GSCFF

GLOBAL SUPPLY CHAIN FINANCE FORUM

Bank Payment Undertaking

BAFT

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EURO BANKING ASSOCIATION

FCI

Facilitating Open Account – Receivables Finance

ICC

ITFA

International Trade and Forfaiting Association

Bank Payment Undertaking

The GSCFF comprises:
Bankers Association for Finance and Trade (BAFT)
Euro Banking Association (EBA)
Factors Chain International (FCI)
International Chamber of Commerce (ICC)
International Trade and Forfaiting Association (ITFA)

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

Definition

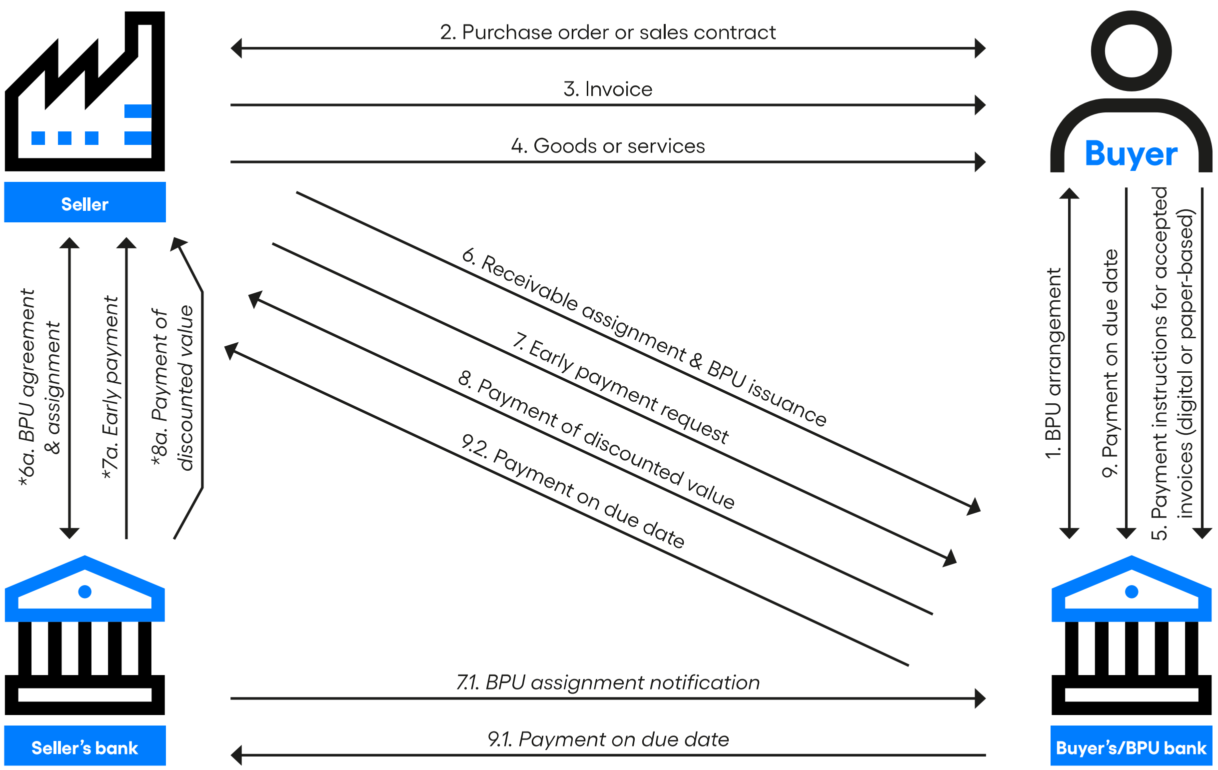
A Bank Payment Undertaking (BPU) is provided under a **buyer-led programme** within which Sellers in the Buyer's supply chain receive an independent and irrevocable payment undertaking from the Buyer's Bank, also referred to as BPU Bank, to pay one or several accepted invoice(s) or account(s) payable on its books (Accepted Invoices) on the due date. The BPU Bank becomes the primary obligor to make the payment to Sellers. Such payment to a Seller covers the Seller's invoices resulting from trade transactions.

- A BPU Features an independent and irrevocable payment undertaking by the Buyer's Bank (BPU Bank).
- Is issued on the back of the Buyer's payment instruction for their Accepted Invoices and their commitment to the BPU Bank to pay Accepted Invoices on the due date.
- Is typically issued against the assignment of the receivable by the Seller and/or related rights, but practically the BPU Bank would rely on the creditworthiness of the Buyer and the reimbursement obligation from the Buyer
- Doesn't discharge the invoice(s) when issued.
- Allows a Seller to substitute the Buyer's payment risk with that of the BPU Bank
- Requires the Buyer to pay the principal amount owed at the invoice(s) due date to the BPU Bank.

The technique also provides a Seller with the option of receiving early payment for the Accepted Invoices prior to their actual due date (instead of a BPU) at a discount (Discounted Value) from the BPU Bank against the assignment of the receivable and/or related rights.

The issuance of BPU transfers the original payment obligation from the Buyer to the BPU Bank. The BPU is a primary obligation, and only upon payment (or payment of Discounted Value) to the Seller is the BPU Bank discharged from its BPU obligation.

A Seller can alternatively arrange to receive such Discounted Value with other finance providers (Seller's Bank) with cost of early payment more aligned to the credit risk of the BPU Bank under assignment of the BPU or similar mutually agreed terms and conditions.



Transaction illustration

1. The Buyer establishes a BPU programme with their bank (BPU Bank) which aims to provide benefits to all or a sub-set of its Sellers.
2. The Buyer and Seller typically execute a Purchase Order/Sales Contract.
3. The Seller invoices the Buyer.
4. The Seller supplies the goods/services, and upon receipt, the Buyer accepts the invoice(s) for payment on the due date.
5. The Buyer instructs the BPU Bank to pay the Accepted Invoices on the due date. The arrangement includes the provision for the BPU Bank to issue the BPU at the request of the Seller and the option to the Seller of receiving Discounted Amount for the Accepted Invoices.
6. The Seller and the BPU Bank communicate with each other in relation to the issuance of the BPU, including any relevant KYC/AML and risk-based checks, the Accepted Invoice(s), the assignment of receivables and/or related rights, and the provision of the Discounted Amount.

   6.1. Where the Seller's Bank is the finance provider, the Seller and the Seller's Bank will typically communicate with each other in relation to the BPU, including the contractual agreement, any relevant KYC/AML and risk-based checks, the Accepted Invoices, the provision of Discounted Value and handling the payment on the due date from the BPU Bank.

7. The Seller requests the BPU Bank for payment of the Discounted Value, if needed, otherwise on maturity the BPU Bank remits the due amount to the Seller irrespective of the Buyer making the payment to the BPU Bank.

   7.1. Where the Seller's Bank is the finance provider, the Seller requests the Seller's Bank for payment of the Discounted Value, if needed, and completes the agreed formalities in relation to the BPU including the Seller's Bank notifying the BPU Bank, depending on the arrangement between the Seller and the Seller's Bank.

8. The BPU Bank remits the Discounted Value for the Accepted Invoices in case of early payment requested by the Seller or makes the full payment of the Accepted Invoices on the due date to the Seller.

   8.1. Where the Seller's Bank is the finance provider, the Seller's Bank remits the Discounted Value for the Accepted Invoices to the Seller.

9. On the due date, the Buyer pays the BPU Bank the amount for the Accepted Invoices.

   9.1. Where the Seller's Bank is the finance provider, the BPU Bank pays the Seller's Bank the amount for the Accepted Invoices (or the Seller collects and applies the funds received under the BPU).

   9.2. Where the Seller has not taken Discounted Value under step 7 or 7a above, the BPU Bank pays the Seller the amount for the Accepted Invoices.

Note

- Partial Discounted Value for Accepted Invoices would be unusual.
- The process may be manual, semi-manual or automated.
- Digitisation may play a vital role since it usually automates the processes and accelerates the communications between the parties and the ability of the Seller to promptly receive Discounted Value.
- The Seller has the option to receive full payment of the Accepted Invoices on its due date or to request payment of Discounted Value before the due date.
- The Buyer makes payment in full of the Accepted Invoices.

While this SCF technique is subject to several naming convention (consistency should be encouraged). The Forum decided that the term 'Bank Payment Undertaking' is an appropriate name or term that captures the essence of this technique.

Parties

Buyer: The Buyer is the entity that enters into a Bank Payment Undertaking Agreement with a finance provider (BPU Bank), which facilitates issuance of a payment undertaking and provides the option to the Seller of receiving the Discounted Value before the due date for the benefit of its Seller in their supply chain.

Seller: The Seller is the entity selling goods or services to the Buyer which agrees or acknowledges an interest in the BPU arranged by the Buyer for receiving the Bank Payment Undertaking and option to request Discounted Value for their Accepted Invoices.

Buyer's Bank also referred to as BPU Bank: The BPU Bank is the finance provider, with whom the Buyer enters into a Bank Payment Undertaking Agreement for them to issue an independent and irrevocable payment undertaking and provide the option to the Seller of receiving the Discounted Value for the Accepted Invoices.

Seller's Bank: The Seller's Bank is the finance provider (other than the BPU Bank), with whom the Seller may enter into a mutual arrangement to receive Discounted Value for the Accepted Invoices against the assignment (or similar mutually agreed terms and conditions) of the Bank Payment Undertaking issued by the BPU Bank.

Distinctive features

- This technique is 'buyer-centric' where the Buyer typically arranges a BPU programme with one or more banks.
- The Buyer may encourage its Seller(s) to consider the use of this BPU programme; the Seller(s) can make an independent decision to participate in such programme.
- The Buyer identifies one or more invoice(s) for which it instructs (subject to agreed terms and conditions) the BPU Bank to issue a payment undertaking to pay the Accepted Invoices on its due date and for which it gives the BPU Bank an independent and irrevocable commitment to pay the Invoice(s) on the due date(s).
- The BPU Bank, against the assignment of the receivable and/or related rights, provides an irrevocable undertaking to pay on the due date to the Seller or the Seller's Bank for the Accepted Invoices with an option of Discounted Value.
- The Seller can request Discounted Value from the BPU Bank or may enter into a finance agreement with its own Bank to receive Discounted Value based on the payment undertaking of the BPU Bank.
- The Seller's Bank offers Discounted Value on the strength of the BPU 'without recourse' to the Seller. Such 'without recourse' terminology relates to the risk of non-payment by the BPU Bank on the due date.
- The finance provider will typically offer Discounted Value on an uncommitted basis.
- It is possible that certain recourse events are retained against the Seller, such as for breaches of representations and warranties, but this will depend on the arrangement between the finance provider and the Seller. However, the BPU given by the BPU Bank is independent and irrevocable and as such significant reliance on rights of recourse to the Seller should not be a feature.
- The Buyer pays the full amount for the Accepted Invoices to the BPU Bank on the confirmed due date.
- Irrespective of the Buyer paying the BPU Bank, the BPU Bank is obligated to pay the Seller (or, where relevant, the Seller's Bank) on the confirmed due date(s) (unless the Discounted Value was paid as early payment to the Seller).

- The Seller's financing arrangement with the Seller's Bank, where relevant, may cover the Seller's obligation for collecting and applying funds received under the BPU.
- If there are any commercial disputes or other dilution events between the Buyer and Seller, it would usually be resolved outside of this BPU structure (given the independent and irrevocable nature of the payment undertaking).

Contractual relationships and documentation

- A service/facility agreement, which could take the form of an accounts payable management arrangement, is entered into between the BPU Bank and the Buyer, which may include terms of use of any electronic platform used to facilitate the programme.
- This agreement contains a payment undertaking by the buyer agreeing unconditionally to pay for the Accepted Invoices on the due date to the BPU Bank.
- The BPU Bank will notify the Seller of the independent and irrevocable payment undertaking it is giving to the Seller to pay for the Accepted Invoices on the due date. Where applicable, the BPU Bank and the Seller may enter into terms of use of any electronic platform used to facilitate the programme.
- The Seller and the finance provider (BPU Bank or Seller's Bank) will enter into an agreement offering the terms and conditions by which the finance provider will provide Discounted Value as full payment of the Accepted Invoices against the BPU. This agreement may include the Seller's obligations to collect and apply funds received under the BPU, terms of use of any electronic platform used to facilitate the financing solution, and any assignment of the BPU from the Seller to the Seller's Bank. There may be a tripartite agreement between the Seller, BPU Bank and the Seller's Bank for this purpose.

Security

There is no additional security arrangement granted to the Seller's Bank to protect against the risk of non-payment of the BPU Bank. The Buyer's payment undertaking to the BPU Bank and the BPU to the Seller is intended, subject to relevant jurisdiction specific legal advice, to serve as a contractual mechanism (independent and irrevocable undertaking) to constitute a legal claim against the Buyer/BPU Bank in the event of non-payment. Traditional forms of security such as a parental guarantee in support of the Buyer's obligations to the BPU Bank might be available in transaction-specific circumstances.

Risks and risk mitigation

The irrevocable payment undertaking of the BPU Bank to effect payment on the due date not only secures the payment itself in favour of the Seller, but can also provide suitable security for financing by the Seller's Bank.

Relevant risks and mitigants include the following:

- Buyer non-payment risk is mitigated by completing standard credit analysis, risk assessment during on-boarding, the legal documentation between the BPU Bank and the Buyer and continual monitoring by the BPU Bank.
- BPU Bank non-payment risk is mitigated by completing standard credit analysis/risk assessment by the BPU receiving Bank (for the Seller/Seller's Bank).
- Any commercial disputes or other dilution events between the Buyer and Seller is to be resolved outside the BPU structure; the risk this could otherwise pose to the Seller or the Seller's Bank is mitigated by the BPU, given the independent and irrevocable nature of the payment undertaking.
- Appropriate KYC/AML and/or compliance review on the Buyer, the Seller, and the finance provider is handled by each respective party, in line with their internal policies, during the on-boarding and/or enrolling procedures.

- Pre-existing security arrangements entered by or affecting the Seller; the risk this could otherwise pose to the Seller's Bank is mitigated by the relevant contractual warranties and/or representations and the BPU.
- Lack of corporate or signing officer authority is mitigated by appropriate due diligence following the relevant finance provider's internal procedures.
- Risk of double/multiple financing is mitigated by any relevant contractual warranties and/or representations and can also be mitigated by the relevant finance provider's due diligence review(s), operational processes and other tools/platforms they have to mitigate such risk.
- All the above risks are also mitigated by a robust monitoring, reporting and audit process regarding transactions, systems and controls.

Benefits

Buyer:

- Improved payment and commercial terms and liquidity optimisation
- Greater supply chain stability

Seller:

- Allows Seller to substitute the risk of Buyer with that of the BPU Bank enabling them to take incremental exposure on the buyer for new business
- Sellers can raise finance from finance provider of their choice
- Finance raised against a strong credit rating of the BPU Bank with lower implied cost of funding than would have been obtained on its own
- Working capital optimisation and improved cash flow forecasting and flexibility, including the option to not finance and hold the receivable until maturity.

Asset distribution

Asset distribution may be a feature of such transactions or programmes and achieved through funded or unfunded risk participations, securitisation, syndications, or by means of credit insurance.

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GLOBAL SUPPLY CHAIN FINANCE FORUM

About the Global Supply Chain 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). Comprising trade bodies BAFT (Bankers' Association for Finance and Trade), FCI, the International Chamber of Commerce (ICC), the International Trade and Forfaiting 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 standardised 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.

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