Facilitating Open Account – Receivables Finance

FCI Executive Summary

Cross-Border Trade Finance Solution

Supported by:

UNIDROIT
INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW
INSTITUT INTERNATIONAL POUR L'UNIFICATION DU DROIT PRIVE

EXECUTIVE OVERVIEW

Since 1968, FCI has been the global leader in receivables finance, empowering financial institutions to facilitate secure and efficient open account trade.

Our members rely on FCI's unique combination of:

- A Global Network – bringing together leading banks, factoring companies, and industry stakeholders to enable cross-border trade.
- A Legal Framework (GRIF) – providing clarity, trust, and enforceability through the tried and tested General Rules for International Factoring.
- A Secure Technology Platform (Edifactoring.com) – ensuring fast, standardised, safe and transparent execution of transactions.
- A Knowledge Resource – providing Education, Legal and Advocacy support and Capacity-Building with structured training and knowledge sharing. Members can also draw on FCI's wider legal resources, including a dedicated legal study examining the legal frameworks governing receivables finance, including the assignment and sale of receivables, enforceability, and cross-border operational considerations.

Why it matters:

- Predictability of payment with the hallmark Payment Under Approval (PUA) model.
- Strong governance, arbitration framework, and global recognition by international institutions.

Cross-border factoring supports SME access to finance by converting receivables into working capital and reducing payment risk in open account trade. By enabling financial institutions to safely finance SME exporters, it helps narrow the global trade finance gap and expand SME participation in international trade.

Across different regions, FCI collaborates with multilateral development banks to support SME financing through advocacy, regulatory dialogue, and capacity-building initiatives, recognising factoring as a key instrument in addressing the SME trade finance gap. FCI has actively supported the development of the UNIDROIT Model Law on Factoring from its early stages and continues to support its practical implementation across jurisdictions. The Model Law and its Guide to Enactment serve as key global reference instruments, guiding countries in building effective and harmonised legal frameworks for factoring, thereby facilitating access to finance for SMEs and supporting their integration into global trade.

FCI: CROSS-BORDER TRADE FINANCE SOLUTION

FCI is the global representative body of financial institutions providing international factoring and the financing of open account trade receivables. FCI provides its members with a reputable, standardised, and secure messaging platform (Edifactoring.com) to exchange messages on cross-border trade transactions. The platform is founded on a strong legal framework based on more than 57 years of accumulated knowledge. It is governed by FCI's Constitution and its General Rules for International Factoring (the "GRIF") which include operational rules on system, procedures, and arbitration. FCI has active transactions between its members in over 90 countries.

FCI is governed by its constitution, which outlines membership classes, voting rights, the election and terms of its Executive Committee and formation of various Technical Committees. Under its constitution, FCI's members are bound to conduct cross-border factoring transactions in good faith in accordance with the GRIF. In its most basic form, the GRIF may be viewed as a refactoring contract between the import factor and the export factor.

The Two-Factor Model

Under the two-factor model the export factor and the import factor each operate in their home country. The export factor purchases accounts receivable from a supplier with which it has executed a factoring agreement. The accounts receivable are owed by a debtor located in the import factor's country or a country in which the import factor provides factoring services. The factors will negotiate the amount of the commission to be paid to the import factor, the level of credit coverage and terms of credit approval for the accounts receivable to be provided by the import factor, and other terms and conditions for the transaction. If the import factor agrees to purchase the accounts receivable, the import factor assumes the credit risk of non-payment of the approved accounts receivable up to the amount of credit coverage approved by the import factor. Figure 1 demonstrates the annual volumes processed via FCI's Edifactoring.com platform, providing context on the scale of cross-border activity supported by the two-factor model.

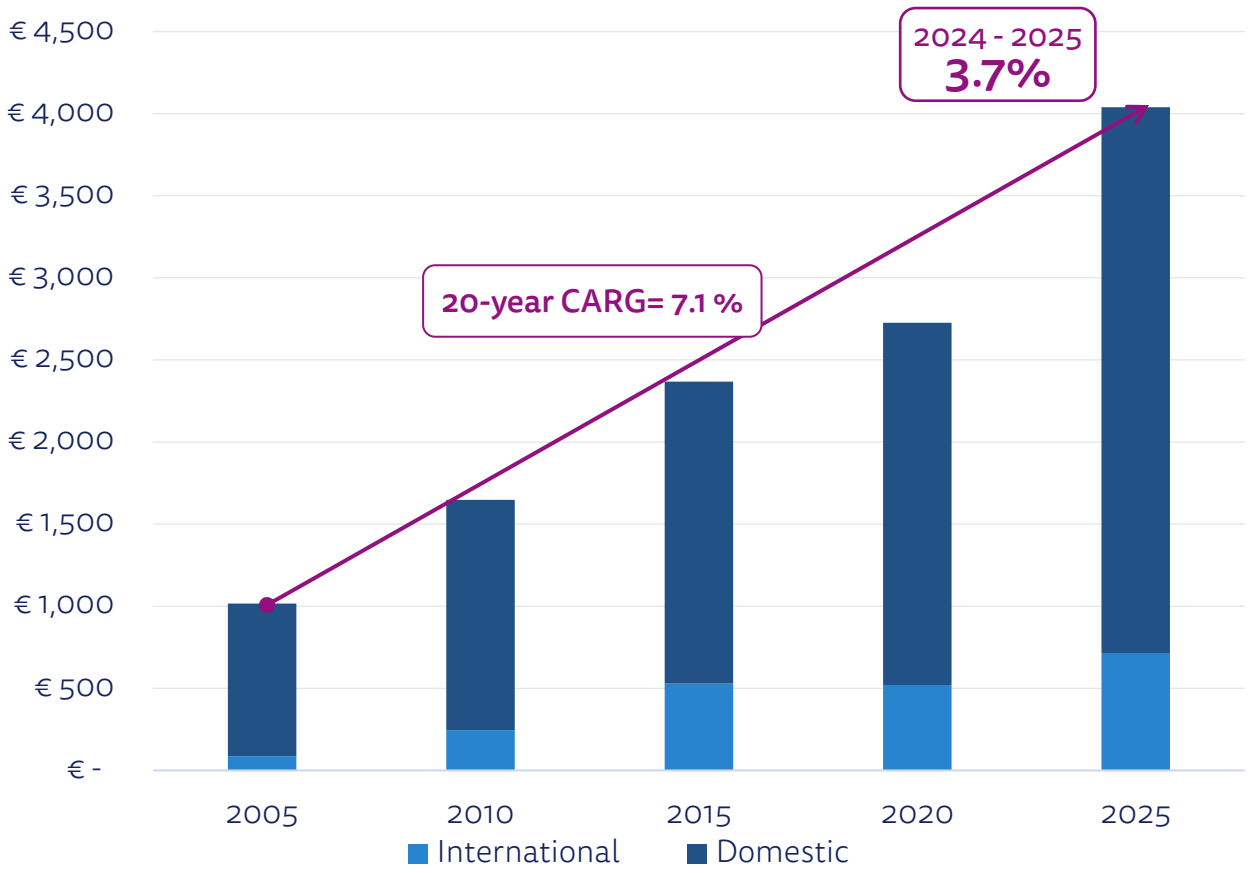


Figure 1: Global Factoring Volume, 2005 - 2025.
**The above volumes are released every May in the Annual Statistics release as well as in June in the FCI Annual Review Publication.*

FCI's Electronic Platform for Messaging and the Sale & Assignment of Accounts Receivable

Through its proprietary electronic messaging system, Edifactoring.com, FCI provides its members with a standardised digital system enabling members to offer accounts receivable for sale, establish credit coverage and set commission for factoring transactions. In addition to enhancing the speed and efficiency of global transactions between import and export factors, Edifactoring.com accurately documents and preserves the records of all transactions and communications between members.

The Sale of Bona Fide Accounts Receivable and Enforceability of Assignment

The export factor is responsible for assigning and delivering to the import factor good title to the accounts receivable and ensuring that the accounts receivable are bona fide obligations, enforceable against the debtor. As such, the export factor must protect its purchase of the accounts receivable and assign the accounts receivable to the import factor. In addition, in order to make the robust representations and warranties required by the GRIF, the export factor must perform sufficient due diligence reviews of the accounts receivable, the underlying invoices, documents of title, proofs of delivery and other supporting documentation to ensure that the accounts receivable are assignable to the import factor and the transaction is genuine and as represented. Figure 2 demonstrates how dilution levels within the FCI portfolio have steadily decreased since the pandemic to more normalised levels, reflecting strong portfolio discipline across the FCI network.

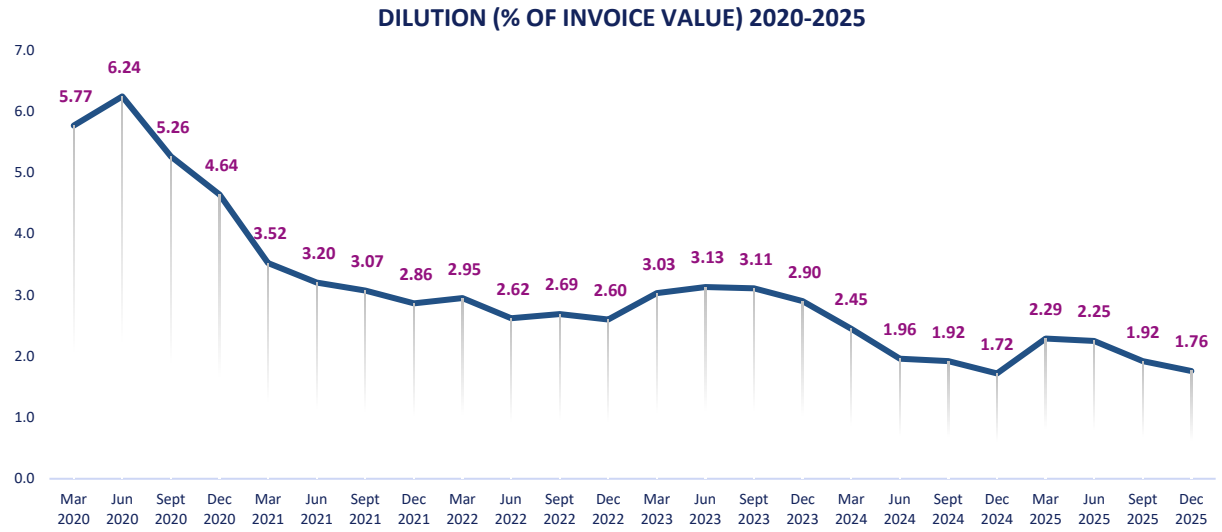


Figure 2: Dilution trends as a percentage of invoice value, 2020–2025.

Assumption of the Credit Risk and Predictability of Payment

When the export factor offers accounts receivable for sale to the import factor, the import factor conducts a credit evaluation of the debtor and its payment history. The factors will negotiate the terms of purchase, including whether to establish a single order credit approval or a credit line for the subject debtor under which the import factor will assume the credit risk of non-payment of the approved accounts receivable purchased from the export factor. Upon agreement, the import factor advises the export factor of the formal notification language required under the laws of the import factor's country, which must be placed

on the invoices evidencing the purchased accounts receivable in order to make the assignment of the accounts receivable to the import factor fully enforceable against the debtor and third parties. Once the debtor is on notice of the assignment of the accounts receivable to the import factor, the debtor is prohibited from paying any person or entity other than the import factor, including the original exporting supplier. If the debtor disregards the notice of assignment and pays a person or entity other than the import factor, subject to the laws of the debtor's country, the debtor may be obligated to make a second payment of the accounts receivable to the import factor, notwithstanding having made the first payment.

After the accounts receivable are assigned to the import factor through Edifactoring.com, the import factor must use its best efforts to collect payment of the accounts receivable, including making collection calls to the debtor and, if necessary, commencing legal action or other enforcement proceeding. Upon the import factor's request, the export factor is required to promptly deliver to the import factor, copies of invoices, evidence of shipment, evidence of the fulfilment of the contractual obligations giving rise to the account receivable and other documents which may be required by the import factor to collect payment of the account receivable.

If payment of the accounts receivable is remitted in the normal course, the import factor promptly remits the proceeds of payment to the export factor. If an approved account receivable remains unpaid on the ninetieth (90th) day after its due date and, as discussed below, the debtor has not asserted a "dispute" as a reason for non-payment, the import factor must automatically pay the export factor the purchase price of the account receivable on that ninetieth (90th) day. This is known as a "payment under approval" or PUA. PUA is the hallmark of FCI and the GRIF. It provides export factors with the predictability and confidence that payment of an approved account receivable will be made on a date certain. All payments are made via SWIFT or a similar system, as FCI is not a payment messaging platform nor a payment clearing institution. Figure 3 highlights the consistency and predictability of the PUA mechanism, which ensures clients benefit from timely payments, even when debtors delay or default. This feature provides unparalleled confidence to exporters.

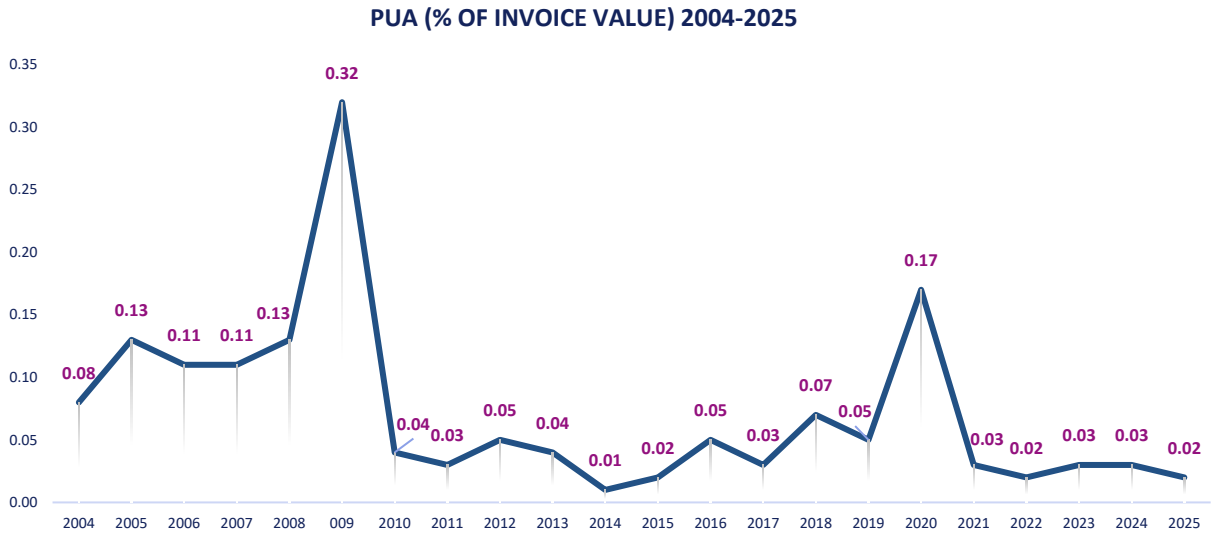


Figure 3: Payment Under Approval (PUA) as a percentage of invoice value, 2004–2025.

The GRIF recognises that circumstances impacting an import factor's establishment of credit lines or approvals may change from time to time. Accordingly, the GRIF permits an import factor to adjust or

withdraw credit approvals or credit lines for good reason. However, to protect the export factor and its exporting supplier, such withdrawals and adjustments must be prospective and apply only to shipments made after notification of the withdrawal or adjustment.

The Assertion and Resolution of Commercial Disputes

A debtor may, however, assert a "dispute" as a reason not to pay an account receivable. The term "dispute" is intended to be very broad and is essentially any reason claimed by a debtor for non-payment of an account receivable other than solely due to the debtor's financial ability to pay the account receivable at its maturity. Disputes include any defence, counterclaim or claim of set-off raised by a debtor, whether real or merely alleged. Once a dispute is alleged by the debtor, the import factor's assumption of the credit risk on such account receivable is suspended, and the export factor becomes responsible for settlling the dispute and must act continuously to settle the dispute as quickly as possible. The import factor may provide its services to assist in resolving the dispute. If, within the time periods proscribed in the GRIF, the export factor can settle the dispute in favour of the supplier, whether through negotiation or legal action, such that the debtor remains obligated on the account receivable, the import factor's credit coverage is reinstated and PUA must be made. If the dispute is determined in favour of the debtor, and the debtor is no longer obligated on the account receivable, the import factor's liability on the disputed receivable is eliminated.

Disagreements among FCI Members

In the event that the import factor and the export factor have a disagreement over the application or interpretation of the GRIF with respect to a particular transaction or if a factor asserts that the other has substantially breached the GRIF, the GRIF requires the members to consent to final and binding arbitration conducted by FCI. The arbitration procedure is governed by FCI's Rules of Arbitration. The arbitrators are selected from a panel of factoring experts. To the credit of FCI, its members and the functionality of the GRIF, resort to the arbitration procedures has been rare and, as of the date of this writing, only eight (8) arbitrations have been held in the history of FCI.

In summary

For nearly six decades, FCI has fostered international trade, processing the assignment and collection of trillions of USD of accounts receivable among its members across more than 90 countries. The GRIF has successfully provided a tried-and-true legal framework for these important economic activities by ensuring transparency, trust and operational efficiencies among its members.