

Receivables Finance



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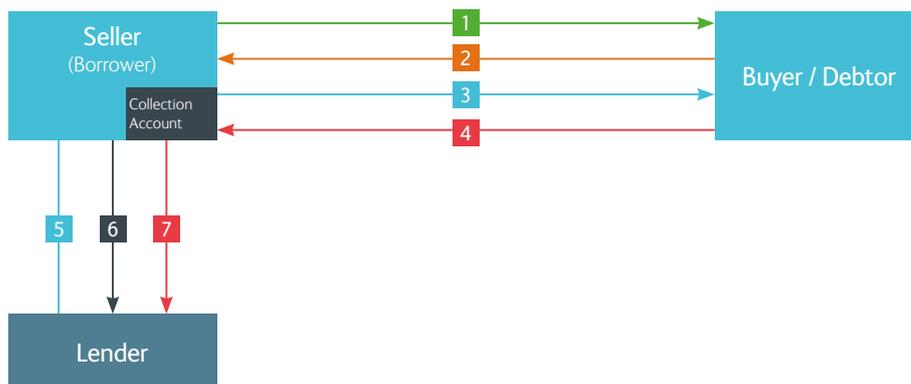
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Mechanics

- 1 Seller supplies goods and services under a Contract of Sale to its customers.
- 2 Buyer owes a debt to Seller for goods or services received or performed.
- 3 Seller issues an invoice to the Buyer which evidences debt and payment terms due to the Seller.
- 4 On invoice payment date, debtor settles debt by payment to Seller's bank account.
- 5 Independently of the Seller, Buyer relationship in the Contract of Sale, the Bank enters into a Receivables Loan Agreement with Borrower and makes available a loan facility. Security provided is the Borrower's book debts or accounts receivable.
- 6 Security granted by the Borrower over debts and charges over the bank accounts into which the debts and accounts receivable are paid into – the Collection Account.
- 7 Scheduled Repayments made in accordance with the terms of the Loan Agreement not necessary directly linked to the Borrower's debtor book profile or monies held in the Collection Account

Loan Secured against Receivables

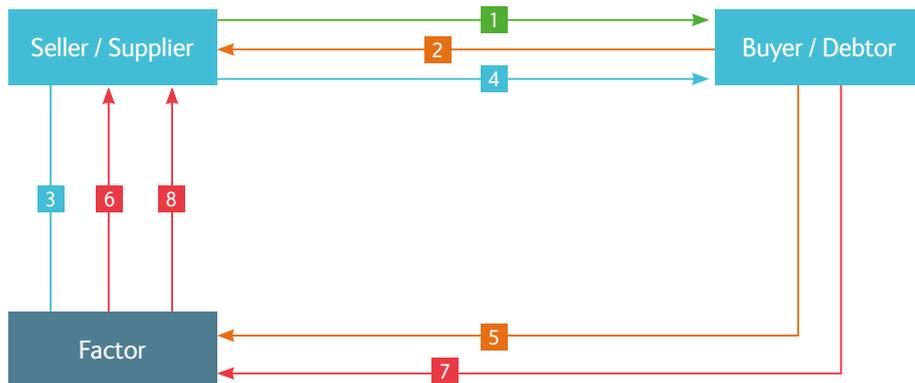
What is it?

1. A form of finance which involves a Lender providing advances to a Seller against the security of its book debts / accounts receivables.
2. Also known as Receivables Lending or Trade Receivables Loans.
3. It is no different to a standard LMA or APLMA loan except that care must be taken in taking effective security over the book debts. The typical difficulty is the exercise of sufficient control by the Lender over the book debt and the collection account to have a valid fixed charge. Furthermore, local jurisdictional considerations of the Contract of Sale must be examined and also the ability of the Seller to assign, by way of security, the receivable to the Lender.

Core features

1. The loan is a debtor creditor relationship as between the Bank and Borrower and not a purchase of the receivable.
2. Key risks are those of normal balance sheet lending of the Supplier's creditworthiness and the trade finance risk in the ability to perform.
3. Receivables are the key collateral to the financing and secured as an assignment, by way of security, pursuant to a security deed. In most jurisdictions the security deed will be registrable at a central register against the Seller in order to protect priority of the Security Interest.
4. Enforcement of security is affected by Lender's ability to show control over receivables.
5. Different from Receivables Discounting in that it does not involve an assignment of the receivables, as a True Sale.
6. This may be similar to working capital finance if the loan is given in expectation of receivables arising at a future date.
7. Some Lenders may opt not to take specific receivables security but use the existence of Receivables as informal credit comfort, or require the Borrower to satisfy financial covenants or tests.
8. Furthermore, failure to register within a certain period of time may have the consequence of a loss of priority against subsequent creditors or the security deed becoming re-enforceable on an insolvency.

Factoring



Mechanics

- 1** Seller supplies goods and services under a Contract of Sale.
- 2** Buyer owes debt, i.e. a Receivable, to Seller and evidenced by an invoice invoiced.
- 3** Factoring agreement is entered into between the Factor and the Seller whereby debts are assigned by way of purchase to the Factor.
- 4** Seller serves notice of assignment on each of the Buyer – that arrangement with Factor has been entered into.
- 5** The Buyer, i.e. the Debtor, now owes debt to Factor.
- 6** Factor makes an advance or prepayment of the invoice on account of purchase price and formula agreed in the Factoring Agreement.
- 7** Debtor pays debt in accordance with the Invoice on the due date to Factor.
- 8** Factor pays remainder of invoice amount (minus discount and other charges) to the Seller.

Factoring

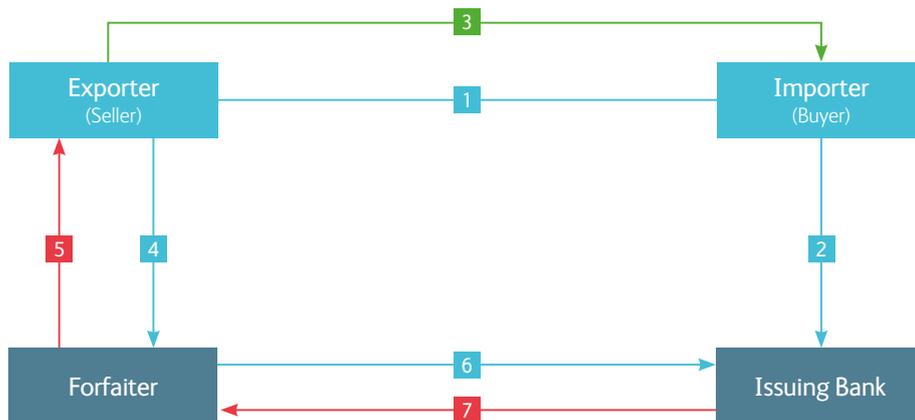
What is it?

A form of short-term financing which involves a company selling its book debts at a discount to the Factor. Usually a source of funding for SMEs as the Factor will also take responsibility for the ledger and collecting the debts.

Core features

1. The sale is almost always disclosed to the underlying debtor(s) given the need for a legal assignment of the debts to the Factor.
2. Can be either recourse or non-recourse (accounting treatment): where non-recourse, the financier may take the benefit of any credit insurance policy.
3. The Factor usually assumes responsibility for collecting the debts and administering the company's ledger. Popular for small businesses who do not have the resources or systems to collect their own debts.
4. Differs from Receivables Discounting, in Receivables Discounting the business is responsible for collecting its debts and administering its company's ledger.
5. Ownership of receivables will lie with the Factor, and the buyer settles invoices with the Factor directly instead of the Seller.
6. In addition to financing benefits the Factor will offer a risk mitigant protection against buyer insolvency.
7. Can be done on a facultative basis, where only certain receivables are sold to the Factor.
8. Most commonly arranged on a whole turnover basis, where all receivables are sold to the Factor.

Forfaiting



Mechanics

- 1** Buyer and Seller enter into a Contract of Sale requiring payment to be settled by Importer via L/C or Bank Guarantee.
- 2** Importer procures L/C or Bank Guarantee in favour of Exporter as beneficiary.
- 3** Exporter initiates shipping of goods.
- 4** Exporter delivers Shipping Documents (together with L/C) to Forfeiter.
- 5** Forfeiter purchases the future payment obligation of the Issuing Bank from the Exporter and pays an advance payment to Exporter on a non-recourse basis. Reliance of the Forfeiter is on the irrevocable payment undertaking the Issuing Bank.
- 6** Forfeiter arranges or presents Shipping Documents to the Issuing Bank in the normal way as if the Supplier.
- 7** Issuing Bank pays Forfeiter on maturity of the L/C or Bank Guarantee.

Forfaiting

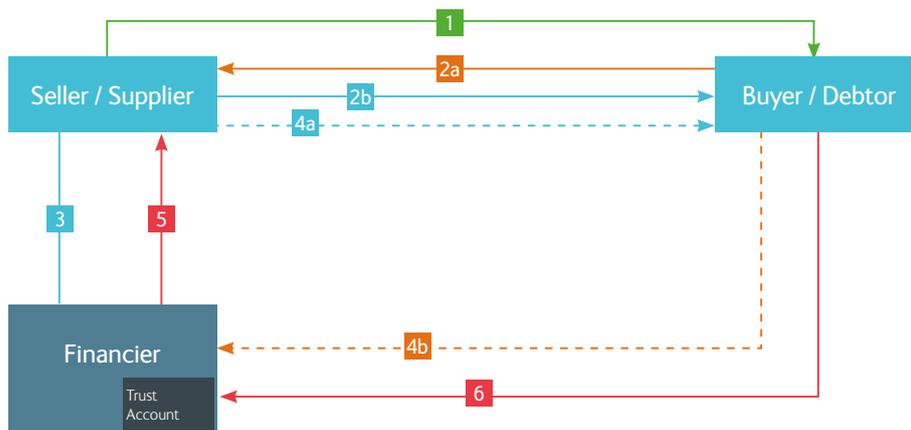
What is it?

1. A form of financing which involves an Exporter selling its receivables that has the advantage of independent credit in the form of an L/C (or other independent payment obligation/undertaking), without recourse and in advance of the due date at a discounted price, to the Forfeiter.
2. Also known as without recourse financing or discounting, or discounting of promissory notes/bills of exchange.

Core features

1. Requires an underlying documentary payment obligation from the commercial transaction (e.g. bills of exchange, letter of credit, promissory notes) independent from the Contract of Sale.
2. The underlying payment obligation may sometimes require a guarantee or aval.
3. Assignable contractual undertakings may be forfeited if suitable words are used.
4. Forfaiting is usually taken without recourse to the Exporter given the strength of the independent payment obligation of the Issuing Bank.
5. Secondary markets exists for forfaiting.

Receivables Discounting



Mechanics

- 1** Supplier sells goods or services to Buyer under a Contract of Sale.
- 2a** Buyer owes a debt to the Supplier.
- 2b** Supplier evidences debt or account receivable by issuing an invoice setting out amount and payment due date.
- 3** Seller and Financier enter into a Receivables Purchase Agreement (RPA). Debts are assigned by way of a purchase as a True Sale from the Seller to the Financier.
- 4a** Arrangement can be on a disclosed or undisclosed basis to the Buyer i.e. no notice of assignment is sent to the Buyer if undisclosed.
- 4b** If disclosed, Debtor now should make payment to Financier as new owner of the debt. However, often the purchase of debt is on an undisclosed basis given the Seller's desire to maintain the commercial relationship with their Buyer uninterrupted.
- 5** Financier makes a prepayment on account of a purchase price (which is usually calculated as the face value of the invoice less the Discount Fee (i.e. the financing costs for the period)).
- 6** Buyer pays debt on maturity of invoice into a Trust Account usually held with the Financier.

Receivables Discounting

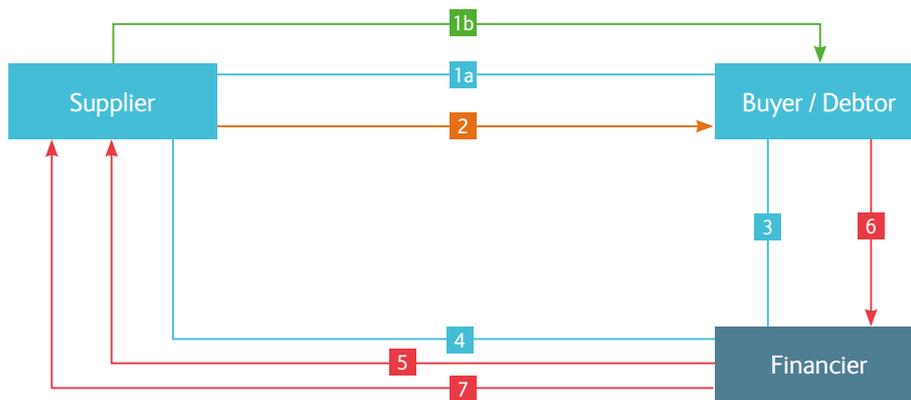
What is it?

1. A form of short-term finance which involves a company selling its book debts at a discount. The company retains responsibility for collecting the debts, administering the sales ledger and accounting to the financier in respect of the proceeds of the debts. In contrast to Factoring, invoice discounting is better suited to large companies with sophisticated sales ledger and debt collection processes.
2. These facilities can be offered on a bilateral or a syndicated basis and can be Whole Turnover but most often are Facultative.
3. Also known as Receivables Purchase, Invoice Discounting, Early Payment (of Receivables) Financing.

Core features

1. Debt proceeds are typically collected into the company's account which should be segregated from its other funds and held on trust for the financier.
2. Invoice discounting facilities can be Disclosed or Confidential (i.e. non-disclosed), but are typically confidential until a termination event occurs. For this reason, these facilities operate by way of an equitable rather than a legal assignment, and a financier will set reserves for any Contra-Accounts or often limited exposures for particular debtors.
3. Invoice discounting facilities can be offered on a recourse or non-recourse basis, depending on who assumes the debtor credit risk. However, this is not only a question of True Sale and Recharacterisation but also an accounting consideration.
4. Invoice discounting can be provided on a Whole Turnover or Facultative basis. The former means that all present and future debts are purchased (regardless of whether they are actually financed (i.e. – prepayment is made)). The latter means that only certain debts are purchased, and each of these is typically financed.
5. The facilities may be secured or unsecured. Security would typically extend to all assets including non-vesting debts. Where the company has other credit facilities, the financier would typically enter into priority arrangements whereby it would have priority over non-vesting debts.
6. If properly structured, the collection of debts can be and should be made into a trust account and therefore outside of the insolvency process and the Seller's estate.
7. Usually offered to larger corporate clients selling to multiple buyers.
8. Buyer coverage depends on how many buyers the Financier is willing to take credit risk on.
9. The Supplier retains control of the company ledger, as such must usually adhere to the Financier's reporting or account management requirements.
10. The Supplier may already have or the Financier may insist the Seller to insure the payment obligation (e.g. trade credit insurance).

Supply Chain / Payables Finance



Mechanics

- 1a** Contract of Sale between Buyer and Supplier. Buyer is usually able to impose extended payment terms on when invoice becomes due for payment.
- 1b** Supplier provides certain services and/or goods to Buyer.
- 2** Buyer owes Seller account receivables arising under the Contract of Sale and any invoices issued by the Seller. Due to negotiation strength of the Buyer, payment terms tend to be extremely long and thus adverse to the cash flow position of the Supplier.
- 3** Buyer Agreement between Buyer and Financier pursuant to which Buyer (i) confirms value of Accounts Payable and (ii) undertakes to pay full value to the Financier on maturity.
- 4** Supplier is on boarded to the Financier's payables platform and Supplier Agreement / Receivables Purchase Agreement between Supplier and Financier pursuant to which Supplier agrees to sell all those Receivables due from the Buyer to the Financier at a discount but Supplier gets paid earlier than maturity date of original invoice.
- 5** Financier offers to Supplier to discount Buyer Receivables by payment of a set prepayment sum (e.g. 90% of Buyer Receivables' face value less a discount charge).
- 6** Buyer pays to Financier full value of Buyer Receivables on maturity or invoice due date.
- 7** Financier pays to Supplier the balance of the purchase price (e.g. 10%) less any other deductions relating to fees and charges then applicable.

Supply Chain / Payables Finance

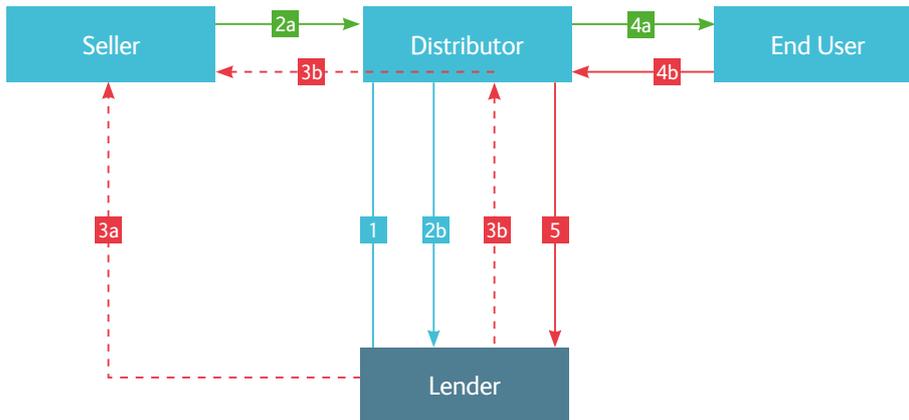
What is it?

1. A form of finance for the supply chain of blue-chip or investment grade buyers whereby a financier purchases the receivables of its blue-chip client at a discount and collects the debt from that client at maturity.
2. Also known as Supplier Finance, Approved Payables Finance, Confirming, Confirmed Payables, Reverse Factoring, Supplier Payments, and Buyer-Led Supply Chain Finance.
3. When applied as an individual 'technique' rather than a holistic category, this is known as Supply Chain Finance.

Core features

1. This technique is "Buyer-Centric" as the Buyer will arrange the financing program in favour of its suppliers. The Financier's primary relationship will be with the Buyer.
2. Buyer acts as an anchor party and will usually have established approved payables financing programs with the financier for its suppliers.
3. The Buyer has to identify accounts payable(s) where the Buyer is unconditionally, irrevocably obliged to pay, and the Supplier has the option to sell the receivables(s) for the transaction to work.
4. The credit worthiness of the Buyer is a key risk factor to the financier as the program is usually without recourse to the Supplier, for any non-payment by the Buyer.
5. Usually arranged by large corporate buyers and their financiers, but also can be implemented by non-investment grade and medium-sized buyers.
6. The Financier's recourse against the Supplier relating to commercial disputes, and representations and warranties are usually retained in the Supplier Agreement, but the Supplier might often be in a difficult jurisdiction to pursue in event of breach.
7. Buyer pays the total invoice amounts either at invoice maturity or an agreed date with the Financier.

Distributor Finance



Mechanics

- 1** Distributor enters into a financing agreement with Lender. This may include security over the Distributor's receivables and inventory.
- 2a** Seller sends goods to Distributor and issues invoices to the Distributor.
- 2b** Distributor forwards Lender the invoice as an indicator and evidence of how much it wants to draw down under the financing agreement subject to a set formula.
- 3a** Lender pays the invoiced amount direct to the Seller; or
- 3b** Lender pays the invoiced amount to the Distributor for onward settlement of the Seller invoice.
- 4a** Goods sold on to the End User by Distributor.
- 4b** Distributor receives payment from End User for delivery of goods.
- 5** Distributor repays the loan and interest to Lender under terms of the financing agreement.

Distributor Finance

What is it?

1. Form of financing providing loan funding to a Distributor to cover the costs of holding goods before realising funds from the sale of goods to an End User.
2. Also known as channel or floor plan finance.

Core features

1. Offered to distributors as a direct loan.
2. Especially useful when there is a gap between credit terms and resale date.
3. No recourse to the Seller.
4. To manage risk on the Distributor's credit, Financiers may insist on additional comfort such as a stop-supply letter, buy back guarantee or risk sharing arrangement with the Seller.
5. Optimises working capital, and increases credit availability for distributors.
6. Potentially aids the Seller in generating sales growth or to provide extended credit terms for its distribution network.