain Finance (SCF) techniques selected by the Forum as currently representing the key techniques making up the SCF portfolio and best reflecting current market practice. **The Master Definition of SCF** has been set out in Part 1 of the document and should be used as a basic reference. Each technique has been allocated a headline title, which is recommended to be accepted as the standard market name for the technique. Synonyms are also identified and further discussed below.

In the Glossary for this document the SCF techniques, their synonyms and a number of related expressions, together with a range of other expressions covering parties and components of SCF transactions, are defined.

While there is debate in the industry about the relationship and positioning of traditional trade finance and supply chain finance, the Forum has taken a broad and holistic view of SCF, and thus considers that traditional trade finance is included in the scope of SCF as a potential component in the structuring of an SCF solution. However, definitions of traditional trade finance techniques, products and mechanisms are **not** included here, as they are well-established and have long achieved a level of global adoption that is a cornerstone of their effectiveness and success.

SCF defined herein does not include specifically the range of techniques such as overdrafts, loans, leasing and other forms of asset-based finance, although they may be employed in support of domestic and/or international commercial activity, as may other capital raisings such as bonds and equity.

There are also a range of structured and specialised techniques such as in the commodity finance space and other individually-tailored corporate or special purpose transactions for the finance of trade. All of these may create funds for investment in supply chain activity, and for some practitioners they are viewed as important contributors to SCF in the widest sense. They have not been defined in this document as they are the subject of abundant existing literature and, in addition, owe their origins to corporate finance techniques rather than trade finance techniques.

The Drafting Group has identified a number of expressions that have been defined as 'super-categories'. These are typically used to describe business lines, organisational units and activities rather than representing actual SCF techniques. *Examples include: Commercial Finance, Asset Based Lending, Transaction Banking, Financial Supply Chain Services and Working Capital Services.* These expressions are also described in the Glossary, but are **not** the subject of standard market definitions related to SCF. It is left to competitive activity to use and shape these expressions.

3.2. The SCF technique definitions developed by the Global SCF Forum

The following pages set out the SCF techniques selected for the development of a cogent and convincing standard market definition. They are divided into three categories below:

1. Receivables Purchase SCF category

- Receivables Discounting
- Forfaiting
- Factoring and its variations
- Payables Finance

2. Loan or Advance-based SCF category

- Loans or Advances against Receivables
- Distributor Finance
- Inventory Finance
- Pre-shipment Finance

3. Enabling Framework

- Bank Payment Obligation (BPO)

Receivables Purchase is a common description and intermediate category herein for a variety of techniques in which suppliers obtain financing by selling all or a part of their receivables (evidenced by invoices) to a finance provider. The supplier's receivables will be transferred into the ownership of the finance provider by means of the assignment of title rights. Upon such a change of ownership, the supplier will receive an advance payment for the receivables including a margin reflecting the quality of the receivables, and being also subject to a finance charge based on the pricing agreed between the finance provider and the supplier. Receivables Purchase is offered through the four distinctive, but sometimes overlapping, techniques listed above.

The second intermediate category of techniques are essentially loan or advance-based. These include loans or advances made against receivables (i.e. secured on receivables rather by means of purchase). In this case the loans or advances may be legally secured on a stream of future receivables or may be unsecured and simply take comfort that such receivables will be converted to cash at a future date to repay the financing. In some cases, the loan or advance may be replaced by, or evolve into, a purchase of receivables. Varying levels of contract

documentation and security, of differing legal effectiveness and value, are possible and in many cases are jurisdictionally specific. Other techniques listed above that are also based on loans and advances are: Distributor Finance, Inventory Finance and Pre-Shipment Finance.

The Bank Payment Obligation (BPO) is included in these definitions because it is a technology and data-driven enabling framework (not an SCF technique) that has significant relevance and potential in supporting open account trade flows and in facilitating the offer of SCF solutions domestically and internationally.

For each of the SCF techniques described below, the following structure of properties is followed:

- Definition
- Synonyms
- Distinctive Features
- Parties
- Contractual relationships and documentation
- Security
- Risk and risk mitigation techniques
- Transaction illustration
- Benefits
- Asset distribution (as applicable)
- Variations (as applicable)

Please note that within the heading 'Synonyms' are a variety of expressions used in the industry. The recommended standard market definition for the technique is the headline expression used in the Definition box. The Drafting Group discourages use of any other expression as the standard market definition for the relevant SCF technique.

The Transaction Illustrations provided are intended to provide an example of a possible flow or structure and should not be taken to be definitive or comprehensive, since SCF technique can incorporate many variations and exhibit a range of nuances to meet client needs.

3.3. Receivables Purchase category

3.3.1. Receivables Discounting

Definition

Receivables Discounting is a form of Receivables Purchase in which suppliers sell all or a part of their receivables (invoices) to the finance provider, which becomes the purchaser.

Receivables discounted range from a single buyer receivable through to the majority of the buyer receivables within the sales ledger of a supplier. The funds available to the supplier are based on the outstanding value of the invoices related to the relevant buyers. The supplier will receive the face value less a security margin and the agreed financing margin at the time of the sale of the receivables to the finance provider.

Receivables Discounting is usually offered by finance providers to larger corporate clients selling to multiple buyers. The buyer coverage will depend on the number of buyers for which the finance provider is willing to take credit risk.

Synonyms

Receivables Purchase, Invoice Discounting, Early Payment (of Receivables).

Distinctive features

The finance provider offers finance based on a security margin applied to the receivables being assigned by the supplier and as pre-agreed between the supplier and the finance provider.

Typically, the finance provider will limit such offering to a client base, whose receivables comply with certain criteria, such as a minimum credit rating and various typical features are as follows:

- The discounting is generally provided on a 'without recourse' basis to the supplier, although in the event of default by the buyer there may be situations where recourse or limited recourse is maintained.
- In general, if a receivable discount is executed without recourse to the supplier, the expectation of the supplier is that the receivable is taken off its balance sheet, subject to a confirmation of the relevant auditor.
- The financing transaction may be disclosed or undisclosed to the buyer
- The finance provider may pay up to 100% of the receivables up front or apply a security margin or advance ratio to account for potential dilutions or cover for possible credit deterioration.
- Receivables Discounting may be provided on a one-off, seasonal or continuous programme basis.

- The facility may be provided on an uncommitted or committed basis to the supplier, the latter giving the supplier a higher level of comfort in terms of access to liquidity within the buyer credit limits set by the finance provider.
- In the event that the transaction is disclosed to the buyer, the process of the collection of the receivables may remain with the supplier or it may be outsourced to the finance provider.

The finance provider may act at its own risk or insure or share the credit risk with a third party (trade credit insurance or risk participations with other financial institutions), thus limiting its own risk exposure.

Parties

The parties to the financing are the supplier and the finance provider. Whilst the buyer is not a party to the agreement, it is relied on for payment of the underlying receivables or invoices and may also be required to validate that specific invoices are genuine and in certain circumstances may confirm that invoices are approved for payment within a specified timeframe.

Contractual relationships and documentation

A Receivables Purchase Agreement (RPA) is executed between the supplier and the finance provider. A certified copy of the invoice or the invoice data set is made available to the finance provider. Under the agreement, the supplier provides the finance provider with an assignment of rights (or transfer of title or the equivalent) to the asset(s) being financed, according to the jurisdiction in question. A notice of assignment may be provided to the buyer. Any additional required procedure according to the respective jurisdiction is suitably documented.

Security

Generally speaking, Receivables Discounting is structured as a 'true sale' and the rights and title to the receivables are transferred to the finance provider by means of an assignment of rights (or transfer of title), according to the relevant jurisdictional requirements.

Risks and risk mitigation

- Default or insolvency of the buyer including relevant country risk, mitigated by credit and risk assessment, monitoring and potentially credit insurance.
- Receivables dilutions (e.g. credit notes, offsets against invoices due for payment), mitigated by the security margin and advance ratio.
- Pre-existing security arrangements or bans on assignments, mitigated by waivers given by other secured parties or their removal or by taking additional security and completing the required perfection requirements.
- Certain types of the receivables, which could be said to be 'non-fungible' or not comparable with typical receivables, are often avoided, for example: where long warranties have been given, or where specific warranties or recourse arrangements

have been provided by the supplier, or for receivables arising in contracting businesses (e.g. construction), or situations involving stage payments; alternatively such receivables could be converted into 'fungible units' that meet the quality requirements of a Receivables Discounting transaction.

- KYC /AML handled during the on-boarding procedures and subsequently in periodic reviews
- Lack of legal authority, mitigated by legal due diligence on the respective jurisdiction and the involved contractual parties.
- Contra-trading (mitigated by regular verification that the balance outstanding with the finance provider matches that on the buyer's records).
- Risks arising in the event of insolvency such as 'claw-back', where a finance provider is aware of distress at the time of a receivable purchase, or in the case of co-mingling of funds in a general bank account. For the latter, there is mitigation through the use of a collection account in the name of the finance provider.
- Fraud by the supplier, for example by inflating the value of invoices or offering invoices without an underlying commercial transaction, mitigated by verification of the transaction and deploying adequate credit controls.
- Double financing, mitigated by obtaining a security interest in the receivables, applying appropriate KYC procedures and perfecting the assignment of rights to the receivable.
- Fraud by collusion between supplier and one or more of its buyers leading to diversion of funds from meeting maturing obligations, mitigated by monitoring the financial health and management integrity of the supplier through maintaining contact and receiving regular management information to look for signs of a deterioration of the business and suspicious circumstances, and also mitigated ,where necessary, by direct collections on the part of the finance provider
- Fraud by collusion between the supplier and an employee of the finance provider, mitigated by internal controls and segregation of duties.
- General operational risks resulting from multiple operational requirements to perfect title to the receivables and undertake ongoing administration, mitigated by sound procedures, appropriate levels of automation and process controls.

All the above risks are also mitigated by a robust audit process.

Transaction illustration

The finance provider undertakes assessment of all aspects of the underlying transaction and agrees to provide financing to the supplier. A credit facility on a committed or uncommitted basis is established for the supplier, which may be further allocated to sub-components by buyer, geography and other agreed parameters, set out in the Receivables Purchase Agreement (RPA). If the transaction is structured without recourse the credit limits would be marked against the buyer(s).

The supplier retains control of the sales ledger management and therefore must have established and adhere to credit control procedures that meet the finance provider's requirements.

The supplier raises an invoice upon delivery of the goods or services rendered and sends a copy of the invoice or the invoice dataset to the finance provider.

After verification of the invoice copy or dataset, the finance provider makes a payment for the discounted value of the receivable (invoice) to the supplier. The amount of such payment may be reduced according to the contractual details in the RPA.

At maturity, the buyer pays the proceeds of invoices due into a bank account in the name of the supplier, but only the finance provider may withdraw available funds from that account, to meet maturing obligations, as the supplier has limited access rights to the account. However, it is also common for buyer payments to be made directly to the finance provider's bank account, under an arrangement where the finance provider acts as the supplier's collection agent.

If not deducted at the time of the initiation of the transaction, interest and other charges will be payable upon receipt of the proceeds from the buyer and any or the remaining, unfinanced portion of the invoice proceeds will be payable according to the terms of the RPA.

Operational procedures are appropriately modified in the event of individual receivables finance transactions or in the event of a breach of the RPA.

Benefits

For buyers

- Potentially extended payment terms

For suppliers

- Improved payment terms for the supplier
- Potentially allows the supplier to provide extended credit terms to its buyer
- Working capital optimization for the supplier
- Growth in business for the supplier on 'open account' terms
- Finance and liquidity availability for suppliers with limited credit availability from traditional banking sources.
- Potential for off-balance sheet financing (i.e. alternative means of financing without using own credit facilities)
- Potential for balance sheet management via 'true sale' of the receivables under the relevant legal structures.
- Credit risk coverage in Non-recourse Factoring as the finance provider will pay normally 100% of the credit covered receivables if the buyer defaults in its payment Reduction of the concentration risk by distributing risk to a Finance Provider
- Optimised utilization of supplier's resources in case the collection of receivables is outsourced to the finance provider

- Confidentiality of the source of finance in the case of a non-disclosed contractual relationship between the seller and the finance provider

For finance providers

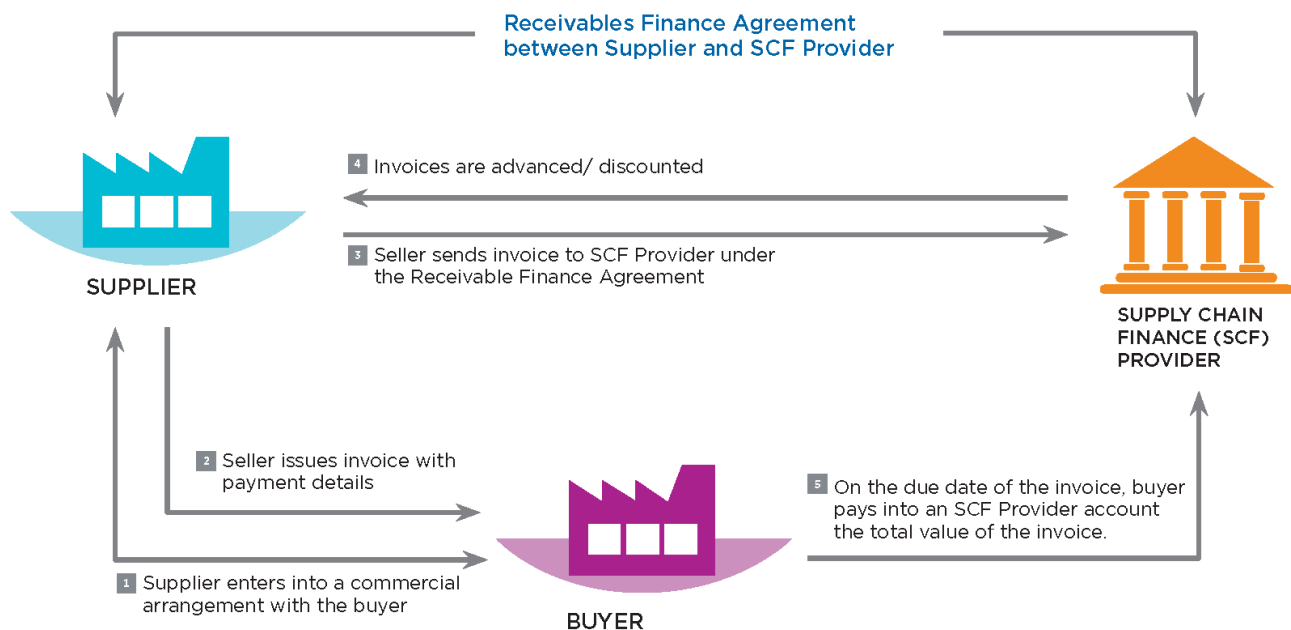
Credit exposure with a lower risk profile due to the supply chain-related nature of the financed transaction

Asset distribution

Such financings are typically offered by one finance provider to a client although in the event of very large volumes, distribution techniques may be used, such as risk participations or syndications.

Transaction Flow: Illustrative Only

Figure 4: Receivables Discounting



Source: Global SCF Forum

3.3.2. Forfaiting

Definition

Forfaiting is a form of Receivables Purchase, consisting of the without recourse purchase of future payment obligations usually represented by a negotiable or transferable financial instrument or claim, at a discount or at face value in return for a financing charge.

Synonyms

Without recourse financing or discounting, Discounting of Promissory Notes/Bills of Exchange

Distinctive features

Forfaiting requires the existence of an underlying payment obligation normally embodied in some form of legal instrument distinct from the commercial transaction that gave rise to it. Such commercial transactions could be exports, imports or domestic trade. Typical payment instruments include negotiable instruments such as bills of exchange and promissory notes but claims arising from letters of credit are also widely forfeited. All of these are ideal for forfaiting because they are, by law or agreement, independent from the underlying trade, benefit from a robust legal regime and are easily transmissible to third parties through endorsement or assignment. Such obligations may or may not be guaranteed by third parties such as banks, for example, by adding an aval or guarantee to a negotiable instrument. The range of payment obligations capable of being forfeited is not, however limited to these instruments but is very wide. Suitably worded and assignable contractual undertakings can also be forfeited.

There is a primary and secondary forfaiting market. In the primary market, transactions are originated and obligations can be purchased from suppliers or buyers. In the first case this is known as a supplier credit for example, a bill of exchange drawn by an exporter on an importer. In the second case it is known as a buyer credit for example a promissory note issued by an importer. Pure working capital can also be raised through forfaiting by purchasing a promissory note or an unconditional payment undertaking from the finance provider.

Tenors can vary from one month to several years. Transaction sizes are generally at the higher end of the supply chain spectrum and large volumes of low value instruments are more commonly confined to domestic forfaiting. Invariably, the advance ratio is 100% of the face value of the payment obligation less finance charges. There may be one or more such instruments in any given transaction although the number is usually small.

Forfaiting is usually undertaken without recourse to the supplier or, in the secondary market, the seller of the forfeited asset (but see below in 'Risks and risk mitigation').

Parties

In the primary market there is normally a supplier (e.g. exporter) or buyer (e.g. importer) as seller of the instrument or claim to the initial finance provider (commonly known as the primary

forfeiter). In the secondary market, there will be sellers and purchasers, which may be banks or other investors.

Contractual relationships and documentation

In the primary market there will be either a master agreement with a confirmation for each individual transaction or a one-off agreement limited to a single transaction.

In the secondary market, a sale is legally concluded either by telephone and then confirmed in writing or there is a written confirmation only following earlier non-binding discussions.

The payment instrument containing the obligor's undertaking to pay will be obtained either directly from the obligor or through transfer of such instrument.

In a forfaiting transaction the documentation relating to the underlying commercial documentation is examined by each purchaser of the forfeited asset.

The extent to which the documentation is examined will vary according to which market is involved (there being generally less documentation produced in the secondary market), the risk appetite of the parties and the nature of the transaction. There is likely to be less documentation in the case of a buyer credit than in the case of a supplier credit.

Forfaiting transactions can be documented using The Uniform Rules for Forfaiting ICC Publication no. 800 (URF) which is a joint publication of the International Chamber of Commerce and the International Trade and Forfaiting Association. URF 800 took effect on 1st January 2013 and contains a set of rules for the conduct of the primary and secondary markets including provisions covering the examination of documents and the liability of parties. A set of model agreements for both markets is included.

Security

Generally, forfaiting results in a "true sale" whereby the buyer owns all the rights in the forfeited payment obligation. Security in respect of the forfeited asset can be given in the form of an aval or guarantee from a third party.

Risks and risk mitigation

- Default by, or insolvency of , the buyer, mitigated by security, credit insurance and due diligence
- Country or political risk, mitigated by due diligence and political risk insurance
- Dilutions and disputes arising out of the underlying commercial transaction, mitigated by use of unconditional payment instruments and limited recourse to the Supplier
- Non-recourse to the Supplier or, in the secondary market, a seller of the forfeited asset, mitigated by the credit rating of the Buyer and limited recourse in certain circumstances (see Article 13 URF)
- KYC /AML handled during the on-boarding procedures and subsequently in periodic reviews

- Risks arising in the event of insolvency such as 'claw-back', especially where a finance provider is aware of distress at the time of financing
- Fraud by the supplier, for example by inflating the value of payment instruments or offering payment instruments without an underlying commercial transaction, mitigated by verification of the transaction and deploying adequate credit controls.
- Double financing, mitigated by obtaining ownership of the receivable, applying appropriate KYC procedures and perfecting the assignment of rights to the receivable.
- Fraud by collusion between Supplier and one or more of its Buyers leading to diversion of funds from meeting maturing obligations, mitigated by monitoring the financial health and management integrity of the Supplier through maintaining contact and receiving regular management information to look for signs of a deterioration of the business and suspicious circumstances, and also mitigated ,where necessary, by direct collections on the part of the finance provider
- Fraud by collusion between the Supplier and an employee of the finance provider, mitigated by internal controls and segregation of duties.
- General operational risks resulting from multiple operational requirements to perfect ownership of receivables and undertake ongoing administration, mitigated by sound procedures, appropriate levels of automation and process controls.

(All the above risks are also mitigated by a robust audit process)

- Legal risks such as lack of authority to sign documentation and payment instruments being in unenforceable form, mitigated by legal due diligence
- Currency and interest rate risks, mitigated by hedging

Transaction illustration

Generally, forfaiting is a manual or semi-manual process. Sale and purchase documentation is negotiated and signed between parties in both primary and secondary markets in hard copy. Individual transaction confirmations can be sent by email or SWIFT.

Due diligence and credit analysis will need to be carried out on the obligors and on the legal nature of the instruments being used with a view to ensuring that , so far as possible , these are valid and enforceable even where problems may arise in the related sale of goods. The need for any local registrations and permissions will also be investigated.

Ownership to the payment instrument being used must pass to the purchaser and the appropriate legal method of doing this must therefore be ascertained. These can include assignment, novation or endorsement. There may be a need to hold and/or present originals of the payment instruments for payment to the obligor. The precise situation will depend on the nature of the instrument.

Confirmations from obligors to pay the new holder of the payment instrument are often sought especially in relation to letters of credit where the forfaiter is not a nominated bank under the letter of credit and is thus not a party to that transaction.

KYC/AML must be carried out on all relevant parties including the seller and the obligors in accordance with applicable local requirements.

Documentation relating to the export or import of goods must be examined manually with a view to satisfying not only KYC/AML requirements but ensuring the transaction is capable of being financed and that all documentation is authentic and legally valid and enforceable. URF 800 sets out rules for examination of such documents.

Benefits

- Working capital optimization for buyer and supplier
- Potentially finance raised against a strong credit rating (either of buyer or financial institution providing security for the payment obligation) with lower implied cost of funding for the Supplier
- Assists suppliers in selling to countries where they have little local knowledge and open-account sales would not otherwise be possible
- Potentially improved payment and commercial terms for the supplier and buyer
- Finance and liquidity availability for suppliers with limited credit availability from traditional banking sources
- Supply chain stability
- Relieves Suppliers of administration and collection costs

Asset distribution

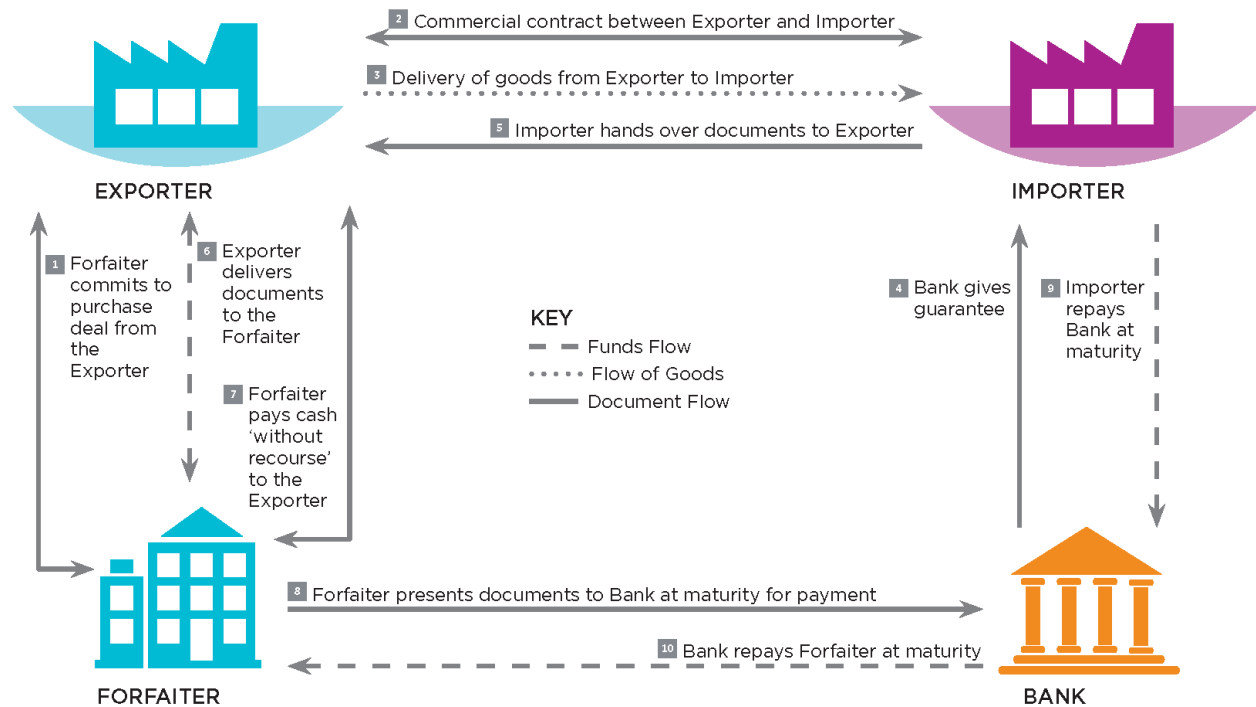
By outright or “true” sale and through funded or risk participation agreements

Variations

See “Distinctive Features” above.

Transaction Flow: Illustrative Only

Figure 5: Forfaiting



Source: Global SCF Forum

3.3.3. Factoring

Definition

Factoring is a form of Receivables Purchase, in which suppliers assign all or part of their accounts receivable (invoices) to the finance provider (commonly known as the 'factor'). The supplier obtains a discounted payment against the value of the receivables or invoices being purchased.

Synonyms

Invoice Discounting, Debtor Finance

Distinctive features

A key differentiator of factoring is that the finance provider advances funds and is then usually responsible for managing the debtor portfolio and collecting the underlying receivables, often also offering protection against the insolvency of the buyer.

In factoring, ownership of the receivable lies with the finance provider and the buyer settles the invoice with the finance provider, not with the supplier. Factoring is normally disclosed to the buyer. Factoring is provided with or without recourse depending on aspects such as credit insurance, jurisdiction and market practice. There are multiple variations of factoring which are separately described, herein.

Factoring is usually offered by specialized finance providers operating as factors, explicitly targeting the Receivables Finance market and serving a wide array of supplier companies including small and medium sized enterprises (SMEs) as a core market. Factoring has also been extended to large value transactions. Factors may also offer Receivables Discounting services, often using the synonym Invoice Discounting.

Under the UNIDROIT convention on international factoring (Ottawa 28 May 1988) factoring is defined to take place when at least two of the following functions are performed:

- finance for the supplier;
- maintenance of accounts (ledgering) relating to the receivables;
- collection of receivables;
- protection against default in payment by debtors

Parties

The parties to the factoring transaction are the supplier and the finance provider, while the buyer is not a party to the factoring agreement but is both normally aware of the transaction and relied on for payment of the underlying receivables or invoices directly to the finance provider, except for cases where confidential factoring is applied.

Contractual relationships and documentation

A factoring agreement is entered into between the supplier and the finance provider under which the supplier provides the finance provider with an assignment of rights (or transfer of title or the equivalent) to the asset(s) being financed, according to the jurisdiction in question. Notice of assignment is usually provided to the buyer; a certified copy of the invoice or the invoice data set is provided to the finance provider. Any additional security is suitably documented.

Security

An assignment of rights (or transfer of title or the equivalent) to the asset(s) being financed, according to the jurisdiction in question. Additional security interests may be taken by the finance provider.

Risks and risk mitigation

- Default or insolvency of the buyers, including relevant country risk, mitigated by credit and risk assessment, monitoring and potentially credit insurance.

- Concentration risk (mitigated by setting concentration limit thus spreading the risk over the sales ledger)
- Factorability of the receivables – transaction characteristics, contract or financing terms that adversely impact the ability to factor, such as long warranties that the supplier has to provide, contractual businesses (such as construction), the sale of perishable goods or the presence of stage payments,
- Receivables dilutions (for example, credit notes, offsets against invoices due for payment), mitigated by the security margin and advance ratio, through the establishment of a reserve (or margin) against the eligible discounted receivables.
- Pre-existing security arrangements or bans on assignments, mitigated by waivers given by other secured parties or their removal or by taking additional security and completing the required perfection requirements.
- Party-related risk mitigated by KYC / AML handled during the on-boarding procedures and subsequently in periodic reviews
- Lack of legal authority, mitigated by legal due diligence on the respective jurisdictions and the involved contractual parties.
- Contra-trading (mitigated by regular verification that the balance outstanding with the finance provider matches that on the buyer's records).
- Risks arising in the event of insolvency such as 'claw-back', where a finance provider is aware of distress at the time of a receivable purchase, or in the case of co-mingling of funds in a general bank account. For the latter, there is mitigation through the use of a collection account in the name of the finance provider.
- Fraud by the supplier, for example by inflating the value of invoices or offering invoices without an underlying commercial transaction, mitigated by verification of the transaction and strong credit controls.
- Double financing, mitigated by obtaining a security interest in the receivables, applying appropriate KYC procedures and perfecting the assignment of rights to the receivable.
- Fraud by collusion between supplier and one or more of its buyers leading to diversion of funds from meeting maturing obligations, mitigated by monitoring the financial health and management integrity of the supplier through maintaining contact and receiving regular management information to look for signs of a deterioration of the business and suspicious circumstances, and also mitigated ,where necessary, by direct collections on the part of the finance provider
- Fraud by collusion between the supplier and an employee of the finance provider, mitigated by internal controls and segregation of duties.
- General operational risks resulting from multiple operational requirements to perfect ownership of receivables and undertake ongoing administration, mitigated by sound procedures, appropriate levels of automation and process controls.
- All the above risks are also mitigated by a robust audit process.

Transaction illustration

The finance provider undertakes assessment of various aspects of the underlying transaction and agrees to provide the factoring service to the supplier (usually a credit limit is established for each buyers). The supplier raises an invoice upon delivery of the goods/services rendered and sends a copy of the invoice or the invoice data set to the finance provider. After verification of the invoice copy or data set, the finance provider advances a percentage (usually around 80%) of the value of the invoice to the supplier. As from due date, the buyer pays the outstanding invoice to the finance provider who in turn pays the remaining value of the invoice to the supplier, less agreed fees and discount as applicable. The finance provider is responsible for reminder and collection procedures. The discount and other fees are payable according to the terms of the factoring agreement.

Benefits

- Growth of business for the supplier on open account terms
- Credit risk coverage in non-recourse factoring as the finance provider will pay normally 100% of the credit covered receivables if the buyer defaults in his payment
- Working capital optimization for the supplier
- Improved payment terms for the supplier
- Finance and liquidity availability for suppliers with limited credit availability from traditional banking sources
- Sales ledger management and collection of receivables as part of the service frees up the supplier's resources.

Asset distribution

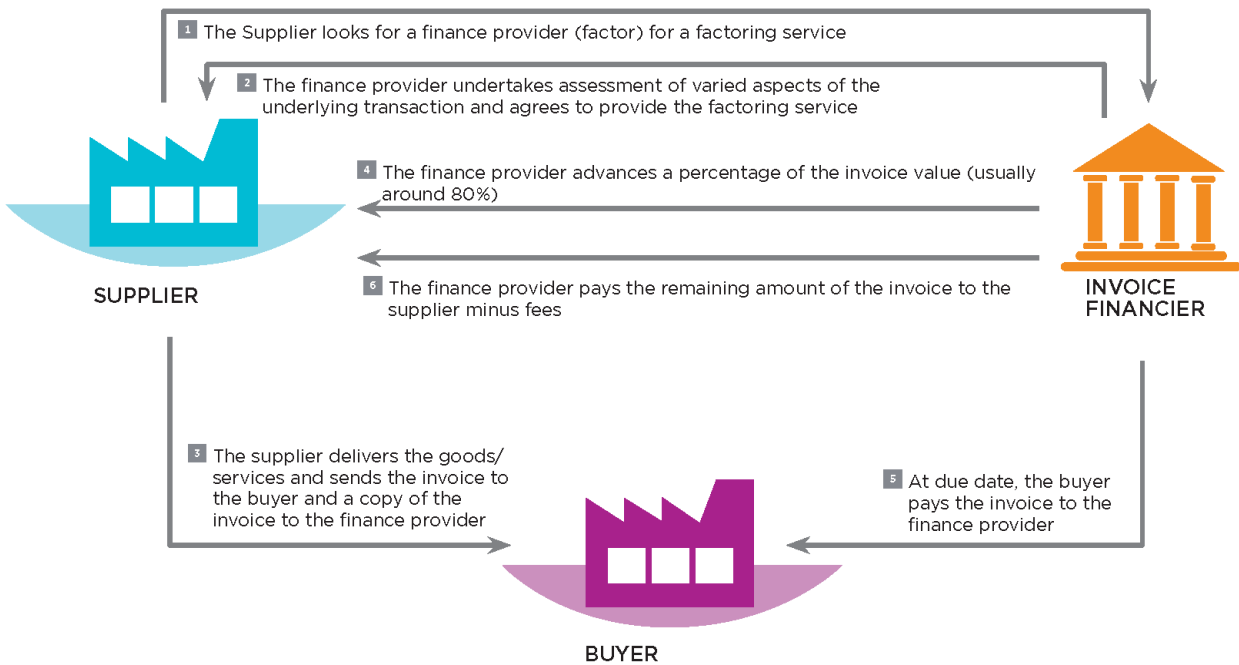
Such financings are typically offered by one finance provider, although in the event of very large amounts distribution techniques may be used.

Variations

Confidential or Non-Notification/Disclosed; Domestic/International; Recourse/Non-recourse; Whole Turnover/Selective

Transaction Flow: Illustrative Only

Figure 6: Factoring



Source: Global SCF Forum

3.3.4. Factoring Variations

The variations described below do not represent a separately defined technique but are common variations of the factoring technique defined above.

Factoring Variations

Factoring (as defined above)

Factoring is normally disclosed to the buyer and the buyer settles the invoice with the finance provider, not with the supplier. Factoring is provided with or without recourse depending on aspects such as credit insurance, jurisdiction and market practice. If executed without recourse, the full legal ownership of the invoice is normally transferred to the finance provider.

Factoring is classically based on a whole book or a whole debtor turnover (meaning all of the sales of that supplier on open account terms to that particular buyer, or often all sales). Generally speaking, it is very rare to have a factoring contract that does not require the seller to factor all of the invoices for that particular buyer, mainly to control the potential risk of buyer default. The finance provider is usually responsible for managing the debtor portfolio and collecting the underlying receivables, for which a separate fee may be charged. At due date (or having received reminders from the finance provider), the buyer pays the outstanding invoice to the finance provider, who in turn pays the remaining value of the invoice to the supplier, deducting any outstanding handling fees resulting from the financing transaction.

Domestic Factoring

The buyer is situated in the same country as the supplier. Country-specific rules or regulations may apply due to the domestic character of the transaction which would affect the relationship between the finance provider, the buyer and the supplier.

International Factoring

The buyer is situated in a different country from the supplier. Country-specific rules or regulations may apply due to the international character of the debt which could affect the relationship between the finance provider, the buyer and the supplier.

For these reasons, sometimes two Factors are involved, one in the buyer's country (known as the 'Import Factor') and one in the supplier's country (known as the 'Export Factor'). The two Factors establish a contractual or correspondent relationship to service the buyer and the supplier respectively (called the 'two-factor-system').

Typically, the two Factors use the established frameworks provided by either Factor Chain International (FCI) or International Factors Group (IFG).

Recourse Factoring

The finance provider has recourse to the supplier in the case of buyer default.

Non-Recourse Factoring

The Finance Provider does not have recourse back to the Supplier in the case of Buyer default within established credit lines. Country-specific rules or regulations may affect the nature of the relationship between the Finance Provider, the Buyer and the Supplier.

Limited recourse may be maintained however, to ensure that the supplier delivers against specific warranties that are a condition of payment. Country-specific rules or regulations may affect the nature of the relationship between the finance provider, the buyer and the supplier.

Confidential or Non-Notification Factoring

The invoice bears no notice of assignment and the buyer is not aware of the factoring agreement between the supplier and the finance provider.

The debt verification is carried out by the finance provider in the name of the supplier so that the buyer is not aware of the factoring agreement. The buyer typically pays the outstanding invoice into a 'trust' or 'escrow' account. . In some cases, the buyer may pay funds into a normal current account in the name of the supplier, who acts as a collecting agent on behalf of the finance provider and undertakes to forward the funds immediately after collection to the same finance provider.

Disclosed or Notification Factoring

The invoice bears a notice of assignment and the buyer is notified of the assignment of the receivables. The buyer pays the outstanding invoice to the finance provider with discharging effect.

Whole-Turnover Factoring

The supplier assigns all invoices or allowable invoices to the finance provider.

Selective or Spot Factoring

In Selective Factoring, the supplier or finance provider selects a range of invoices to be assigned to the finance provider, identifiable by a common feature, such as buyer name, governing law of the receivables, and production segment among others. Spot factoring involves the factoring of an individual invoice.

Invoice Discounting

The supplier communicates the outstanding balance of its receivables ledger to the finance provider, which finances a percentage of the amount available to the supplier by selecting invoices from specifically identified buyers. The funds available to the supplier are adjusted based on the outstanding value of the sales ledger adjusted for a security margin.

3.3.5. Payables Finance

Definition

Payables Finance provides a supplier with the option of receiving the discounted value of an invoice prior to its actual due date or of an account payable due to be paid by a buyer to the supplier at a future date.

Synonyms

Supplier Finance, Approved Payables Finance, Confirming, Confirmed Payables, Reverse Factoring, Supplier Payments, and Buyer-Led Supply Chain Finance or just Supply Chain Finance (when inappropriately applied as an individual 'technique' rather than a holistic category)

Distinctive features

The buyer identifies an invoice(s) or account(s) payable (on its books) for which it has given an unconditional, irrevocable commitment to pay, and the supplier has the option to sell the receivable(s) (i.e. the counterpart of the buyer's payable on its own books) and receive an early, discounted payment from the finance provider. The technique is 'Buyer-Centric' in that the buyer will typically arrange a payables finance program in favour of its suppliers.

The finance provider relies on the creditworthiness of the buyer and typically grants the financing 'without recourse' to the supplier. Such 'without recourse' relates to the credit risk or risk of non-payment by the buyer of the invoice or account payable. It is common that certain elements of recourse are retained against the supplier, such as relates to commercial disputes and breaches of representations and warranties.

The buyer will pay the principal amount owed at the invoice maturity/due date or at another agreed upon due date directly to the finance provider.

The buyer acting as the 'anchor party' or programme arranger will have previously established an approved payables programme with a single or multiple finance provider(s) for the benefit of its (designated) suppliers. Whilst Payables Finance is often arranged by large corporate buyers and their finance provider, it can also be applied to non-investment grade and medium-sized buyers.

Parties

The parties to the financing are the supplier and the finance provider. The buyer, although it may be referred to as the 'anchor party' and facilitates/ helps to make available the financing for the benefit of its supply chain, is not a party to the financing.

The buyer unconditionally approves the payment of the invoices or accounts payable at an agreed upon maturity/due date.

This approval will take the form of an undertaking to make payment of the invoice or accounts payables included in the programme.

Contractual relationships and documentation

- A service agreement is entered into between the finance provider and buyer.
- This will contain an undertaking issued by the buyer agreeing to pay 'approved for payment' invoices and accounts payable.
- Receivables Purchase Agreement (RPA) between the supplier and the finance provider under which the supplier provides the finance provider with an assignment of rights (or transfer of title or the equivalent) to the asset(s) being financed, according to the jurisdiction in question.

Security

A security interest is perfected by means of an assignment of rights to the accounts payable (i.e. of the receivables held on the books of the supplier to the buyer) and will be subject to the applicable jurisdictionally specific rules.

Risks and risk mitigation

- Default by the buyer, mitigated by careful risk assessment and monitoring
- Supplier dilutions handled by credit notes and offsets against invoices due for payment, mitigated by the 'approved for payment' undertaking given by the buyer
- Operational risks resulting from multiple operational requirements to perfect ownership etc., mitigated by automation
- KYC/AML, handled during the on-boarding procedures and subsequent post transaction reviews
- Risk of double financing, mitigated by KYC and perfection of ownership of the receivable as per relevant jurisdictional requirements
- Pre-existing security arrangements, mitigated by waivers or their removal and completing perfection requirements
- Lack of corporate or signing officer authority, mitigated by legal due diligence

Transaction illustration

- The buyer will have usually established a Payables Finance programme with the finance provider(s) for the benefit of all or a sub-set of its suppliers.
- The suppliers and finance provider(s) interact in relation to the provision of finance and on-boarding procedures including KYC/AML.
- The key 'trigger' for the provision of finance is the unconditional approval of the invoice or account payable for payment by the buyer; this may be initiated through the creation of an approved payment instruction from the buyer to the finance provider or evidence of approval of the invoice.

- '100%' financing is the norm less a financing discount. The process may be manual, semi-manual or automated and a technology platform is often a central feature.
- Electronic invoicing may play a vital role since it will usually accelerate invoice approval and the ability for the supplier to promptly discount the invoice/receivable.
- The supplier has the option to hold the receivable to maturity and receive full payment at maturity or offer the receivable for sale for early payment at a discount.

Benefits

For buyer

- Improved payment and commercial terms
- Liquidity optimization
- Supply chain stability
- Potentially improved operating processes through automation

For supplier

- Finance raised against a strong credit rating with lower implied cost of funding than would have been obtained on its own.
- Working capital optimization and improved cash flow forecasting and flexibility
- Alternative source of funding with reduced use of credit availability from its traditional banking sources

For finance provider

- High quality transaction-based short term finance
- Risk is based on the credit of a prime buyer
- Supports the business objectives of both trading parties

Asset distribution

May be a feature of such transactions or programmes and achieved through funded or unfunded risk participations, trade receivable securitization, syndications, or by means of credit insurance.

Variations

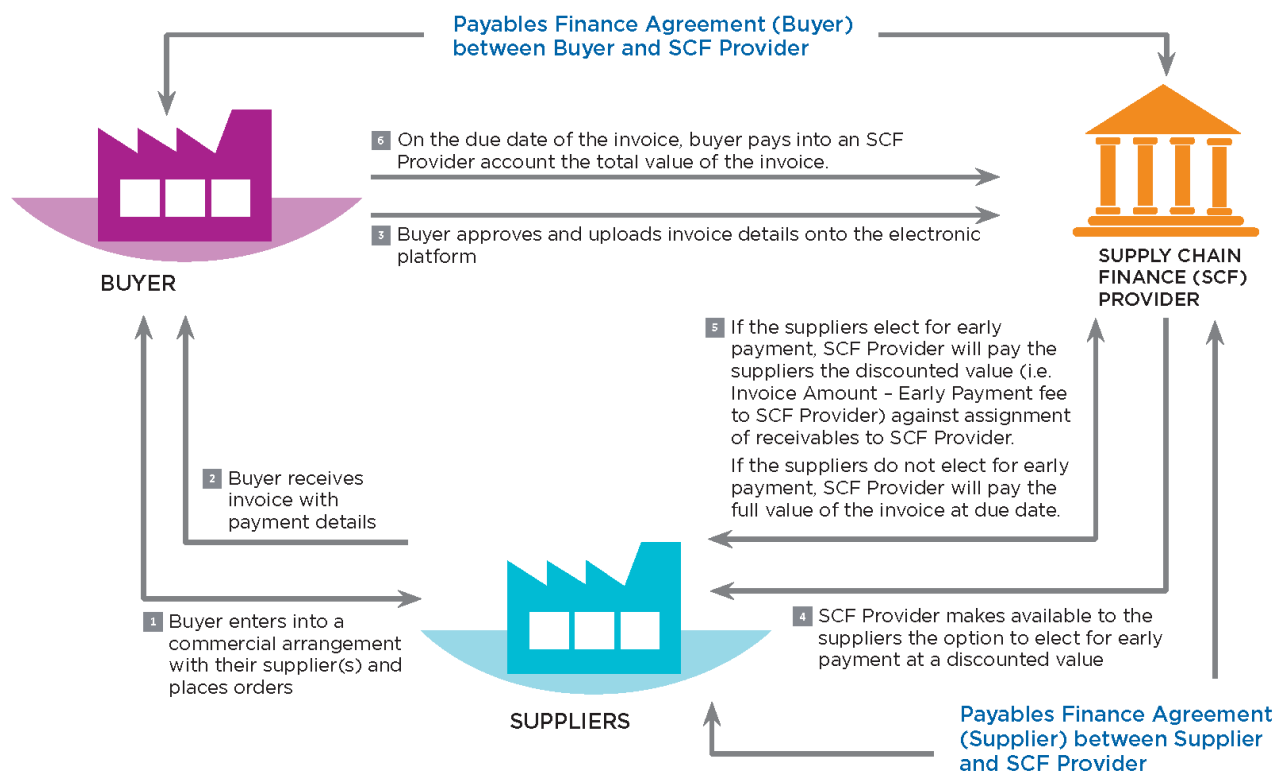
'Confirming' as applied in the Spanish national context may be considered as a variation with differing distinctive features, contractual relationships and operational procedures. Such facilities usually contain a binding commitment as to availability.

An additional variant is 'dynamic' discounting whereby the buyer may utilise its own funds to pay an invoice or account payable prior to the original due date.

Reverse Factoring can be used to refer to a softer variant whereby the buyer does not formalize its commitment to the finance provider to pay the invoices at maturity, but does provide information on which invoices it considers valid and correct. In this variant, the buyer may introduce his suppliers to the finance provider, but then the scheme is managed as a series of factoring or receivables purchase agreements between the finance provider and each of the suppliers.

Transaction Flow: Illustrative Only

Figure 7: Payables Finance



Source: Global SCF Forum

3.4. Loan and Advance-based SCF techniques

The following SCF techniques are principally based on loans or advances designed to finance the transaction in question principally based on receivables (usually taken as collateral or security rather than by way of Purchase), inventory, support for distributors, and work-in-progress by suppliers prior to shipment.

3.4.1. Loans or advances against receivables

Definition

A loan or credit line secured or made available on the promise of funds generated from current or future trade receivables.

Synonyms

Receivables Lending, Trade Receivables Loans.

Distinctive features

Such loans are only made where the Supplier (the borrower) has, or will acquire through use of the loan monies, receivables arising from its business activities as a supplier of goods or services. Where the relevant receivables exist at the time the loan is made, such a loan may be considered as a type of secured loan collateralised by the Receivables. Where the loan is advanced on a promise or expectation of such Receivables arising at a future date, the loan is akin to working capital finance with the comfort of potential future collateral.

Varying degrees of security are possible. In some case, the Finance Provider may not take security at all but use the existence of the Receivables as either informal comfort or as notionally satisfying financial covenants or tests imposed on the Supplier.

Parties

The Finance Provider and the Supplier

Contractual relationships and documentation

A loan agreement or applicable terms and conditions between the Finance Provider and the Supplier. This may contain financial covenants or tests which are capable of being satisfied by the existence of the Receivables.

Where security has been agreed, a suitable security agreement will also exist under which the Receivables are appropriately charged, assigned or pledged, The precise nature of this security agreement will depend on a number of factors such as the nature of the Receivables, the jurisdictions involved and the commercial arrangement between the parties.

Security

A security agreement with appropriate terms and conditions.

Risks and risk mitigation

Creditworthiness of the Supplier especially where no formal security is taken over the Receivables, mitigated by due diligence on the Supplier.

Performance risk on the Supplier which may lead to failure to create Receivables, mitigated by due diligence on the Supplier.

Bans on Assignment, mitigated by due diligence and representations and warranties from the Supplier.

Dilutions, mitigated by due diligence and presentations and warranties from the Supplier.

Timeliness of creation of the Receivables, mitigated by due diligence on the Supplier.

Failure to create or perfect effective security, mitigated by legal due diligence.

Transaction illustration

The loan agreement will be issued in accordance with the Finance Provider's usual procedures and the appropriate security as applicable perfected in the usual manner.

Monitoring of the Receivables may or may not be undertaken.

Benefits

For Suppliers

- Enables access to financing on potentially better terms than without the use of Receivables and potentially earlier than would otherwise be the case

For Finance Providers

- Security of the Receivables
- Closer link to trade finance which may assist during a sovereign restructuring or moratorium

Asset distribution

Syndication, Sub-Participation.

3.4.2. Distributor Finance

Definition

Distributor Finance is an SCF technique, in which the finance provider provides loan funding for distributors (or buyers) of a major exporter or manufacturer for an agreed period, to cover the holding of the goods and the realization of funds from receivables following the sale of goods to a retailer or end-customer.

Synonyms

Channel Finance, Floor Plan Finance

Distinctive features

The funding facility is typically offered to the distributor (or buyers of a major exporter/manufacturer) in the form of a direct loan. These facilities are, typically, aimed at funding inventory and receivables. The underlying need of the distributor that is being fulfilled, is for small/local distributors to obtain financing – especially if they have limited access to other sources of funding, or if there is a commercially material timing gap between the credit terms of the major exporter/manufacturer selling to them, and the date by which the goods can be sold and receivables converted to cash.

Under this technique, the finance provider offers finance to the distributor (without recourse to the major exporter/manufacturer). The higher risk is mitigated by ensuring that the major exporter/manufacturer is closely engaged and has a certain degree of exposure to motivate successful conclusion of the transaction. This could be in the form of a stop-supply letter or a buy-back guarantee or a risk sharing arrangement. And hence the distributor could benefit from better loan pricing than what would have been the case had the distributor sourced financing on the strength of its own balance sheet.

Parties

The parties to distributor finance are large exporters/manufacturers acting as suppliers (sometimes called ‘anchor parties’) their distributors or buyers, and finance providers.

Contractual relationships and documentation

The contractual financing agreement is typically between the distributor and the finance provider. In-addition, there is typically a master financing agreement between the major exporter/manufacturer and the finance provider (that would contain the terms of engagement, risk-sharing arrangements, or operating model) between the three parties – i.e., the major exporter/manufacturer, the distributor (or buyer) and the finance provider.

Security

Since this is a direct loan to the distributor, the security/collateral is inventory, and receivables as agreed between the distributor and finance provider. Additional risk mitigants are the engagement of the major exporter/manufacturer. This could take the form of a stop-supply letter or a buy-back guarantee, or a risk sharing arrangement.

Risks and risk mitigation

In addition to generic financing-related risks, there are a series of risks specific to Distributor Finance. They are:

- Default by the distributor, including credit and political risk, mitigated by careful risk assessment and monitoring.
- Diversion of funds: Distributor using funds for other reasons (such as growth of business) rather than paying back the loan – mitigated by the large exporter/manufacturer supporting the distributor finance programme by providing information about the repayment schedule of the distributor and/or agreement for risk sharing.
- Operational risks especially the requirement to coordinate many components, mitigated by automation or controls
- Pre-existing security arrangements or bans on assignments, mitigated by waivers or their removal or by taking additional security
- Fraud by the distributor or by collusion, mitigated by monitoring and verification
- Lack of authority, mitigated by legal due diligence

All of the above risk mitigation would be augmented by a robust audit process (or field-surveys/visits to the distributor's business).

Transaction illustration

The process may be manual, semi-manual or automated by a technology platform provided by the finance provider. Global finance providers offer Distributor Finance programmes via web-based platform solutions tailored for their multinational clients. These platforms are accessed by suppliers and distributors for purchase order approvals, invoice confirmations, handling and tracking of payments. Suppliers can upload invoices which are purchased or discounted by the finance provider in their favour.

Benefits

For the distributor (or buyers) of a large exporter/manufacturer

- Working capital optimization
- Increased credit for distributors (esp., distributors with limited credit availability from the traditional banking sources)

- Credit for distributors at a lower cost than what would be available from traditional banking sources.

For the larger exporter/manufacture:

- Potentially allows for generating sales growth (by providing additional finance to increase product availability through distributors, finance inventory and support prompt delivery of products, especially in emerging and frontier markets)

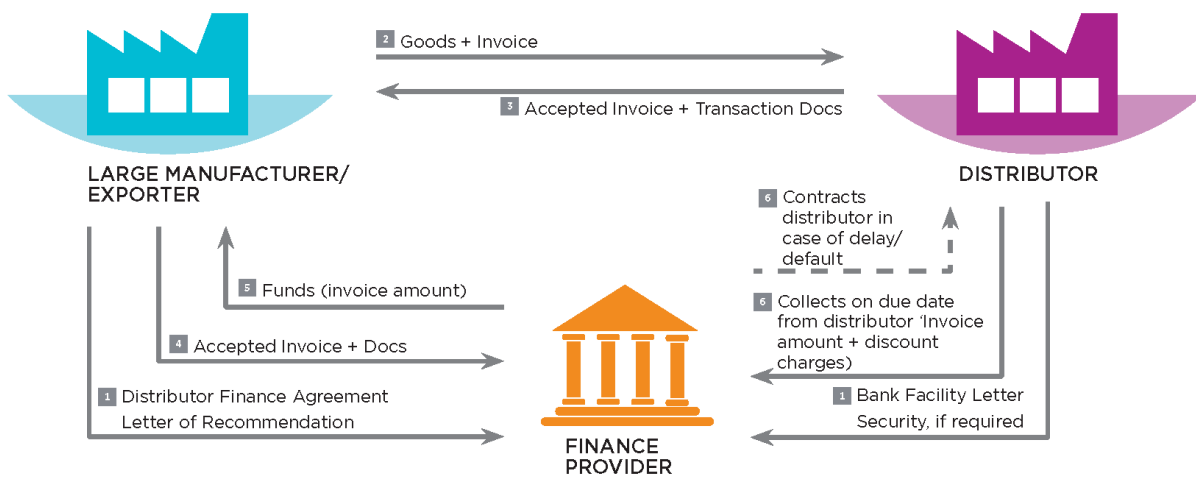
Potentially allows the major exporter/manufacture to provide extended credit terms to the Distributor.

Asset distribution

Not applicable.

Transaction Flow: Illustrative Only

Figure 8: Distributor Finance



Step 1

- Negotiation of Distributor Finance program specifications (incl. distribution selection criteria, etc.)
- Execute of documentation (Distributor Finance agreement, incl. Stop-Supply letter)
- Roll-out distributors (get security document, for bilateral lending, issue bank facility letter, etc.)

Key Points in Distributor Finance

- Identified distributors getting access to financing at better terms
- Financing is linked to purchases made by the distributor from a specific Exporter (also known as Anchor)
- Finance provider establishes credit limits on these distributors, based on agreement with Anchor
- "no recourse" to the Exporter

Source: Global SCF Forum

3.4.3. Inventory Finance

Definition

Inventory Finance is financing provided to a client for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest and exercises a measure of control.

Synonyms

Warehouse Finance, Tolling Finance, Floor Plan Finance, Inventory Sale and Repurchase

Distinctive features

Inventory Finance may be used by any party in a supply chain acting as supplier and/or a buyer. The incidence of the financing need will depend on the structure and timing of the manufacturing and delivery cycles deployed along a particular supply chain. Inventory financing is typically confined to qualifying marketable commodities (e.g., raw materials such as minerals, metals and agricultural products) for which a value can be readily ascertained, and to finished goods or work in progress where a potential buyer may have already been identified and for which a contract to purchase or a purchase order may have already been issued; the requirement to identify a buyer or have a contract or purchase order in place recognises the potential lack of marketability of finished goods or work in progress.

Inventory Finance is usually arranged as a loan or advance against the inventory, although variations described below provide alternatives.

For the finance of finished goods and work in progress, reference is made to the definition of Purchase Order Finance (see separate SCF Technique Definition). The finance of goods in transit such as on-board a vessel or by air may also be included within Inventory Finance.

The tenor of transactions will be short term and advances are usually made under an uncommitted facility with an annual review.

Parties

A typical Inventory Finance transaction involves two main parties: the borrower (which could be a supplier or buyer, as noted earlier) and the finance provider. A third party warehouse may also be involved, which could be certified or recognized by governmental or trade bodies, and in which the existence and condition of stored inventory is continuously monitored by a reputable third party and/or by the finance provider itself. The goods may also be stored in a location under the direct control of the finance provider or on the borrower's own premises.

Contractual relationships and documentation

The borrower and finance provider enter into a financing agreement and a security agreement covering title to the underlying inventory and covering warehouse receipts (evidencing storage of the goods in the warehouse) where used. Ancillary agreements with a warehouse operator and third party collateral management or inspection agents may also be required.

Security

The finance provider obtains title over the goods for the duration of the transaction and only releases title when the loan is repaid or the inventory is repurchased. Title will be obtained by means of an assignment of rights (or transfer of title such as a Pledge) relevant to the location of the inventory and the jurisdiction. In the case of goods in transit this may take the form of bills of lading, often consigned to the finance provider. For inventory in storage, warehouse receipts are a common security mechanism. Other security perfection techniques may be employed.

Risks and risk mitigation

For the Borrower

- Difficulties in disposing of the inventory in a timely fashion in order to generate repayment
- Quality or damage to the Inventory mitigated by inspections and insurance.
- Ongoing business risks impacting the ability to repay

For the finance provider

- An ability to re-possess and dispose of the relevant inventory in the event of the borrower becoming illiquid or insolvent.
- The location of the inventory, for example, stored within an independent warehouse, or if on the Borrower's premises stored in a way that the goods can be easily identified and carefully controlled.
- The intrinsic value and saleability of the inventory remains a continuing risk factor during the life of the transaction and this is influenced by the condition of the inventory, its importance to a critical manufacturing or sales process, market conditions, and logistics aspects in the event of the need to exercise the right to repossess and sell.
- It is common to advance only a percentage of the value of the inventory so as to establish a margin of protection. For a situation where a number of lines of inventory are financed, a 'borrowing base' may be established whereby an ongoing collateral pool is established against which a maximum advance is computed.
- Credit analytics is applied to the borrower in the normal way to ensure on-going viability and cash generation ability especially by means of a firm take-out by means of sale to a reputable buyer, and to establish that dependence on realising security is minimised.

- There is a risk of the borrower double-pledging the inventory which can be partially mitigated by the financing provider's due diligence and choice of warehouse provider.

Transaction illustration

Procedures are required for the perfection of the security interest; the possession and control over the inventory being financed; the continuous monitoring of the condition and value of the inventory; and the calculation of margin and borrowing base as applicable. If the value of the inventory has been hedged in the futures market this also requires continuous monitoring.

Benefits

The main benefit of this form of SCF is the ability of the client to obtain funding based on the security of easily realizable assets and bridging the working capital gap between the point of procurement and the achievement of sales.

For the finance provider it provides a short term business opportunity based on an expected source of repayment and readily realizable security.

Asset distribution

Such financings are typically offered by one finance provider although in the event of very large amounts distribution techniques might be used.

Variations

Purchase Order Finance is mentioned above and is the subject of a separately defined SCF technique. Inventory Finance for goods in transit may be provided under classical trade finance mechanisms such as letters of credit.

A variation of Inventory Finance is based on 'tolling', whereby finance is provided to allow raw materials or components to be submitted to a third party refining or manufacturing process prior to onward sale.

A variation of Inventory Finance is based on a borrowing base, whereby a maximum level of finance is made available against a calculated market value of goods (which could be of more than one type) being financed less a margin which will vary according to the quantity or quality of the goods.

Although Inventory Finance is normally provided as a loan or advance against assets remaining on the client's balance sheet and with recourse, in selected cases a 'true-sale' may occur and the inventory may be removed from the (original) inventory owner's balance sheet. Under such an arrangement the finance provider enters into a 'sale and repurchase' (repo) agreement for the goods being financed.

A further model for inventory Finance may be offered by means of Floor Plan Finance whereby finished stock is placed in the hands of a distributor by a manufacturer and financed by a finance provider.

3.4.4. Pre-shipment finance

Definition

Pre-shipment Finance is a form of trade loan provided by a finance provider to a supplier for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods, which are then shipped to a buyer. A Purchase Order from a reputable buyer in favour of the supplier is often a key ingredient in motivating the finance in addition to the ability of the supplier to perform under the contract with the buyer.

Synonyms

Purchase Order Finance, Packing credit/finance, Contract Monetization

Distinctive features

Pre-shipment Financing covers the working-capital needs of the supplier, including procurement of raw materials, labour, packing costs, and other pre-shipment expenses in order to allow the supplier to fulfil delivery to its buyer(s). Pre-shipment Finance can be provided in any number of structural variations. Financing can be provided against Purchase Orders (confirmed by buyer or unconfirmed), demand forecasts or underlying commercial contracts.

Although Purchase Order (P.O.) Finance is most commonly provided in an open account situation, other sources of repayment from the buyer may also be the proceeds of a Letter of Credit or a Bank Payment Obligation. Pre shipment finance can be provided on a programmatic basis, covering a series of P.O.'s (typically for smaller suppliers) or on a transactional basis (typically for larger suppliers).

The finance provider is likely to advance a certain percentage of the value of the order, potentially disbursed in stages as the order is fulfilled. Maturity dates for the financing are established between the supplier and finance provider and are often tied to the ultimate date at which the buyer will make payment.

Upon shipment, the finance provider may offer post-shipment financing using techniques such as Receivables Finance, or Payables Finance to cover the period from shipment and the raising of the invoice until the final payment by the buyer.

Parties

A typical Pre-shipment Finance transaction involves two main parties: the supplier and the finance provider. The buyer is not a party to the financing transaction but depending on the contractual arrangement with the finance provider, the source of the repayment can be the

buyer or the seller. The history of the commercial relationship is a factor in determining the probability of repayment.

Contractual relationships and documentation

The supplier and finance provider enter into a financing agreement detailing terms of the financing structure. This may but will not always include a security agreement covering assignment of rights (transfer of title or a pledge) to the underlying work in progress and finished goods prior to shipment. The finance provider may require a security interest in the receivables following shipment. The supplier may grant inspection rights to the finance provider or its nominated agent for the period of manufacture or conversion.

Security

The supplier and finance provider enter into a financing agreement detailing terms of the financing structure. This may but will not always include a security agreement covering assignment of rights (transfer of title or a pledge) to the underlying work in progress and finished goods prior to shipment. The finance provider may require a security interest in the receivables following shipment. The supplier may grant inspection rights to the finance provider or its nominated agent for the period of manufacture or conversion.

Risks and risk mitigation

The primary risk is the performance risk of the supplier as repayment is dependent on the supplier's performance ability and reputation. Specifically the supplier's ability to perform against the purchase order, and the buyer's ability and willingness to pay on delivery of the goods are the key risks.

Transaction illustration

The finance provider will work with the supplier to establish a transaction structure, and will undertake credit assessment of both the buyer and the supplier. It will monitor the issuance of purchase orders by the buyer and provide finance to the supplier in stages against materials purchases, work-in-progress and invoiced amounts. All subsequent actions and events taken by the supplier once the order is received will be closely controlled and monitored in relation to fulfillment of the order. The finance may be transformed into a form of receivables finance once the buyer has accepted shipment.

Benefits

The benefit to the supplier of this form of finance is the ability of the supplier to obtain finance for the fulfilment of an order from a buyer, in circumstances where it is possible that other forms of finance are financially less attractive or not available.

The benefit for the finance provider is that rather than a clean working capital loan there is some evidence of a trading relationship between the supplier and its buyer(s) required prior to drawdown.

Asset distribution

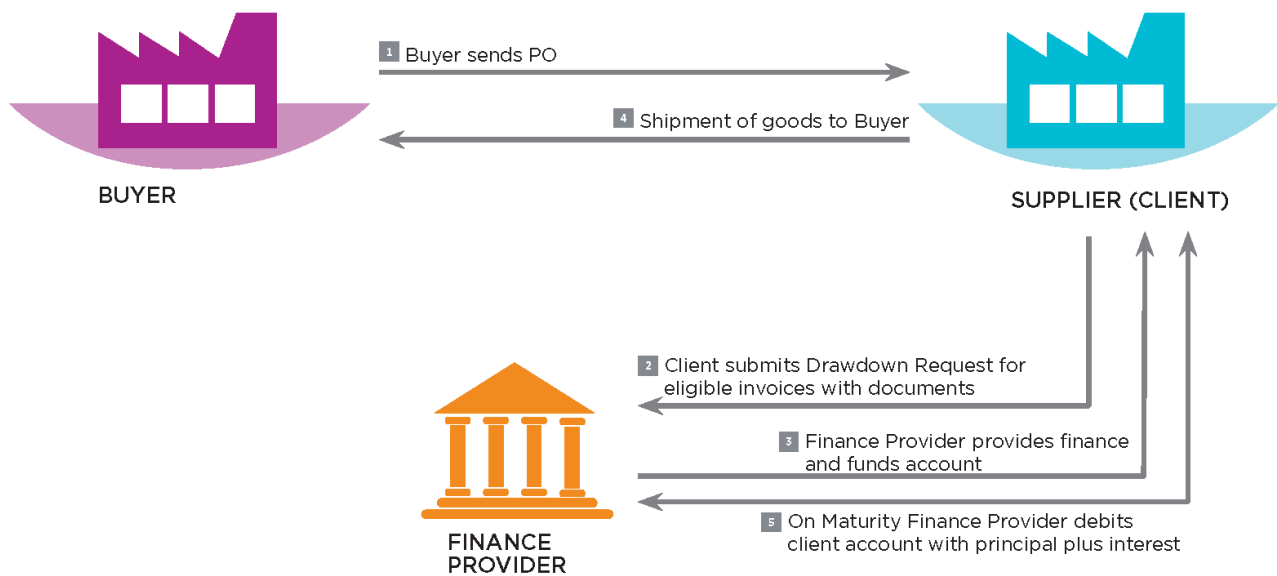
Such financings are typically offered by one provider although in the event of very large amounts distribution techniques might be used.

Variations

There are many variations on the technique of pre-shipment finance, such as finance undertaken against a general contractual framework established by a buyer with a supplier, and finance extended against a Letter of Credit established by the buyer in favour of the supplier (so-called red and green clause letters of credit).

Transaction Flow: Illustrative Only

Figure 9: Pre-shipment finance



Source: Global SCF Forum

3.5. Enabling Framework for SCF: Bank Payment Obligation (BPO)

The BPO as described below is not strictly an SCF Technique, but is an ‘enabling framework’ for the provision of various forms of SCF and other services.

In describing the parties to a BPO, the definition refers to 'Banks' instead of finance providers as used in other SCF Technique Definitions, due to the fact that the Uniform Rules for Bank Payment Obligations (URBPO) applies only to recognized Banks and the required matching application is only accessible by banks at this time. Also, the URBPO uses the expression Sellers instead of Suppliers, which is used throughout other SCF Technique Definitions.

Definition

The Bank Payment Obligation (BPO) means an irrevocable and independent undertaking of an Obligor Bank to pay or incur a deferred payment obligation and pay at maturity a specified amount to a Recipient Bank following Submission of all Data Sets required by an Established Baseline and which have resulted in a Data Match or an acceptance of a Data Mismatch. (URBPO, ICC Publ. No. 750E).

Synonyms

None.

Distinctive features

The BPO is a new inter-bank instrument to secure payments against successful matching of trade data. It combines the characteristics and processing of a documentary credit with open-account trading, issued for sight payments as well as for deferred payment periods.

Instead of physical documents presented to banks, trade data is electronically submitted by the buyer and the seller to their banks and automatically matched on a special platform called a Transaction Matching Application (TMA) using the standard format ISO20022 TSMT. The matching takes place via the TMA, against an established 'Baseline'. The Baseline identifies the data elements agreed between the buyer and the seller as the basis for triggering payment and/or financing. These elements, submitted by the buyer and the seller, must match to reflect that the terms of the underlying contract have been met: a process which is facilitated through a Transaction Matching Application. Only banks have access to the TMA.

BPOs with a deferred payment date can serve as collateral for post-shipment finance in favour of the seller. Further finance models, such as pre-shipment/purchase order finance, discount of undertaking by the Obligor bank in favour of the Recipient Bank or extension of payment terms by the Obligor Bank for the buyer are conceivable. Therefore, the BPO is seen as an enabler for partner bank-based SCF solutions.

The Baseline is created using data extracted from a purchase order, as agreed between buyer and seller, enabling Purchase Order Financing.

Upon successful match of data sets (extracted from shipping documents) against the established Baseline, the BPO becomes due and the irrevocable undertaking of the Obligor Bank offers the opportunity for Post-Shipment Finance with the participation of two banks in a 'four corner model'.

Parties

The parties to the BPO are the buyer, Obligor Bank (buyer's bank), Seller (Supplier) and Recipient Bank (seller's Bank). For risk sharing purposes, more than one Obligor Bank can participate in a transaction.

Contractual relationships and documentation

Obligor and Recipient Banks rely on the ICC Uniform Rules for Bank Payment Obligations (URBPO), which came into force on 1st July 2013, and the contractual agreement of the Transaction Matching Application, such as SWIFT's Trade Services Utility.

The relationship of the buyer and seller needs to be agreed bilaterally with their own Banks (Obligor and Recipient Bank). They contain procedures for providing and exchanging data between the corporate and the bank, including means of data transmission and communication, the timeframes to be used and agreements in the case of failure or delays by the parties regarding the TMA service.

Rights and obligations between buyer and seller are agreed bilaterally. A finance agreement outside the BPO transaction between the finance provider (Recipient or Obligor Bank) and the seller or buyer needs to be separately established.

Security

The BPO is issued against buyer's credit limit and serves as security for Post- Shipment Finance.

The established Baseline serves as security for Pre-Shipment Finance.

Risks and risk mitigation

Post- shipment finance BPO:

Buyer risk:

- Default by the buyer, mitigated by irrevocable payment undertaking of the Obligor Bank and the credit-rating of the buyer

Seller risk:

- Seller dilutions mitigated by the match of data sets against the established Baseline.
- Non-recourse to the seller, mitigated by the BPO

Pre- shipment finance BPO:

Buyer risk:

- Payment risk by the buyer, mitigated by buyer's instruction to issue a BPO.

Seller risk:

- Performance risk by the seller, mitigated by trusted relationship between buyer and seller and KYC/AML.

In general:

- KYC/AML, covered by on-boarding procedures by involved banks in the four corner model
- Risk of double financing, mitigated by KYC
- Pre-existing security arrangements, mitigated by waivers or their removal.
- Option to mitigate risk through insurance cover, including export credit insurance

Transaction illustration

The BPO is based on an automatic matching of electronic trade data via a specific matching platform (TMA) being accessed only by banks.

1. Buyer and seller agree upon payment terms by BPO
2. Buyer and seller agree trade data (from purchase order) via their banks for the establishment of the Baseline (on the TMA)
3. Data is extracted from the PO to create the Baseline
=> Possible Pre-Shipment Finance BPO
4. After shipment the seller submits all data elements required by the established Baseline under each data set (Commercial, Transport, Insurance, Certificates) as agreed, via its bank to the TMA. Upon successful data match the BPO becomes operative.
=> Possible Post-Shipment Finance BPO

Upon maturity, payment is effected outside the matching engine from Obligor Bank to Recipient Bank and transmitted to the seller.

Benefits

- Working capital optimization for buyer and seller, including acceleration of settlement timeframes for the seller
- Finance of BPO raised against a strong credit rating with lower implied cost of funding for the seller
- Potentially improved payment and commercial terms for the buyer and the seller
- Finance and liquidity availability for sellers with limited credit availability from traditional banking sources
- Supply chain stability

- Potentially positive automated process impact, including objectivity of decision-making based on data

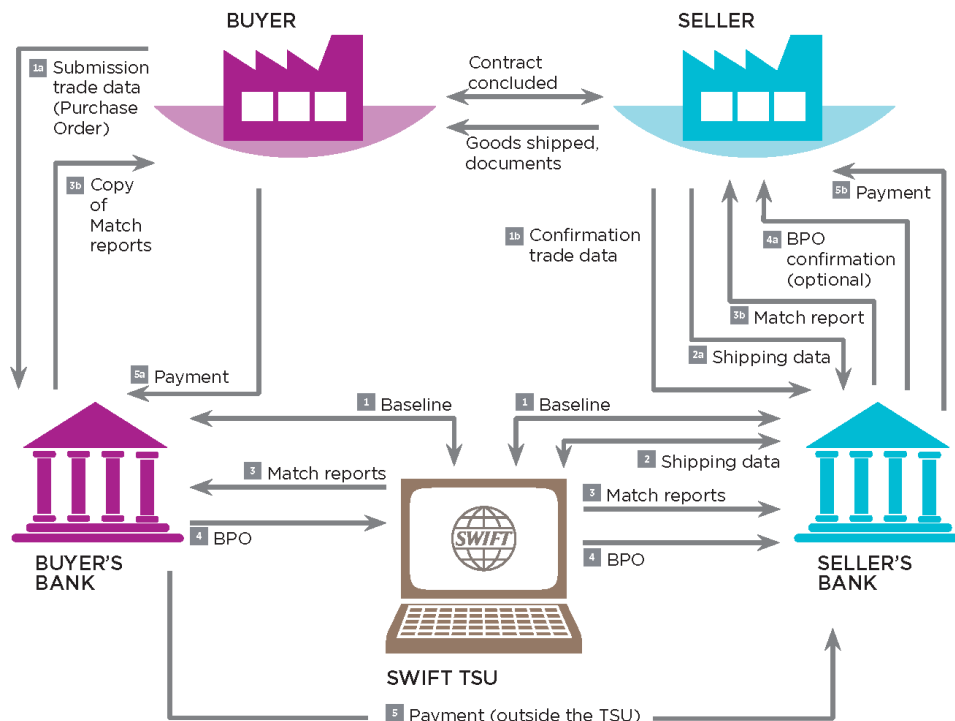
Four corner model facilitates the on-boarding process of buyers and sellers and gives trade banks an extended global reach based on interbank relationships.

Asset distribution

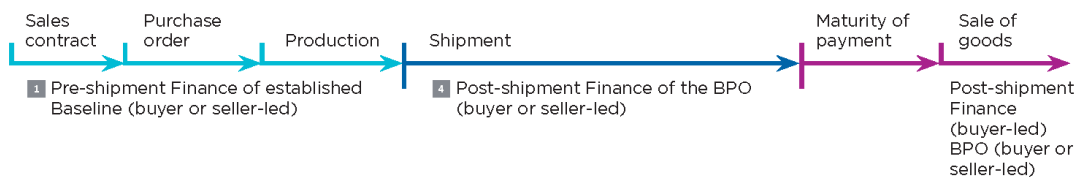
Possible between banks

Transaction Flow: Illustrative Only

Figure 10: Enabling Framework for SCF: Bank Payment Obligation (BPO)



Bank Payment Obligation as an enabling framework for supply chain finance



Source: Global SCF Forum

3.6. Synopsis of SCF Techniques

The following table is provided as a simplified summary of the SCF techniques to provide a quick and convenient overview. It categorizes all techniques described in this document against characteristics the reader may find useful when judging which technique may be most appropriate for the respective individual need.

Being an enabling framework for various financing forms rather than a financing technique in itself, the BPO is not listed in this overview.

Within the characteristics offered, the techniques are classified along a scale ranging from 'never' to 'always', including the option of not being applicable:

Rating	N.A.	Never	Sometimes	Often	Usually	Always
Probability	0%	0%	25%	50%	75%	100%

The underlying reason for such classification may result from commercial, legal, operational, technical or any other circumstances that are not further elaborated in this section, as its primary intention is to condense the detailed information provided in the preceding section.

The table should hence be used as a primary indicator, providing a first orientation and direction to the reader. In order to validate whether a specific SCF technique applies to a respective need, it is recommended to read the detailed technique description or further material quoted in this document and thereafter to seek expert advice as appropriate.

	Receivables Discounting	Forfaiting	Factoring	Payables Finance	Loans against receivables	Distributor Finance	Inventory Finance	Pre-Shipment Finance
Large Volume	Usually	Sometimes	Usually	Usually	Often	Often	Often	Often
Large Value	Usually	Usually	Sometimes	Sometimes	Often	Often	Often	Often
Low Volume	Often	Usually	Never	Often	Usually	Often	Often	Often
Low Value	Often	Sometimes	Usually	Sometimes	Usually	Often	Often	Often
Large Corporate Obligor	Often	Sometimes	Often	Always	N.A.	Sometimes	Sometimes	Sometimes
Large Corporate Creditor	Usually	Usually	Sometimes	Sometimes	Sometimes	Always	N.A.	N.A.
SME Obligor	Rarely	Sometimes	Sometimes	Never	N.A.	Often	Often	Usually
SME Creditor	Sometimes	Sometimes	Usually	Often	Usually	Never	N.A.	N.A.
Buyer-centric	Never	Sometimes	Never	Always	Never	Never	Often	N.A.
Seller-centric	Always	Usually	Always	Never	Always	Always	Often	Always
100% Financing	Often	Usually	Sometimes	Usually	Sometimes	Sometimes	Sometimes	Sometimes
Committed Facility	Often	Sometimes	Often	Sometimes	Often	Often	Sometimes	Often
3rd Party Distribution	Often	Often	Sometimes	Sometimes	N.A.	Sometimes	Sometimes	Sometimes
Off-Balance Sheet	Usually	Always	Usually	Usually	Never	Sometimes	Sometimes	Never
Credit-enhanced / insured	Sometimes	Often	Often	Sometimes	Sometimes	Sometimes	Usually	Sometimes
Loan-based	Never	Sometimes	Never	Never	Always	Usually	Usually	Always
Purchase-based	Always	Usually	Always	Always	Never	Sometimes	Sometimes	Never
Disclosed	Often	Always	Usually	Always	Often	Always	N.A.	N.A.
Non-disclosed	Often	Never	Sometimes	Never	Often	Never	N.A.	N.A.
With full recourse	Often	Sometimes	Usually	Never	Always	Never	Usually	Usually
With limited recourse	Often	Usually	Often	Usually	Never	Always	Sometimes	Never

3.7. Risk Distribution techniques used by Finance Providers

- Credit Insurance
- Correspondent or Export/Import Factoring
- Funded Risk Participation
- Unfunded Risk Participation
- Trade Receivable Securitization
- Syndications
- Multilateral or Export Credit Agency support
- SCF intermediation platforms and services

3.8. Supply Chain Finance: Client Centric View

Following the presentation of individual definitions for the SCF techniques in Section 3.5 and 3.6, the table below offers a categorization of SCF techniques from a client-centric perspective with the objective of further assisting readers in selecting appropriate SCF techniques to meet specific requirements.

The categorization of SCF techniques below, still within the Master Definition of SCF is based on a high level view of client's supply chain. The approach is illustrated primarily because it is reflective of the solutions required by clients in their activities and comprises the Procurement, Conversion/Inventory and Sales/Distribution cycles.

1. Procurement Cycle usually Buyer-Centric
 - Payables Finance and its variations
 - Dynamic Discounting (not the subject of an SCF technique definition: see Glossary)
2. Conversion Cycle (Inventory and Production)- Supplier and Buyer-Centric
 - Pre-shipment Finance and its variations:
 - Inventory Finance and its variations
3. Sales/Distribution Cycle - usually Supplier Centric
 - Receivables Discounting
 - Factoring and its variations
 - Forfaiting
 - Loans or advances against Receivables
 - Distributor Finance

Part 4: Glossary

This Glossary is divided into three sections covering the main terms and expressions used in the document. The sections are:

1. SCF techniques and related expressions and categories
2. Parties engaged in SCF transactions
3. Components and subordinate expressions

Each section is organised alphabetically.

4.1. SCF techniques and related expressions and categories

- **Approved Payables Finance:** this is a synonym for Payables Finance, a defined SCF technique herein.
- **Asset based lending:** this is not treated herein as an SCF technique but as a ‘super-category’ or umbrella term used by Finance Providers to describe their business lines, organisational units and activities. Asset- Based Lending usually refers to a range of finance products secured by receivables, inventories and fixed assets.
- **Bank Payment Obligation (BPO):** A Bank Payment Obligation (BPO) means an irrevocable and independent undertaking of an Obligor Bank to pay or incur a deferred payment obligation and pay at maturity a specified amount to a Recipient Bank following Submission of all Data Sets required by an Established Baseline and which have resulted in a Data Match or an acceptance of a Data Mismatch. (URBPO, ICC Publ. No. 750E). The BPO is not strictly an SCF Technique, but is an ‘enabling framework’ for the provision of various forms of SCF and other services.
- **Bill Discounting:** this is a synonym for Forfaiting, a defined SCF technique herein, but may also be used in the context of the discounting of any bill of exchange for example arising under a letter of credit.
- **Buyer Credit:** financing that is put in place by a Buyer to purchase goods or services or provided for its benefit by a third party such as an ECA. Contrast with a **Supplier Credit**. Buyer Credits may be incorporated into SCF transactions.
- **Buyer-led SCF:** this is a synonym for Payables Finance, a defined SCF technique herein.
- **Channel Finance:** this is a synonym for Distributor Finance, a defined SCF technique herein.
- **Commercial Finance:** This is not treated herein as an SCF technique but as a ‘super-category’ or umbrella term used by Finance Providers to describe their business lines, organisational units and activities. Commercial Finance is usually used as a generic term for a range of asset-based finance services.
- **Commodity Finance:** This is not treated herein as an SCF technique but as a ‘super-category’ or umbrella term used by Finance Providers to describe their business lines, organisational units and activities. Commodity Finance is oriented towards the

specialised market segment of commodity traders and processors and combines the use of SCF and a variety of other, often customised, financial services to meet their needs.

- **Confidential Factoring:** A variation of factoring defined herein, in which the factored invoice or receivable is not subject to a notice of assignment and the buyer, is not aware of the factoring agreement between the supplier and the finance provider.
- **Confirming:** this is a variation of Payables Finance, typically provided in Spain under a local structure
- **Confirmed Payables:** this is a synonym for Payables Finance, a defined SCF technique herein. Confirming is also used in Spain to describe a variation of Supplier Finance based on local practices.
- **Contract Monetization:** this is a synonym for Pre-shipment Finance, a defined SCF technique herein. Contract monetization is used more widely as a financial technique, outside the SCF and trade environment.
- **Discounting of Promissory Notes:** this is a synonym for Forfaiting, a defined SCF technique herein.
- **Distributor Finance:** this is a defined SCF technique herein where the Finance Provider provides loan funding for distributors (or buyers) of a major exporter or manufacturer for the period, to cover the holding of the goods till resale and the realization of funds from receivables following sale of goods to a retailer or end-customer.
- **Documentary Trade Finance:** a term that covers a large element of the traditional trade finance market relating to instruments such as Letters of Credit or Collections which are usually governed by rules published by the ICC (e.g. UCP 600 for Letters of Credit). Although not SCF techniques in their own right, these instruments can be incorporated into SCF transactions or used alongside SCF techniques.
- **Domestic Factoring:** a variation of Factoring defined herein, in which the buyer is situated in the same country as the Supplier. Country-specific rules or regulations may apply due to the domestic character of the transaction.
- **Dynamic Discounting:** this describes a number of methods through which early payment discounts on invoices awaiting payment are offered to suppliers. The service is dynamic in the sense that the earlier the payment the higher the discount.
- **Export Credit Agency (ECA) Finance:** a form of trade finance provided by ECAs, which provide guarantees, loans and credit insurance in order to promote exports by removing the risk and uncertainty of payments. ECA Finance maybe combined with SCF to enhance the risk profile of a transaction.
- **Export Factoring:** a variation of factoring defined herein, in which the assignor, based in the country of the factor, assigns or sells receivables due by debtors based in another country. It is also included in the definition of International Factoring.
- **Factoring:** this is a defined SCF technique herein as a form of Receivables Purchase, in which Suppliers sell all or part of their accounts receivable (invoices) to a Finance Provider (known as the 'Factor'). The Supplier obtains a discounted payment against the value of the receivables or invoices being purchased. A key differentiator of factoring is that usually the finance provider becomes responsible for managing the debtor portfolio and collecting the underlying receivables.

- **Financial Supply Chain Services:** This is not treated herein as an SCF technique but as a 'super-category' or umbrella term used by Finance Providers to describe their business lines, organisational units and activities. Financial Supply Chain Services include a range of services such as purchase order management and electronic invoicing, payments and cash management and supply chain finance.
- **Forfeiting:** this is a defined SCF technique herein as a form of Receivables Purchase, consisting of the purchase of future payment obligations usually represented by a negotiable or transferable financial instrument or claim at a discount or at face value in return for a financing charge.
- **Floor Plan Finance:** this is a synonym for Distributor Finance, a defined SCF technique herein, specifically relating to finance of vehicles and machinery placed for sale on the sales floor of a dealer.
- **Import Factoring:** a variation of factoring defined herein, in which an export receivable is managed and collected by an import factor based in the same country as the debtor. It is also included in the definition of International Factoring.
- **International Factoring:** a variation of factoring defined herein, in which the buyer (debtor) is situated in a different country from the supplier. Country-specific rules or regulations may apply due to the international character of the debt which could affect the relationship between the finance provider, the buyer and the supplier. For these reasons, often two Factors are involved, one in the buyer's country (known as the 'Import Factor') and one in the Supplier's country (known as the 'Export Factor'). The two Factors establish a contractual relationship to service the buyer and the supplier respectively (called the '**Two Factor System**'). Typically, the two factors use the established frameworks provided by either Factor Chain International (FCI) or International Factors Group (IFG).
- **Inventory Finance:** this is a defined SCF technique herein and is financing, in the form of loans, advances or other forms of credit facility provided for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest and exercises a measure of control.
- **Inventory Finance-repo:** this is a variation of Inventory Finance defined herein, whereby the finance provider enters into a sale and repurchase agreement for the goods being financed.
- **Inventory Finance- tolling:** this is a variation of Inventory Finance defined herein, whereby the finance is provided to allow raw materials or components to be submitted to a third party refining or manufacturing process prior to onward sale.
- **Inventory Finance-borrowing base:** this is a variation of Inventory Finance defined herein, whereby the amount of finance is made available against a calculated market value of the goods (which could be of more than one type) being financed less a margin which will vary according to the quantity or quality of the goods
- **Invoice Discounting:** this is a synonym for Receivables Purchase, a defined SCF technique herein.
- **Islamic Trade Finance:** this is trade finance which complies with Islamic (Shari'ah) law. Interest cannot be charged. Instead the finance is structured using discounts, sale/lease,

profit participation or repurchase agreements. It may be integrated into SCF transactions.

- **Loans or advances against receivables:** this is a form of Receivables Finance and is a defined SCF technique herein, being a loan or an advance made against the security of a pool of receivables or invoices.
- **Non-recourse factoring:** this is a variation of Factoring defined herein, in which the receivables to be financed are subject to a 'true sale', and the Finance Provider does not have recourse to the Supplier in the case of buyer default. Factoring is usually conducted on a **recourse** basis.
- **Non- Notification (or Confidential) Factoring:** this is a variation of Factoring defined herein, where the receivables to be financed are not subject to a notice of assignment and the buyer is not aware of the factoring agreement between the supplier and the finance provider. The debt verification is done by the Finance Provider in the name of the Supplier. The buyer pays the outstanding invoice into a 'trust' or 'escrow' account. Factoring is usually conducted on a **notification** basis.
- **Packing Credit or Packing Finance:** this is a synonym for Pre-shipment Finance, a defined SCF technique herein. It owes its origin to traditional trade finance practices whereby a supplier is able to draw down funds under a letter of credit to prepare goods for shipment.
- **Payables Finance:** this is a defined SCF technique herein, which provides a supplier with the option of receiving the discounted value of an invoice prior to its actual due date or of an account payable due to be paid by a buyer to the supplier at a future date. Payables Finance typically involves a buyer-led programme to systematically offer finance to suppliers in a supply chain.
- **Post-shipment finance:** this is a generic expression denoting all the SCF techniques that are employed once shipment has occurred. It will typically include all forms of receivables finance and also include the use of inventory finance.
- **Pre-Export Finance:** this is a synonym for Pre-Shipment Finance a defined SCF technique herein, where the goods or services are destined for a buyer in an export market.
- **Pre-shipment Finance:** this is a defined SCF technique herein and is a form of trade loan provided by a finance provider to a supplier for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods, which are then shipped to a buyer. A Purchase Order from a reputable buyer in favour of the supplier is often a key ingredient in motivating the finance in addition to the ability of the supplier to perform under the contract with the buyer.
- **Purchase Order Finance:** this is a synonym for Pre-Shipment Finance, a defined SCF technique herein, where reliance is placed on a Purchase Order issued by a reputable buyer.
- **Receivables Discounting:** this is a defined SCF technique herein and is a form of Receivables Purchase in which suppliers sell all or a part of their receivables (invoices) to the finance provider, based on a discount.

- **Receivables Purchase:** this is a convenient intermediate category of SCF techniques, which is defined herein and includes SCF techniques such as Receivables Discounting, Forfeiting, Factoring, and Payables Finance and includes a range of synonyms and variations.
- **Reverse Factoring:** this is a synonym for Payables Finance, a defined SCF technique herein.
- **Structured Trade Finance:** this is a general expression for the provision of finance for trade, where a variety of structures and techniques, which may include SCF techniques, are incorporated into a bespoke transaction or a specific financing solution. Such solutions often involve security being taken over assets, commodities or commercial off-take contracts.
- **Supplier Credit:** financing arranged by a Supplier with or without a Finance Provider to enable it to provide credit terms to a Buyer of its goods or services. Contrast with a **Buyer Credit**.
- **Supplier Finance:** this is a synonym for Payables Finance, a defined SCF technique herein.
- **Supplier Payments:** this is a synonym for Payables Finance, a defined SCF technique herein, and denotes the idea that Payables Finance can be described as offering early payment of an invoice to a supplier.
- **Supply Chain Finance:** this is the Master Definition of SCF, which is discussed extensively herein and is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements usually enabled by a technology platform.
- **Trade and Export Loans:** this is a general expression for loans made in the context of trade-related financing, not usually secured on, or made against, Receivables. They are not defined as a specific SCF technique herein, given the generality of circumstances in which they are granted.
- **Trade Finance:** This is not treated herein as an SCF technique but as a ‘super-category’ or umbrella term used by finance providers to describe their business lines, organisational units and activities. Trade Finance is usually used as a generic term for a range of traditional trade finance techniques and evolving SCF techniques.
- **Transaction Banking:** This is not treated herein as an SCF technique but as a ‘super-category’ or umbrella term used by finance providers to describe their business lines, organisational units and activities. Transaction banking, as a term, encompasses payments and cash management, trade finance, SCF, financial supply chain services, asset servicing, custody and many other product lines.
- **Two-Factor System:** see International Factoring definition.
- **Warehouse Finance:** this is a synonym for Inventory Finance, a defined SCF technique herein and reflects the point that inventory being financed is usually located in a warehouse or in similar conditions.

- **Without recourse finance or discounting:** this is a synonym for Forfaiting, a defined SCF technique herein.
- **Working Capital Services:** This is not treated herein as an SCF technique but as a 'super-category' or umbrella term used by finance providers to describe their business lines, organisational units and activities. Working Capital services typically include short term working capital related financing such as many SCF techniques and related transaction banking services

4.2. Parties engaged in SCF transactions

- **Anchor Party:** a party usually a large buyer who facilitates a buyer-led supply chain finance programme for its suppliers and whose credit risk is the economic basis of the finance provided. It is also used to describe a large supplier, which orchestrates a programme of Receivables Purchase financings in relation to its customers.
- **Assignee:** a person, company or entity that receives the transfer of property, title or rights under a legal arrangement.
- **Assignor:** a person, company or entity that transfers property, title or rights to the assignee under a legal arrangement.
- **Bank:** a regulated financial institution licensed to receive deposits and undertake a range of activities such as commercial, retail and investment banking.
- **Borrower:** an entity that is lent money by a Finance Provider and who pays it back over time on an agreed basis.
- **Buyer:** in the context of supply chain finance, a buyer is a corporate entity procuring goods and services, issuing orders and making payments to the suppliers, which form its supply chain.
- **Buyer (Forfaiting):** in a forfaiting transaction, a buyer refers, in the primary market, to the primary forfaiter who initially purchases a financial instrument or claim from an issuer or obligor and, in the secondary market, Refers to a purchaser of the financial instrument or claim from the primary forfaiter or any subsequent Buyer.
- **Buyer-centric:** a description of an SCF transaction where the origination usually takes place through a relationship with a buyer, sometimes referred to as the anchor party.
- **Corporate client:** a customer of a Financial Institution, which is an incorporated business entity of all kinds and ranging in size from a multinational, large domestic corporation, to a small and medium-sized business.
- **Correspondent Bank:** A financial institution that provides services on behalf of another financial institution. A correspondent bank can conduct business transactions, accept deposits and gather the proceeds of trade transactions on behalf of the other financial institution. Correspondent banks are more likely to be used to conduct business in foreign countries, and act as a domestic bank's agent abroad.
- **Correspondent Factor:** A Finance Provider that acts as an import Factor or export Factor under the Two-Factor system.

- **Credit Risk Insurer:** an entity which offers to insure credit and, usually, political risk in relation to one obligor or transaction or a portfolio or continuing line of specified trade transaction or obligors. Such entities may be either private companies or public or semi-public institutions such as ECAs.
- **Creditor:** an entity that is owed money, often being the supplier or seller of goods and services.
- **Customer:** a person or entity which buys goods and services, ranging from a buyer in a supply chain to the user of financial services offered by a financial institution.
- **Debtor:** an entity which owes money under a commercial or financial transaction.
- **Distributor:** a person or entity that supplies goods on a wholesale basis to retail outlets or companies. It may be a manufacturing entity, an arm of a manufacturing entity or an independent entity.
- **Export Credit Agency (ECA):** A financial institution or agency that provides trade financing to exporters. Export credit agencies usually provide guarantees, loans and credit insurance in order to promote exports by removing the risk and uncertainty of payments. ECAs may also underwrite the commercial and political risks of investments in overseas markets. ECA insurance may be used in an SCF transaction to provide credit risk enhancement for the Finance Provider.
- **Export Factor:** a form of factoring in which the assignor, based in the country of the factor, assigns or sells receivables due by debtors based in another country.
- **Factor:** a financial institution providing factoring facilities.
- **Finance Provider:** a bank, financial institution, or other regulated or non-regulated provider of finance and related services, specifically herein in the context of supply chain finance.
- **Financial Institution:** a provider of financial services in the broad sense, usually referring to banks and other regulated entities such as insurance companies, investment dealers and trust companies. It includes, by definition, a range of non-bank financial institutions.
- **Financier:** a general expression for any person or entity that provides finance in various forms.
- **Forfeiter:** a provider of forfaiting services, either being a bank or a non-bank financial institution.
- **International Factoring organizations:** organisations that act as trade associations for factoring companies and which usually manage international rules for the conduct of international factoring transactions.
- **Invoice discounter:** a provider of invoice discounting facilities
- **Import Factor:** a form of factoring in which an export receivable is managed and collected by an Import Factor based in the same country as the debtor.
- **Initial Seller (Forfaiting):** the person who first sells a payment claim or Receivable to a Primary Forfeiter or creates a Receivable or payment claim and transfers it to the Primary Forfeiter.

- **Lender:** an entity that provides loans under an agreed credit facility or another form of credit akin to a loan.
- **Multilateral Institution:** A financial institution that provides advice and financing for national or regional development projects or programmes. The institution is usually owned by governments, and provides a framework of cooperation in which borrowers and suppliers of finance are represented.
- **Obligor:** A synonym for any Debtor but also more specifically employed as term for a party which is obligated under payment instrument such as a Negotiable Instrument. In Forfaiting such a party is also known as the Primary Obligor. The underlying obligation may be supported by guarantees and similar arrangements provided by other parties, which create other (secondary) obligors.
- **Obligor Bank:** In a Bank Payment Obligation (BPO) transaction the Obligor Bank is the issuer of a BPO and is obligated to settle it at maturity, when the BPO conditions have been fulfilled through a Data Match.
- **Primary Forfeiter:** the forfeiter which first purchases a financial instrument or claim from an entity buying goods and services on credit terms and which wishes to forfeit a transaction.
- **Purchaser (Forfaiting):** see Buyer (Forfaiting).
- **Recipient Bank (BPO):** The bank which receives a Bank Payment Obligation (BPO) in its favour and which on meeting the conditions specified in the BPO is entitled to receive money from the obligor bank on behalf of a customer.
- **Seller:** a supplier of goods and services. Seller could also refer to an agent acting on behalf of a supplier.
- **Seller (Forfaiting):** the Initial Seller and any subsequent seller of the payment claim in the secondary market.
- **Supplier:** a party that supplies goods and services to a buyer
- **Supplier-centric:** a description of an SCF transaction, where the origination takes place through a relationship with a supplier.

4.3. Components and subordinate expressions

- **Account Receivable:** is a legally enforceable claim for payment held by a business against its customer for goods supplied or services rendered in execution of the customer's order, and recorded on the balance sheet. Such claims generally take the form of invoices raised by a business and delivered to the customer for payment within an agreed timeframe.
- **Account Payable:** a legally enforceable liability to a creditor recorded in the balance sheet, usually arising from purchases of goods and services on an open account basis and evidenced by a received invoice due to be paid within an agreed timeframe.
- **Advance:** an extension of credit by means of a loan. Advance is a synonym for a loan herein.
- **Advance Payment:** a payment made in advance of a prescribed event such as a due date or a contract commencement.
- **Advance ratio:** the maximum percentage of the value of an asset or assets by reference to which a finance provider is prepared to make a loan or make available credit. The value of the asset or assets is reduced in the calculation by a **Security Margin**, which is the inverse of the advance ratio.
- **AML:** anti-money laundering regulations are a set of procedures, laws and regulations designed to stop the practice of generating income through illegal actions. In most cases money launderers hide their actions through a series of steps that make it look like money coming from illegal or unethical sources was earned legitimately.
- **Assignment and Assignment of Rights:** a transfer of rights to an asset by means of an outright purchase for the purpose of either becoming the absolute owner, or in order to take a security interest in the asset. Assignments and their equivalent are jurisdictionally specific and therefore vary widely in terms of legal basis and form.
- **Availability:** the unutilised amount of funding or credit under a financing arrangement that could be potentially drawn or used following satisfaction of conditions precedent, transaction criteria, or requirements relating to permissible security.
- **Aval:** A guarantee added to a debt obligation evidenced by a financial instrument by a third party who is not the payee or the holder, but who ensures payment should the issuing party default. The debt obligation could be a promissory note, bill of exchange, draft, note, or bond. The third party providing the aval is usually a bank or other financial institution.
- **Bad debt:** a debt that is not collectible and needs to be written off
- **Ban on assignment:** A clause within a debtor's conditions of business, which specifically bans the assignment of the benefits or proceeds of a sale by a supplier, thereby refusing to accept the assignment of the invoice. Such bans are increasingly being challenged by legislators and the financial industry as an impediment to the raising of receivables related finance.

- **Baseline:** a term within the BPO rules defining the criteria (e.g. a dataset including a Purchase Order) required for a successful data match in the TSU or another data matching engine.
- **Bill of exchange:** is an unconditional order in writing, addressed by one person (the drawer) to another (the drawee), signed by the drawer, requiring the drawee to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer. A bill of exchange must be accepted by the drawee to be binding on it. Additional legal requirements may exist depending on the relevant jurisdiction.
- **Bill of Lading:** is a document issued by a carrier which details a contract for the carriage of a shipment of merchandise and gives title of that shipment to a specified party.
- **Borrowing Base:** The amount of money a lender will loan to a borrower based on the value of the collateral or security that the borrower pledges. The borrowing base is usually determined by margining, where the lender determines a discount factor that is multiplied by the value of the collateral; the result is the amount that will be loaned to the company. See **Advance Ratio**.
- **Buy-Back Agreement or Guarantee:** an agreement between a purchaser and a supplier in which the supplier agrees to repurchase goods or property from the purchaser if a certain event occurs within a specified period of time. The buy-back price is usually set out in the agreement. It is specifically used in the context of Distributor Finance, a defined term herein.
- **Collateral:** Property or other assets that a borrower offers a lender to secure a loan or extension of credit. If the borrower stops making the promised repayments and/or interest and finance charges, the lender can take possession of the collateral to recoup its losses by means of sale. The legal perfection of collateral is jurisdictionally specific and takes many forms. Collateral is often subject to Collateral Management procedures, e.g. collateral in a warehouse. Collateral has synonyms in the form of **Security or a Security interest**.
- **Collection:** This refers to the (cash) collection function of a business operating to collect funds for all outstanding invoices before they become overdue. Conversely a **Documentary Collection** is a traditional trade finance technique for the presentation of shipping documents and a bill of exchange in order to get paid for a shipment of goods. These are typically handled through banks.
- **Contra-Trading:** a situation where two trading parties are buying and selling goods and/or services to each other, thus creating mutual obligations to settle invoices in both directions.
- **Confirmed or Confirmation:** confirmation by one party to another that an obligation or contract has been accepted and will be discharged. A confirmation is normally issued in writing. In a confirmed letter of credit a bank adds its confirmation or undertaking to honour the obligations of the issuing bank.
- **Committed Facility:** a credit facility that is committed to be available for a stated period under specific conditions.

- **Commodity:** a commodity is a raw material, e.g. foodstuff, metal ore or refined product, crude oil or oil product, for which there are normally liquid markets and which represent attractive collateral for the provision of finance.
- **Country Risk:** A collection of risks associated with investing in or creating exposure to a particular country. These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk, which is the risk of funds being frozen for external transfer by government action. Country risk varies from one country to the next.
- **Credit Control:** is the system and procedures used by a business to manage its sales ledger, make certain that it extends credit only to customers who are able to pay, and that customers pay on time
- **Credit Enhancement:** methods by which a finance provider is provided with additional rights, such as collateral, insurance, or a third party guarantee, to secure payment by a borrower or obligor.
- **Credit Insurance:** is insurance purchased by businesses to insure payment of sums due in relation to credit extended to trade debtors. It may be used as a form of credit enhancement to protect finance provider providing receivables finance.
- **Credit Note:** is a document issued by the seller of goods or services to the buyer, reducing the amount that the buyer owes to the seller under the terms of an earlier invoice. This may be due to a failure to deliver invoiced goods, a return of goods, or as the result of a dispute.
- **Credit Rating:** is an evaluation of the credit worthiness of a debtor, a business or a government, but not individual consumers. The evaluation is made by a credit rating agency of the debtor's ability to pay back the debt (both short term and long term) and the likelihood of default. A rating is usually reflected in a grading range such as AAA to C.
- **Credit Risk:** the risk that a borrower or obligor will default on any type of debt or contractual obligation by failing to make required payments.
- **DPO- Days Payables Outstanding:** is an efficiency ratio that measures the average number of days a business takes to pay its suppliers.
- **DSO- Days Sales Outstanding:** is an efficiency ratio that measures the average number of days a business takes to collect the proceeds of invoices due from its customers, i.e. its average collection period.
- **Data Match or Matching:** compares submitted data or datasets with a baseline or criteria and declares a match or non-match in a chosen environment e.g. a matching engine or a TSU (trade services utility).
- **Dataset:** is a collection of data usually from a common source and assembled for a particular business or other purpose. The term is used generally to define data that could historically have been brought together in a document, but in an automated process is transmitted as a dataset. Under the rules of the BPO, datasets must be matched prior to a payment obligation becoming due.
- **Dilution(s):** Every situation that may reduce the value of an outstanding invoice except default by the debtor. Typical causes are returns, credit notes, commercial disputes etc.

- **Discount rate or charge:** when a purchaser purchases a bill of exchange or an account receivable from a seller, the rate at which it is paid (discounted relative to its face value) prior to its maturity date.
- **Disclosed or undisclosed:** when a finance provider undertakes a transaction such as a receivables purchase it may or may not be advised to or disclosed to the underlying debtor.
- **Double-Financing or Double-Pledging:** the fraudulent practice of raising funds more than once on the same receivable or other asset.
- **Draft:** an alternative term for a bill of exchange or check/cheque.
- **Due Diligence:** An investigation or audit of a potential investment or transaction. Due diligence serves to confirm all material facts in regards to a transaction. Generally, due diligence refers to the care a reasonable person should take before entering into an agreement or a transaction with another party.
- **Early Payment:** in receivables purchase and in invoice discounting, early payment is often used to portray the transaction as early payment of an invoice and is sometimes used as a synonym for receivables purchase.
- **Electronic Invoicing:** e-Invoicing is the exchange of the invoice document between a supplier and a buyer wholly in an integrated electronic format or dataset. Traditionally, invoicing, like any heavily paper-based process, is manually intensive and is prone to human error resulting in increased costs and processing lifecycles for companies.
- **Endorsement:** A legal term that refers to the signing of a document which allows for the legal transfer of a negotiable instrument from one party to another.
- **Face Value:** the principal or redemption value of a financial instrument or claim.
- **Factoring Agreement;** the agreement between the finance provider (factor) and a client setting out the terms on which a factoring arrangement is made available, including scope, charge, operational procedures and security to be taken
- **Financial Instrument:** is a tradable [asset](#) of any kind; either cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument. In Forfaiting, rights under the financial instrument are normally independent of the underlying transaction which gave rise to the financial instrument, since they rely on the legal obligations created by the legal status of the financial instrument itself.
- **Financing Margin:** a margin built in to an interest rate or discount rate charged to a client to cover risk and a level of profit for the finance provider.
- **Financial Supply Chain:** is the chain of financial processes, risk and liquidity management decisions, events and activities that provide financial support to the physical supply chain.
- **Forfaiting Agreement:** under the Uniform Rules for Forfaiting, the agreement between the Initial Seller and the Primary Forfeiter.
- **Four-Corner Model:** a situation where two trading parties are using the services of separate financial institutions or service providers and use their services acting on an interoperable basis to carry out intermediation functions of various kinds.

- **Guarantee:** a promise to take responsibility for another party's financial obligation(s) if that party cannot meet its obligations. The entity assuming this responsibility is called the guarantor. Guarantees, both financial and performance-related, issued by finance providers form an important category of traditional trade finance techniques.
- **Hedging:** a hedge is an investment position intended to offset potential losses/gains that may be incurred by a physical position in or exposure to commodities or financial assets. In simple language, a hedge is used to reduce the potential for any substantial unexpected losses or gains suffered by an individual or an organization. Hedges are typically taken out in the form of exchange-traded futures contracts and options, or similar transactions in the over-the-counter market. Where an entity has an offsetting position within its own operations, this can be said to create a 'natural' hedge.
- **Insolvency:** this will occur when an entity can no longer meet its financial obligations with its creditors as debts become due. Insolvency can lead to insolvency proceedings, in which legal action will be taken against the insolvent entity, and assets may be liquidated to pay off outstanding debts.
- **Inter-Factor Agreement:** an agreement between correspondent factors whereby they mutually agree to act as import and export factors under a code of practice.
- **Invoice:** is a document, or electronic version of the document, addressed by a supplier of goods and services to a buyer recording and describing a transaction for the supply of goods and services, requesting payment by a specified due date, and setting out any applicable taxes to be collected and remitted to a tax authority.
- **KYC:** is the process of a business verifying the identity and standing of its clients and the character of the business or transactions they generate. The term is also used to refer to the legal regulations which govern these activities.
- **Letter of Credit:** a letter issued by a bank to another bank (especially one in a different country) on behalf of a buyer to serve as a guarantee for payments to be made to a named party under specified conditions, such as the presentation of precisely compliant documents evidencing shipment of goods by a supplier. There are many variations and detailed rules (UCC 600 issued by the International Chamber of Commerce) surrounding letters of credit which are not described herein.
- **Loan:** making available money to another party in exchange for future repayment of the principal amount with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as a variable credit line or overdraft up to a specified ceiling amount. It is also possible to make loans of actual real and financial assets.
- **Long Warranties:** warranties in respect of goods and services that are long lasting and may over time affect the value of receivables purchased or discounted.
- **Margin or Security Margin (1):** a calculated deduction from the stated or market value of an asset being financed to allow for diminution of the value of the asset, while the finance provider is exposed to a borrower or obligor. See **advance ratio**.
- **Margin (2):** the percentage margin added to the cost of funds or a base rate to establish the interest rate to be applied to a loan or credit facility.

- **Maturity Date:** The date on which the principal amount of a loan, bill of exchange, note, draft, acceptance, bond or other debt instrument becomes due and is repaid to the investor and interest payments stop.
- **Negotiable Instrument:** is a written order or unconditional promise to pay a fixed sum of money on demand or at a future date. A negotiable instrument can be transferred from one party to another by Endorsement. Once the instrument is transferred, the holder obtains full legal title to the instrument. Examples also include bills of exchange, promissory notes, checks/cheques, drafts and certificates of deposit.
- **Negotiability and Transferability:** in the case of goods, commodities, property and many financial assets, which are transferable from party to party, the general rule of law is that the transferor cannot transfer to the transferee title better than the transferor possesses. A negotiable instrument is an exception to this rule of law. The holder of a negotiable instrument in the position of being a transferee is not compromised by a fault in the title of the transferor or any other party.
- **Non-recourse:** see **with and without recourse**.
- **Notice of Assignment:** a notice which can be issued by a finance provider or by the assignor to a debtor, and which informs the debtor that a debt or debts (accounts payable) have been assigned or purchased by the finance provider. Also known as a Notification.
- **Notification:** see Notice of Assignment.
- **Novation:** The act of replacing one party to a contract with another, which may include the exchange of new debts or obligations for older existing ones with consent of all the affected parties. Unlike an assignment, obligations as well as rights are assumed by the new party.
- **Open Account:** An open account transaction means that the goods are shipped and delivered before payment is due, for example in 30 to 90 days. Obviously, this is the most advantageous option to a buyer in cash flow and cost terms, but it is consequently the highest risk option for a supplier.
- **Order to Cash Cycle:** represents the process steps and the time interval between receipt of an order, the manufacturing or fulfillment process, delivery and the receipt of cash from the customer.
- **Party:** a party is any entity that becomes engaged in a financial or commercial transaction, whether a natural or legal person such as a company, corporation, financial institution, unincorporated business or government organisation or not for profit entity.
- **Payment:** a means of settlement for a commercial or other obligation, such as an electronic credit transfer, direct debit, credit or debit card payment, wire transfer, automated clearing house payment (ACH), check or cash. The payment is completed when good funds are received by the creditor.
- **Performance risk:** the risk associated with a party's ability to meet its obligations under a contract, in particular to procure, manufacture and ship goods, or provide services in a timely fashion according to quality standards.

- **Physical Supply Chain:** is a term used to describe the totality of the organizations, systems, people, activities, information, and resources involved in moving a product or service from supplier to a buyer.
- **Platform:** a business processing capability embedded in an information technology system and its surrounding management.
- **Pledge:** a process for taking possession of or, in some jurisdictions, non-possessory security over an asset for the purpose of securing a debt or other financial obligation. The key feature of a pledge is the fact that the creditor maintains possession of the pledged asset, but does not have ownership unless default occurs.
- **Prepayment:** repaying a loan or financial obligation before its maturity date, or paying in advance for goods or other contractual liability.
- **Primary Market:** the marketplace where issuers of debt or other financial obligations deal directly with finance providers to raise funds. This can be described as origination and is contrasted with the secondary market where financial assets are traded and purchased by other finance providers or investors. This is a defined term in the Uniform Rules for Forfaiting
- **Procure to pay cycle:** represents the process steps and time interval between procurement, the issue of a purchase order, delivery of goods and services, receipt of invoice and payment to the supplier.
- **Promissory Note:** a financial instrument whereby one party (the *maker* or *issuer*) promises in writing to pay a determinate sum of money to the other (the *payee*), either at a fixed or determinable future time or on demand of the payee. Typically Promissory Notes are negotiable instruments.
- **Purchase Order:** A buyer-generated document or dataset that authorizes a purchase or procurement transaction. When accepted by the seller, it becomes a contract binding on both parties. A purchase order sets out descriptions, quantities, prices, discounts, payment terms, date of performance or shipment, other associated terms and conditions, and identifies a specific seller. It is used to control the purchasing of products and services from external suppliers. Also called an order.
- **Purchase Order Commitment to Pay:** a commitment issued by a bank in favour of a supplier that once goods relating to a specific purchase order have been received by the buyer, the supplier will be paid. It is a form of payment guarantee.
- **Reassignment:** the process of reassigning an asset to the original assignor or to another assignee.
- **Receivable:** the amount due from a Debtor or Obligor to a Creditor. This includes, but is more extensive than trade-related Account Receivables and for instance covers the amount due under a Negotiable Instrument.
- **Receivables Purchase Agreement:** an agreement between a finance provider and a client (supplier) to cover the purchase of individual or a portfolio of receivables.
- **Recourse:** see with and without recourse
- **Reserve/Retention:** the part of a receivable(s) retained by a factor to cover specific risks such as dilutions

- **Risk Participation:** an unfunded Sub-Participation.
- **Sale and Repurchase (Repo):** an alternative to a loan whereby a finance provider enters into a sale and repurchase agreement for the goods or financial assets being financed. The finance provider acquires title to the goods or financial assets concerned at the commencement of the transaction and reverses the process at a future date. The parties may include a margin to protect against the diminution in value during the life of the transaction. **See advance ratio.**
- **Sales Ledger Management:** the process of management of a portfolio of accounts receivable including **Credit Control** defined herein. Under a factoring agreement it is common for the factor to take responsibility for sales ledger management.
- **Secondary Market:** the counterpart of the Primary Market. In a secondary market financial assets are traded and purchased by other finance providers or investors, not involved in the primary origination of the transaction.
- **Security Interest:** is an interest created by agreement or by operation of law over assets to secure the performance of an obligation, usually the payment of a debt. It gives the beneficiary of the security interest certain preferential rights in the disposition of secured assets.
- **Securitization:** is the process of taking an illiquid asset, or group of assets, and through financial intermediation, transforming them into a security or tradable financial obligation.
- **Silent:** means undisclosed. **See Disclosed or undisclosed.** Often used in connection with a Silent Guarantee.
- **Stop-Supply Letter:** a letter from a supplier to a distributor informing it that supply of goods will cease, as a method of protecting the supplier's interests in the event of a distributor being unable to meet its obligations.
- **Sub-Participation:** an agreement between a Finance Provider who has incurred or is to incur a financial exposure on, or lend funds to, a Debtor or Obligor and another Finance Provider under which the second Finance Provider either provides funds to the first Finance Provider to fund that exposure or loan (in the case of a funded Sub-Participation) or provides a commitment to cover any losses of the first Finance Provider (in the case of an unfunded Sub-Participation). Repayment of the second Finance Provider in the case of a funded Sub-Participation is normally dependant on receipt of corresponding amounts by the first Finance Provider from the Debtor or Obligor. This may be, but is not always, the case in the case of an unfunded Sub-Participation. The existence of the second Finance Provider is normally undisclosed to the Debtor or Obligor. The second Finance Provider may, depending on the law of the Sub-Participation agreement, receive a derivative interest in the exposure or loan or may simply acquire rights against the first Finance Provider rather than the Debtor or Obligor.
- **SWIFT:** is the Society for Worldwide Interbank Financial Telecommunication, a member-owned cooperative through which the financial world conducts its business operations using SWIFT's secure messaging services based on standards. More than 10,800 banking organisations, securities institutions and corporate customers in over 200 countries are connected to SWIFT.

- **Syndication:** the process of selling legal or economic interests in loans or other payment obligations to an investor or group of investors by the original arranger of such financing. Syndication may be built into the arrangement of the financing or take place subsequently, but usually promptly, thereafter. The investors may all be parties to a single agreement including the borrower or may be parties to a separate agreement not involving the borrower. The arranger of the financing is usually agent for the investors.
- **Tenor:** The amount of time left until the maturity date for the repayment of a loan or financial obligation, or the initial term length of same. Tenor can be expressed in years, months or days.
- **Three-Corner Model:** is a situation where two trading parties are using the services of the same financial institution or service provider and use its services to carry out intermediation functions of various kinds.
- **Tolling:** a process by which raw materials or components are submitted to a third party refining or manufacturing process prior to onward sale.
- **Transaction Matching Application (TMA):** in a BPO transaction the TMA is the matching engine which compares submitted datasets with the baseline and declares a match or non-match. SWIFT's Trade Services Utility (TSU) is an example of a TSA.
- **Transfer of Title:** a wide expression often used in relation to the transfer of real property as well as goods and financial assets. In SCF transfer of title is achieved principally by assignment or assignment of rights.
- **True Sale:** an accounting and legal expression connoting that a financial asset or negotiable instrument has been sold by one party to another in the sense of no longer being recorded in the balance sheet of the seller and instead being recorded on the balance sheet of the purchaser. Where this occurs effectively, the purchaser will not be affected by any insolvency proceedings subsequently initiated against the seller and will have unfettered or absolute title to the asset in question. In this sense it is different from secured or collateralized lending. True sale is an important concept which underlies many securitization and financial transactions. Some SCF techniques, such as Forfaiting and Factoring, aim to achieve true sale.
- **Uncommitted Facility:** a credit or loan facility, which is uncommitted as to availability or time period
- **Uniform Rules for Forfaiting (URF800):** a set of standard rules for the primary and secondary Forfaiting markets published by the ICC in collaboration with ITFA in effect since 1 January 2013. URF 800 deals with issues such as examination of satisfactory documentation and recourse to sellers of Forfaiting assets. URF 800 includes a set of model agreements
- **Warehouse Receipt:** is a document that provides proof of ownership of commodities or goods that are stored in a warehouse, vault, or depository for safekeeping. Warehouse receipts may be negotiable or non-negotiable. Negotiable warehouse receipts allow transfer of ownership of that commodity without having to deliver the physical commodity or goods.

- **Warranty:** generally means a guarantee or promise which provides assurance by one party to another party that specific facts or conditions are true or will happen in relation to goods and services or an obligation to perform.
- **Whole Turnover:** a provision in factoring, where all the receivables generated by a business are assigned to the factor.
- **With and without recourse:** '**without recourse**' is a condition attaching to the provision of finance whereby, following the assignment of a receivable by a supplier to a finance provider, the finance provider relieves the supplier of any further liability for the debt and accepts the entire credit risk of non-payment itself. In the case of '**with recourse**', the finance provider relies on the supplier for any shortfall in the event of non-payment. Even where without recourse facilities are provided in respect of the credit risk, it is likely that limited recourse to the supplier is maintained for warranties given in respect of, or disputes arising out of, quality of goods, fraud, and the veracity of the transaction. URF 800 contains a detailed set of rules for recourse for the Forfaiting market.

Part 5: Appendices

Appendix A: Sources and Methodology

This appendix sets out for reference purposes the sources and methodological steps taken to develop the definitional material in this document.

1. Capturing existing SCF definitions and initiatives as a starting point

The following materials, among others, have informed the development of this document:

- EUF Glossary on Factoring and Commercial Finance 2012
- Factors Chain International Glossary 2014
- BAFT IFSA Open Account Trade Definitions 2011
- BAFT IFSA Product Definitions for Open Account 2010
- BAFT IFSA Other TF Definitions for Distribution V1
- EBA Market Guide to SCF V2
- ICC Uniform Rules for Forfaiting ICC Publication No.800
- ICC Discussion Paper, BPO Capital and Accounting Treatment
- BAFT IFSA Traditional Trade Finance Definitions 2012
- BAFT IFSA Traditional Trade Finance Risk Clusters
- SWIFT White Paper SCF 2013
- ICC Uniform Rules for Bank Payment Obligations (URBPO): ICC Publication No. 750

The Forum has benefitted directly from the existence of these foregoing materials, both in structuring this document by building on previously articulated definitions, and in identifying nomenclature that appear to be duplicative, or that otherwise create confusion or opacity about the nature of supply chain finance. These terms, when identified, and as agreed on a consensus basis within the Forum, have been collected, and will be identified as terms that ought to fall into

disuse. Similarly, and in line with recognized methodology in the development of terminology, the foregoing resources were leveraged to assist in creating and organizing definitional context around specific category terms in supply chain finance, recommending, for example, the recognition of “umbrella terms” such as Receivables Finance, that refer to concepts and techniques with similar transactional attributes.

2. Specific steps taken to define the SCF techniques

The following steps were taken to progress the definitional work:

STEP 1: The Drafting Group first assembled from the existing materials a range of expressions used in SCF discourse. The major expressions in these lists are set out and defined in the Glossary in this document.

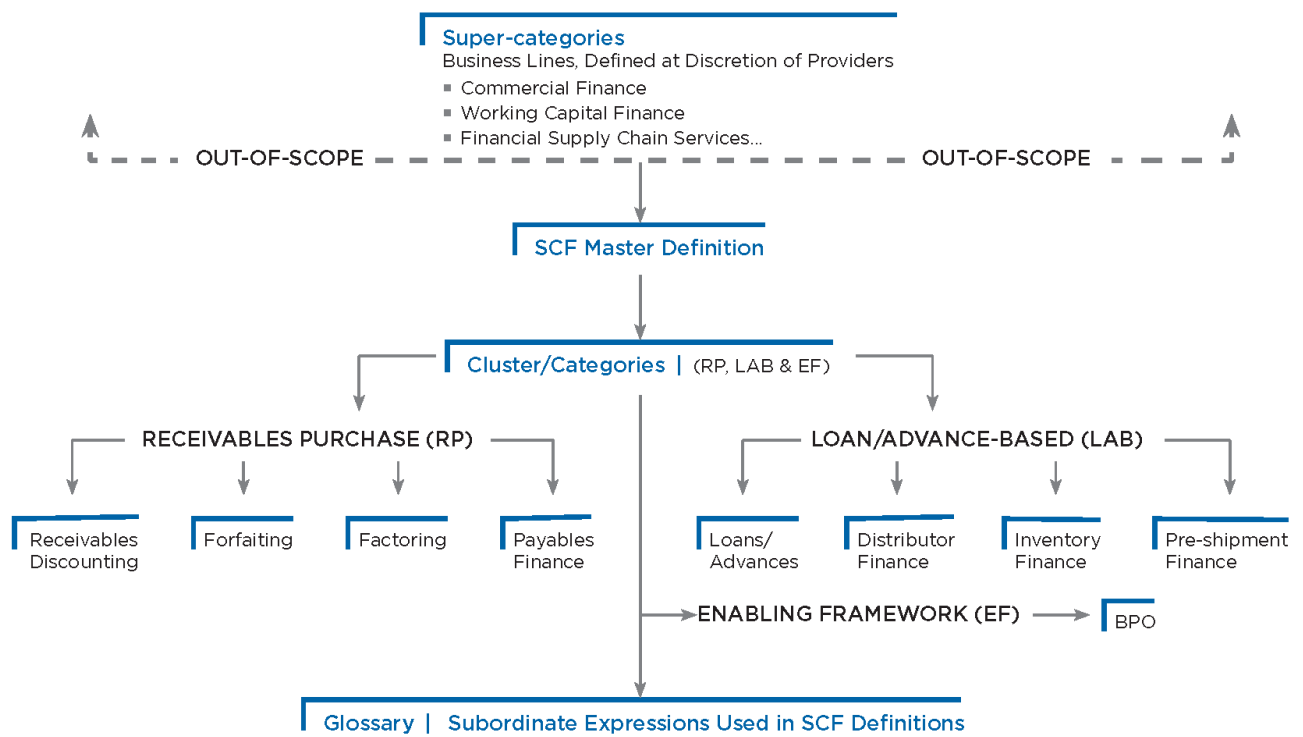
STEP 2: The Drafting Group then developed the following conceptual framework which resulted in the creation of four lists of expressions that would be identified and potentially defined:

- 2.1 Expressions that appeared to be ‘super-categories’ used in the industry to describe business lines, organisational units and activities rather than representing actual SCF techniques. *Examples include: Commercial Finance, Asset Based Lending, Transaction Banking, Financial Supply Chain Services and Working Capital Services.* These categories are described in the Glossary, but are not the subject of standard market definitions related to SCF. It is left to competitive activity to use and shape these expressions.
- 2.2 Expressions that are relevant to SCF as important ‘categories’ to which the SCF techniques belong. The most important of these is *Supply Chain Finance* itself, as set out in the Master Definition. The definitions are consequently grouped into ‘Receivables Purchase-based’ and ‘Loan or Advance-based’ Techniques.
- 2.3 The core of the work is the provision of standard market definitions for the selected individual SCF techniques. These are defined and form the main output of the project. Many expressions, which are not recorded as SCF techniques, have been categorized as synonyms for the selected techniques.
- 2.4 The components and other useful contextual and miscellaneous expressions that are used in creating the above definitions and have been defined in the Glossary.

STEP 3: The Drafting Group set about compiling the Master Definition of SCF and of selected techniques.

The hierarchy of definitions described above is illustrated in the following diagram, which also captures the core focus of the work of the Global Supply Chain Forum:

Figure 11: SCF Definitions: Conceptual Hierarchy



Source: Global SCF Forum

Appendix B: Reference Material

Appendix C: Explanatory Notes

Appendix D: List of Permissions