



Facilitating Open Account – Receivables Finance

FCI Executive Summary

Payments Under Approval Under FCI General Rules for International Factoring

EXECUTIVE OVERVIEW

Payment Under Approval (“PUA”) is a key mechanism within cross-border factoring transactions governed by FCI’s General Rules for International Factoring (the “GRIF”).

This paper provides a brief overview of FCI’s two-factor model for international factoring transactions, illustrates the predictability of the payment to Export Factors of receivables purchased by Import Factors, and explores the clearly defined rights and obligations of Import Factors and Export Factors in matters concerning PUA under the GRIF.

OVERVIEW OF THE GRIF AND INTERNATIONAL FACTORING

The GRIF provides a standardised legal and operational framework governing international factoring transactions, detailing the rights and obligations of the parties to the transactions. International factoring transactions involve four parties:

- 1 The Supplier - the exporting seller of goods or services
- 2 The Debtor - the importing purchaser obligated for the payment of the receivables from the supply of goods or rendering of services
- 3 The Export Factor - the party to which the Supplier assigns its receivables in accordance with a factoring contract
- 4 The Import Factor - the party to which the Export Factor assigns receivables in accordance with the GRIF

Credit protection of receivables assigned by Export Factors to Import Factors is a cornerstone of the services provided in international factoring transactions.

Under FCI’s two-factor model, an Export Factor will request that an Import Factor assume the credit risk on receivables (i.e., credit guarantee) which the Export Factor purchases from the Supplier. The Import Factor provides factoring services in the country in which the Debtor operates and is generally familiar with the Debtor, its operations, and finances. Using this information, the Import Factor evaluates the credit worthiness of the Debtor and decides whether to purchase receivables owing by the Debtor and assume the credit risk thereon. “Credit risk” is the risk of non-payment of a receivable in full within 90 days of its due date for any reason otherwise than a dispute alleged by the Debtor. The Import Factor may establish for the Debtor a credit limit for multiple invoices or a single order approval. These communications between Export Factors and Import Factors are conducted through FCI’s proprietary edifactoring.com system, creating a permanent record of the negotiations, agreements, and transactions between the parties.

The Export Factor is responsible to conduct proper due diligence on the receivables it purchases from the Supplier and to ensure the Supplier has the unconditional right to assign and transfer all rights, title, and interest to each receivable. To ensure the integrity of the receivables assigned to an Import Factor, the Export Factor makes several important representations and warranties. These include that each assigned receivable represents an actual and bona fide sale of goods or provision of services made in the ordinary course of business in accordance with the contract of sale between the Supplier and the Debtor, the

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Debtor is obligated to pay the receivable at maturity and the Export Factor had the right to and validly assigned the receivable to the Import Factor, among others. These detailed representations and warranties set forth in the GRIF are similar in nature to the draw requirements contained in a commercial letter of credit in that they confirm that the terms of the contract of sale underlying the assigned receivable have been fulfilled. A breach of these representations or warranties may result in the suspension or termination of the Import Factor's obligations with respect to the subject receivable.

The Import Factor is responsible to advise the Export Factor of the laws of the Import Factor's country regarding the wording and formalities of the notice of assignment of the receivables, including elements necessary to safeguard the Export Factor against claims of third parties. Once assigned to the Import Factor, the Import Factor becomes the sole owner of the receivable and must use its best endeavours to collect the receivable. Collection may occur in the ordinary course by payment from the Debtor, through the commencement of legal proceedings against the Debtor or as the result of a PUA, as discussed below.

As such, the GRIF provides a clear and concise, time-tested mechanism for the assignment and collection of receivables, including collection from the Import Factor of undisputed receivables when they become ninety (90) days past due.

PAYMENT UNDER APPROVAL

PUA provides reliable and predictable credit protection against Debtor defaults, ensuring payment of assigned receivables within the time parameters established under the GRIF. PUA requires an Import Factor to pay to the Export Factor the purchase price of an unpaid, approved receivable on the date that is the ninetieth day following the due date of the receivable so long as the reason for non-payment is not because of the existence of a dispute asserted by the Debtor. The GRIF provides that a dispute occurs whenever a Debtor raises a defence, counterclaim, or setoff, resulting in dilution. As an Import Factor's collections department would typically be contacting a Debtor as an unpaid purchased receivable approaches its Due Date or shortly thereafter, the existence of a dispute is often identified substantially in advance of the date PUA is required. If a dispute is asserted, the GRIF provides a detailed procedure during which the Import Factor's obligation to PUA is suspended pending a resolution of the dispute within prescribed time periods. If the dispute is resolved in favour of the supplier, the Import Factor's obligation to PUA is reinstated. If resolution is in favour of the Debtor, the Import Factor is relieved of its PUA obligation.

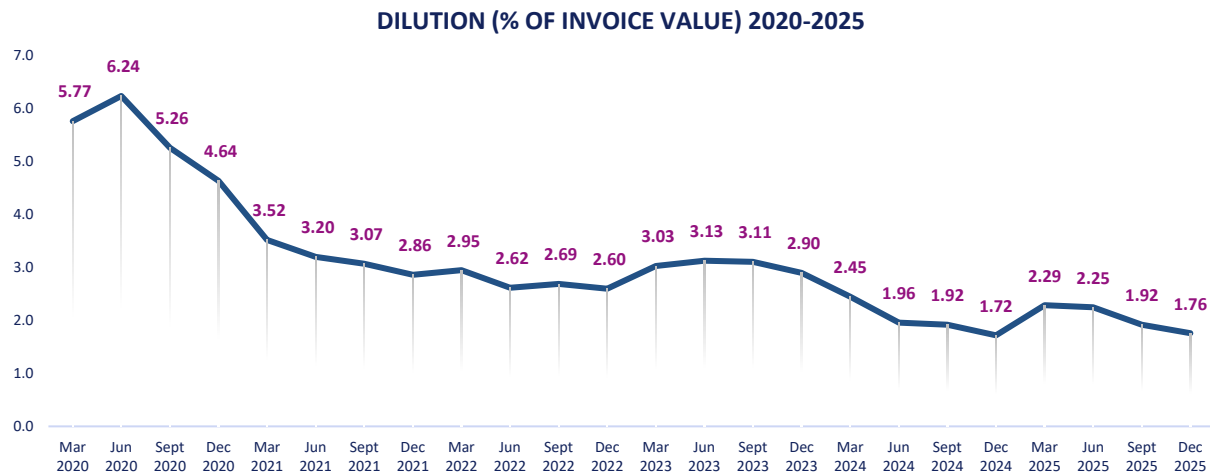


Figure 1: Dilution trends as a percentage of invoice value, 2020–2025.

Figure 1 demonstrates the strength of FCI’s two-factor system. Over the last five years, dilution of receivables factored through FCI has steadily declined from 6.24% of invoice value at the height of the COVID pandemic to 1.76% as of December 2025. The certainty of payment from PUAs has been particularly important to Export Factors during times of crisis.

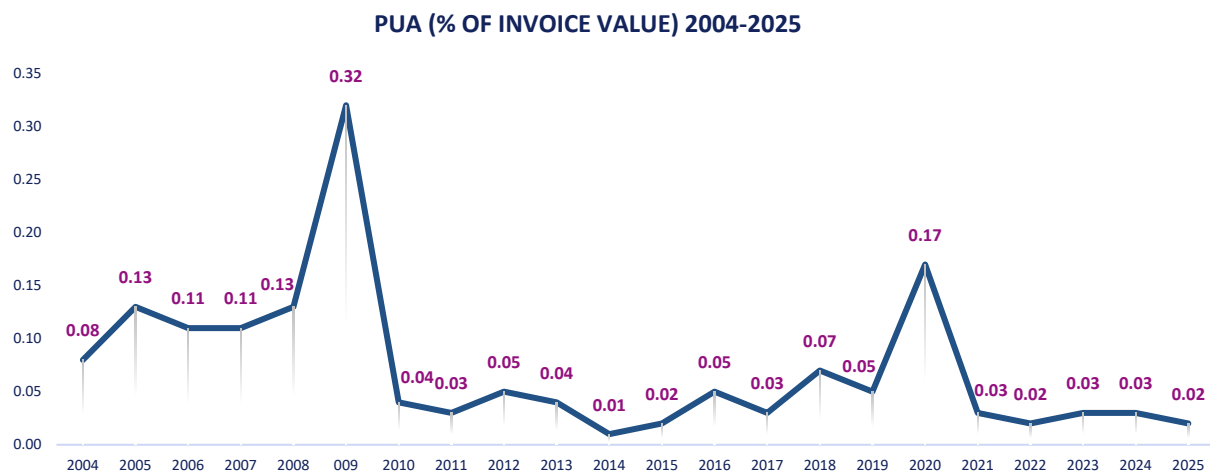


Figure 2: Payment Under Approval (PUA) as a percentage of invoice value, 2004–2025.

Figure 2 illustrates marked increases of PUAs during the financial crisis of 2008-2009 and the COVID pandemic. As such, an Import Factor’s obligation to PUA is an extremely valuable benefit provided under the GRIF. In a non-factored transaction, the likelihood of a payment of a receivable which remains unpaid after its due date becomes increasingly suspect. Collection of the very same receivable, when purchased by an Import Factor under the GRIF, will be paid to the Export Factor on the earlier of collection or the receivable or PUA, so long as it is not disputed. This contractual obligation of the Import Factor provides certainty of payment to the Export Factor of an undisputed receivable.

It is important to stress that the Import Factor's PUA obligation is broad and encompassing. Subject only to the limited situations discussed below, the PUA obligation is not relieved by the occurrence of many disruptive external circumstances. For example, the PUA obligation is not relieved as a result of "political risk", such as wars between countries, civil wars, embargos, currency restrictions, riots, blockades, accidents, labour strikes or terrorism, to name just a few. Neither is the Import Factor's PUA obligation relieved by other force majeure events, such as earthquakes, hurricanes, tsunamis, plagues, pandemics or other "Acts of God" or natural disasters. The occurrence of these events or circumstances may suspend the Import Factor's obligation to PUA until they subside, at which point the PUA obligation will be reinstated, possibly with a late interest penalty payable by the Import Factor to the Export Factor.

Some sales contracts will provide that any attempt to assign a receivable will be void. These provisions, known as "prohibition of assignment" or "ban on assignment", are enforceable in some jurisdictions. Other jurisdictions have laws that override such bans. Even in those jurisdictions where such prohibitions are enforceable, the GRIF has provided a method for assignment of such receivables to occur and to maintain an Import Factor's obligation to PUA. If such a ban appears in a sales contract, and the Debtor refuses to pay the Import Factor based on the ban, the Import Factor's obligation to PUA is delayed until the declaration of insolvency by the Debtor. In such event, the GRIF provides that the Import Factor is the only entity that can make a claim against the Debtor's insolvent estate, and the Export Factor must provide the Import Factor with all documentation required to make such a claim on the Supplier's behalf. Once such documentation is provided, the Import Factor's PUA obligation remains in full force and effect.

In addition to situations involving prohibitions of assignment, other occurrences of substantial breaches of the GRIF can affect the Import Factor's obligation to PUA. A "substantial breach" of the GRIF is a breach by the Export Factor that "seriously affects the Import Factor to his detriment in his appraisal of the credit risk and/or his ability to collect a receivable." The Import Factor will have the burden of proof to show a substantial breach has occurred. If such a demonstration is made before the ninetieth day after the due date of a receivable, the Import Factor will be relieved of its obligation to PUA to the extent prejudiced by the breach, and if such demonstration is made after the PUA, the Import Factor is entitled to be reimbursed to the extent prejudiced by the breach. These situations, however, are mostly in control of the Export Factor. If the Export Factor conducts sufficient due diligence with respect to the Supplier and the receivables assigned to the Import Factor so as not to breach the representations and warranties made for assigned receivables and otherwise complies with the requirements of the GRIF, situations in which a substantial breach can be validly alleged should not arise.

When comparing the certainty of an Import Factor's PUA obligation to the obligation of a bank to honour a draw on a letter of credit issued to support the payment of receivables, the Import Factor's PUA obligation is more assured and definite. An issuing bank can decline a draw request for minor, technical discrepancies in the documentation. On the other hand, the GRIF holds the Import Factor and Export Factor to a standard of good faith conduct and mutual assistance and contains very specific and limited conditions under which a PUA obligation may be terminated. It has been FCI's experience that Import Factors honour their PUA obligations.

CONCLUSION

Established in 1968, FCI has over 350 members operating in more than 90 countries under the framework of the GRIF. FCI's Export Factor members benefit from the credit protection against Debtor defaults provided by its Import Factors members, facilitating Supplier sales on open terms to buyers in foreign countries. The concept of PUA created under the GRIF offers Export Factors the sound ability to predictably manage cashflows based on anticipated collections and the outside payment date provided by PUA. In fact, the credit protection provided by an Import Factor's PUA obligation operates similarly and with the certainty of a bank issuing a letter of credit in support of payment of receivables. If the draw conditions are satisfied, the bank honours the draw request. Similarly, if the detailed and unambiguous terms of the GRIF governing an Import Factor's PUA obligations are complied with, the Import Factor will make the PUA.

The enduring rules provided under the GRIF, detailing the roles and responsibilities of all transaction parties, have created a stable and trusted framework for international factoring over decades, supporting predictable cross-border receivables finance transactions and facilitating open account trade across global markets.

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