RECEIVABLES DISCOUNTING TECHNIQUE

Market Practices in Supply Chain Finance
Receivables Discounting Technique | Market Practices in Supply Chain Finance

Global Supply Chain Finance Forum (GSCFF) is comprised of:
- 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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Disclaimer
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.
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Introduction

In order to achieve our goal of outlining and establishing common market practice guidelines, the BAFT Supply Chain Finance Committee and the Global Supply Chain Finance Forum (GSCFF) reviewed the different Supply Chain Finance (SCF) techniques in the Receivables Purchase (RP) category as outlined by the GSCFF glossary entitled Standard Definitions for Techniques of Supply Chain Finance (SDTSCF). While the Receivables Purchase category includes a number of different techniques, we selected to first focus on most common market practices associated with the Receivables Discounting technique.¹

Note: there are other SCF products such as Payables Finance, Forfaiting, etc., that will be addressed separately in future papers.

Receivables Discounting

Definition

Receivables Discounting is a form of Receivables Purchase, flexibly applied, in which sellers of goods and services sell individual or multiple receivables (represented by outstanding invoices) to a finance provider at a discount.²

Receivables Discounting may be done on a ‘limited recourse’ or ‘without recourse’ basis.³ The practices described herein cover ‘with limited recourse’ programs as are most common for this structure. These programs:

- May also be applicable to similar receivables purchase techniques like Forfaiting or Factoring;
- Cover the sale of goods and / or services;
- Are typically uncommitted facilities extended to the Seller of the receivables;
- Are typically transacted on an ‘open account’ basis, i.e., with or without explicit payment acceptance by the Buyer and typically without underlying shipping documents;
- May be applicable to programs which are disclosed or undisclosed to the Buyer.

This guidance is intended to help Finance Providers clarify common market practices in risk management, documentation, and operational handling for Receivables Discounting transactions.

¹ Also known as Receivables Purchase, Receivables Finance, Invoice Discounting and Early Payment of Receivables in the SDTSCF
² Ibid SDTSCF
³ Few programs are completely without recourse
The schematic below illustrates common structure of transaction flows used in Receivables Discounting programs:

**Figure 1: Receivables Discounting**

The finance provider does not offer the product to provide ongoing financing to the seller, because it is at the finance provider’s own discretion whether to purchase the invoice or not. Hence, there is no commitment for the finance provider to purchase the invoice, i.e. to finance the seller.

In a Receivables Discounting structure, the buyer either:
- Directly sells the purchased goods and/or services to a third party (direct onward sale), or
- Uses the purchased goods and/or services to create additional value from the goods and/or services as part of its core business activity, and subsequently sells them onward to a third party (indirect onward sale).

Since the transactions are short-term and the maturity is typically well below one year, the financing technique can be categorized as self-liquidating.

**Self-liquidating nature of the technique**

As discussed in the definition, Receivables Discounting is connected to the exchange of goods and/or services as it is used to finance the goods and/or services sold by a seller to a buyer based on an underlying commercial contract between the seller and the buyer. Hence, it is a trade finance transaction.
## Risk Structures and Mitigants

The most important structural element is how the Finance Provider manages the counterparty credit risk of the Buyer. Several of the most common Receivables Discounting structures summarized in the table below.

<table>
<thead>
<tr>
<th>Alternatives for covering Buyer Credit Risk</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal limits</strong></td>
<td>The Finance Provider leverages its internal credit limits on the Buyer(s) to cover the credit risk.</td>
</tr>
</tbody>
</table>
| **Trade Credit Insurance**                | The Finance Provider may use credit insurance by:  
  - buying its own policy, or may rely on the Seller’s insurance policy (see below for market practices);  
  - developing minimum credit criteria and other standards for insurance providers. |
| **Other Collateral**                       | The Finance Provider may rely on other forms of collateral to mitigate Buyer risk. Most common are bank guarantees or Standby Letters of Credit (SBLCs):  
  - Finance Provider establishes the minimum credit criteria required for the issuers of a SBLC or guarantee.  
  - Drawing clauses in such instruments must be sufficient to allow the Finance Provider to draw without a prior event of default in the underlying receivable(s) so that the Finance Provider may exit the RP arrangement while there are still outstanding, unpaid, receivables.  
  - Finance Providers may elect to accept other forms of collateral or parental guarantees from Buyers. The requirements of such collateral are not covered in this document. |
| **Factoring arrangements**                | Finance Providers may use Correspondent Factors to cover domestic and cross border credit risk on Buyers. In a factoring arrangement, the risk is transferred to the ‘factor’.  
  - A Correspondent Factor is another Finance Provider that may be available to cover the Buyer credit risk on pre-agreed terms. These are bilateral arrangements that are transparent to the Seller. |
| **Over collateralization of Receivables** | Finance Providers may over collateralize receivables as a form of risk mitigation used to mitigate portfolio risk. This structure is more prevalent in securitization structures than in Receivables Discounting programs.  
  - **A pool purchase** is the purchase of a basket or pool of eligible receivables where the Finance Provider accepts the risk of some or all the underlying receivables defaulting without underwriting individual credit limits or having done a credit analysis of the individual debtors that make up that pool. These structures can be done with or without trade credit insurance and may or may not have individual Buyer limits. |

Note that the individual Finance Provider has discretion in determining if some or all the Receivables Discounting structures listed above may be used as direct credit substitutes or simply as risk mitigants consistent with their individual risk-based policies.
Market Practices

Unbilled Receivables

The inclusion of unbilled receivables as an eligible invoice within Receivables Purchase Agreements (RPAs) may arise. Here is an example: a commodity trader delivers fuel oil daily but only invoices their Buyer customer at the end of the week. A receivable in this context would be unbilled if presented to the Finance provider before the weekly invoice is issued. Such receivables may be classified as eligible receivables provided:

- The sales contract, invoices, or other documentation indicate these periodic deliveries do in fact create receivables that are legally binding on the Buyer; and
- The Seller confirms that these items are treated as receivables on their balance sheet.

Additionally, the eligibility requirements for unbilled receivables should be stated in the RPA.

Dilution Risk

Definition

Dilution risk is any cash and non-cash related reduction applied to a receivable that is not a credit loss; including credit notes, rebates & volume incentives, warranty claims, returns, billing errors, etc., as a reduction in the amount of the receivable, and may arise after the receivable has been purchased by the Finance Provider.

The dilution amount / percentage – plus any other pertinent factors – need to be fully assessed by the Finance Provider. The dilution percentage then assists in developing the purchase price of the receivables in the RPA (see ‘Documentation’ below).

Generally, Finance Providers conduct a field survey or audit prior to program commencement and periodically thereafter based on their individual assessments and offerings. The purpose of such surveys would be to independently ascertain dilution ratios as well as any irregularities in the receivables' portfolio – for example, netting or offset arrangements. Finance Providers should determine if the dilution rate factored into the program is consistent with the Buyer(s) historical payment behavior. These surveys or audits are typically done on site by independent third parties or by qualified Finance Provider staff and may cover other aspects of the trading relationship (e.g. late payments, credit notes, etc.) in addition to dilution risk. It is important to ensure that the RPA provides representations and warranties to cover exclusions and requires minimum Seller performance standards (e.g. evidence of insurance premium payments, timely collections, adherence to insurance policy terms and conditions, etc.)

Program With / Without Disclosure

Most Receivables Discounting programs are Seller centric and without disclosure to the Buyer where the underlying sales contract does not have a ban on assignment.
Consideration must be given to the following factors:

- The Seller prefers a disclosed structure.
- The relationship team managing the Buyer limits believes that disclosure is important for reasons of relationship reciprocity or limit management.
- The Buyer is in a jurisdiction where local laws require a notice of assignment and/or acknowledgement from the Buyer to perfect the assignment, Finance Providers are recommended to consult their legal and risk advisors on perfection of assignment in foreign jurisdictions.
- There is a ban on assignment in the underlying sales contract. Further inquiries should be made to facilitate the Finance Provider’s analysis and possible acceptance of this condition.
- Where such programs are undisclosed to Buyer(s), the underlying reason is often out of commercial considerations: the Seller may believe that disclosure of the sale may result in a weaker commercial position. If the Buyer encounters financial difficulty or insolvency, that Buyer may no longer consider repayment of the purchased invoice in a disclosed structure as a supplier debt, but rather as bank debt which may be rescheduled.

**Trade Credit Insurance**

Trade Credit insurance is often used as a risk mitigant or credit substitute. The Trade Credit Insurance policy can be either held by the Finance Provider, or by the Seller. The following additional practices for managing and documenting Trade Credit Insurance are common:

> **Insurer’s Credit Rating**

- Finance Providers must determine the minimum credit rating and any other criteria they require for each Insurer.

> **Finance Provider owned Trade Credit Insurance policies (Finance Provider is the Insured)**

- Insurance companies typically offer between 85 to 95% insurance to cover the Buyer payment risk and require that the remaining risk be retained by the Insured Party. Such risk may be retained by the Seller, and/or held by the Finance Provider.
- The balance of 5-15% is typically either not discounted by the Finance Provider, or, is financed by the Finance Provider with full recourse to the Seller. The Finance Provider, in line with its own internal policies may or may not separately collateralize the remaining balance due from the Seller.
- First loss structures may also be used depending on the Finance Provider’s internal policies. A first loss structure typically requires the Seller or a third party to take the first tranche of any loss in a portfolio of receivables.

> **Seller owned Trade Credit Insurance policies covering Buyer’s risk**

- In this case, the Finance Provider may be either a Loss Payee or a Co-Insured under the Seller’s insurance policy. This distinction should be clearly determined at the outset of any program.
- A Co-Insured position gives the Finance Provider similar rights and responsibilities as it does the Insured party, i.e. to step into the shoes of the Seller if it chooses to do so. As a Co-Insured, the Finance Provider may exert independent control over the insurance policy.
if needed (submission of claims, payment of premium, development of policy wording etc.).

- A Loss Payee position gives the Finance Provider the assignment of proceeds in a claim. If the Seller is the Insured party and the Finance Provider is named in the policy as Loss Payee or Assignee, the Finance Provider should retain recourse to the Seller for servicing risks relating to the validity and enforceability of the policy.

- Seller performance risk must be considered, i.e. their ability to manage conditionality of an insurance policy and maintain credit and collections procedures acceptable to the Finance Provider and/or Insurer. A Finance Provider must determine if the Seller can properly manage the terms and conditions of their insurance policy to protect the coverage including paying premium, servicing and collections of the underlying receivables and filing claims should it be necessary.

- In either case, a Finance Provider must have its own policies and procedures in place to assess the insurance policy and to document the results of its assessment. It is also recognized that Finance Providers may elect to use an insurance broker to help negotiate complex policy wording and procedures.

> **Risk & capital treatment of the insurance policy - key considerations for assessing and assigning a probability of default rating, and guarantee eligibility**

- Capital treatment also depends on whether the Finance Provider uses the ‘Advanced’ or ‘Standardized’ approach under Basel III.
- Finance Providers using the Standardized approach generally use the insurance policy as collateral relying on the credit grade of the Insurer.
- In most cases, a Finance Provider would assign a risk rating to the Seller and the insurance provider to derive a probability of default for each.
- Finance Providers using the ‘Advanced’ approach under Basel III will use their internal models for capital treatment determinations.
- Where a Finance Provider uses the Advanced approach and intends to rely on insurance as a credit risk substitute for the Buyer (‘guarantee’) as outlined in the Basel III rules, there may be other requirements (for example, in the EU via Capital Requirements Regulation rules) to ensure that the transaction receives beneficial capital treatment.
- Finance Providers must also apply their individual country or jurisdictional regulatory guidance in determining insurance guarantee eligibility under Basel rules and any local regulatory considerations.
- Lastly, and irrespective of their capital treatment, Finance Providers must have internal limits, guidelines, policies and procedures on how to record & report insured Buyer limits based on their own risk-based approach.
Seller Performance Risk

Definition

Seller Performance Risk is the ability of the Seller to meet its performance obligations under the Receivable Purchase Agreement.

This risk arises when the Seller is responsible for both servicing the insurance policy and collecting the receivables on behalf of the Finance Provider. Where proceeds are being received directly by the Seller, Finance Providers should consider including one of the following risk mitigants:

- Payment by debtors directly into the Seller’s account with the Finance Provider;
- Payment by debtors directly into a ‘controlled account’ with the Finance Provider that is under the control of the Finance provider, with a Deposit Account Control Agreement or ‘trust account’ structure (where another bank that receives the proceeds of the receivable agrees to hold the funds for the benefit of the Finance Provider);
- An intercreditor secured arrangement carving out Finance Provider’s purchases of designated receivables that provide effective lien release and consents to assignment by any secured creditors. To the extent that there are similar provisions in other jurisdictions, Finance Providers should be aware of this requirement;
- Parental or other corporate guarantees are sometimes taken to support the Seller’s performance risks.

Considerations for managing Seller Performance risk depends on the Seller’s overall credit strength as well as the program’s structure including:

- Obtain Seller’s track record and staffing in managing trade credit insurance policies including servicing and collections;
- Conduct field surveys and/or independent audits at least once a year.
- Where proceeds of Receivables are received directly by the Seller, there should be a provision requiring the Seller to remit such proceeds to the Finance Provider. This period, sometimes called a grace period, should accommodate a certain amount of time for Seller to reconcile and remit proceeds. This period is typically no more than seven business days.

Legal Agreements and Documentation

Generally, a RPA is executed between the Seller and the Finance Provider. A RPA is the legal contract between the Seller and the Finance Provider that defines the agreed terms and conditions applicable to the receivables discounting program. Under the RPA the Seller provides an assignment of rights to the receivables being financed that must be adjusted according to the requirements of the jurisdiction in question.

Copies of invoices, or a summary of the invoice data set, is made available to the Finance Provider in advance of each receivable purchase. The submission of invoices and the manner or method by which they are to be provided is typically agreed upon in the RPA. Note that this may be accomplished via an automated system.
Key RPA Provisions

The Finance Provider’s RPA should define all the following concepts below:

- RPAs with limited recourse are typically documented on a ‘True Sale’ basis, i.e. the Finance Provider is buying the underlying receivable vs. taking that receivable as collateral for a loan.
- A definition of eligible receivables are invoices that conform to the terms and conditions set forth in the RPA.
- RPA must define “eligible receivables” and outline the type of exclusions to consider before agreeing to discount the receivables.
- Allow the Finance Providers the right to conduct audits or field survey visits.

Exclusions, and Recourse Considerations

Exclusions in an RPA may include, but are not limited to:

- Any miss-characterization of a receivable previously submitted that should or would have been deemed ‘ineligible’
- Commercial disputes
- Product disputes
- Receivables that are subject to liens
- Receivables that are subject to any bilateral ‘netting’ arrangements (e.g. where the underlying contract between the Seller and their Buyer(s) allow(s) for offsets)
- Uninsured receivables (where these are expressly excluded) under either the Seller’s or the Finance Provider’s insurance policy
- Fraud events as stated in an RPA
- Court injunctions or regulatory actions
- Potential force majeure risks as defined in the RPA
- Protracted default (the risk of a delayed payment without any apparent basis or stated reason).

Typical Recourse Conditions include the RPA requirement for the Seller to repurchase an ineligible receivable. RPAs typically contain provisions to allow recourse back to the Seller under two broad types of events:

- First, a receivable that was previously discounted subsequently becoming ineligible – either because it was never eligible in the first instance, or, as a result of post discounting events (e.g. Seller’s failure to maintain credit insurance if the Seller had agreed to provide such insurance).
- Second, other situations or scenarios that may specifically trigger recourse to the Seller.

RPAs may stipulate additional recourse events that were not originally stipulated or triggers that may require the Seller to repurchase the receivable(s). These include, for example, any disqualifying events, such as fraud or judicial actions that may occur after the Finance Provider has purchased the receivable. Other examples include:

- Commercial disputes occurring after the purchase between Buyer and Seller;
- Misdirection of the proceeds of receivables paid into an account other than the designated collection account(s);
- Any deductions or other amounts withheld from the payment of the outstanding balance of the receivable(s).
Such events, if they qualify as a recourse event under the terms of the RPA, will then result in a repurchase event which would require the Seller to ‘repurchase’ the specific invoices(s) within a stipulated amount of time.

Perfecting the Receivable Assignment

- For receivables to be paid by Buyers inside or outside of the US, Finance Providers need to ensure they have purchased a legally valid and enforceable receivable. Finance Providers have different requirements and are encouraged to consult their legal and risk advisors for specific jurisdictional guidance.
- In the US, Uniform Commercial Code (UCC) searches and filings are conditions precedent to establish legal ownership of the asset (note – this will also depend on Seller’s jurisdiction). UCC searches and filings may also be required if the Seller has other secured lending facilities.
- Searches, with company’s registry or equivalent, are also required in the UK (a Companies House search) and some Commonwealth countries. A charge in the registry is a constructive notice to all.
- Where the Seller has other secured lending facilities, Finance Provider should consider an inter-creditor arrangement with other secured lender(s) to avoid subsequent disputes.

True Sale Definition and Intent

‘True sale’ is generally intended to ensure that the Seller is able to remove the receivable(s) from its balance sheet, and, for the Finance Provider to evidence its purchase of those receivable(s). It is recognized that whilst ‘true sale’ is most commonly used in the US, other jurisdictions may employ different terminology, including but not limited to, ‘off balance sheet’, de-recognition, etc.

- Finance Provider must secure legal validity of the receivable being sold to ensure that the purchase(s) complies with ‘true sale’ provisions, if ‘true sale’ is a requirement for the Finance Provider and/or Seller.
- RPA must similarly demonstrate the Seller’s substantive intent to sell/transfer ownership of the receivables to the Finance Provider in accordance with IFRS 9 or GAAP equivalent which is the Accounting Standards Codification Section 860.

Consideration should be given to obtaining independent opinions on the true sale aspect of the receivables purchase programs. Generally, obtaining such opinions could strengthen Finance Provider’s position in the event of the Seller’s bankruptcy.

Practical Considerations for operationalization of true sale of receivables (and off-balance sheet treatment, derecognition, etc.)

Balance sheet treatment of receivables sold by a Seller is determined by the Seller’s financial and legal advisers. In the United States, ‘True sale’ is a subjective determination that follows state law instead of the U.S. Bankruptcy Code. The courts will often rely heavily on the ‘substantive intent’ of the Receivables Purchase Agreement. Finance Providers should construct RPAs to represent the intent for the purpose of ‘True Sale’ of each receivable as courts look for evidence that the risks and
rewards, also referred to as benefits and burdens of ownership of the receivables, have been transferred from the Seller to the Finance Provider.

As a best practice, Finance Providers should request their Sellers provide any ‘True Sale’ opinions that they may have obtained. This could help strengthen the Finance Provider’s position in the event of any subsequent dispute.

In all instances, market practice recommends that Finance Providers conduct their own due diligence and assessment.

Some of the characteristics and responsibilities considered to classify the sale of receivables as off-balance sheet for the Seller include (but are not limited to):

- **Lien Searches**: to assure that the Finance Provider acquires an ownership interest in a purchased receivable, common practice in the U.S. is for the Finance Provider to conduct searches of the appropriate UCC filing records to determine if the receivables are subject to any prior lien or ownership interests of other parties.
- **US - UCC Filing**: to perfect interest in the U.S., UCC filing by the Finance Provider is mandatory.
- **Canada**: For sellers located in Canada, Personal Property Security Act (PPSA) searches are conducted to ensure receivables are not subject to prior liens or sales, and a PPSA filing is required. In Canada, this registration is also required to avoid conflicting claims on the asset.
- **Other**: For suppliers located in other jurisdictions, local legal advice is recommended to confirm if registration is required to perfect a purchase, participation, security interest (as applicable).
- **Recourse to the Seller**: the type and extent of credit recourse retained by the Seller is very important in any true sale consideration for the Seller. The broader the list of recourse events to the Seller, the greater the risk of re-characterization by courts from a true sale status to a loan. Some of the considerations include:
  - Structure of the RPA to demonstrate substantive intent to transfer ownership of receivables from the Seller to the Finance Provider;
  - Extent of control retained by the Seller over proceeds and/or collections of overdue items;
  - First loss or other credit risk allocated to the Seller;
  - If the Buyer is in a foreign jurisdiction, Finance Providers may wish to also include enforceability as a recourse event (see below).

- **Enforcing Rights in Foreign Countries**: If the Buyer is in a foreign jurisdiction, insolvency of the Buyer may be adjudicated in the local jurisdiction of its organization. Finance Providers need to ensure appropriate legal advice when purchasing receivables due from Buyers in foreign countries.
Compliance and AML Requirements

As general guidance, Finance Providers should ensure that they conduct thorough Know Your Customer (KYC), Anti-Money Laundering (AML) and Sanctions reviews on any Receivables Discounting program developed.

Please refer to the Wolfsberg/ICC/BAFT Trade Finance Principles (TFP) for overall guidance. The Wolfsberg/ICC/BAFT Task Force has finalized trade finance principles for open account transactions that have been appended to the existing guidance paper. Nevertheless, a basic summary of key KYC and AML requirements under Receivable Purchase arrangements is provided below:

A thorough regulatory and compliance program would include review at the following stages in a Receivables Discounting Program to ensure strong program compliance standards and post transaction monitoring as follows.

1. At program outset, conduct a comprehensive KYC, AML and Sanctions review on the proposed program and the parties involved.

2. At transaction level, conduct on-going monitoring and review for the life of the program.

3. Post transaction, perform periodic post transaction reviews according to your firm's risk-based approach. Typically, these are performed annually.

Specific guidance on customer due diligence review and monitoring is outside the scope of this document. However, we note the following:

- Ensure ongoing screening to determine if new parties have been added to the SDN and/or other prohibited party list.
- Conduct periodic unusual activity screening to ensure consistency with the party's line of business activities.
- Identify when transactions or parties are in high risk jurisdictions to ensure alignment with Finance Provider's policies and procedures and risk based approach.

At program outset

Most common market practice is for the Finance Provider to do a thorough due diligence review to ensure the Program complies with the Finance Provider's compliance policies and guidelines. These reviews may include:

- Identifying high risk jurisdictions and acceptability thereof to the Finance Provider;
- Obtaining Seller client KYCs;
- Conducting due diligence checks on program counterparties based on established risk criteria.

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**Transaction Level Monitoring Standards and Controls**

- All party names in transactions should be screened at the time of transaction drawing.
- Screening should be conducted in line with the Finance Providers guidelines and policies for similar trade transactions. Example: periodic party screening to ensure that none of the Buyers has since been added to the sanctions list.
- Customer due diligence and unusual activity screening should be conducted and consistent with the Finance Provider’s policies and procedures. This is done on a pre and post transaction basis and may serve to identify anomalies in client behaviors or changes after the time of program approval.
- Periodic post transaction sampling of invoices, and related documentation should be done through submitted spreadsheets. (Note – this is also an item that would normally be covered in the RPA).

**Post Transaction Reviews**

Finance Providers should revalidate their due diligence of the program parameters - including counterparties, underlying merchandise, etc. - by performing post transaction reviews and renewing any program, typically on an annual basis.

**KYC Considerations**

In a Receivable Discount transaction, the Seller is the Finance Provider’s customer.

<table>
<thead>
<tr>
<th>Participant</th>
<th>KYC</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seller</td>
<td>Full KYC required</td>
<td>Considered to be a client, since it is an instructing party</td>
</tr>
<tr>
<td>Risk Providers (e.g. Insurance providers)</td>
<td>Full KYC required</td>
<td>Also considered a ‘client’ or ‘customer’ for KYC purposes</td>
</tr>
<tr>
<td>Buyer – banks own credit limits</td>
<td>Full KYC or Risk Based Due Diligence</td>
<td>Assumption is that KYC was done on the Buyer entity as part of a larger customer relationship</td>
</tr>
<tr>
<td>Buyers – who are part of larger groups for whom the Finance Provider has limits</td>
<td>Risk Based Due Diligence Example – XYZ Texas subsidiary Inc which is part of XYZ Inc (parent)</td>
<td>Sometimes the Buyer entity may be part of a Group but a separate, legal entity. Due diligence on subsidiaries of the Finance Providers’ client, may have to be done without reaching out to the Buyer entity</td>
</tr>
<tr>
<td>Interfactor or SBLC/Guarantee provider</td>
<td>Full KYC required on the factors and SBLC issuers and Guarantors</td>
<td>Also considered a ‘client’ for KYC purposes</td>
</tr>
<tr>
<td>Buyers – not covered by the Finance Providers own limits, but the risk covered by other risk providers such as insurers, guarantors, etc.</td>
<td>Varying levels of due diligence</td>
<td>Such reviews to be risk-based (jurisdiction, amounts, etc.) and aligned with the Finance Provider’s internal guidelines</td>
</tr>
</tbody>
</table>

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5 It should be noted that Finance Providers may have different practices however these represent certain of the most common practices.
Audit Confirmation

While audit confirmations may not be common, the following is market practice for an audit confirmation if an inquiry is received from the Seller’s or the Buyer’s auditors:

- If an inquiry is received from the Seller’s auditors, the exposures may be included in the Finance Provider’s audit confirmation noting limited recourse on the seller.
- If an inquiry is received from the Buyer’s auditors (which is unlikely), the exposures may be included in the audit confirmation noting that the purchase of the receivable was done on a true sale basis.

Syndications and Participations

For larger Receivable Purchase programs, multi bank programs are increasingly common with one Finance Provider acting as security and documentation agent on behalf of a larger group of Finance Providers. The parameters of such multi-bank programs are considered outside the scope of this market practice document.