Facilitating Open Account – Receivables Finance

FCIreverse®
FCI's Reverse Factoring Approach

March 2019

Notice of Copyright ©

Originally issued in March 2019 by FCI.

Disclaimer

This guide is designed to give a general description of FCI's Reverse Factoring product, FCIreverse. The procedures described in this guide is a guideline for the members and does not mean to be exhaustive and entirely applicable to every legal and operational environment.

Table of Contents

1. Introduction

Over recent years, FCI has investigated a supplier finance solution as a way of expanding the factoring opportunities for its members.

In this paper we will learn where these solutions came from, the initial motivations that led to the emergence of this kind of product, why these motivations led to the worldwide expansion experienced and how FCI has identified gaps and opportunities to develop this product. Leveraging on the collaboration of a Platform Provider and FCI's network to deploy 3-corner and 4-corner models gives the opportunity to achieve a level playing field for members and to promote FCI's own Reverse Factoring transactions for domestic and cross border businesses.

2. Confirming®, the pioneer of Supply Chain Finance

To understand the grounds of Supply Chain Finance we must first go back to the stock market crash of 1987, which marked the financial crisis during the 1990's.

Back then, the rapid fall in in the value of the US dollar led to a massive withdrawal of funds from the US financial system. This fall in the value of the USD consequently led to a massive speculation of the market for British Pounds which, in the end, made the Exchange Market fall - dragging with it the Scandinavian banking system. A few months later, the Mexican Peso collapsed as well.

Japan substantially raised its interbank lending rates, attempting to deflate speculation, but did not avoid a stock market crash. This was due mainly to the excess of loans granted to poor quality borrowers who were unable to pay the new, higher, interest rates.

In addition, the Gulf War put enormous pricing pressure on oil production, which was the last straw for making the global financial system tumble and fall.

In this context, Spain was no different, although the impact of the crisis arrived at a later stage, due mainly to the high volume of public investment for large scale projects. When these projects came to an end, the crisis finally arrived, experiencing a double-digit growth of unemployment reaching 25%.

By that time, twenty-one (21) factoring companies were operating in Spain and all were seeking to manage as many receivables from strong companies as possible.

Santander was also one of the companies trying to survive in this context. In times of crisis, creative thinking is essential, forcing Santander to start thinking outside the box to take the market lead for making a safer but larger number of transactions.

3. Factoring Possibilities

In this crisis environment, to perform safer factoring transactions meant seeking receivables from strong buyers. To gain a competitive advantage in the market, the originator of the transaction could not be the Supplier, as in a regular factoring transaction. Seeking receivables from Suppliers would have been too slow, an arduous job that would have involved too many human resources and therefore uneconomic.

Approaching from the other end, i.e. looking into the Buyer was the only way to gain certainty and speed to achieve this goal. By analyzing the Buyer and requesting some kind of comfort in the underlying transaction from him, Santander could offer more factoring deals to the Buyer's Suppliers without spending much time in analyzing the risk of each Supplier.

The difficulty was to offer something to the Buyer in exchange for his responsibility to provide assurance to the bank for the underlying transactions which, in the end, meant that a contractual relationship between the bank and the Buyer was necessary.

The ideal situation would be that the Buyer gave strong covenants to the bank regarding those receivables from the Suppliers for the bank to be able to perform a larger number of transactions without having to perform any risk analysis on the Suppliers.

Additionally, the Suppliers wouldn't be impacted at all in their usual procedures with the Buyer in their commercial relationship as any connection between the Supplier and the bank would be postponed until the confirmation of the invoice by the Buyer.

As a result, the bank would turn high-risk factoring transactions into higher quality assignments.

Santander realized that only through achieving the right balance between the administrative services to the Buyers and the offering of various financial services to the Suppliers, could a successful product be accomplished.

The identified main pillars for Confirming ®:

- ✓ Only invoices that were confirmed by the Buyer as "good for payment" would be offered.
- ✓ Invoices would be irrevocable and undisputable.
- ✓ Establishing a credit line on the Buyer to factor all confirmed invoices.

In order to attract strong high rated companies, the bank would offer to the Buyer:

- ✓ Outsourcing of the payment processes by bank transfers.
- ✓ An automatic and regular reconciliation of the Buyer's bank account as part of the service, intending also to achieve a reduction of payment costs.
- ✓ Easy access to finance for the Suppliers.
- ✓ Full information of the payment processes, the factored receivables and a contact center to support Suppliers.
- ✓ A free service for the Buyer as payee.

In order to attract the company's Suppliers, the bank would offer to the Suppliers:

- ✓ Easy access to financing by way of purchasing through assignment of the invoices to the bank.
- ✓ 100% advance payment, therefore off-balance sheet assignments without using their bank limits.
- ✓ Credit protection against Buyer's insolvency.
- ✓ Credit risk mitigation as this financial service will not be considered a loan but a trade debt.
- ✓ Minimum documentation.
- ✓ Free selection of the bank to where the funds should be credited.

The product acquired Confirming® as its distinctive name to differentiate it from a seller centric factoring. The name was taken from the product's main purpose - confirmation of payment.

It took only a couple of years that Confirming® to rapidly spread, providing a financial tool that made Suppliers move from Letters of Credit into open-account terms without losing control of their cash flows, deciding on when they actually need to receive the funds.

After a while, Confirming® proved not only to be a great product in its own right, but was also an introduction for factoring to be widely known by many companies. As a result, Confirming® contributed to the rapid growth of factoring volumes.

Spanish banks adapted the product and "exported" it to Latin America, this being Spain´s natural market, but for the rest of the world it remained unknown and continued this way until the next financial crisis.

4. A new Economic Crisis and lack of Answers

During the economic crisis of the 2000´s, Confirming®, at that stage very much a Spanish banking practice, became the key structural mechanism for providing resilience to a large number of companies' supply chains.

Between the economic crisis of 1990's and the 2000's, many companies had looked for Suppliers in distant geographic locations in order to take advantage of the lower manufacturing costs. That made the goods cheaper but the supply chains became riskier.

As the supply chains were becoming more and more widespread, any potential disruption in a distant country could directly impact the supply of goods. When the new economic crisis arrived, along with a shortage in liquidity and credit, many companies responded by reducing purchases and inventories as well as by extending the payment terms to their Suppliers. Extension of payment terms is always an acid test for Suppliers and in the context of an economic crisis, not having access to liquidity or finance, places the companies' future in jeopardy.

As a consequence of the economic and financial crisis, Supplier´s inventories were drastically cut. If any new order was received, the Supplier would have to use a transitional period to look for funds to help them purchase the materials as well as to manufacture the goods to be sent to the – impatient - Buyer. The extra costs incurred by seeking such finance would, naturally, impact on the cost of the manufactured products and, consequently, they would lead to an increase of costs for the Buyer.

If the Supplier could not obtain finance and liquidity, the Buyer could also face a disruption in his supplies and, therefore, his own production would also be affected and disrupted, endangering his market position.

Suppliers that had easier access to finance and could deal with the extension of payment terms would, in the end, avoid the increase in final prices as well.

Many Buyers learned the hard way how important their Suppliers were. They realized that all, Suppliers and Buyers, were part of a complex, yet fragile, ecosystem. This ecosystem needed the cooperation of all parties involved in order to protect itself from systemic failure that would endanger everyone in the chain. Cooperation meant stabilization of the supplies, by making the whole chain more resilient to external incidents.

Corporates started to search for solutions, but the conventional banking system was not yet ready to provide them.

Confirming®?

Payables Finance?

Reverse Factoring or Supply Chain Finance?

The term Supply Chain Finance has been used since the creation of the product in Spain, circa 1994 and with Confirming® being its registered trademark.

Since the introduction of the term in 2002, there has been a lot of confusion regarding its definition. ***Supply Chain Finance*** *is an umbrella of products and should be used for* ***any financial solution that injects capital into the supply chain. There are many such solutions, and these include a wide range of financial products, including Factoring.***

Payables Finance / Reverse Factoring / Confirming®, whichever name is chosen, exploits the benefits of factoring of approved invoices by the Buyer and is the financial product that generates more interest and development throughout the industry,

Payables Finance / Reverse Factoring / Confirming® is capable of providing many win-win solutions to the supply chain, this being the main reason why in recent years it has gained much more focus by the industry.

The name ***Supply Chain Finance*** *seemed to be the most suitable title, as it is very descriptive of this kind of transaction but, nonetheless, for the reasons mentioned above, there remains some confusion in the terms.*

We must highlight that, although most documents and web researches indiscriminately use Supply Chain Finance and Reverse Factoring terms, FCI tried to give some clarity and decided to name this new product ***FCIreverse, as it is a reverse factoring transaction, which is initiated by the Buyer and not by the Supplier****.*

From now on, this paper will use the term Reverse Factoring as the name for this product, but the reader must understand that supply chain finance, payables finance, confirming® and reverse factoring are commonly used synonyms in the Industry.

For avoidance of doubt we recommend the use of the Standard Market Definitions for Supply Chain Finance published by the Global Supply Chain Finance Forum in 2016.

5. Main Work-flows of a Reverse Factoring Transaction

i. The Factor and the Buyer together review the Buyer's Supply Chain and identify the most suitable Suppliers to be included in the Reverse Factoring Program. These Suppliers may be identified and selected for different reasons, depending on the goals to be achieved by the Buyer in the program. Such reasons vary for each transaction; sometimes the Buyer is looking to stabilize his supply chain or, in other cases, tries to optimize his working capital. Each reason translates into different approaches and most probably the choices of Supplier(s) will be for different purposes.

ii. The Factor will then assess his risks and conditions in the agreement to be signed (maximum limit, maximum tenor, conditions and commitments… etc).

iii. The Factor and the Buyer sign an agreement. Under this agreement, the Buyer sends a file to the Factor with the invoices that are confirmed for payment to the Suppliers on a future Maturity Date.

iv. If the batch of confirmed invoices matches the risk criteria of the Factor, the Factor will inform the Suppliers of the invoices that have been confirmed for payment at their respective Maturity Dates.

v. The Factor will then send a Purchase Offer for the invoices that have been confirmed to each of these Suppliers. This Purchase Offer will usually be in force from the offer date to several days before the maturity date, to let the Supplier decide whether he needs an advance payment for these approved invoices or whether he would wait until the Maturity Date for the payment to be made. However, the offer is not unconditional and may be withdrawn by the Factor, before the acceptance by the Supplier, depending either on the agreement reached with the Buyer or on his own risk criteria.

   It is important to point out that the Factor does not cover the risk of insolvency of the Buyer unless the Supplier decides to assign the Receivable to the Factor. Only then will the Factor bear the risk of non-payment or the Buyer's insolvency. The transfer of the receivables 'ownership has to occur for the Factor to bear these risks. In other words, this means, if the Supplier decides to wait until the Maturity Date and does not assign the receivablesto the Factor, bears his own risk of non-payment or insolvency of the Buyer.

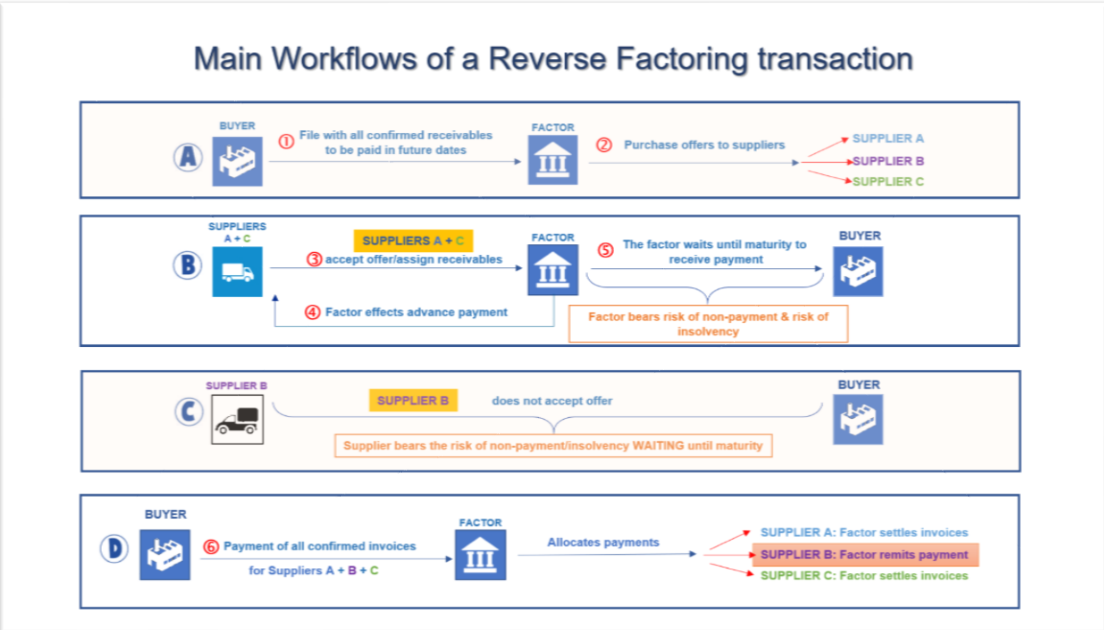
vi. When the Supplier decides to assign any or all of the confirmed invoices to the Factor, he signs an assignment agreement with the Factor. Consequently, the Factor may proceed with financing of these confirmed and assigned invoices.
   For the funds to be sent to the Supplier, a discount amount is deducted from the total and sometimes a commission for the services too, known as a coverage fee or service fee.

vii. Once the Supplier has received the funds, the amount received from the Factor is recorded in his accounts as an early settlement and, provided that the rest of accounting and legal conditions are met, is considered a True Sale. The Supplier may derecognize the receivables from his balance sheet in case of a True Sale (off-balance sheet effect). Sometimes the Factor ensures his new relationship with the Buyer as the legal owner of the receivable by sending an official notification of assignment to the Buyer.

viii. The Supplier that decided to accept the offer and assign the receivable to the Factor, from that point on, gets out of the relationship with the Buyer and the risk of non-payment by the Buyer is removed. The legal ownership is now transferred to the Factor. When the Maturity Date of the confirmed invoices falls, the Factor normally collects the funds for all of the confirmed invoices directly from the Buyer. Some Factors may not collect all of them and only collect the confirmed invoices which have been assigned and an advance payment has been effected to the Suppliers.

ix. If the Factor collects all the funds, when these are received, the Factor takes the role as the payment agent of the Buyer, as long as the applicable law in the Factor's country allows such role and settles all the payments on behalf of the Buyer. The funds collected will be kept by the Factor as a settlement and payment of the invoices for which the Factor had already effected an advance payment to the Suppliers. Payments will also be effected to those Suppliers who decided not to receive an advance payment and waited until the Maturity Date.

x. After all confirmed invoices have been settled, the relationship between the Factor and the Buyer ceases for those confirmed invoices. Their legal relationship may also be terminated in case no other batch of confirmed invoices are sent by the Buyer.



6. Collaboration was and is the answer

Again, in the economic crisis, corporates found that they were individually only as strong as the supply chain they belonged to, i.e. that there was an interdependency with the rest of the Suppliers.

If they were mutually dependent, they had to seek collaborative solutions that were to be translated into long-term reciprocal benefits instead of taking short-term choices that would only benefit one party but unbalance the rest of the supply chain.

The solution needed to cover particular requirements and the answers were to be found in the product that was already operational in Spain and Latin America.

a) Improvement of working capital for both parties

Many companies needed working capital solutions for both ends of the supply chain, Buyers and Suppliers, but their needs were opposed.

If both parties, Buyer and Supplier, were to properly manage their working capital, the Buyer would need to extend his accounts payable, which means to pay Suppliers the latest possible, while the Supplier would actually need to adopt the opposite measure, to shorten the period of his accounts receivable, which translates into being paid as soon as possible.

These are two conflicting points that are naturally incompatible. However, they may find a compromise in Reverse Factoring by the introduction of a third party into the relationship between the Buyer and the Supplier. This third party is a Factor.

When the Factor is introduced, the Buyer will be able to extend his payment terms without damaging the Supplier's working capital. The Buyer may confirm the invoice with an extended Maturity Date but, because the Factor is sending an offer to purchase such invoice and the Supplier may request an advance payment immediately after the confirmation, the Supplier does not need to wait until the Maturity Date and has access to immediate cash. The Buyer is enhancing his working capital, therefore unlocking liquidity for other needs and so is the Supplier, who is getting immediate cash.

b) Credit rating arbitrage

Advance payment before the Maturity Date has a cost for the Supplier but Reverse Factoring also has a successful answer to this. In a Reverse Factoring transaction, the Supplier enjoys lower finance rates than he would normally be able to access. The reason for this, and another key point of a Reverse Factoring transaction, is Credit Rating Arbitrage.

Credit Rating Arbitrage is the practice of offering to the Supplier access to better terms of finance taking into account the Buyer's better credit rating. Such access to immediate and lower cost cash for the Supplier, even if it comes at a cost, is a much more attractive option than to wait for payment at the Maturity Date.

The advance payment by assignment against cash does not consume the Suppliers own credit resources, which frees his credit lines with his own financial providers.

c) Open Account terms

A Supplier that enters into this scheme has to cease using Letters of Credit or any other type of guaranteed payment. Suppliers often rely on this kind of guarantee of payment to gain access to finance and gain transactional control over their cash flows.

However, Letters of Credit and other secured payment transaction forms are expensive. Not only in money terms for the Supplier but also in time and management for both the Supplier and the Buyer, which directly translates into associated costs adding to the total cost of using Letters of Credit. Reverse Factoring is not yet the perfect solution to avoid Letters of Credit, as the Supplier will remain on risk from the date of issuance of the invoice and up to the date on which the invoice is confirmed. However, once the invoice is confirmed, Reverse Factoring also provides certainty of when the payment will be released by the Buyer but, unlike Letters of Credit or other forms of secured payment, avoiding the use of his own bank credit lines.

In a Reverse Factoring transaction, we have learned that when the Buyer provides his covenants to the Factor for each confirmed invoice. This usually means that there will be neither a dispute nor any claim or set-off to be applied to the invoice. For the Supplier, when he receives a confirmation from the Factor, this translates into certainty over the payment date.

Many Suppliers may experience a loss of transactional control when Letters of Credit are abandoned but Reverse Factoring has another key feature, and this is **transparency.**

d) Transparency.

One of the most important facts in Reverse Factoring as a product, is that it's "technology-driven". The success of the chain of events that triggers a subsequent event, relies on technological procedures and not on a paper chain process.

Following the submission of the file by the Buyer to the Factor, the automatic process of approval runs through the Buyer's file and the Factor accepts or rejects the confirmed receivables. The immediate posting of confirmed invoices for the Suppliers to be informed, automatic posting of offers by the Factor to the Suppliers, immediate availability of the option of assignment by the Supplier, immediate transfer of the funds after the sale of the receivables from the Factor to the Supplier, automatic notification of assignment to the Buyer… all these and many more procedures are performed within some hours, thanks to very powerful technological platforms.

In addition, besides the speed, all data included in these procedures is available to the involved parties to access, gaining certainty and transparency in all transactions which, at the end, brings efficiency to the complete supply chain.

This technological information flow also means saving costs compared to dealing with paper-trade documents.

Is Reverse Factoring the same as Factoring?

Nowadays, many players in the so-called Supply Chain Finance arena (Reverse Factoring), state that Reverse Factoring is not the same as factoring. The confusion in terms has been competitors' best ally and they have gained market competitiveness by placing themselves as being separate from the seller centric solutions like factoring.

Any Factor, when considering a factoring transaction, will rely on the information given (almost) exclusively by the Supplier and will use this information to establish approved limits against multiple individual Buyers.

Once the funding limit for the Supplier is approved, factors will be prepared to make a prepayment of 80-90% of the invoices under the factoring agreement.

In a standard factoring transaction, the Supplier will generally outsource the management of his sales ledger and the factor will use a range of procedures in order to collect the debt that range from simple reminders of payment to legal collection proceedings.

Even if the flows differ much, the target of reverse factoring has always been to deploy as many factoring transactions as possible, reaching the total base of suppliers of a particular buyer.

As we can ascertain, factoring is the core of reverse factoring.

7. Empowering Small and Medium size Enterprises (SMEs)

Considered the backbone of an economy, SMEs dominate supply chains by number. But despite this, they have difficulties in accessing affordable working capital.

Their importance is such that they are directly related to employment and economic dynamism. The World Bank, the Mexican government, the UK's administration under Cameron's term (2012) and the US Obama's Administration (2014), have all underpinned the great importance of Supply Chain Finance (meaning Reverse Factoring) and promoted the launching of government supporting programs like Nafin in Mexico and SupplierPay in the USA.

It is useful to illustrate that, according to the World Bank, there are about 125 million SMEs in 132 countries and of these, 89 million SMEs are located in developing countries.

The importance of Reverse Factoring lies in achieving payment term reduction and lower financial costs which will benefit the overall economy since the user companies will have access to greater resources (e.g. for hiring workers) and therefore to the opportunity to grow.

With Reverse Factoring, even companies with lower ratings may be part of the program, thanks to the Credit Rating Arbitrage. This is the reason why it is a product with a great level of market power.

All these reasons have made Reverse Factoring an interesting product in the market, even though to date the major share of the market belongs to six major global banks. Despite this, the market response has been insufficient, which has contributed in part to the emergence of Fintechs, a strong sector that already captures around 15% of the market share.

FCI, as a financial network, can play a key role in promoting supply chain finance solutions amongst its members and educate less financially developed countries about the product that is proven to have been valuable in the worst economic crisis scenarios.

8. The Rise of Fintechs

According to McKinsey, the strategic consultant, Reverse Factoring has had a steady growth of 20% each year for the past 7 years and an expected growth of 15% for 2019. The same report reveals that the market is worth $1.8 trillion USD and only 1/10 of the market is currently captured.

McKinsey has suggested that, if the banks want to be part of this market and not be overrun by Fintechs, such banks should identify gaps and develop innovative solutions or partner with Fintechs if these banks want to reach some of the Reverse Factoring business potentially valued at 18 billion USD in revenues.

Two main issues have obstructed the growth of this product: technology and geographical reach. The first six banks offering Reverse Factoring solutions have invested heavily in technology platforms that could support their transactions. They have also relied on their global scope to perform Reverse Factoring transactions in geographies where they had presence. In the end, their capabilities are not enough for the market.

The capabilities from these banks have fault lines and none of them is capable of carrying out seamless transactions in all the geographies needed. However, even if they could, their risk capabilities are not enough for the demand and the market has not yet reached the point of syndication.

These gaps have been tapped by this new Fintech role players. At the beginning, they were providing software-based services to banks, but soon enough they gained competitive advantage and started to provide Supply Chain Finance solutions (not only Reverse Factoring) directly to corporates.

These Fintechs, which include amongst their solutions reverse factoring programs and receivables finance programs, are partnering with banks, financial institutions and hedge funds for the capital needed to deploy these services to user companies. Being capable of directly offering solutions to corporates, they are depriving financial institutions of their most valuable asset - **banking relationships** - and are pushing the financial institutions to become pure capital providers. These technology and service providers are actually changing how corporates see the future financial systems while financial institutions are timidly responding.

9. FCIreverse and its Value Proposal

Reverse Factoring is a solution within various supply chain finance solutions that sits alongside factoring and invoice discounting, which are the heart of FCI's member knowledge.

FCIreverse is the Reverse Factoring initiative that FCI has been developing throughout the past three years, in direct response to its mission statement. FCI identified the following gaps and issues in the Reverse Factoring transactions that were available in the market at that time:
(a) building technology capabilities or accessing top-notch technology platforms is a pricy approach for most banks,
(b) global capabilities of banks are limited, mainly due to a lack of international presence but also due to operational challenges such as regulatory, legal and currency burdens, and
(c) diluted capital capabilities of banks narrowing the funding capacity of the programs.

FCIreverse provides access to top-notch technology service providers at a cost that takes the whole FCI network into consideration. As such, FCI members gain access to competitive prices that would not otherwise be possible.

Pairing with a leading service and technology provider will allow FCI members to have some of the best industry operational know-how.

Leveraging on the FCI member network and the solid framework of the two-factor system, FCIreverse Factoring transactions will bring additional collaborative and business opportunities for all members.

International presence is enhanced with partners that understand the local regulations and who can provide services in the same language and time zone of the Supplier's country of residence.

Tapping into FCI's support to develop common standards, rules and methodologies, its continued efforts for education in the product (thanks to its risks, legal and marketing training), as well as in the implementation of standard rules that will enable members to gain legal certainty in their collaboration with other members.

FCI's advocacy in different markets will enable other players to come and join the FCI network which will extend the network to even more countries.

For all these reasons, FCI enables a range of approaches to Reverse Factoring through FCIreverse. These approaches can be implemented on a stand-alone basis or combined with each other to offer tailored services to users.

There are three basic approaches, which we call the **3-Corner Model**, the **3+-Corner Model** and the **4-Corner Model**; each of them has special characteristics which the following sections explain.

9.1. The 3-Corner Model – a Standard Reverse Factoring Transaction

The 3-Corner Model is a standard Reverse Factoring transaction carried out by just one FCI member. This 3-Corner Model takes its name from the three (3) key role players involved in the transaction: the FCI Member, the Buyer and the Supplier.

The access to the platform is directly agreed with the platform provider elected, under a standard legal document already approved by FCI. Once the access to the platform is granted, the FCI Member is ready to contract any Reverse Factoring transaction with a Buyer. It must be noted that the success of a Reverse Factoring transaction requires efficient planning, focusing on the know-how and continuous information flow from the Buyer in order to successfully on-board the right Suppliers on the platform.

(i) Once the Supplier is on-boarded, the Supplier will send his invoices to the Buyer as usual.

(ii) The Buyer has to act as fast as possible and check that all the goods delivered and/or services rendered by that Supplier are in accordance with their bilateral commercial agreement. One of the most important but also most challenging commitments a Buyer has with his Suppliers for a successful Reverse Factoring scheme, is to confirm the invoice(s) as soon as possible. The shorter is the acceptance and confirmation period from the date of issuance, the stronger gets the commercial relationship with the Supplier.

We know that one of the strongest pillars of a Reverse Factoring transaction is that disputes are not possible over invoices that have been confirmed. But we are aware that mistakes happen and therefore disputes might be risen.

One of the most important elements in reverse factoring is the selection of Suppliers that have a long-standing commercial relationship with the Buyer. However, in the case of a confirmed but disputed receivable, this should be settled directly between the Buyer and the Supplier.

(iii) Once the Import Factor receives the list of confirmed invoice(s) from the Buyer, he processes them to either accept or reject, according to his risk criteria. The reason for rejection could be for differences between the risk criteria and the information provided. Some examples of these differences could be:

- ❖ Is the Supplier one of the on-boarded Suppliers and has the Factor performed his due diligence over him?
- ❖ Is the confirmed invoice within the credit limit granted on Buyer?
- ❖ Is the Maturity Date within the maximum payment terms accepted?

(iv) Once the invoice has also been accepted by the Factor, an automatic message is sent to the Supplier informing him of the availability of the invoice. Together with this information, a purchase offer in the form of an assignment agreement is also made available to the Supplier. In that purchase offer, the Factor informs the Supplier on which economic and legal conditions this purchase is to be made.

This agreement is a simple sign-up contract and is valid for a certain number of days to be determined in the same offer, but usually until 5 days prior to the Maturity Date.

(v) The Supplier may or may not take the offer. Sometimes the Supplier wants to sign a framework agreement that enables an automatic sell and assignment of all the invoices that are confirmed by the Buyer and made available by the Factor.

If the Supplier decides to accept the offer, he just has to electronically sign (in the jurisdictions that this is possible) the agreement or sign it in paper form and upload it to the platform. Once this agreement is signed, it will be concluded by the receipt of funds from the Factor which proves the purchase.

(vi) Once the funds are released to the Supplier, the Factor becomes the Buyer's legal creditor and takes the position of the Supplier for his receivables. At this moment, and depending on the legal criteria of the Factor, a notification of the assignment is released to the Buyer which perfects the position of the Factor against the Buyer and any third-party claimant.

A Supplier that decides not to accept the offer and wait until the Maturity Date of the invoice will not send any document and will just wait to be paid by the Factor or directly by the Buyer. This payment method will depend on whether the Factor is allowed by his regulation to deploy receivables management services to the Supplier or not. We must point out that a Supplier that waits until the Maturity Date of the invoice bears his own risks for non-payment or insolvency of the Buyer.

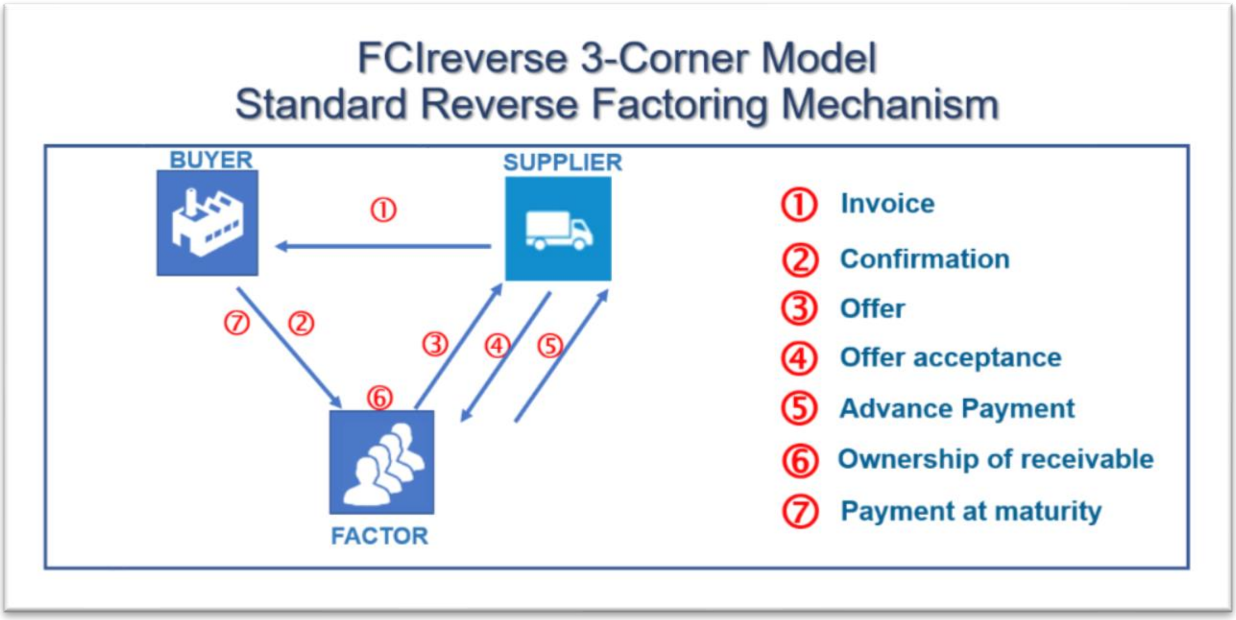
(vii) On the date of maturity, the Buyer will remit funds to the Factor to enable the settlement of all the confirmed invoices.

This settlement will be different depending on whether the Factor is the Buyer's legal creditor or not. If the Factor is the legal creditor, the settlement is immediately made after the receipt of the funds by the Factor and with this settlement, the Factor releases the credit line allocated under his risk criteria.

(viii) The Factor or the Buyer will remit funds to the Suppliers that have decided not to take up the offer.

The transaction is then settled between the Buyer and the Factor and the transaction is terminated.

(ix) Finally, the Platform Fee is paid by the Factor to the platform provider taking into account the advance payments made by the Factor to the Suppliers.

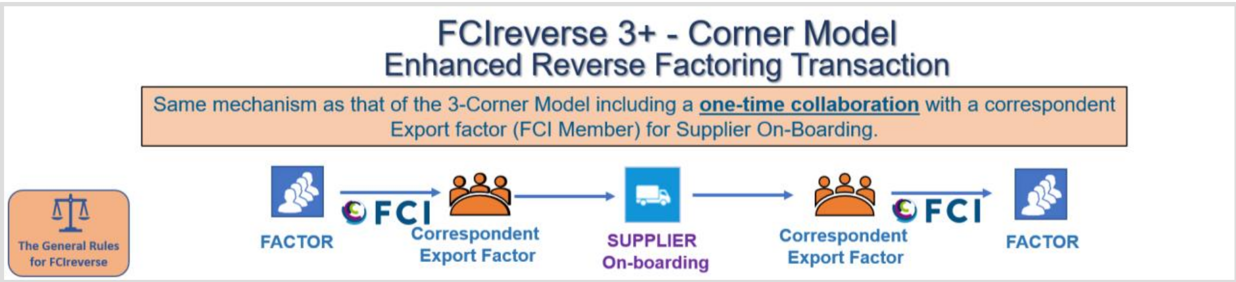


9.2. The 3+Corner Model - One-time collaboration needed for on-boarding

The only difference between a 3-Corner Model and a 3+ -Corner Model lies on the on-boarding of the Suppliers.

Any Factor that does not need the collaboration of a Correspondent Member will deploy a pure 3-Corner Model. However, if the Factor needs the collaboration of another FCI Member as a necessary element to help the Factor on-board Supplier(s) due to, for example, language issues, documentation gathering, helping in the KYC and AML processes, he may deploy a 3+-Corner Model. Once the on-boarding of the Supplier is completed, the relationship between the Factor and the Correspondent Factor for this specific transaction is terminated and a standard 3-Corner Model is operated.

The collaboration of the Correspondent Factor is rewarded by a fee or a commission to be agreed between the parties. This relationship is governed by the General Rules for FCIreverse.



9.3. The 4-Corner Model – Two Factor System meets FCIreverse

The 4-Corner Model is the most sophisticated transaction and the model that has attracted particular attention from the market, the industry and all stakeholders as there is currently nothing comparable on offer. It is the sort of collaborative and innovative transaction that the market is looking for.

The pillar of this scheme is the partnership with other FCI members to jointly collaborate in deploying a Reverse Factoring transaction. The reasons for this partnership may be numerous and each party may have his own, but the ones identified by the FCI's Supply Chain Finance Committee are principally:

(a) The Import Factor is not confident of performing transactions outside his domestic market.

(b) The Import Factor identifies that in the country where the targeted Supplier is legally located, the Import Factor, is not allowed to operate due to various restrictions (legal, regulatory, currency exchange, etc.).

(c) The Import Factor prefers to rely on the local knowledge of the Export Factor and does not want to assume any risks regarding the assignment by the Supplier and its perfection (registration or otherwise) to avoid any third-party(-ies) claim.

(d) The Import Factor relies on the provision of funds by the Export Factor, therefore it diversifies his funding sources and does not have to consume his own.

The 4-Corner Model is based on FCI's Two-Factor System and is governed by the **General Rules for FCIreverse**. The naming of the parties involved is also shared with Two-Factor System. However, we must remember that this is a Buyer centric solution and the Buyer is the one initiating the rest of events that are triggered after confirmation of the invoice. Therefore, in a Reverse Factoring transaction under a 4-Corner Model, we must keep in mind that the party initiating the relationship is the Import Factor unlike the usual Two-Factor System.

Whatever the reason to implement a 4-Corner Model is, the transaction should always start as follows:

(i) The transaction starts like a standard 3-Corner Model, by recognizing the needs of the Buyer. Again, this is one of the main pillars of any Reverse Factoring transaction: what is the need of the Buyer and what is the Buyer seeking for, with the implementation of this transaction?

(ii) When the Import Factor targets the necessary Suppliers to make the transaction work in accordance with his own regulatory & operational framework but realizes that he needs the collaboration of one or more Export Factors, then the Import Factor should include one or more Export Factors in the program.

The Import Factor and the Export Factor should agree on the economic conditions on which the offers to the Suppliers will be made, following the funding criteria of the Export Factor's cost of funds. At this moment, both parties should also agree on the commissions and/or charges of the transaction to be paid by the Export Factor to the Import Factor for the business.

(iii) The agreement between the Import Factor and the Export Factor about the conditions of the collaboration shall be made through signing of the FCI Interfactor Agreement, where both parties agree to collaborate and bound to the terms of the General Rules for FCIreverse.

(iv) Once the FCI Interfactor Agreement is signed, the Export Factor will then sign an Access Platform Agreement with the platform provider that will enable him to receive information and deploy Export Factoring services onto the Platform.

(v) Once the Export Factor is on boarded, the Export Factor is then allowed to on board the Supplier(s) designated by the Import Factor. For on boarding of the Supplier, the Export Factor should sign a reverse factoring contract with the Supplier for the assignment of all confirmed invoices and provide the platform provider with the offer to be sent with each invoice confirmation.

(vi) At the point that both the Export Factor and the Supplier(s) are on boarded, the Buyer is ready to start confirming invoices to the Import Factor for these Suppliers.

(vii) The Supplier will send an invoice to the Buyer as under their usual commercial relationship.

(viii) As we have already described in previous paragraphs for the 3-Corner Model, the Buyer has to act as fast as possible and check that all the goods delivered and/or services rendered by that Supplier are in accordance with their bilateral commercial agreement. One of the most important but also most challenging commitments a Buyer has with his Suppliers for a successful Reverse Factoring scheme, is to confirm the invoice(s) as soon as possible. The shorter is the acceptance and confirmation period from the date of issuance, the stronger gets the commercial relationship with the Supplier.

One of the strongest pillars of a Reverse Factoring transaction is that disputes are not possible over invoices that have been confirmed. But we are aware that mistakes happen and therefore disputes might be risen.

A crucial element in reverse factoring, is the selection of Suppliers that have a long and undisputable commercial relationship with the Buyer. However, in the case of a dispute of a confirmed receivable, this should be settled directly between the Buyer and the Supplier.

(ix) Once the Import Factor receives the list of confirmed invoice(s) from the Buyer, he processes them to either accept or reject, according to his risk criteria. The reason for rejection could be for differences between the risk criteria and the information provided. Some examples of these differences could be:

- ❖ Is the Supplier one of the on-boarded Suppliers and has the Export Factor performed his due diligence over it?
- ❖ Is the confirmed invoice within the credit limit granted for the Buyer?
- ❖ Is the Counter Party risk of the Export Factor exceeded?
- ❖ Is the Maturity Date within the maximum payment terms accepted?

(x) Once the invoice has been approved by the Import Factor, an automatic message informing the availability of the invoice, is sent to the Export Factor and the Supplier. Together with this information, the purchase offer, in the form of an assignment agreement drafted by the Export Factor, is also made available to the Supplier.
In such a purchase offer, the Export Factor informs the Supplier about the economic and legal terms and conditions of the transaction. This assignment agreement implies and constitutes the transfer of all rights and interest in and title to such receivable by any means.

(xi) The Supplier may or may not accept the offer.
If the Supplier decides to accept the offer, he needs to sign it and send it to the Export Factor. If the acceptance should be made onto the platform, the Supplier will electronically sign the offer (in the jurisdictions that this is possible) or sign the paper form and up-load it onto the platform. Once this offer is signed, the invoice is assigned to the Export Factor who then may effect an advance payment to the Supplier, in case the Supplier requested it, on the same day or on the day after, at the latest.
The acceptance of the offer by the Supplier will trigger an automatic message by the platform to the Import Factor notifying the Import Factor that the Export Factor is the new legal owner of the invoice.
Suppliers participate in Reverse Factoring schemes primarily for catering their working capital needs, however, Suppliers may exceptionally also use the FCIreverse 4-corner model in connection with the two-factor system for protection against bad debts, collection of receivables and receivables ledgering functions, according to the General Rules for FCIreverse.

(xii) Under the 4-Corner Model and under the General Rules for FCIreverse, the moment in which the aforementioned message is released by the Platform, the Export Factor is automatically assigning the invoice(s) to the Import Factor without any further notification or message.
The Export Factor ensures that the assignment to him by the supplier is valid in accordance with the laws of the supplier’s country and so it is specified in the General Rules for FCIreverse.

(xiii) Once the assignment is made by the Export Factor to the Import Factor and, depending on the legal criteria of the Import Factor, a notification of the assignment is released to the Buyer which perfects the position of the Import Factor against the Buyer and any third-party claimant or, if so agreed in the contract between the Buyer and Import Factor, by way of having the information posted and available to the Buyer.

The Supplier that decides not to accept the offer and wait until the Maturity Date of the invoice(s) will not assign or send any document and will just wait to be paid by the Import Factor when the Import Factor collects the funds from the Buyer.

Import Factors that are not allowed to carry on these activities as agents due to their regulation, the payment at Maturity Date shall be made by the Buyer himself.

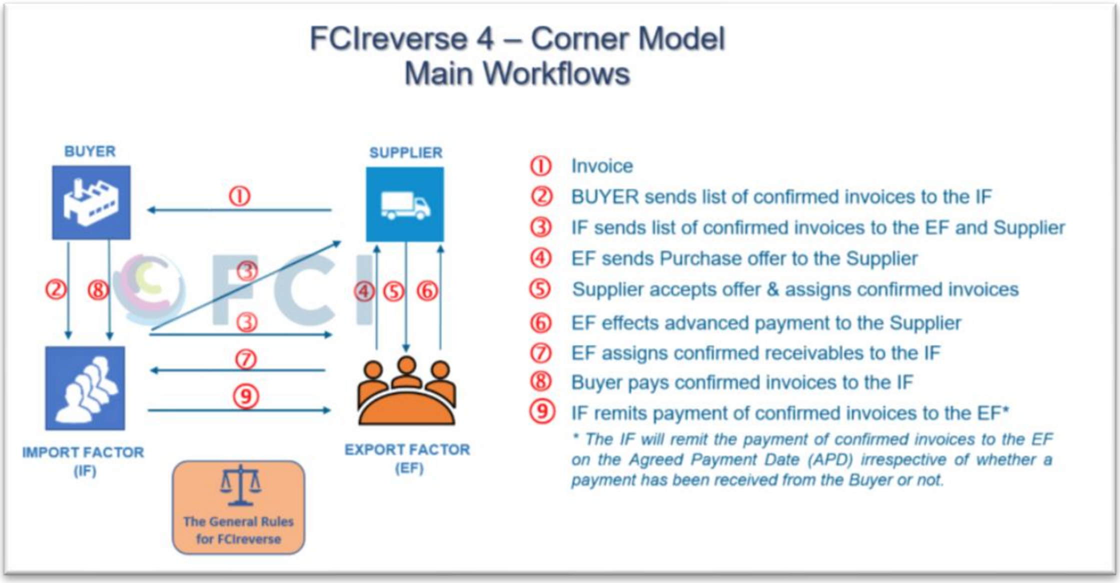
(xiv) On the Agreed Payment Date (APD), the Import Factor will reimburse and settle the Export Factor with the original amount, i.e. 100 per cent value of the confirmed and assigned invoices.
The most important element of the 4-Corner Model is that, irrespective of whether the Import Factor managed to successfully collect the funds from the Buyer, he shall effect the payment of all confirmed invoices assigned to him by the Export Factor on the APD and not after.
The payment made by the Import Factor to the Export Factor means the settlement of all confirmed and assigned invoices.

(xv) When the Buyer pays the Import Factor, the Import Factor is then able to settle all confirmed invoices. However, if the Buyer fails to pay the Import Factor, the Import Factor will then have a debt to be collected but the Export Factor will be out of risk.
Once the Buyer pays, the transaction is then settled between the Buyer and the Import Factor and the transaction is over.

(xvi) The Export Factor shall pay the Platform Fee to the Platform Provider for all the advance payments made by the Export Factor to the Suppliers. The Export Factor will also be responsible for paying any agreed commission and/or charges agreed between himself and the Import Factor.

<u>**Important note:**</u> the 4-Corner model is ready and operational on the specific platform provided by the platform provider selected by FCI. It shall be also operational in the **edifactoring.com** environment, once the necessary messages are ready (currently in the process of testing).

<u>**The main workflows of a 4-Corner Model**</u>



10. Constructing a sustainable and profitable Reverse Factoring Infrastructure.

A well-structured, sustainable and profitable reverse factoring infrastructure has to be based upon a win-win program for all the parties. This can only be achieved by a good cooperation between the Factor and the Buyer for understanding his needs and providing with the best possible solutions to achieve these goals.

All legal frameworks that are involved in a Reverse Factoring transaction have to be aligned together and should be designed and written like as if they were one legal agreement. All together work like invisible glue that tights all the parties.

The Factor is the party that links all the parties together and enables the Reverse Factoring transaction to actually work.

11. Frequently Asked Questions

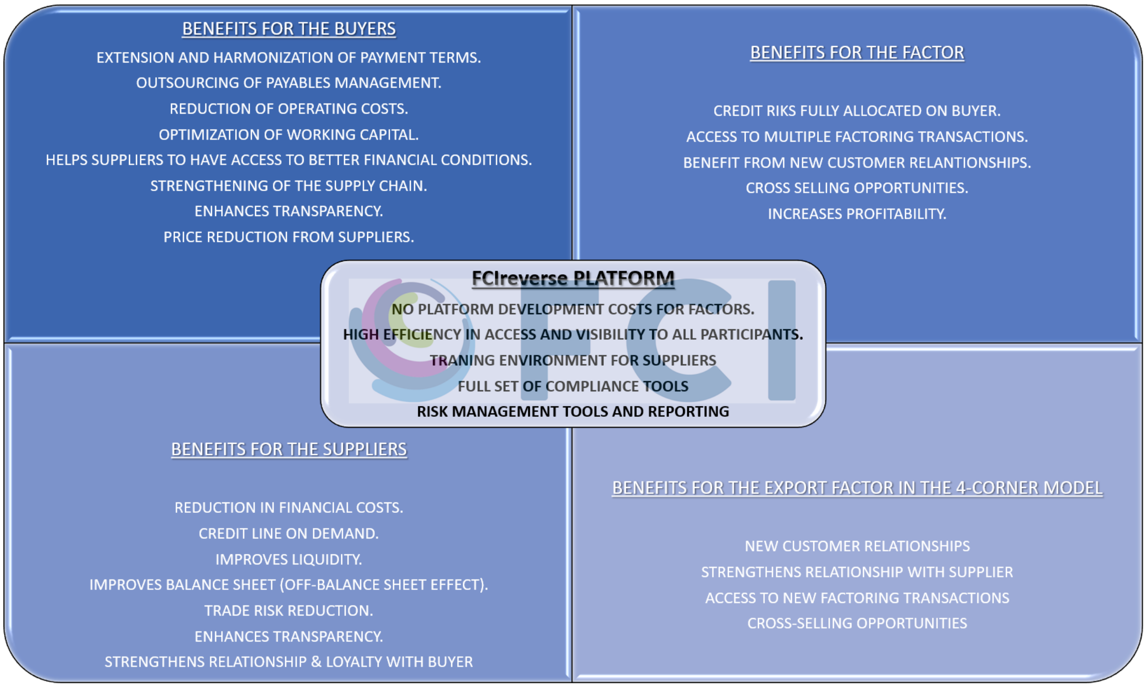
Why is Reverse Factoring a win-win deal?

Because there are benefits for all the parties involved:

- **For the Buyer**, unlocking the working capital hidden in his own supply chain is the most important benefit and is most commonly achieved by the extension of payment terms but there are other possibilities as for example price reduction. But there are other benefits to look into such as to provide stabilization of the supply chain by granting the Suppliers with access to immediate cash. FCIreverse programs provide the Buyer with a sound relationship with the Supplier which translates into a sustainable relation.
  The Buyer will also benefit from dropping paper-form documents into open account trade which will save time in document management for the Buyer.

- **For the Supplier**, the benefit translates into cheaper finance thanks to Credit Rating Arbitrage, controlling the cash flow and deciding when to receive the funds and not utilizing his own credit lines. For the Supplier, availability to know when and which invoices have been confirmed by the Buyer provides certainty to his trade and lowers his trade risks. It also helps to build a strong relationship with the Buyer.

- **For the Factor**, there is the opportunity to build a long-standing relationship with the Buyer, to process multiple factoring transactions leveraging only on the Buyer's risk. He will also benefit from new customer relationships with the Suppliers where there are cross-selling opportunities.



Why is the on boarding process so important in a Reverse Factoring transaction?

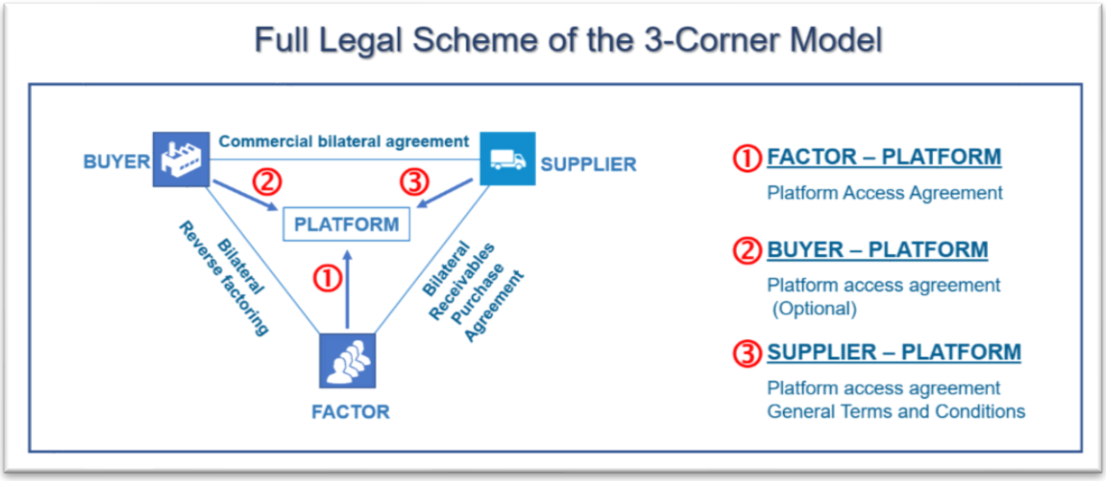
In order to build a sustainable and long-lasting Reverse Factoring transaction, the Factor and the Buyer should work together to construct a business case tailored to the needs of the Buyer. The successful identification of Buyers' needs and objectives will lead to successful on-boarding of the right suppliers. This is also of major importance for the Factor as it will also enable the gathering of the right information to assess his credit risks and right FCIreverse model to be applied to the transaction, i.e. 3-Corner Model, 3+ -Corner Model or 4-Corner Model.
In case the 4-Corner Model is needed to accommodate the Buyer's needs, the on-boarding process will also include the selection of the right Export Factor among FCI members.

What are the different legal agreements involved in the FCIreverse programs under the FCIreverse Platform?

Legal documentation is crucial to achieve a well-balanced program and shall be taken into consideration as a whole where the responsibilities are cross-referenced. It is proven that the reverse factoring program is more successful, the shorter and clearer the legal documentation is and the easier the on boarding process is.

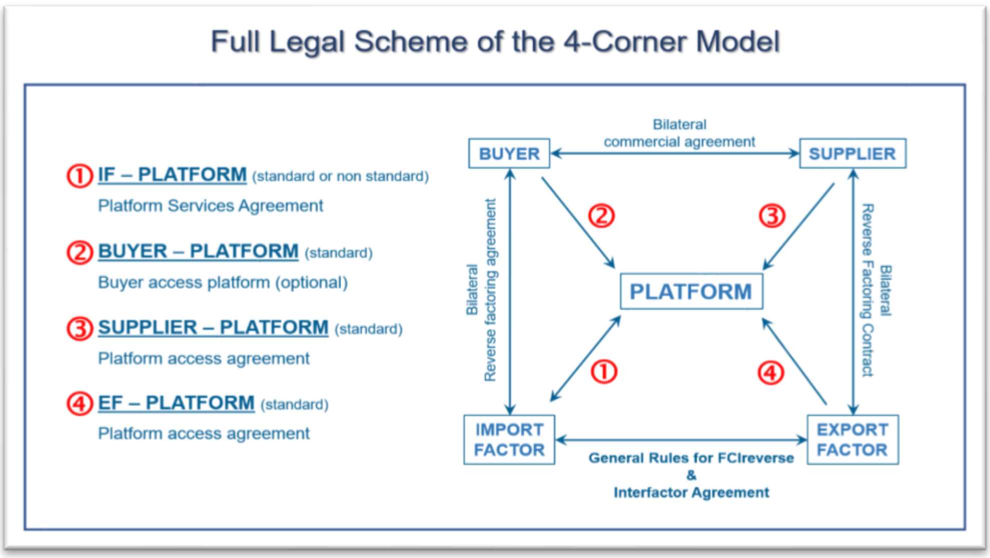
Nevertheless, the tight framework is vital to provide security over the receivable, the collection and to address any default of the Buyer and the Supplier.

- **In the 3-Corner Model**: besides the standard bilateral commercial agreement between the Supplier & the Buyer, the additional legal relationships are (a) between all parties and the Platform Provider to access the FCIreverse platform services (1, 2, 3), (b) between the Factor and the Buyer for Reverse Factoring agreement, (c) between the Factor and the Supplier for the purchase and assignment offer agreement.



- **In the 3+-Corner Model**: there are no different legal relationships than the ones for 3-Corner Model but, as this model implies the cooperation of two FCI members, further to the cooperation request to a Correspondent Member to help with the on-boarding and/or KYC procedures of a particular Supplier, an Interfactor Agreement has to be signed between the two correspondents.

- **In the 4-Corner Model**: the legal relationships are: (a) between the Platform Provider and the two FCI correspondents (Export & Import Factor) to access the FCIreverse platform services, (b) between the Import Factor and the Buyer for Reverse Factoring agreement, (c) optionally between the Buyer and the Platform Provider for viewing purposes on how the transaction is handled or for direct uploading of confirmed invoices to the Platform (d) between the Import Factor and the Export Factor in the form of Interfactor Agreement (e) between the Supplier and the Platform Provider for the access to the FCIreverse platform whereby the Supplier will be able to be informed of the confirmed invoices as well as to accept the offers to assign the invoices to the Export Factor (f) between the Supplier and the Export Factor for the assignment of the confirmed invoices.



What warranties and covenants are given by the Buyer to the Factor/Import Factor under the Reverse Factoring agreement?

It is for the Factor to decide which should be the warranties to be offered by the Buyer but the standards include: irrevocable payment undertaking at the Maturity Date, irrevocability, no set-off or dispute over confirmed receivables.

Which are the risks involved in a Reverse Factoring transaction?

- **Risks for Buyer.**

  As the Buyer needs to speed the confirmation over the receivables received from the Supplier and once confirmed to the Bank these are treated as undisputable, the Buyer has the risk of having to deal with some future disputes.

  The Buyer also bears the performance risk of the Factor, in terms of effecting swift payments at Maturity Date to the Suppliers that decided not to sell the invoice.

  The Buyer is taking the reputational risk over the performance of the Factor. A poor performance will seriously taint the relationships between the Buyer and the Suppliers.

  As the Buyer provides a warranty of payment undertaking at the maturity date to the Factor, the perfection of the assignment is a key element. In case of any problem is raised by a third-party claimant, the Buyer will be unprotected.

  The Buyer also relies on the knowledge and operational capability of the Factor in assessing an optimum Reverse Factoring transaction. Any wrong assessment could lead to insufficient credit limit to deploy the transaction, therefore not meeting the cash demand of the Suppliers or to excessive payment terms that may lead to increase the cost for Suppliers.

- **Risks for the Factor**

  The Factor is covering all the risks associated with the Buyer. These are not only concerned with credit or payment issues but also on the correctness of the confirmed invoices file submitted to the Factor. As the Factor will not have direct access to the actual (paper) invoices, the Factor bears the risk that the file doesn't include trade receivables arising from the normal trade relationship between Buyer and Supplier.

  The perfection of the assignment relies on the knowledge of local regulations in all the locations where the Suppliers are located.

  Obviously, the major risks for the Factor are related with operations, specifically, exercising controls over the offer acceptances and having full control over the program stoppage. The role of technology is crucial to help manage all the possible variables and alarms. We must remember that external circumstances could affect the supply chain ecosystem.

The Factor bears the insolvency or non-payment risk of the Buyer but only to the extent that the Factor is the legal owner of the invoices. The validity of the assignment is crucial for any Court claim.

- **Risks for the Supplier**
  The Factor approves a credit limit on the Buyer that is dynamically allocated to his Suppliers. It may happen that, when a Supplier requests funding, there is no limit availability and, as such, no advance payment can be effected.

  The Supplier relies on the wording of the agreement in order to enable an off-balance sheet treatment of the payment without any recourse.

  One of the key elements for the Supplier is the reception of the funds. Any delay in the receipt of funds, either advance payments or payments at maturity, will be costly for the Supplier and may cause a break of trust in the Reverse Factoring transaction.

- **Risks for all parties**
  All the parties, including FCI as association, bear the risk of performance of the Platform Provider.

- ***As an FCI Member may I deploy Reverse Factoring transactions without the use of the FCIreverse Platform?***

Yes, but only 3+-Corner Model and 4-Corner Model. Edifactoring.com is prepared to deploy 3+ Model and 4-Corner Model in similar ways as how factoring transactions are carried out under Edifactoring.com. Of course, the automatic processes, the speed and the transparency for the Supplier are not possible but collaboration between two different factors takes place.

- ***Which are the new EXCLUSIVE messages that will enable any Member to deploy 3+ and/or 4-Corner Model through Edifactoring.com?***

Message 75, very similar to the actual message 1 for factoring transactions. This message is to be sent by the Import Factor to request the help of any other FCI Member enquiring for completion of on boarding and KYC services for 3+-Corner Model transactions or full service when entering into 4-Corner Model.
Message 76 is the reply to Message 75 from the Export Factor. There are different possible replies, from denial of service, quoting prices as well as telling the Import Factor the completion of the requested services.
Message 79, works in a similar way to the actual message 9 for factoring transactions where the Import Factor will send and inform to the Export Factor the details of all the confirmed invoices.

Once the Export Factor funds the Supplier and gets the assignment of the invoice, the Export Factor will then send the usual messages for a factoring transaction, starting by message 9 “invoice” which triggers the assignment of the invoice to the Import Factor.

Important note: the above-mentioned messages are currently in the process of testing in edifactoring.com. Once testing is completed, the 4-Corner model shall also be operational on the edifactoring.com environment.

How is the Platform Fee calculated?

The platform fee is calculated **exclusively** over the spread or margin and commissions directly applied to the Supplier as the purchase price of the invoices. This fee is accrued when the advance payments are made and shall be paid directly to the Platform Provider on a monthly basis upon reception of an invoice.
This means that the cost of funds and any charges and/or commissions between the Import Factor and Export Factor is out of the calculation of this platform fee.
If FCIreverse is deployed directly on edifactoring.com, there is no platform fee.

What are the costs of FCIreverse for an FCI member?

To use FCIreverse, the member must pay an annual fee of €5,000, implementation fee (charged by the platform provider for training & integration) and the ongoing activity fee (charged by the platform provider) for invoice processing, payable monthly. For those members with existing platforms, and they would like to be supported by an export factor in the country of the supplier, the member can use new “supplier on-boarding messages” within edifactoring.com. We call this the four-corner supplier on-boarding reverse factoring solution. For those with their own buyer on-boarding software platform, members can use **edifactoring.com** to contact the export factor for free if the member is an existing associate or full “trading” member. Use of edifactoring.com is already covered in their existing membership.

Why are there different GRIF rules for FCIreverse?

The General Rules for FCIreverse mirror the GRIF. They are different rules because the work flows are not the same as those in the two-factor system and it would have created much confusion to add these flows to the GRIF.

What are the main characteristics of the new rules for FCIreverse?

As the confirmed invoices have privileges of not suffering from any set-off, dilution, disputes, the General Rules for FCIreverse are shorter and more straightforward. Nevertheless, these new rules deal with the obligations of the Import Factor and the Export Factor towards each other.

While the Import Factor guarantees the Buyer’s performance and payment to the Export Factor, the Export Factor guarantees that the assignment has been valid and binding under the local law with the Supplier. Just like in the GRIF, there are consequences if the first assignment from the supplier to the EF is proven invalid, then the Import Factor may reassign the invoice to the Export Factor (refer to Article 14 of GRRF).

- ***Do I have to renew all my Interfactor Agreements?***

The wording of the Interfactor Agreement will be changed to include the General Rules for FCIreverse. The Import Factor that wants to collaborate with an Export Factor under an FCIreverse scheme they should sign a new Interfactor Agreement. There is no need to renew the Interfactor Agreements with other correspondents that will not be part of the FCIreverse transactions.

Note: the text of the updated Interfactor Agreement that includes the "General Rules for FCIreverse" has to be approved by the FCI Council, during the 51st FCI Annual Meeting (9-14 June 2019).

12. Conclusions

FCIreverse provides a supply chain finance solution that uses reverse factoring, promoting factoring business through its members whilst helping them to reach a greater volume of deals by concentrating the risk on the Buyer instead of the Supplier. FCIreverse is the answer to the need of many financial institutions to redefine their role in a supply chain finance scenario and the need to adapt solutions for the current demands of customers.
The increase of transactions in open account terms will continue, thanks to the rapid advances in technology which will create an increasing demand for products that can mitigate risks of trade for the Supplier whilst providing a financial tool to access cheaper and Off-Balance sheet finance based on the credit rating of the Buyer. At the same time, it will create a more robust supply chain for the Buyer who also benefits from a better working capital enhancement by the extension of payment terms and cost reduction.

Achieving all these benefits whilst, at the same time, providing greater transparency on the financial flows within a short real-time process connecting all the parties together so they can be able to forecast and make decisions based in this information, means FCIreverse is built upon a great technology tool.
The promotion on marketing, education, knowledge and the lobby that FCI can do for the members is invaluable to make reverse factoring, hence FCIreverse, blossom.

By taking advantage of the 3-Corner Model, 3+-Corner Model and designing a 4-Corner Model under the General Rules of FCIreverse, which will provide certainty to the members, users will be able to find collaborative ways of cooperating which will translate into market attraction for Buyers that seek stability, greater value from the financial supply chain and to avoid the risks of Supplier concentration.

FCIreverse will take advantage of this factoring knowledge and provide a stronger future for the members.

Glossary

3-Corner Model: the FCIreverse Reverse Factoring program where only one Factor (acting as a funder of such program) runs the program for the Buyer and directly funds the Supplier.

3+-Corner Model: the FCIreverse Reverse Factoring program where the Factor running the 3- Corner Model, requests ad-hoc collaboration of an FCI member for on boarding suppliers, KYC and AML procedures.

4-Corner Model: the FCIreverse Reverse Factoring program where one FCI member (acting as Import Factor) runs the program for the Buyer and other FCI member (acting as Export factor) runs the program for the Supplier.

Agreed Payment Date (APD): Agreed Payment Date (APD) is the date on which the Import Factor and the Export Factor agree as the payment date by the Import Factor to the Export Factor. The APD may be the due date of the receivable or any date before or after the due date that is proposed by the Import Factor and agreed by the Export Factor.

Accounts Receivables (A/R): An amount of indebtedness represented by an invoice not yet paid by the buyer. Also called ”receivables”.

AML: Anti-Money Laundering

Buyer: The seller’s customer. He is liable to pay the A/R arising from the supply of goods or the provision of a service. See also *debtor*.

Confirmed Invoices: the invoices that once received and verified by the Buyer are sent to the Factor/Import Factor under the Reverse Factoring agreement receiving all the warrants and covenants agreed by the Buyer and the Factor/Import Factor.

Correspondent Factor: the FCI member who collaborates with the Import Factor in dealing with the Suppliers in a 3+ & 4-Corner models.

Credit Rating Arbitrage: the practice of taking advantage of the credit rating of the Buyer and applying such rating to the Supplier.

EDI: *Electronic Data Interchange.* A method of exchanging information electronically between trading partners.

Edifactoring.com: The FCI communication system. Its use is mandatory for all inter-factor business messages.

Export Factor: (EF) The factor, usually located in the seller’s (or exporter’s) country, with whom the seller has a factoring agreement or contract.

Factor: the FCI member running FCIreverse Factoring transactions on his own under 3-Corner Model.

FCI member: the factoring companies or financial institutions that belong to the FCI network.
FCIreverse: the distinctive Reverse Factoring product enabled by FCI to its members and to the platform.

Fintechs: technology and platform providers that enable banking and financial services to the customers.

GRIF: The General Rules for International Factoring. These are rules, promulgated by FCI, which govern international factoring between Export Factor and Import Factor.

GRRF: The General Rules for Reverse Factoring. A set of rules, promulgated by FCI, which govern 4-corner reverse factoring between an Export Factor and an Import Factor.

Import Factor: (IF) The factor, usually located in the buyer's (or importer's) country, whose services the EF engages. He carries out collection of A/R and assumes the credit risk.

Interfactor Agreement: A bilateral agreement in which two FCI members declare that they will be bound by the GRIF, the GRRF, the Rules of Arbitration and the edifactoring.com Rules.

Invoice: A document the seller issues to the buyer that gives details of the goods or services provided, the price of such goods or services and the terms of payment.

KYC: Know Your Customer.

Legal Creditor: the company that has the legal right to recover the funds from the Buyer.

Letter of Credit (L/C): An engagement by a bank or other person, made at the request of a customer or buyer, to pay a certain sum to a beneficiary or seller. The L/C is a common method of payment in long-distance trade where the L/C is opened in favour of the seller. Referred also to as "Documentary Credit".

Maturity Date: the date on which the invoice issued by the Supplier becomes due for payment by the Buyer.

Off-Balance Sheet: the accounting result of a receivable that is derecognized from the Supplier's balance sheet.

On-boarding: the process in which a Supplier or an Export Factor gains knowledge and skills to become an effective member of an FCIreverse transaction.

Open Account Terms: 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 the Supplier.

Platform: the FCIreverse platform which is, at this point, powered by Demica Ltd.

Platform Fee: the tariff to be paid to the platform provider for the use of the platform in a "plug and play" basis.

Platform Provider: the servicer of the platform, in the FCIreverse case, Demica Ltd.

Purchase Offer: the proposal made by the Factor in the 3-Corner Model / 3+-Corner Model or the Export Factor in the 4-Corner Model to the Supplier to purchase any confirmed invoices by way of assignment of receivables.

Purchase Price: the price in the form of calculation cost the Factor/Import Factor will pay for the confirmed invoice.

Receivables: see Accounts Receivable invoice.

Reverse Factoring: the buyer-centric transaction within which Suppliers pertaining to the Buyer's supply chain are able to access finance at demand by means of selling the confirmed invoices to a bank/Factor. The payable continues to be due by the Buyer until its Maturity Date and should be paid to the Factor if the Factor has purchased the invoice from the Supplier.

Seller: The Export Factor's client who provides goods or services, invoices the buyer for them and whose A/R are factored by the EF. See also *supplier*.

Standard Market Definitions for Supply Chain Finance: means the definitions written and published by the Supply Chain Finance Forum standardizing the terms for core market techniques. (https://cdn.iccwbo.org/content/uploads/sites/3/2017/01/ICC-Standard-Definitions-for-Techniques-of-Supply-Chain-Finance-Global-SCF-Forum-2016.pdf)

Supplier: Term used by the GRIF for seller. See *seller*. FCI uses *seller* in all its interfactor communications.

Supply Chain: the network between a Buyer and its Suppliers to produce and distribute a specific product and the steps such product takes to finally get to the Buyer.

Supply Chain Finance Forum: The Global Supply Chain Finance Forum was established in January 2014, as an initiative several industry associations, to address what has been recognised 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.

True Sale: True sale is a term used to describe the sale of a receivable by its owner to another entity/person, such that the receivable is protected from any future claims against the seller's assets.

FCI

Facilitating Open Account – Receivables Finance