



Corporate Payment Undertaking

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- BAFT (Bankers Association for Finance & Trade)
- Euro Banking Association (EBA)
- Factors Chain International (FCI)
- International Chamber of Commerce (ICC)
- International Trade and Forfaiting Association (ITFA)

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This document represents the collective views of both the BAFT Supply Chain Finance Committee and the Global Supply Chain Finance Forum. This document is intended to provide our members a set of common market practices for Receivables Discounting. Members are encouraged to consult their own internal and external subject matter, legal, accounting and professional advisors to establish internal policies and procedures.

Advanced Payment

This section addresses structures that fall into neither the Receivables Purchase nor loan-based category. All techniques described herein relate to payments that include distinctive features that justify a section of its own, aiming to clarify the relevant differences. This section covers Corporate Payment Undertaking, Bank Payment Undertaking & Dynamic Discounting.

I. Corporate Payment Undertaking

Definition

Corporate Payment Undertaking is provided as a buyer-led programme within which sellers in the buyer's supply chain can, at their option, access liquidity by means of receiving discounted early payment. Such payment to a seller covers seller's invoices (or buyer approved amounts relating to such invoices). The technique provides a seller of goods or services (seller) with the option of receiving the discounted value as early payment of outstanding invoices (that have an unconditional approval by the buyer to pay on the due date) prior to their actual due date and typically at a discount with cost of early payment more aligned to the credit risk of the buyer.

Whereas in Payables Finance the finance provider enters into receivables purchase arrangements with a seller, under a Corporate Payment Undertaking programme the early payment does not require receivables purchase but may require the seller to confirm the finance provider's right to receive buyer payment and/or pass-through arrangements and/or acceptance as full payment of the approved invoice amount.

This SCF technique is subject to several naming conventions (consistency should be encouraged), which can overlap with Payables Finance. The Forum decided that the term Corporate Payment Undertaking is an appropriate name that captures the essence of the technique.

Synonyms

Approved Invoice, Confirming, Confirmed Invoice, Early Payment Programme, Buyer-Led Supply Chain Finance, Supplier Finance or just Supply Chain Finance (the latter two when applied as an individual 'technique' rather than a holistic category).

Parties

- > **Buyer:** the entity (finance provider's customer) that enters into a corporate payment undertaking with a finance provider, which facilitates access to discounted early payments by the finance provider for the benefit of its supply chain. The buyer approves the invoices and submits the details of the approved invoices and amounts to the finance provider together with a corporate payment undertaking to make payment of the approved amount to the finance provider at the confirmed invoice due date.
- > **Seller:** the entity selling goods or services to the buyer which agrees or acknowledges interest in arrangements for receiving optional early payments at a discount and may agree with the finance provider that the finance provider and the buyer shall have no further obligations to the seller for the approved invoice amounts (and may confirm transfer of rights or obligations) for which early payment has been received.

Distinctive features

- > The technique is 'buyer-centric' in that the buyer typically arranges a Corporate Payment Undertaking programme with one or more finance providers in favour of its sellers.

- > The buyer may encourage its sellers to consider the use of this Corporate Payment Undertaking programme; the sellers however make an independent decision to participate in a Corporate Payment Undertaking programme.
- > The buyer identifies invoice(s) for which it instructs (subject to agreed terms and conditions) the finance provider to pay the confirmed invoice on its due date and for which it gives the finance provider an unconditional and irrevocable commitment to pay an approved amount on the confirmed invoice due date(s).
- > The seller has the option to request from the finance provider an early payment at a discount.
- > The finance provider relies on the creditworthiness of the buyer and typically offers early payments of approved invoices 'without recourse' to the seller. Such 'without recourse' terminology relates to the risk of non-payment by the buyer of the approved amount at the confirmed invoice due date.
- > The finance provider typically has discretion to offer early payment on terms or not (i.e. on an uncommitted basis).
- > It is possible that certain elements of recourse are retained against the seller, such as for breaches of representations and warranties, but this will depend on what arrangement is put in place between the finance provider and the sellers. However, the corporate payment undertaking given by the buyer is unconditional and irrevocable and as such significant reliance on rights of recourse to the seller should not be a feature.
- > The buyer will pay the approved amount at the confirmed invoice due date, such payment made directly to the finance provider pursuant to the corporate payment undertaking. If there are any commercial disputes or other dilution events between the buyer and seller, it would usually be resolved outside of this corporate payment undertaking structure (given the unconditional and irrevocable nature of the payment undertaking) although the structure may accommodate credit notes and offsets against invoices due for payment (but not yet paid).
- > Approved invoice amounts that have not been paid on an early discount basis may be processed on a pay when paid basis by the finance provider – that is, finance provider being in receipt of relevant funds from the buyer to be paid on the relevant confirmed invoice due date.

Contractual relationships and documentation

- > A service agreement, which could take the form of an accounts payable management arrangement, is entered into between the finance provider and the buyer.
- > This service agreement will contain a confirmed corporate payment undertaking by the buyer agreeing unconditionally to pay, on the invoice due date, the approved amounts relating to those approved invoices that have been submitted to the finance provider.
- > Notification to and/or acknowledgement/agreement by the seller and finance provider of discount arrangements allowing for early payments to the seller, which may include terms for acceptance of discounted early payment as full payment of the approved invoice amount; terms may also cover, for example, seller's election for receipt of early payments via a manual, automated or semi-automated process. If required by the finance provider, the arrangements between seller and finance provider will include terms of use of any electronic platform and relevant representations or warranties given by the seller.

Security

There is no additional security arrangement between the finance provider and the buyer or seller to protect the finance provider from buyer non-payment risk. The corporate payment undertaking is intended, subject to relevant jurisdiction specific legal advice,

to serve as a contractual mechanism (unconditional and irrevocable undertaking) to institute a legal claim against the buyer in the event of non-payment. Traditional forms of security such as a parental guarantee in support of the buyer's obligations might be available in transaction-specific circumstances.

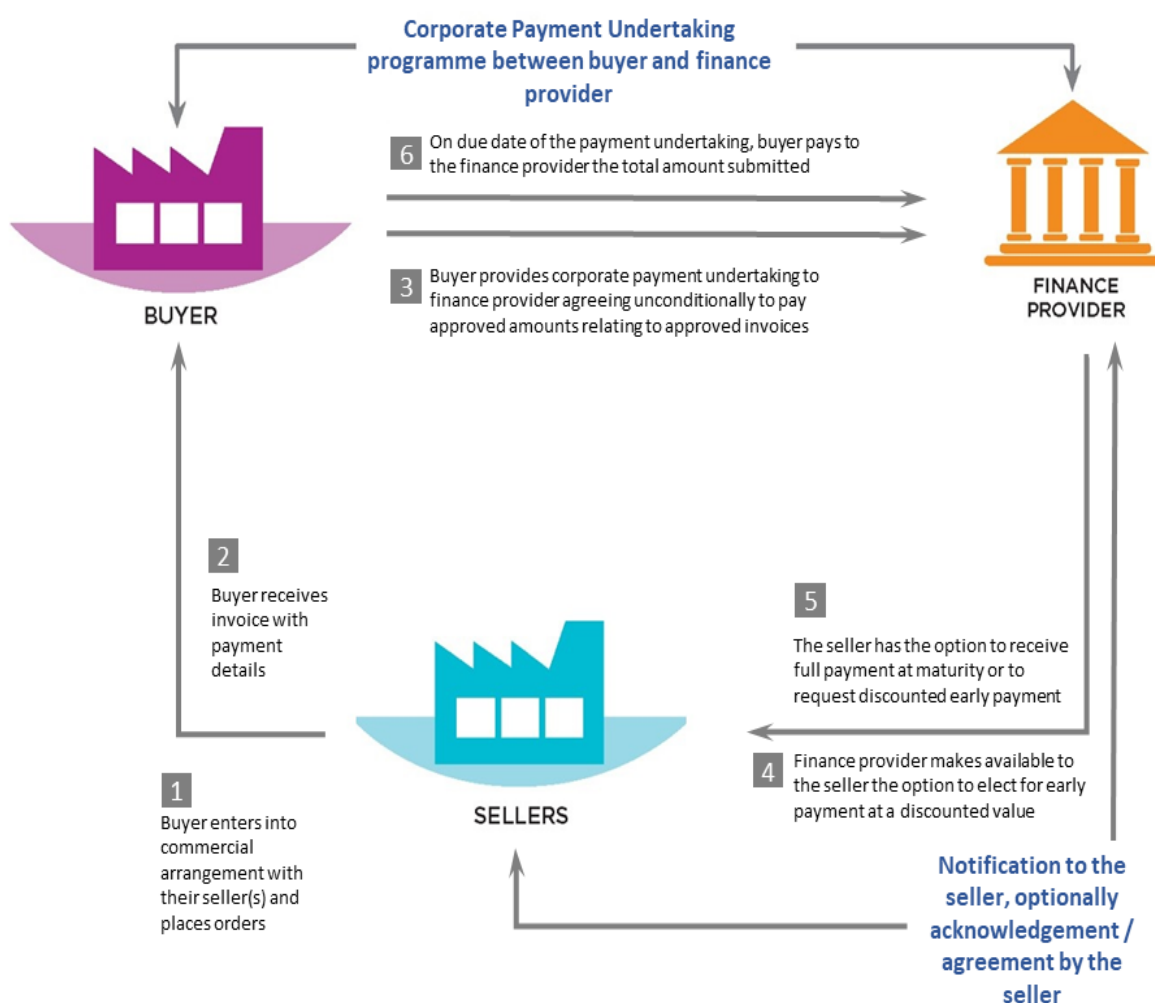
Risks and risk mitigation

Relevant risks and mitigants include the following:

- > Buyer non-payment risk mitigated by completing standard credit analysis / risk assessment at onboarding and continual monitoring
- > Seller commercial disputes and/or other dilution events may be handled by credit notes and offsets against invoices due for payment (but not yet paid); the risk this could otherwise pose to the finance provider is mitigated by the corporate payment undertaking
- > Appropriate KYC/AML and/or compliance review on the buyer and risk-based checks on the seller, handled during the on-boarding procedures and subsequent post-transaction reviews
- > Risk of double financing is mitigated by any relevant contractual warranties and/or representations and can also be mitigated by finance provider's due diligence review(s)
- > Pre-existing security arrangements entered into by or affecting the seller; the risk this could otherwise pose to the finance provider is mitigated by relevant contractual warranties and/or representations and the corporate payment undertaking
- > Lack of corporate or signing officer authority, mitigated by appropriate due diligence following the finance provider's relevant internal procedures

All the above risks are also mitigated by a robust monitoring, reporting and audit process regarding transactions, systems and controls.

Transaction illustration



- > The buyer will usually have established a Corporate Payment Undertaking programme with the finance provider(s) which aims to provide benefit to all or a sub-set of its sellers.
- > The seller(s) and finance provider(s) will typically communicate with each other in relation to the basis for provision of early payments and on-boarding procedures, including any relevant KYC/AML and risk-based checks.
- > Whilst uncommon, in some instances the finance provider may purely act on instruction of the buyer (without interaction with the seller(s)) in which case it is for the buyer to ensure seller(s) has/have sufficient information to understand and accept why the buyer has instructed the finance provider to make a discounted early payment to such seller(s).
- > The key 'trigger' for the provision of early payments is the corporate payment undertaking given by the buyer confirming approved invoice amounts.
- > Partial early payment of an approved invoice amount would be unusual.
- > The process may be manual, semi-manual or automated.
- > Electronic invoicing may play a vital role since it will usually accelerate invoice approval and the ability for the seller to promptly receive early payment.
- > The seller has the option to receive full payment of the confirmed invoice on its due date or to request an early discounted payment.

- > The buyer makes payment in full of the approved invoice amount to the finance provider at the confirmed invoice due date.

Benefits

- > Potential for Buyer to obtain more favourable payment / commercial terms with its sellers by agreement and in line with standard industry terms.
- > Liquidity optimisation (buyers and sellers).
- > Greater supply chain stability.
- > Improved automation may be included to enhance/facilitate the transactions within the solution.
- > Flexible seller access to potentially lower cost working capital than might be available from traditional forms of finance.
- > Facilitates seller's ability to manage / accept longer payment terms.
- > Potential for less legal documentation, less complexity in documentation and faster seller onboarding.
- > Facilitates transaction-based short term early payment discounting based on the credit of a buyer.

Asset distribution

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



GSCFF

GLOBAL SUPPLY CHAIN FINANCE FORUM

ABOUT THE GLOBAL SUPPLY CHAIN FINANCE FORUM

The Global Supply Chain Finance Forum was established in 2014 to develop, publish and champion a set of commonly agreed standard market definitions for Supply Chain Finance (SCF). Comprised of trade bodies BAFT (Bankers' Association for Finance and Trade), FCI, the International Chamber of Commerce (ICC), the International Trade and Forfeiting Association (ITFA) and the Euro Banking Association (EBA) the industry consortium leverages its collective footprint to aid the target audience of SCF in gaining clarity and consistency on the various terms and techniques used. The main objective of GSCFF is to support the sustainable growth of supply chain finance by establishing consistency and a standardized understanding of SCF across the industry. Subsequently, the GSCFF strives towards acknowledgement of its definitions and their benefits by its target audience, in specific on the regulatory side. The Forum monitors and reacts to major market developments in all relevant matters for Supply Chain Finance. It is open to financial institutions, non-FI Finance providers, accounting firms, investors, rating agencies, regulators and corporates who have a stake in supply chain finance.

<http://supplychainfinanceforum.org>