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State of Supply Chain Finance Industry
Entering a New Era of Maturity

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Suite 612
718 - 333 Brooksbank Avenue
North Vancouver, BC V7J 3V8
Canada
Phone: 604.924.0851
Fax: 604.904.0087
info@globalbanking.com

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Introduction

By all means, we do not need another supply chain finance book or publication. It seems Supply Chain Finance ("SCF") is the new Plastics! If you ever watched It's a Wonderful Life, you may recall the scene where George Bailey, played by Jimmy Stewart, gets asked to invest in plastics by Mary's boyfriend. George responds, "Now, you listen to me! I don't want any plastics, and I don't want any ground floors, and I don't want to get married – ever – to anyone! You understand that?" A day does not go by when some new finance solution is going to solve some pain for a poor old business that is credit starved. Yes, supply chain finance is the new plastics.

But what is lacking in all the supply chain finance information is true unbiased content. Much of what is discussed with supply chain finance comes from a vendor pushing their solutions or consultants who do not have a corporate perspective.

Global Business Intelligence is updating our Supply Chain Finance Guide to help companies understand the broader vision of supply chain finance, and how it fits within their entire ecosystem. We also want to help alleviate the confusion around vendor propositions and to help CFOs, Treasurers, CPOs, and finance professionals better understand the myriad of issues around supply chain finance. The increasing need to manage working capital has made this space a fast-changing market and there are a significant number of vendors with solutions.

It is not an exaggeration to say that it is an incredibly exciting time to be working in trade credit, working capital, and finance. While technology trends such as cloud computing, big data, new forms of analytics are laying the foundation for innovation, much of this innovation is occurring because the ongoing financial crisis and the challenges in the banking system has led to a desire for a re-invention of financial services.

Events of the crisis and downturn continue to drive a growing trend towards greater efficiency in the utilisation of excess working capital. It also means that banks, financial institutions and companies are beginning to understand that the receivable is an asset that can be counted on much more than many other assets. Receivables short-term, self-liquidating nature means that much of the issues and uncertainty of advancing against other assets are absent.

1 Why defining Supply Chain Finance is so difficult

Why defining Supply Chain Finance is so difficult

Supply Chain Finance has become an industry buzzword. Is supply chain finance a product or a concept? If you Google Supply Chain Finance, a common definition would be, "Supply chain finance is a buyer-led initiative that facilitates favorable financing for the supplier in order to achieve mutual benefits for both trading partners, through the use of a technology platform and a third-party financial institution or otherwise."

This form of finance "productizes" SCF from a bank or vendor perspective and typically refers to post-shipment finance programs that permit suppliers to sell their invoices "approved" for payment by their buyer before the payment due date. This view is too narrow for several reasons:

- Supply chains cover the whole chain – from the first supplier to the end customer. This is not a serial process but a complex, inter-related network of partners, suppliers, contract manufacturers, co packers, resellers, etc. Supply chain finance focus is on creating liquidity in the supply chain through various Buyer or Seller-led solutions with or without a facilitating technology.

- The role of SCF is to optimize both the availability and cost of capital within a given buyer-supplier supply chain. Technology can aid in aggregating, packaging, and utilizing various information generated during supply chain activities to manage risk. To add further value, information on the physical flow of goods can be monitored. The coupling of information enables lenders to mitigate financial risk within the supply chain. The mitigation of risk allows more capital to be raised, capital to be accessed sooner, or capital to be raised at lower rates.

- Supply Chain Finance should be more broadly interpreted to encompass any financing solution that supports the buyer/seller supply chain, whether it is domestic or global. Therefore, market participants should take an expanded view on supply chain finance (including areas such as pre-shipment finance, purchase order financing, inventory finance, distribution finance, etc.).

Many vendors offer what they call a "supply chain finance" solution. What is confusing is that vendors have very different business models and value propositions to companies or their solution providers. These vendors could include equity crowdfunding platforms, retail bank platform providers, asset creators, wealth managers, peer to peer consumer lending, and many more. For example, one vendor may build a finance model around pcards, dynamic discounting and non approved invoice finance while another has an eProcuement solution together with transactional finance, but they are all called supply chain finance vendors.

It is hoped this guide will help clarify this confusion.

Trade Finance Product Sets

Trade finance describes a broad range of activities covering corporate balance sheet financing among buyers and sellers (receivables and payables), bank transactions that support corporate payables and receivables as well as other specialist products.

In general, there are four major groups of trade transactions:

1. **Traditional Trade transactions** are generally originated when there is a Buy/Sell offshore transaction and include Letter of Credits, Confirmations, Standby Letter of Credits, and Documentary Collections. These tend to be contingent liabilities. These transactions are unfunded until certain events occur and are converted to various trade loan products.
2. **Supply Chain Finance Assets** are derived from Open Account transactions (Open account generally meaning just an invoice is involved, as opposed to specific bills of exchange or other documentation from the bank). These assets can be both domestic and foreign.
3. **Medium to Long term Export Finance** deals back by an Export Credit Agency
4. **Structured Trade Finance deals** – mainly commodity finance or medium term pre-shipment finance

Overall, trade assets have historical low defaults. The reason is quite simple. The ability to source product is fundamental to be an ongoing concern. Suppliers can cut off supply or require cash in advance. Trade creditors as counterparties get extraordinary treatment from debtors, and in event of bankruptcy and restructuring, are usually honoured in part or in full.

On average, inter-enterprise credit is five times more than the total volume of short-term bank.

The Confusion around Trade Finance and Trade Credit

This is a confusing area and unfortunately many in the industry use these terms interchangeably. As the Bank for International Settlements describes in their paper "Trade finance: developments and issues":

"The term "trade finance" is generally reserved for bank products that are specifically linked to underlying international trade transactions (exports or imports). As such, a working capital loan not specifically tied to trade is generally not included in this definition. Trade finance products typically carry short-term maturities, though trade in capital goods may be supported by longer-term credits".

Banks support international trade through a wide range of products that help their customers manage their international payments and associated risks, and provide needed working capital. These include products like letters of credit, specific trade loans tied to letters of credit, supply chain finance, factoring, invoice discounting, etc.

Trade Credit is inter-firm trade credit between buyers and sellers. Banks tend to refer to this as open account transactions, where goods are shipped in advance of payment, and cash-in-advance transactions, where payment is made before shipment.

2 A Framework to understand Business Credit

A Framework to understand Business Credit

The first way to view trade credit is through a macro view of the value chain. Macro is order to financial settlement (functionally):

Figure: Simplified Value Chain Map

Goods ordered	Production of goods	Goods shipped	Invoice issued	Payment & cash mgmt

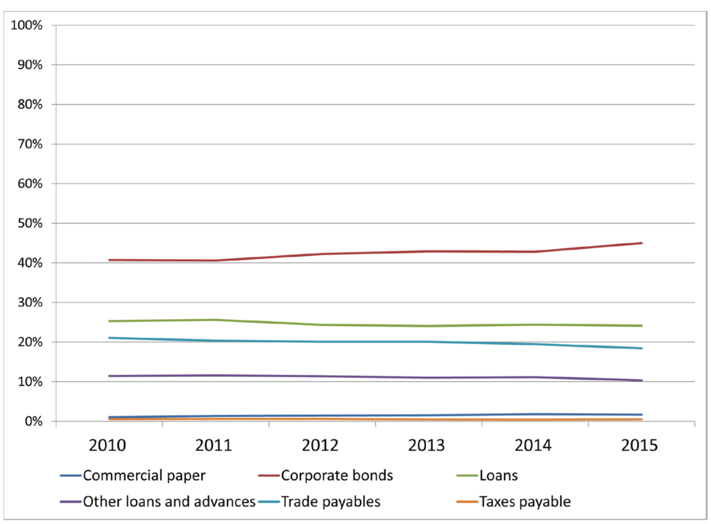
Payables represent the largest source of capital for many businesses, and increasingly, companies stretch payables even further to manage working capital. While Accounts Payable is a free loan, it needs to be balanced with supplier relationship and cost of goods sold.

Most people are familiar with this high level value map. You order goods, they are produced and shipped, the seller, manufacturer or distributor invoices the buyer, and payment is made. It all sounds so simple.

Most companies may not realize that by providing goods and services to buyers, their payment terms provide a form of a loan to the buyers. This loan, or Trade Credit, can be the largest user of capital for most businesses. Customer demand for trade credit requires sellers to provide free and flexible funding for their customers. This is called "Giving customers a free loan!"

And yet we find the issues around trade credit and supply chain finance are very challenging. It used to be the customers would provide payment terms so they could receive and check goods before payment, and receive some form of discount from their sellers if they paid earlier. Not today. Customer demand for trade credit requires sellers to provide free and flexible funding for their customers, which is not economical for most businesses.

Figure: Trade Payables and Corporate Bonds represent a significant portion of Corporate liabilities compared to Loans and Commercial Paper



Infrastructure Layer

There is an infrastructure layer at the top that governs how business trade flows are financed.

Infrastructure	Regulatory Framework	Legal Framework	Risks	Data

Regulatory

Regulatory issues include the Uniform Commercial Code and Basel III bank capital standards. In the U.S. the Uniform Commercial Code (U.C.C.) governs private transactions including receivables. In Canada, it is the Personal Property Security Act or "PPSA" - in different countries, different regulations apply. Article 9 of the U.C.C. harmonizes the law of sales and other commercial transactions in all 50 states and deals primarily with transactions involving personal property (movable property), not real property (immovable property). This article governs secured transactions where security interests are taken. By allowing lenders to take a security interest on a collateral owned by a debtor's asset, the law provides lenders with a legal relief in case of default by the borrower. With such legal remedy available, lenders would therefore be able to lend capital at lower interest rates. Security interests are particularly valuable in bankruptcy, because creditors who have security interests in a bankrupt debtor's estate take precedence over creditors who lack such interests (unsecured creditors).

Legal Layer

The United States Bankruptcy Code Chapter 11 permits the reorganization of distressed businesses, while protecting the interests of creditors. In essence, bankruptcy is a value reorganization event – it fixes value to an estate on the effective date of an agreed plan and finds a way to distribute that value to creditors if the firm cannot continue as a going concern. The value received is a waterfall, that is, senior creditors get what's owed to them first, than junior creditors, etc. till cash runs out.

For example, if a senior secured creditor with a blanket lien on the debtor's assets is owed $10, a junior creditor is owed $2, and the enterprise value of the debtor at confirmation or sale is $9, the senior creditor will receive $9 and the junior creditor $0. That all sounds simple enough, but few things are that clear in the world of bankruptcy. Consider:

- What happens if during the next few years the enterprise value of the debtor proves to be much higher than today, such that the junior creditor could have been in the money?
- What happens if the debtor's assets depreciate rapidly such that creditors will see a rapid loss if a sales does not happen soon?
- Or if some debtor in possession financing can be arranged so the company has cash to pay suppliers, but secured lenders must wait longer for payout?

This is why the bankruptcy plan needs to be approved by the creditors and also to comply with the Bankruptcy Code requirements for the Court's approval, or " confirmation", as it's called under the Code.

As it relates to SCF, while there are lots of common elements and features across supply chain finance structures, no two programs will be alike. For example, the figure below looks at the differences between three structures.

- Invoice based SCF programs
- Negotiable Instrument Based SCF programs
- Non Recourse Receivable Purchase (Factoring)

Figure: Legal and Regulatory Differences Between Structures

Invoice Based SCF Program	Negotiable Instrument Based SCF Program	Non-Recourse Receivables Purchase (Factoring)
Dominant structure in Europe and US	Dominant structure elsewhere	Used worldwide
3 parties (Supplier, Buyer, Bank)	2 or 3 parties (Supplier, Bank and sometimes Buyer)	2 parties (Supplier, Bank) – no Buyer involvement required
Article 9 of the UCC (and foreign equivalents)	Article 3 of the UCC	Article 9 of the UCC (and foreign equivalents)
UCC filing in the US against Supplier and equivalent in other applicable countries	No UCC filings	UCC filing in the US against Supplier and equivalent in other applicable countries
"True sale" of receivable	"True sale" of instrument	"True sale" of receivable (***critical***)
Internet platform common	Internet platform possible	Internet platform possible
Buyer always notified – pays Bank	Buyer always notified – pays Bank	Buyer sometimes notified – can pay Bank or Supplier
Can be rolled out across Supplier base	Can be rolled out across Supplier base	Negotiated on a supplier-by-supplier basis
Accounting complexities possible	Accounting complexities common	Accounting complexities uncommon
Intercreditor issues uncommon	Intercreditor issues uncommon	Intercreditor issues possible

Accounting Standards Layer

The **Financial Accounting Standards Board** or "FASB" is a private, non-profit organization whose primary purpose is to establish and improve accounting principles within the United States in the public's interest. The **International Financial Reporting Standards (IFRS)** began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are progressively replacing the many different national accounting standards.

When talking about trade finance, **FASB** and **IFRS** are a key concern or motivation for companies. Accounting standards govern how companies must value assets and liabilities on their balance sheets. There are many FASB rules that provide accounting standards and guidance on credit transactions. A few of the more important ones include:

- FASB Statement No. 166, Accounting for Transfers of Financial Assets and No. 167, Amendments to FASB Interpretation No. 46, which change the way entities account for securitizations and special-purpose vehicles.
- FASB Accounting Standards Codification Topic 470-40 provides guidelines for determining whether a transaction involving the sale of inventory is in substance a financing arrangement.
- FASB 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, governs whether receivable sales are recourse or non recourse, in essence governing whether they are true sale and can be taken off the books as a receivable.

Risk Layer

Risks such as default risk, invoice dilution, shipment failure, political and currency controls, etc. exist along the functional value chain. In financing receivables, there are several risks to address:

- **Transaction Risk**: Will the buyer pay, will they pay the full amount and when will they pay? Even financing from a buyer approved invoice, which should eliminate dilution and timing, you still have buyer insolvency risk, supplier quality issues, and supplier breach of contract.
- **Fraud:** The risk the invoice is bogus.
- **Perfection**: third party claim to purchased assets, eg. what if the receivable already is pledged to another lender, such as Citibank or CIT?
- **General Setoff**: potential that a Buyer seeks to recover losses incurred in the event of a Seller bankruptcy by setting off payment against all payables to that Seller. For example, I buy coal from a borrower and they go bankrupt. Can I offset outstanding receivable with the cost of procuring new coal supply?
- **Servicer Risk**: The potential that the program Servicer's platform or processes are flawed, un-reliable, or enable the perpetration of fraud.

Data Layer

In the Purchase to Pay space, many vendors are focused on selling integration services around eProcurement, einvoicing, or business networks to the Global buy-side 2000, (ie, the major corporates and their supplier base). Of course many have added abilities to help their client offer some form of early payment to extinguish a payable early.

These Networks are information advantaged but relationship and operationally light compared to Commercial Finance companies. They first start with an integration project around eInvoicing, eProcurement, EDI replacement, etc. And many realize they have valuable network data, data that bankers and commercial financiers do not have that could greatly enhance underwriting opportunities, risk based pricing, loss rate modeling, etc. For example, the combination of a purchase order, invoice and invoice approval provides a combination of invaluable information to a lender. It provides a lender with significantly more comfort that an invoice will be paid and at what level (specifically) it will be paid than any other form of guarantee before payment.

The challenge is to build intelligent underwriting models that can take this data and make credit decisions. There are many questions to ask. Here are a few:

- **How to use the data contained in supplier networks to make a finance decision?**
- **What data is required (historical data on trading relationship)?**
- **Does the data extend across business cycles?**
- **Does it include dispute and dispute resolution?**
- **Can you actually track an invoice to a payment?**
- **What risk mitigation techniques are required? e.g., trade credit insurance, cash dominion control of accounts, etc.**

Business & Accounting Layer

ERP systems are extremely complicated as they provide technology solutions across all the different parts of a business. For example, SAP has many different modules:

- **ERP (Classic)**
- **CRM (Customer Relationship Management)**
- **EAM (Enterprise Asset Management)**
- **HCM (Human Capital Management)**
- **PLM (Product Lifecycle Management)**
- **SCM (Supply Chain Management)**
- **MM (Materials Management)**
- **Finance**
- **Procurement**

In addition, they are often customized by industry, so that an ERP system in the financial services industry will have different modules compared to one in the oil industry.

From a business credit perspective, we are mainly interested in the final four: SCM, MM, Finance, and Procurement. The SCM module is used mainly in a manufacturing environment to ensure that the raw materials that are needed to produce the final product are available at the correct time and place. This module is linked to the sales forecasting system, so as sales are booked for a product the corresponding raw materials are automatically ordered. As such, the SCM module is mainly used for strategic procurement.

The SCM module is linked to another module, called Materials Management (MM). MM links the manufacturer and the raw material supplier and is highly automated, so that orders are placed automatically and information about goods delivery and invoicing is also automated. This automation usually uses a system called EDI (electronic data interchange).

The Procurement Module is used for non-strategic, or indirect, spend. This module contains the details of all approved suppliers, called the Vendor Master Table. When an employee wants to use a new supplier, they have to register the details of the supplier (vendor) on this table. This process includes details of the commercial agreement with the supplier, such as the payment method and the payment terms.

The Procurement Module also links to front-end systems, such as e-procurement, that employees use to place orders, plus the Finance module that is used to raise Purchase Orders and pay suppliers.

The Finance module maintains the accounts payables system. When a purchase order is raised, this creates a liability for the company (as they owe money to a supplier). Once the invoice is received and the payment authorized, this liability can be closed and the appropriate cash account debited.

If a purchasing card is used for a payment, the liability changes to the bank rather than the supplier. When the bank sends through the monthly statement in electronic form, this bank liability can be closed.

The Finance module contains the interfaces to the banks, which may be direct or through a third party consolidator.

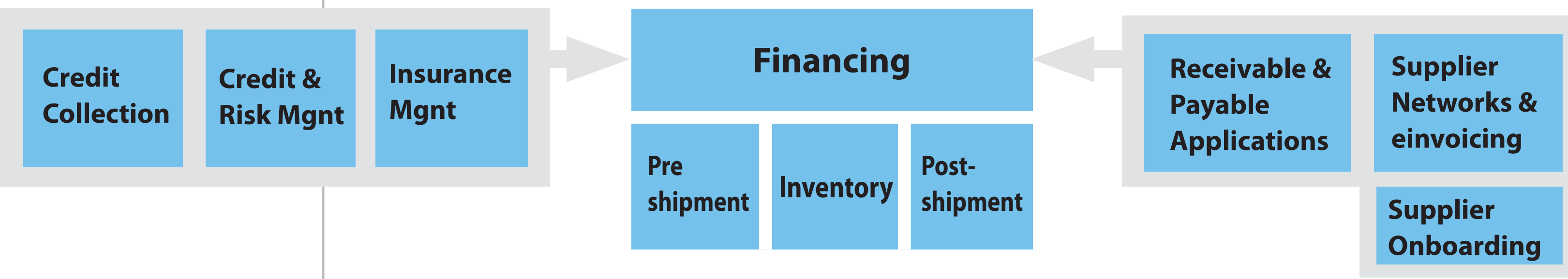
Trend Towards Cloud-Based Systems

As with many enterprise systems, there is a general trend to cloud-based solutions. This trend is driven by the lower operational cost compared to a licensed or "behind-the-firewall" traditional option.

The move to the cloud allows the ERP systems to link directly to other cloud-based enterprise solutions, such as electronic invoicing.

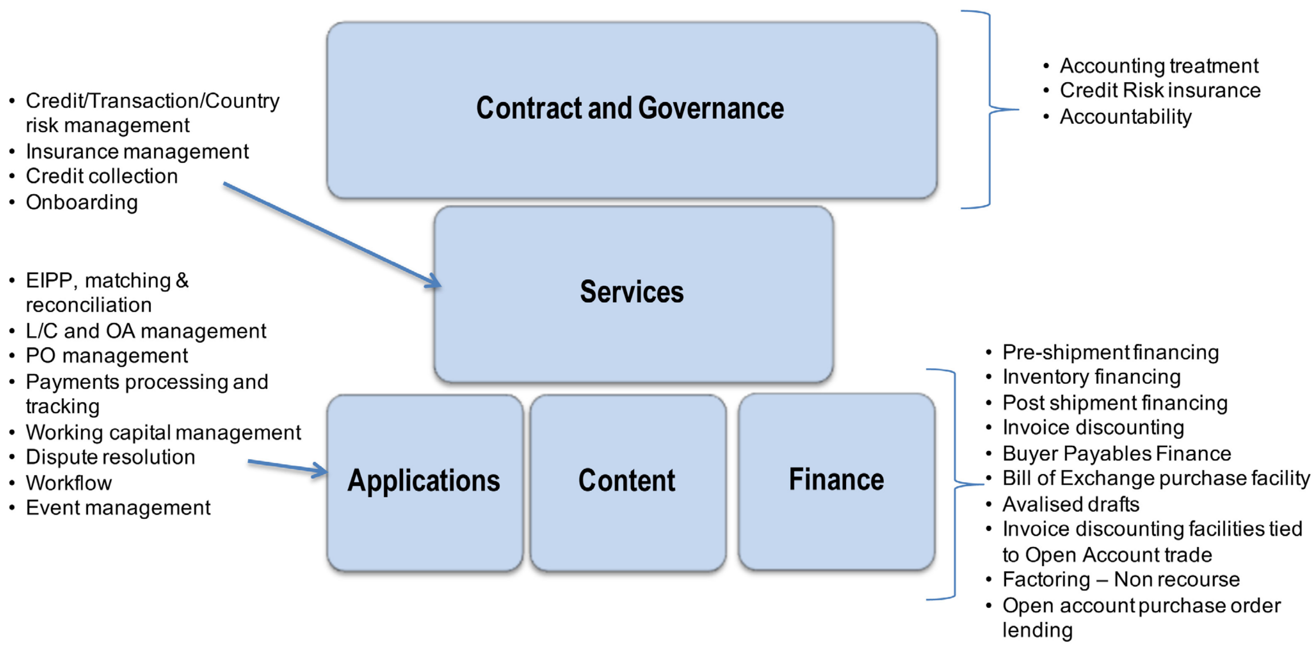
Services Layer

Services like credit collection, Supplier Networks, Applications, Financing, etc. support the activities from macro to micro. Services exist to enable steps in the chain and some services may cut across multiple functional steps. In business credit, specific services include:



For example, supplier networks and eInvoicng platforms are services that feed data. Various receivable and payable applications are services that enable finance to happen. Receivable and payable platforms are evolving to provide applications, services and supply chain finance. These applications can embed a number of layers in their architecture - see figure below.

Figure: Supply Chain Finance Architecture



Risk management and credit management are services that also can enable financing. For example, companies may be able to gain better access to borrowed working capital, potentially at more favorable rates.

Of course supplier onboarding is a critical feature for many supply chain finance programs, einvoicing and eProcurement networks, and other applications and we deal with that more deeply in the buyer approved section.

Tools Layer

Tools	Credit Scoring & Decision Support	Rating Agencies	Models & Workflow Tools

Tools support various activities. For example, many tools take a company's spend file and recommend various ways the company can improve their cash flow and working capital. The focus is to provide a corporation with recommendations on what works best for their direct spend, indirect spend, intercompany spend, and perform scenario modelling. This enables Procurement to get comfortable to negotiate financial terms. While no payment term will be perfect, because it relies on data that is very hard to get, especially for private companies, things like percentage of buyers business, cost of debt, etc. can be helpful in analyzing working capital opportunities.

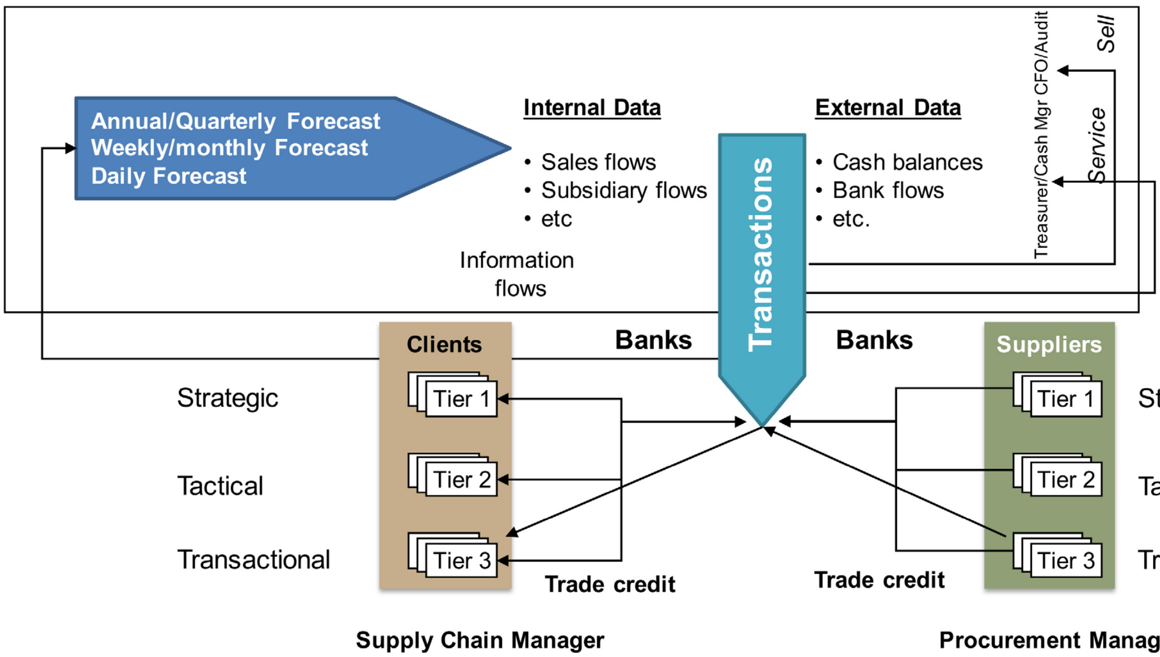
As part of this analysis, the tool will typically show the opportunity to analyze the corporation's suppliers globally to see if finance opportunities exist. For example, if you were a supplier in Turkey supplying some citrus juice ingredient, and a tool could pull in data to know your sales to your buyers, the potential to offer distribution finance and other financing techniques is enhanced.

3 How Companies use Trade Credit

How Companies use Trade Credit

Corporations utilize credit as part of daily operations and forecasted needs. Companies are in a continual loop of forecasting sales and managing spend to meet sales, which typically leads to short term funding needs as well as programs to help fund receivables created through the sales process.

Figure: **Corporate Client Working Capital Workflow**



Companies buy both direct goods (defined as expenses that are part of Cost of Goods Sold) and indirect goods (defined as those expenses that are part of Selling, General and Administrative Expenses, a major non-production cost presented in the income statement).

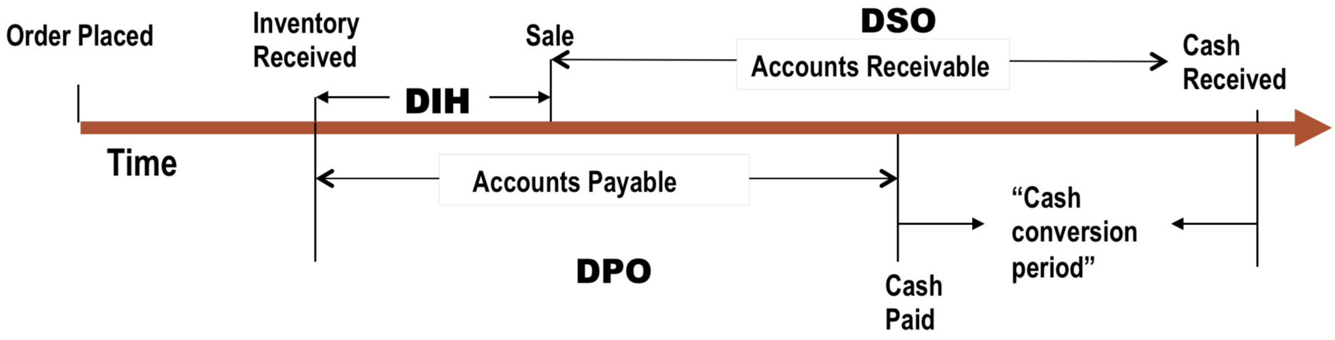
The three components of the cash conversion cycle are:

- **Days Sales Outstanding (DSO)**, which measures how long it takes for a company, on average, to get paid; Associated accounting issues include recognizing accounts receivable, valuing accounts receivable, and disposing of receivables.
- **Days in Inventory (DII)**, which measures how long it takes, on average, for inventory to move through a firm's various production stages and be sold; and
- **Days Payable Outstanding (DPO)**, which measures how long it takes for a company, on average, to pay its suppliers.

Companies that focus solely on their own balance sheet and P&L statement commonly look to benchmark their cash conversion cycle which is used to calculate the timing difference that exists between the moment cash leaves a company to pay suppliers and the time it takes to convert inventory to cash (see below). The longer the cash conversion cycle, the longer the company will need to borrow funds to bridge this gap.

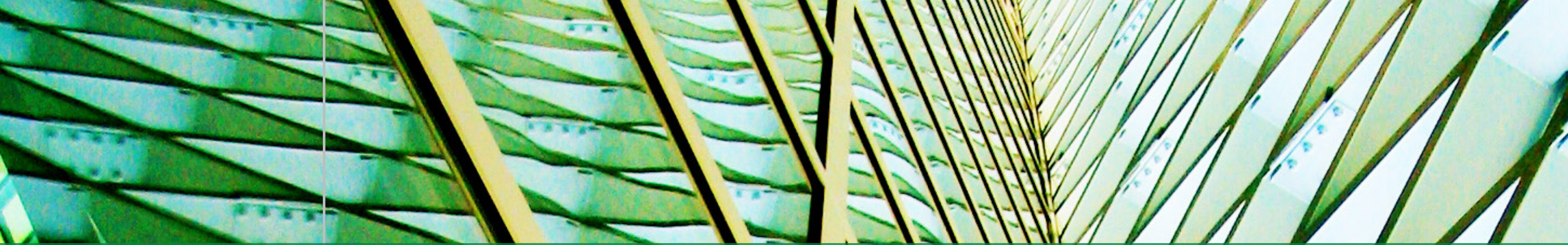
By extending terms out and collecting cash from customers fast, companies can reduce their cash needs. But that is much easier said than done. The key point here is that by extending DPO a company can indeed reduce the cash to cash cycle time, but this merely passes the problem onto the suppliers unless there is also a commensurate improvement in the efficiency of the supply chain process.

Figure: Understanding the Relationship between DSO, DPO, DIH, and CCP



- **Days Inventory Held (DIH) = Inventory/(Cost of Sales/365)**
- **Days Sales Outstanding (DSO) = Receivables/(Sales/365)**
- **Days Payable Outstanding (DPO) = Payables/(Cost of Sales/365)**
- **Cash Conversion Period (CCP) = DSO + DIH - DPO**
- **CCP measures the time between inventories and cash from sales**

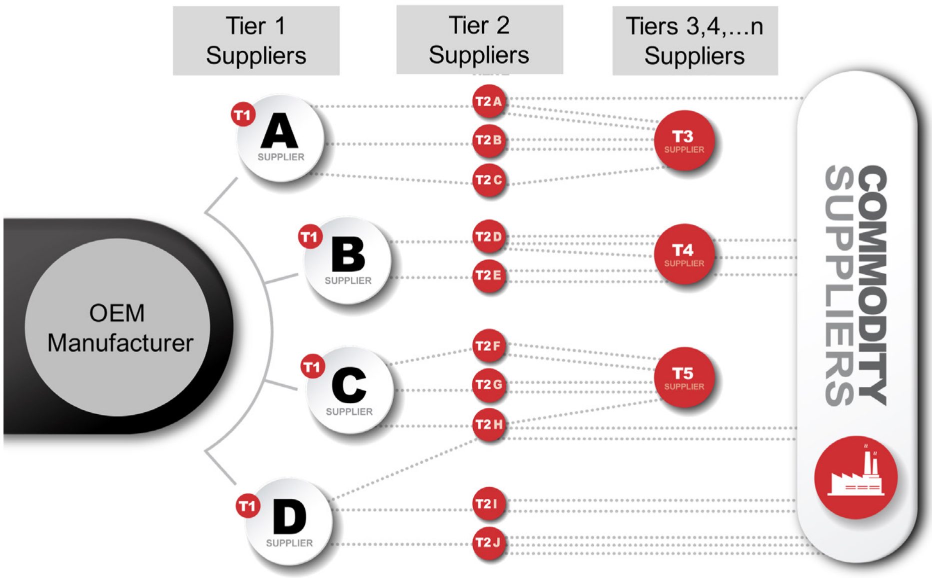
4 Challenges with Credit in the Supply Chain



Challenges with Credit in the Supply Chain

Supply chains are complex groupings of different types of companies that ultimately deliver a product to a consumer. One goal of each company within the chain is to increase sales, which can be accomplished by offering their customer payment options to make the purchase easier.

Figure: **Serial View of Interrelated Supply Chains**



Financing supply chains is compounded by smaller companies, which have higher capital costs and are dealing with large companies extending payment terms.

Sales within the chain can be increased by providing the customer with better payment terms and straightforward payment options (eg. No letters of credits). However, providing these options creates challenges for the seller depending on their size relative to their customer.

- **Cost Problem:** Larger companies selling to smaller entities have large costs associated with credit, billing, collection and bad debt associated with extending flexible payment options to their customers. When this is done on a cross border, non related party basis, it adds further costs in terms of customs, compliance, risk management, etc. Fortunately, rated companies tend to have ready access to plenty of reasonably priced capital to fund these options.

- **Capital Problem:** Smaller companies selling to larger ones have less process cost, but generally use very expensive and limited capital to finance extended customer payment terms, creating cash and cash flow problems.

Companies, particularly small business, face pressure from large buyers in the form of extended payment terms. A 15-30 day extension to existing terms would have a very positive impact on the P&L and balance sheet of a buyer spending over €1bn with suppliers, but it could put serious pressure on contractors, sub-suppliers, etc. throughout the overall chain, and potentially disrupt production and goods flow.

Small and Medium-sized enterprises (SMEs) are facing tough credit constraints and yet require sources of credit and liquidity. Recent developments such as the **WhiteHouse SupplierPay** program and the **U.K.'s Late Payments Directive (2011/7/EU)** are measures taken at a country level to accelerate supplier payments but have barely put a dent into the problem.

According to a statistical analysis on small businesses' credit histories, almost half of the small businesses tracked by traditional commercial credit bureaus have only one line of credit, and usually it's a credit card.

To say small business lending by banks is challenging is a gross understatement. While economists taut the strength of small business in adding jobs to payroll, anyone that owned any type of business knows small business owners work harder, longer, and eventually smarter if they are going to survive without institutional support. Small business is the farming of the modern era, it is seven days a week, 24 hours a day, and has all the characteristics of the family farm, except land. SMEs credit risk is typically more challenging to assess than that of larger businesses. Consequently many have struggled to gain the access to traditional forms of finance.

5 Trends Driving New Supply Chain Finance Models

Trends Driving New Supply Chain Finance Models

There are a number of trends driving new models for Supply Chain Finance

Trend 1: Globalization

Globalization and the lengthening of the supply chain are the game changers shaping the new ground rules of business. In a relatively short period of time, companies have transitioned from manufacturers to managing a complex web of third parties to make, store and distribute their products and brands. No longer is the majority of capital deployed to finance property, plant and equipment but to finance working capital (inventory, receivables, etc.).

While the supply chain is lengthening as a result of globalization, direct sourcing, offshore production and distribution, the current deleveraging environment has created challenges for many companies around capital availability. For example:

- Letters of credit are capital intensive instruments which in the past have served as a financing tool for overseas suppliers. New Basel capital rules are making credit lines more expensive.

- Non rated corporate manufacturers who have established offshore manufacturing (for example, moving production of low-value brands to China from the USA or Germany) find it challenging to secure financing. A key challenge comes from programs which require local content, such as various ECA programs.

- A growing and larger percentage of receivables are international (globalization, offshore, and in a separate legal jurisdiction) and those receivables themselves have longer terms-- a double hit. Many financial institutions and commercial financiers do not include these receivables are part of an 'eligible base' for lending.

Trend 2: Digitization of Trade Documentation and the Rise of Cloud Technologies

The connected commerce world is being driven by two primary players – Corporations moving to the cloud for document and data exchange around their source to pay processes driven mainly by government tax regulations (ie, Europe, Latam) and the rise of platform-based technologies that drive efficiency and effectiveness in the procurement and accounts payable areas. This movement is enabling new models of receivable finance, supported by data, technology, and new underwriting models.

Today, there are multiple fragmented spend markets and many flavors of B2B and Supplier Networks that facilitate the Source to Pay space. A range of these providers are readying new network capabilities, including master data management (of supplier data) as service, compliance, auditing/assurance, risk management, social connectivity, recommendations, predictive analytics, and even more advanced financing capabilities (including early models for unapproved invoices).

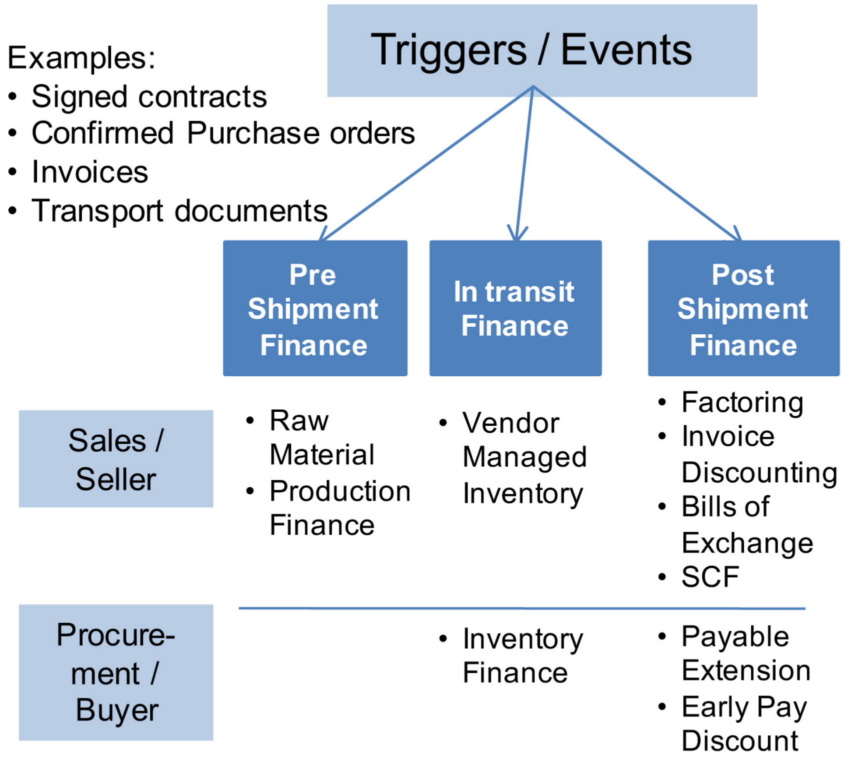
Trend 3: The Rise of Big Data, New Algorithms for Lending and P2P Networks

Both on the Purchase-to-Pay and Order-to-Cash side, there are solution providers that have data contained in their network to enable funders to lend money. By using performance history data along with visibility and underwriting models, various events or triggers in the supply chain can be used to release cash. There are five main triggers that we see for transactional finance that can involve taking information to trigger liquidity. They are:

1. **Purchase order issuance**
2. **Materials ordered by supplier**
3. **Verification of shipping status**
4. **Invoice issued, but not approved**
5. **Invoice approved**

In addition, these triggers can be used across the supply chain to both increase advance rates and reduce cost of financing for that chain.

Figure: Supply Chain Triggers



If you are only providing external data I can already get on the supplier — think Dun & Bradstreet, that's of limited value. But if you are able to take a 50 or 200-line purchase order, with multiple shipments per line, and order changes, to be able to understand risk and financial risk of this invoice, that is of tremendous value. How much is that worth to the funding provider? It's not zero. And if the funders can use the information to build an underwriting model to scale investing, it's worth quite a lot.

While underwriting risk can be handled by a sophisticated algorithm propelled by a platform's big data, there is a strong human element and psychology involved in lending and collections, and the platforms and solutions who embrace that in addition to algorithms and speed will be the winners.

Over the last five years, data science has been used to propel **merchant cash advances** and **peer to peer lending**. Small Business Marketplace lenders doing loans under $250K use data science and platforms to facilitate bank lending. If you are looking for speed, a typical goal is to deliver a verdict on loans in minutes, granting up to $100,000 in credit lines to new businesses. New forms of data science can now look at advance rates by SKU turnover. These type of innovations will continue to drive the market.

Trend 4: Structural Changes Brought About by Regulation

More capital means increased pricing / scarcer availability of lending for businesses. Basel III will significantly impact the amount of capital required by banks and therefore impact trade finance lending.

Structural changes, primarily driven by new regulation on the banks, are changing how credit is delivered. There are a number of areas where structural changes are happening:

a. Basel III Capital Reform

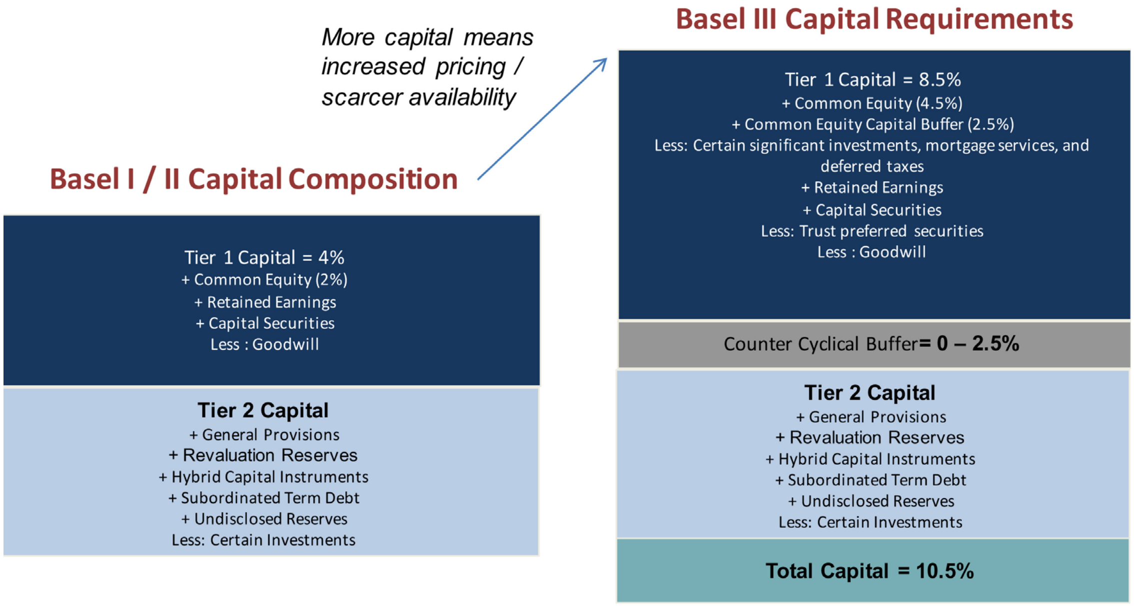
Basel III is significantly impacting the amount of capital required by banks. Basel III increases capital ratios and calculations of risk weighted assets (RWA), sets a minimum leverage ratio and liquidity coverage ratio and extra loss absorption capacity of systemically important banks.

On the capital side, banks must have a certain amount and type of capital which is categorised based on its ability to absorb losses:

a. Tier 1 is the best quality capital (e.g. common shares or certain "innovative" instruments which have equity-like characteristics but cost less to raise);
b. Tier 2 (e.g. preference shares); and
c. Tier 3 which is the lowest quality capital (e.g. subordinated debt).

On the asset side, a bank must calculate the value of all of the exposures that it faces and then apply a risk weighting depending on the type of asset. In simple terms, the Basel frameworks require that a certain amount of the bank's regulatory capital must be allocated (at least notionally) to every loan advanced, or commitment made, by that bank. That allocation therefore restricts the amount of business that a bank may enter into or forces it to raise fresh capital.

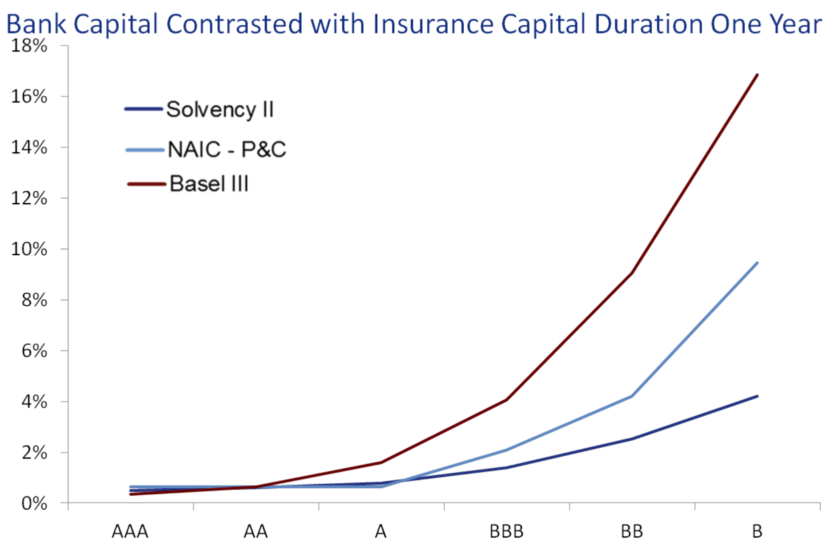
Figure: Comparison of Capital Required by Banks under different Basel Regimes



The increased regulatory costs are such that third party capital in many cases is more efficient than bank capital creating intermediation businesses.

New capital standards to boost bank capital combined with stringent Know Your Customer and AML compliance is impacting the supply side, zero short term deposit rates (or even negative) and coming changes to money market fund legislation is impacting demand. New entrants such as asset managers, insurance companies, hedge funds, pension funds, online peer-to-peer lending platforms, etc. are finding ways to become investors for business credit.

Figure: Non Bank Capital More Efficient for Non Investment Grade Companies



Sample: Corporate Bonds
Source: Conning; Institution of International Finance

Structural and regulatory changes are enabling new entrants to replace banks.

b. Dodd Frank

Dodd Frank is a massive piece of legislation spanning 2,000 pages and 400 separate rules. It is and will have a big impact on many areas of banking and finance. For example, with respect to risk distribution, if you hold an asset to maturity, whether funded or unfunded, you can carry at cost. But if a bank holds to sell that asset, than the asset must be marked-to-market.

c. FASB Reforms

Accounting standards govern how companies must value assets and liabilities on their balance sheets. There are many FASB rules that provide accounting standards and guidance on credit transactions.

d. SEC Money Market Fund Regulations

Many corporate treasurers hold operating cash for liquidity purposes in places like short term treasuries, banks and money funds. According to the Investment Company Institute, corporate treasurers and professional investors have close to $900 billion in prime money market mutual funds. The funds, which hold assets in short term corporate debt, are about 35% of the $2.6 trillion money fund industry.

On June 5, 2013, the **Securities and Exchange Commission** voted unanimously to propose additional measures that would reform the way that money market funds operate to make them less susceptible to runs that could harm investors. There are two principal changes for those funds that invest in corporate or municipal debt:

1. First, funds must mark to market the net asset value (NAV) for prime institutional money market funds, in essence no more accounting myth that funds are always worth $1 but are floating based on the value of the underlying investment owned.

2. Second, funds will be allowed to put restrictions on withdrawals and charge investors a fee to redeem shares, in essence, no more 100% liquidity.

The U.S. reform package is set to go live October 14, 2016. In Europe, the **European Parliament** approved a law that would reform money market funds in Europe and retain constant NAV funds, though with severe restrictions. The legislation is not a done deal yet, but a major step forward.

This changes the short term investment game for operating cash for corporate treasurers. Will funds still be appropriate? Should treasurers revise their rules to invest in other assets, such as trade receivables? How?

6 Supply Chain Finance: *Payable Finance*

Supply Chain Finance: *Payable Finance*

A wide range of Bank and Non Bank assisted Trade Finance Products exist to help finance supply chains. We will look at this both from the Procurement side (Payable Finance) and Sales side (Receivable Finance).

There are some striking differences between indirect and direct procure-to-pay processes. Indirect procurement processes are fairly similar across industries. You can compare the different Purchase to Pay systems between spend categories with the chart below.

Figure: **Processes to Manage Different Spend Categories**

	Mega Process	**Buy**	**Pay**		
		eProcure-ment	*eInvoicing (Basic)*	*OCR, Portal, etc.*	*Financ-ing*
Mega Spend Category	**Catalog Indirect**	Simple ePRO	eInvoicing / EIPP	Add-on (e.g., supplier networks)	Supply Chain Finance Add-On
	Indirect Services (contingent / SOW)	Services Procurement ("Vendor Management System")			
	Specialized - Print, Telecom, MRO, Marketing, Logistics, IT, etc.)	Niche			
	T&E related (low $; P-card; travel)	"Expense Mgmt"			
	Direct Materials	ERP / SCM	ERP AP Module	EDI / webEDI	

Yet the world of direct materials is different. Direct materials sourcing can be segmented into categories in a way that provides very little overlap between each of the solution areas. From a product-based workflow perspective, there are major steps that need to be addressed when managing the direct material product lifecycle:

1. **Demand Generation** - The first step is to determine if there is a demand for a product, and if that demand is sufficient for the organization to create the product. If the demand is not great enough, or the potential profitability not high enough, it might not be worth it.

2. **Design** - The design of the product needs to be more-or-less finalized before sourcing can begin in earnest. Suppliers need to understand what they are expected to bid on.
3. **Sourcing** - In the direct materials sourcing cycle, the requirements are detailed, the sourcing strategy is selected and cost models are built and analyzed. Supplier intelligence is gathered. Data are analyzed and an outcome expected to be optimal is selected.
4. **Manufacturing** - Product is manufactured, either through a contract manufacturer controlled by the buying organization or in a hands-off manner with a third-party supplier.
5. **Reclamation** - Either due to failure (under warranty), recall or a recycle directive, the products come back to the organization and have to be reduced, reused or recycled.

Generally with payable finance, the lender facilitates early payment to seller, and later payment to buyer.

Much of the finance opportunity is focused on unsecured payable finance. Here's an example of how it works:

Companies import flow materials such as resins, plastics, or other raw materials or finished goods from a vendor, who insists on getting paid upon delivery or with very short payment terms. They may even insist on a Letter of Credit (LC) for imported items. But you want to pay in 30 or 45 days or even longer after receiving the goods. There are funding providers that will arrange to pay the vendor cash and give you a loan, which you repay after receiving the goods from the vendor. You get longer terms and the vendor receives cash.

Even though the loan is unsecured, interest charges resemble your line-of-credit interest charges. These unsecured payable finance structures are typically seen as an alternative to borrowing from ones facility to pay suppliers for flow purchases and extend terms. Some firms are offering this arrangement in addition to managed services and this form of finance requires little in the way of set up, supplier onboarding, documentation, etc.

From a funding providers perspective, what's unique and proprietary is they don't have collateral or rights, as there is no secured liens or UCC filing statement. Many times a funder will take insurance against the company defaulting on the payment obligation but not always.

7

Supply Chain Finance: *New Receivables Finance Models Based on Buyer Centric Propositions*

Supply Chain Finance: *New Receivables Finance Models Based on Buyer Centric Propositions*

Definitions around Supplier Networks, eInvoicing, EProcurement - and their impact on Early Pay

Most large companies have adopted some form of eProcurement, eInvoicing, or Supplier Business Network as part of an overall Purchase-to-Pay solution and are adding transactional finance. They come in many shapes and sizes, but generally fall under the following categories:

Figure: High Level Description of Eprocurement, Einvoicing and Supplier Networks

P2P solution	Description	Example Vendors
eProcure-ment	• Think of eProcurement as every employee having access to an electronic requisitioning tool with linkages to budget/cost-centers, appropriate workflow approvals and documentation, etc. complete with contracts for all vendors and catalogs for SKU-based goods and items. • Technology is required to support a range of requirements within eProcurement: on-boarding, catalog management, supplier portal, workflow/process management., requisitioning, approval/status, order management/visibility, inventory/asset management, supplier connectivity, etc.	Basware
eInvoice	▪ E-invoicing and connectivity solutions not only reduce paper-based processes but also serve as a foundation for transforming the Accounts Payable (A/P) function by bringing new levels of operating efficiency to procurement and finance organizations (e.g., reducing costs per FTE, the total cost of operations, etc.) ▪ Complex invoice workflow, matching, approvals and overall process management that optimizes the linkage between procurement, payables and treasury requirements and priorities.	Tungsten Network
Supplier Networks	• Functionally, supplier networks can simply be looked at as next generation EDI-hub approaches that dangle varying degrees of application off the core connectivity infrastructure.	Nipendo

Transactional Finance

- **Dynamic Discounting**
- **Non confirmed Invoice finance**
- **Supply Chain Finance**

Many procurement organizations are entering new levels of maturity with their purchase-to-pay (P2P) programs and systems that can serve as a foundation for a range of trade financing initiatives, starting first with approved invoices as a trigger for early payment.

In the past, outside of onboarding suppliers to various portal, procurement organizations have often played a supporting role – at best – in implementing early pay programs. These programs have ranged from approved trade payables financing (supply chain finance) with a small subset of large suppliers to long-tail programs to reach an increasing set of smaller suppliers with pcards and dynamic discounting programs.

Depending on provider, supplier networks potentially offer a many-to-many (i.e., multiple buying organizations, multiple suppliers) approach to a number of functions, tasks and transactional interchanges. Functionally, supplier networks can simply be looked at as next generation EDI-hub approaches that dangle varying degrees of application or "app" capability off the core connectivity infrastructure.

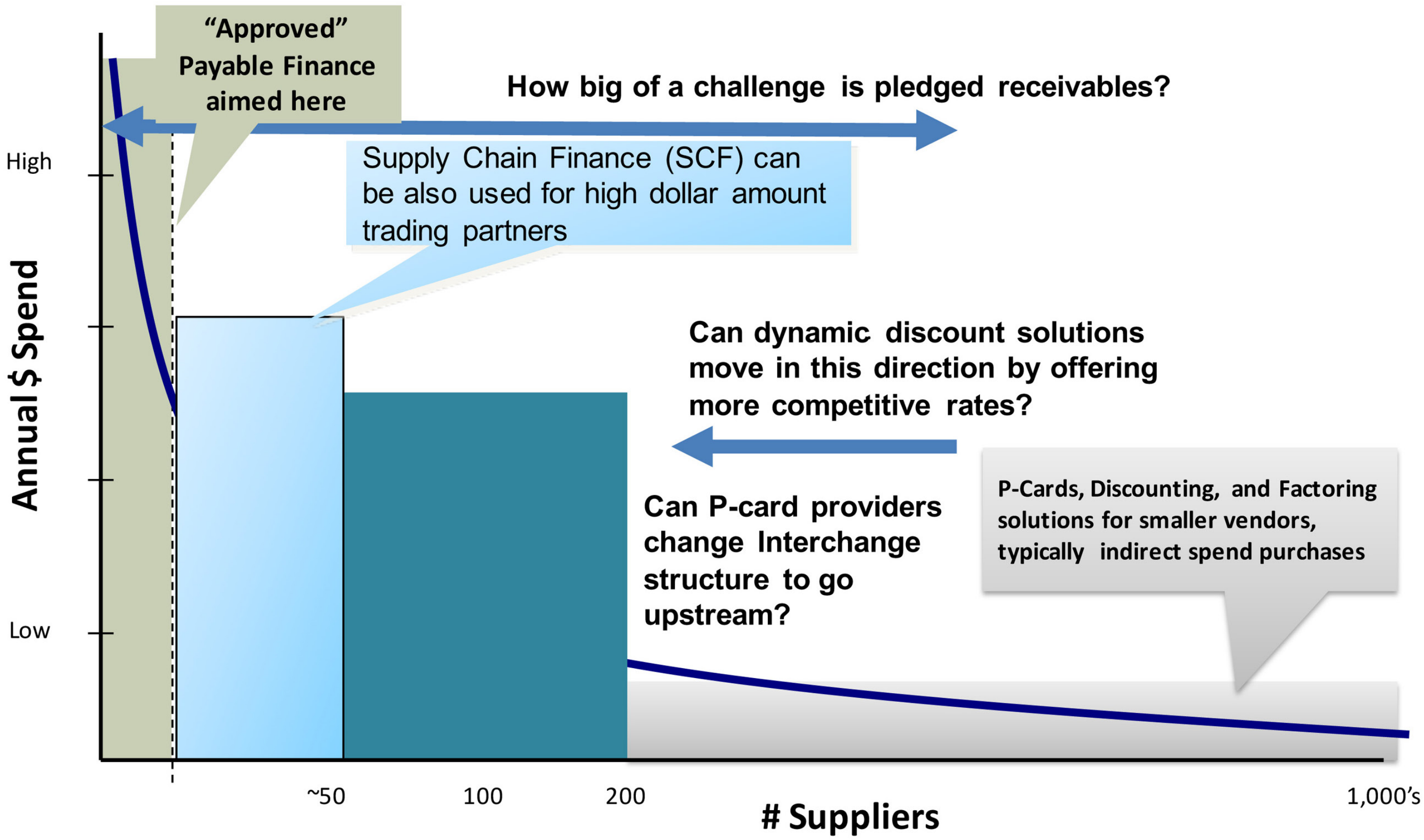
Additional capabilities include:

- **Supplier enablement/on-boarding**
- **Supplier validation (e.g., TIN/tax look-ups)**
- **Invoice and other document exchange (purchase orders, ship notifications, change orders, etc.)**
- **Regulatory compliance for invoice and related document exchange**
- **Value-added transactional services (e.g., archiving)**
- **Trade financing (receivables financing and payables financing)**

Corporate Early Payment Options

Corporations have a few early payment options when looking to support their suppliers who would like to extinguish an invoice before due date. These payment options tend to get segmented based on size of spend. Early pay solutions offered by Buyers to their suppliers continues to have big gaps around addressing total spend.

Figure: A Buyer's Supplier Portfolio and Early Pay Techniques



More dynamic discounting solutions are offering rates based on supplier criteria versus one flat "take it or leave it" rate.

Large Tier 1 and critical suppliers are offered Reverse Factoring or Approved Trade Payable Finance if the corporate is able to fund a program with their credit. Some of these programs are moving downstream to smaller spend suppliers, but that is still less the norm.

Supplier portals provide supplier self-help services and dynamic discounting is a popular feature. More and more large companies offer some solutions here, whether the functionality is built in-house or they use a third party vendor solution. Dynamic discounting is generally focused on small indirect spend, but programs are being put in place to offer competitive rates to bigger suppliers.

Pcards have historically provided a way to manage very long tails and distributed and decentralized buys and are a valued early pay technique for this purpose. There are more spend categories being covered by pcards than ever before by buyers that accept card, with items such as office and computer suppliers, industrial supplies, printing products, and others gaining share over the last few years.

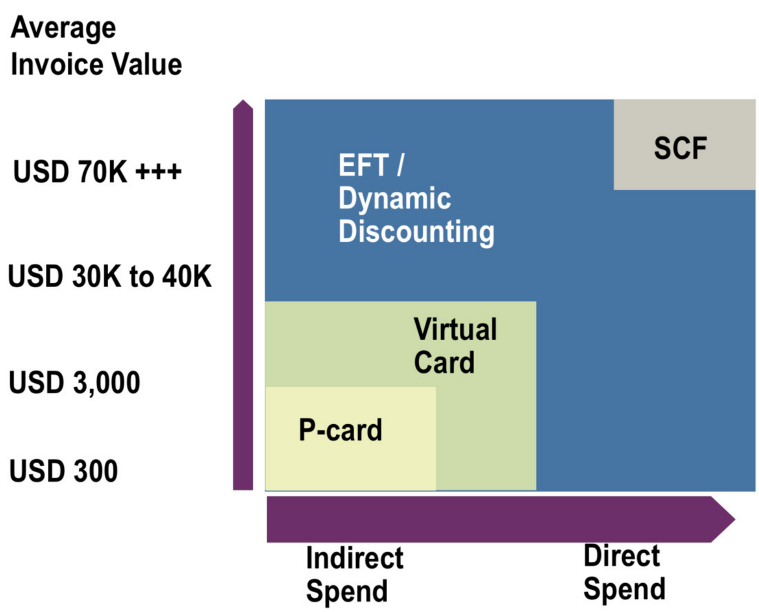
The addressable spend by Pcards is currently less than two percent of total business expenditure for most industry sectors.

But the addressable spend by Pcards is currently less than two percent of total business expenditure for most industry sectors.

From a buyer's perspective, pcards have become a convenient buying tool for low dollar purchases and as a payment / finance vehicle (source of rebates as well), but it's also been poorly adopted in part because of perceived shortcomings related to fees, lack of detailed /flexible spend reporting, and poor integration into the broader procurement/AP process ("P2P").

Excluding the rebate benefits, many in Procurement see pcards as another system that is not well integrated into other supplier payment methods. This lack of visibility of p-card spend may impact how the Procurement organization views detailed spend through all channels. When total cost is taken into account, there is certainly recognition that the costs passed to suppliers in the form of interchange may benefit treasury but not procurement in the long run.

Figure: Card companies are attempting to extend their value proposition beyond the traditional P-card market



Times are changing for Pcards:

For all intent and purposes, Pcards can be viewed as a great success. But as the corporate world continues to digitize, card networks and their financial institution partners recognize there are some trends that will drive Pcard 2.0.

1. There are significant changes in the way businesses both buy and finance goods in this digital age – from eProcurement applications to Marketplaces.

2. There are significant developments that are changing how invoice to payment information is being stored, retrieved and reconciled. As card-based payments look to become comprehensive digital payment and reporting solutions, often integrated with financial systems for additional automation benefits, there is certain Level 3 detail but its not integrated to the 'commodity/category coding schemes that companies are using to classify their spending on many dimensions.

3. Procurement/AP information networks are emerging to connect suppliers from sourcing through to buying/invoicing and payment – and are partnering with payment networks to provide integration, visibility and common user administration/controls across these increasingly integrated end-to-end P2P processes. AribaPay (Ariba Network + Discover) is a good example.

Digital marketplace purchases via online catalogs such as Grainger, Staples, and now Amazon Business are still very early days, but are another source of pcard or line of credit payment. This is for a segment of spend categories (egs. Parts, MRO, etc.) and not total spend.

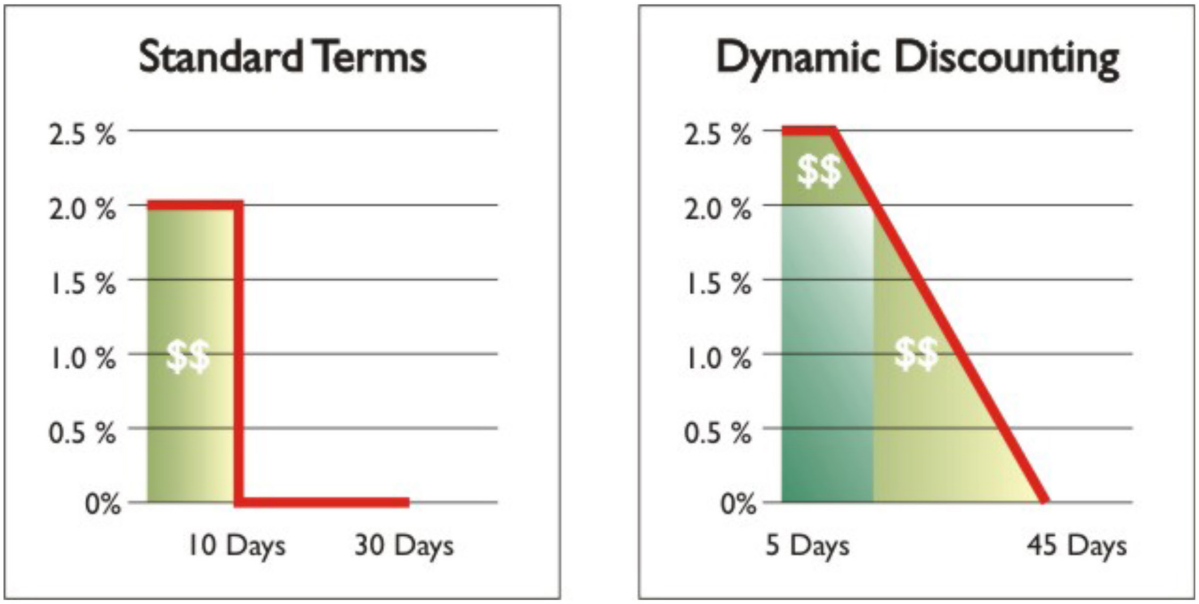
Dynamic Discounting

The practice of offering discounts for early payment (eg. 2%, net 10) goes back decades. For most large companies, there is nothing like standard payment terms. Their payment terms proliferate across divisions, regions, and with time, to the point it is rare if a large company has less than 20 to 50 different terms.

The simple practice of early payment terms has evolved into Dynamic Discount Management ("DDM"). Dynamic Discounting is different than the static practice of one size fits all (eg. 1%, 10 day) discounts in several ways. Discounts are offered on all invoices approved, opening up the entire procurement spend, not just ones that are approved and ready within the allotted 10 day (or other) time period. Successful discounting is dependent on fast invoice processing – ideally less than 14 days. Since only approved invoices can be used for dynamic discounting to work, the volume and number of invoices awaiting payment is the critical ingredient to unlocking the opportunity in DDM.

Dynamic discounts differ from traditional discounts as the discount is calculated as a function of the time of payment, in other words, it is based on a sliding scale. This allows the buyer to set terms based on internal hurdle rates, supplier groupings, and other factors.

Figure: Simple Example of Sliding Scale for Dynamic Discounts



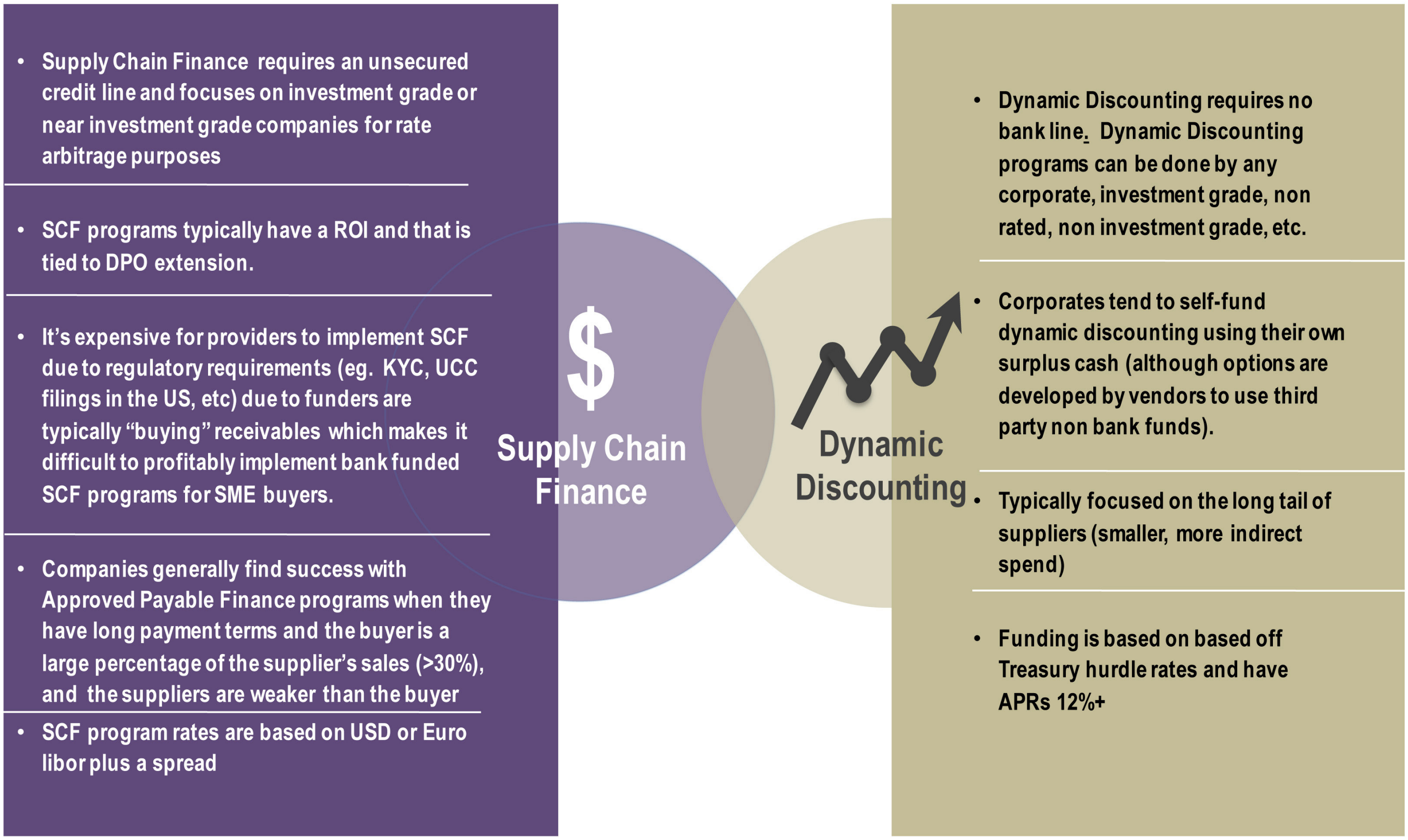
A number of trends are driving DDM:

- **E-invoicing solutions have enabled a much higher capture rate of invoices.** While some companies have deployed EDI solutions with their partners for some time, the amount of electronic capture is much higher as solutions like Web EDI, PO-based invoices, ERS, invoices originating electronically from a vendor portal or an e-invoicing network such as Ariba, Basware, Tungsten, etc. are deployed. The fact is early payment works off of a network that has invoices that are approved by a company's ERP system.

- **Software that now "systemitizes" the process of managing discounts.** Without technology, most companies have little idea how much earlier they are paying suppliers than they ought to be, due to immediate terms or too short terms. This can be a challenge at many companies due to slow approval processes.

- **Zero or even negative interest rate investing climate for Treasurers.** Rates earned on dynamic discounts far exceed short term Commercial Paper, Bank CDs, Treasuries, etc. The issue here is once you start a program, you commit the company to investing some of its surplus cash. While cash invested can be managed, it would be another thing if the program was completely shut down.

Figure: How Reverse Factoring differs from Dynamic Discounting



To assess whether you're ready to take the plunge in developing and implementing a broad trade financing strategy with your current supplier network, eProcurement or eInvoicing model, ask yourself the following questions:

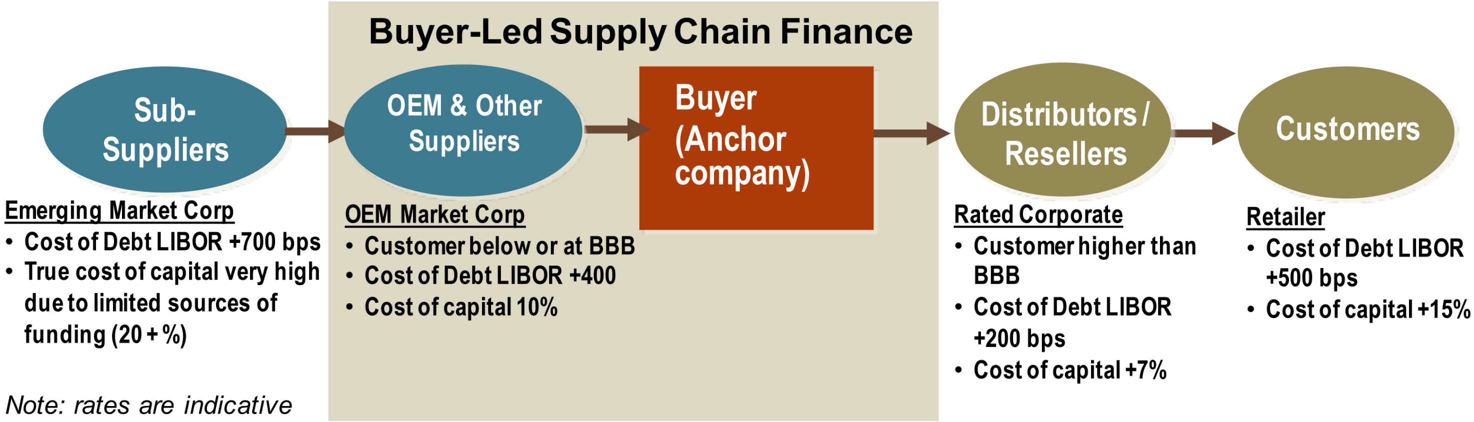
- How encompassing are our P2P programs today? Are we just tackling indirect spend (and if so, at what level)? Or are we capturing a broader percentage of PO and non-PO spending in a manner that is integrated with electronic invoice capture and payments?
- Does procurement have a set of metrics on which it is measured that align it with finance-centered outcomes (e.g., revenue, working capital management, etc.)?
- Do we have a competence in – or understanding of – supplier on-boarding activities and how to scale such programs effectively?
- Have we invested in supplier management tools that include supplier enablement, data collection and master data management – or does a third party do this for us?

- Do we have a card program in place that is based on a predefined supply base segmentation approach? If so, have we measured supplier satisfaction with this program and do vendors feel they have been accurately placed into a specific program?
- Have we looked at the intersection of supply risk management, payment terms and working capital throughout the supply chain? Do we understand our strategic supplier's sources and access to capital (e.g., banking relationships)?
- In recent years, have we extended payment terms in our supply base without a full understanding of its impact on specific supplier's supply risk ratings and balance sheet impact?
- Have we conducted either small-scale or targeted pilot programs (e.g., by geography) in the areas of either supply chain finance or invoice discounting?
- Do we have a center of excellence (CoE) that will take responsibility for key aspects of any trade financing program design, implementation, training or ongoing management?

Designing Buyer-Led Approved Trade Payable or Reverse Factoring Programs

The concept behind buyer-led supply chain finance is to arbitrage capital across a large buyers supply chain, providing funding at a lower cost than the suppliers weighted average cost of capital (WACC).

Figure: Anchor Client Offer Suppliers Cheaper Cost of Funds Through Reverse Factoring



By now, literally hundreds of large companies have implemented some form of approved invoice Supply Chain Finance scheme. While program and contractual details are held private, the process to put a program in place and select platform partners can be quite tedious. The time and effort involved on all parties to respond to the request can be substantial.

Quite simply, the purpose of a Request for Proposal (RFP) is to obtain information to assist in evaluating the Supply Chain Finance initiative to meet your objectives. Based on observations and direct conversations with vendors, knowledgeable consultants, and the companies themselves, the process can be a whole lot better.

There are three key areas to address when considering a Buyer-Led Supply Chain Finance Program:

I. Discovery & Education; II. Design & Establishment; and III. Execution.

I. Program Discovery & Education

Supply Chain Finance programs involve multiple internal departments and can be met with resistance by other departments like IT, Legal, and Accounting that have many other priorities. Successful programs require an Internal Champion to navigate resistance that will come up in multiple areas. We believe the driver should be from Procurement.

There should be clear program objectives – are you looking just to extend terms (the most popular reason these program are deployed) or do you see a way to allow your emerging market suppliers access cheap Libor based finance or even a way to manage your supplier diversity or supplier risk initiatives?

A **Counterparty analysis** should be done that helps segment suppliers into different categories to tailor solutions. Third party purchases can be categorized into production materials including raw material purchases (domestic and imported), packaging materials, production equipment and capital expenditure items. General procurement (egs. office supplies, uniforms, advertising) has its own sourcing stream.

Procurement needs a tool to get comfortable to negotiate financial terms. While no tool is perfect, things like a supplier's percentage of a buyer's business, cost of supplier debt, supplier payment terms, etc. can help guide internal discussions. For example, many suppliers have pledged assets including accounts receivable to secure loans, securitization programs or commercial paper programs, making it difficult for them to participate in programs.

How programs impact **Deductions / Chargeback accounting** is also something to collect data on upfront. While SCF programs may resolve this issue due to approved invoices and credit note adjustments, understanding historical merchandise and chargeback claims with the supply base is important.

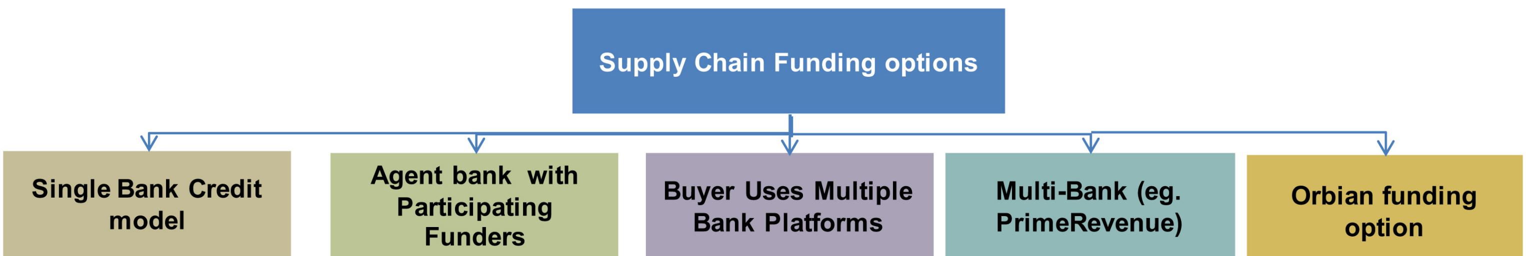
II. Program Design & Establishment

It's important to realize that bank led supply chain finance or what we sometimes call reverse factoring involves your credit. Any bank setting up a program must set up an unsecured facility. In traditional factoring, the underlying assets are the seller's accounts receivable, which are purchased by the factor at a discount. The remaining balance is paid to the seller when the receivables are received, less interest and service fees. In supply chain finance programs, the credit risk is equal to the default risk of the high-quality customer, and not the seller. In this arrangement, credit is set up to "buy" the receivables on a without recourse basis to the seller and the risk is the buyer does not pay the amount on due date.

The first big issue is designing the most appropriate funding model to fit your needs.

- **Do you want to self-fund some or all of your suppliers' receivables?**
- **Do you want to work with a single relationship bank? Or do you want to have a few relationship banks involved?**
- **Do you want an agnostic Funding Model or one managed by a platform provider (who can work with your relationship banks) or other banks?**
- **Are you willing to work with Non Banks?**
- **Do you need to feed your Relationship Bank's your business?**

Figure: Funding Options for Approved Trade Payable Finance Programs



Supply Chain Finance funding options	Explanation
Single Bank Balance sheet model	■ In this type of funding option, a single bank acts as the source of funding. ■ Single Bank balance sheet lending can restrict program capacity due to changes in limits, supplier exclusions, Basel II constraints, etc.
Agent bank with Participating Funders	■ The lead platform bank manages the pricing band of the buyer while a participant bank not involved in the credit work can also be used as an additional source of funding.
Buyer Uses Multiple Bank Platforms	■ Buyers choose multiple banks as funding sources thereby utilizing multiple platforms of these banks. Each bank is responsible for an agreed list of suppliers. ■ For example, Autozone, Walmart and others have elected to use multiple banks which requires them to use multiple platforms.
PrimeRevenue funding model	■ The buyers, suppliers and financial institutions are linked to a common network through the SCF platform provided by PrimeRevenue. In this model, the suppliers trade the approved invoices for which they require early payments. ■ Each bank affiliated with PrimeRevenue gives parameters of what they will take (price, tenor, currency, etc.) and total exposure. ■ This platform enables the direct participation of multiple banks in the buyer's SCF program.
Orbian funding model	■ Orbian offers both finance and technology platform for SCF program. Unlike other non-banks that offer only a technology platform, Orbian has a trust-enabled funding structure. Orbian provides funds by selecting from a global pool of lenders for direct program participation thereby providing access to multiple sources of capital.

How do you make this decision – feed one relationship bank, go with a multi-bank model, go with best of breed technology providers funding model, or use an agnostic funding model? Much of this gets back to your comfort and risk assessment working outside your relationship bank model.

Single Bank balance sheet lending can restrict program capacity due to changes in limits, supplier exclusions, Basel III constraints, etc. The lead platform bank manages, usually under a pricing band from the Buyer. A participating bank who is not interested in doing any credit work can still be a funding source.

Typically the way a multi-bank funding model tied to banks or non banks works is each funder gives parameters of what they will take (price, tenor, currency, etc.) and total exposure. A supplier is assigned a bank (easier this way in case of supplier default so multiple invoices are not out to different banks)

From our discussions, there are three issues with funding:

- **Given SCF is an uncommitted credit product, how do you manage if funding partners suddenly change their credit policies and limits?**
- **How to ensure enough capacity for the future?**
- **Do funders have the ability to both handle large key suppliers and different geographies?**

Another important consideration is can your funder(s) provide your suppliers finance but not off an "approved invoice" so you don't need to use your credit here.

Other Design Issues

In evaluating service provider proposals your **geographic scope is important**, especially if it involves emerging markets. If you are looking to roll-out a program in North America or Europe that is one thing, but what about India, Brazil or China? The ability to have the geographic reach – local onboarding, local currency, local understanding of cultures and practices, etc. to deploy programs where the best bang for your buck is going to be (ie, emerging markets that are struggling for access to capital) is critical. For example if a program is self-contained in Brazil or China to support a subsidiary of a Fortune 500 company, can your providers help find local real or renminbi finance? If you have a substantial cross border trade volume, can your providers (as Demica's new platform can) enable your suppliers take payments in a currency different to the underlying invoice to eliminate FX delays and access competitive rates? Ultimately entering into **Receivables Purchase Agreements** or other structures like **promissory notes** with suppliers who elect to participate in the SCF program in different jurisdictions is not a trivial exercise.

Of course **platform functionality** and the level of compatibility between your ERP and data warehouse is important. Procurement and Treasury professionals generally commented that an effective platform must take in invoices, provide dispute management, credit notes, audit trails, etc, that are visible to all or relevant parties. The key is how the SCF platform works with a company's existing legacy Payables and Third party provider platforms (ie, Tungsten, Basware), particularly if purchase orders are being uploaded through these systems.

At best, companies can make an environment for their suppliers to take money but cannot mandate it.

Are there perceived significant differences amongst the bank and non bank platform choices? For sure. Does it matter? It depends on a gap functionality, ease of portal use, and how important bells and whistles are. They can all do the basics like take approved payable/invoice information i.e., direct EDI, file transfer, CPU to CPU, flat-file upload, cvs, etc.

Things like **reporting** flexibility and reporting capabilities to meet current and future requirements can be a particular issue for some companies that want to see customized reporting. Of course **disaster recovery** (DR) issues is always on the IT list – ability to move over to a back-up site in an expedient manner in order to ensure continuity of service and to make sure DR plans are in place and tested frequently.

The final issue I will bring up is pricing. Funding has grown more sophisticated, driving margins down in many cases. There are several interesting issues around pricing:

- Platform providers make money on transactions not explicit charges for their sales, marketing and onboarding efforts. How are platform costs embedded in pricing? What about third party platforms? Managed services?
- If Syndication models are being used to create more capacity for buyers, how does that model impact pricing?
- If new funding players are participating in the market, Hedge Funds, Insurance Companies, and European and Asian Banks, is that money going to be there if credit cycles take a turn for the worse?

Pricing to suppliers is being priced closer to the buyer risk and the buyer's short term borrowing. Funding is typically benchmarked off of USD or Euro Prime or Libor and will fluctuate monthly based on increases or decreases of those indexes.

III. Program Execution – Supplier Onboarding

On-boarding requires hard work and intensive dialog with top suppliers. It is important to ask service providers what their approach will be to on-board domestic and international suppliers.

Many banks and platform providers will perform a **crossover analysis** of your supply base against their already participating suppliers on their platform to first see how many they have put through their KYC process. They also use the crossover analysis to support the development of a segmentation strategy for your supply base. During this segmentation process, suppliers will be classified into various buckets for marketing the program based on the overall credit capacity.

We strongly believe that Procurement must "own" this process because they have the relationships with the suppliers. While the funders have their own requirements to enroll and fund suppliers, Procurement must drive this.

8

Supply Chain Finance: *Seller Centric Supply Chain Finance Solutions*

Supply Chain Finance:
Seller Centric Supply Chain Finance Solutions

Short Term - Trade Receivables

Traditional financing of trade receivables has been done by Banks directly and indirectly through credit facilities, by the Capital Markets and by Commercial Financiers. The big difference between Commercial Financiers and Banks is commercial financiers actively monitor collateral daily by requiring reporting of receivables as they are created and taking possession of payments from customers as they are received, while bank financiers typically take a blanket security interest.

Bank Markets offer factoring, invoice discounting and commercial finance or asset-based loans (ABL). ABL are usually written on receivables and inventory, and lenders screen the books extensively to decide which receivables are eligible for the "borrowing base."

Capital Markets offer trade receivables securitisation (usually Asset Backed Commercial Paper funding). Securitization is a debt technique where a company pledges its assets including accounts receivable and can issue commercial paper or receive a loan - these programs typically fund a percentage of every $1 (eg. $0.85 for every $1 of eligible receivables) due to over collaterization requirements. Securitization has limits on obligors included (e.g. only 10% Walmart receivables) and impacts debt ratios.

Specialty Finance companies offer asset based lending, factoring, invoice discounting, purchase finance and purchase order finance. Many now offer Merchant Cash Advance loans as well.

Often receivables are simply "lumped into" support for Revolving Credit Facilities (RCF). Debt instruments may be "secured" with pledges of assets by the corporate borrower; asset pledges may include accounts receivable. Commercial finance loans are truly "asset-based" and the amount of the loans will bear a direct relationship to the amount of collateral available.

Traditional – Factoring, Invoice Discounting and Asset Based Lending

Factoring and Invoice Finance enable companies to convert customer accounts to cash without putting additional liabilities on the balance sheet, thus avoiding triggering financial ratios and avoiding contractual restrictions on the seller's ability to borrow against accounts, passing to the funder the buyer risk, and fixing the sellers finance cost.

In factoring the Factor undertakes credit management and collection of its clients' book debts whereas with invoice discounting, a business collects its' own book debts. These days either type of facility can be disclosed (or "notified) or undisclosed (or "confidential"), when dealing with end buyers. Typically the receivables are assigned to the factor, and notice of assignment is served on the buyers – by way of an introductory letter, assignment clause on all invoices, and statement of accounts from the factor.

Factoring offers a few key services to the seller:

- **Finance**
- **Ledger management relating to the receivables**
- **Collection of receivables**
- **Credit cover against default by the buyers**

Factor's shift risks which they do not assume back to their client via chargebacks and indemnities. For example, in full recourse factoring, language in contracts can state that in the event any purchased account is not paid and collected within 120 days of invoice for any reason, then the Factor shall have the right to chargeback such account to seller.

Typical Risks with Factoring

"Financial inability to pay" is not defined in case law. But, generally, it looks to the legal or practical inability of the account debtor to pay on a purchased account. "Financial inability" includes an account debtor's failure to pay due to its:

(1) bankruptcy (voluntary or involuntary);
(2) making an assignment for the benefit of creditors;
(3) being placed in receivership;
(4) foreclosure/seizure of its assets by a secured lender, landlord, tax authority, or other creditor under: (i) a writ of execution; (ii) a writ of attachment; (iii) a levy, or some similar remedy;

Invoice Discounting

With Invoice Discounting, responsibility for the sales ledger operation remains with the company, and the service is normally undisclosed to customers. Payments the company receives are paid into a bank account administered by the Invoice Discounter, after which the company is credited with the balance, less charges.

Figure: Differences between Invoice Discounting, Factoring and Reverse Factoring or SCF Programs

	Invoice Discounting or Receivable Finance (with Insurance)	Factoring	SCF Program
Advance Amount	■ 80% to 100% (less finance fee)	■ 70-85%	■ 100% of invoice value (less finance fee)
Commercial Risk	■ Insurers generally take a maximum of 90%	■ Factors take 100% of the commercial risk	■ Buyer Payment Confirmation
Cross Border Risk	■ Without insurance, Financiers can not be confident of his title to the invoice without formal and proper control over the invoice itself.	■ Factors take no cross-border risk, and in fact, generally only cover buyers in low-risk, developed countries where security interest laws are well-established.	
Info Supplied	■ Reliant solely on information from Suppliers	■ Reliant solely on information from Suppliers	■ Reliant on Buyer payment confirmation
Legal Structure	■ Typically some element is recourse financing	■ Can be structured as Recourse or Non Recourse financing (off balance sheet)	■ Non Recourse financing (off balance sheet)
Payout	■ Insurers wait until 180 days after the due date (or it is established that the buyer is bankrupt)	■ Factors pay out within 60 days after the due date	■ Supplier clears receivable at purchase
Services	■ Supplier responsible for collecting own trade debt. Insurers take over once a receivable has gone 180 days past due (or the buyer is bankrupt).	■ Factors take over the entire collection process and can offer credit assessment of the client's trade partners to assign credit limits.	■ Automated platform facilitates both approval and funding process
Finance Fee (Discount)	■ Lower	■ The rule of thumb is that factoring costs twice as much as insurance. This reflects the costs of collecting receivables, the cost of insurance, and the higher indemnity level.	■ Can be lower based on counterparties, for example, if buyer investment grade.

What are the differences between asset-based lending and traditional lending?

The most typical type of ABL is made against the business's accounts receivables. Other assets that can comprise a facility include inventory, capital equipment, and real estate. Because receivables have greater liquidity, they are frequently the largest proportion of collateral for these loans and provide a high advance rate, typically in the range of 70 percent to 90 percent. Contrast that with inventory, which has a typical advance rate of 50 percent but is also industry dependent.

ABL provides a flexible approach to financing a business's current operations and needs for future growth. In contrast to traditional bank lending, where the borrowing company's operations are evaluated and its future cash flow is projected, asset-based loans are based on the collateral put up for the loan.

An asset-based loan typically takes the form of a revolving line of credit, which is refreshed when the collateral, e.g., the receivables, are paid down. The creditors submit payment to the lender, and when the funds are collected, the lender provides the balance to the borrower, minus the fees it charges for the loan and for managing the collections process.

Challenges Financing Receivables

There are many challenges when financing receivables on a transactional basis. Below are just a few examples:

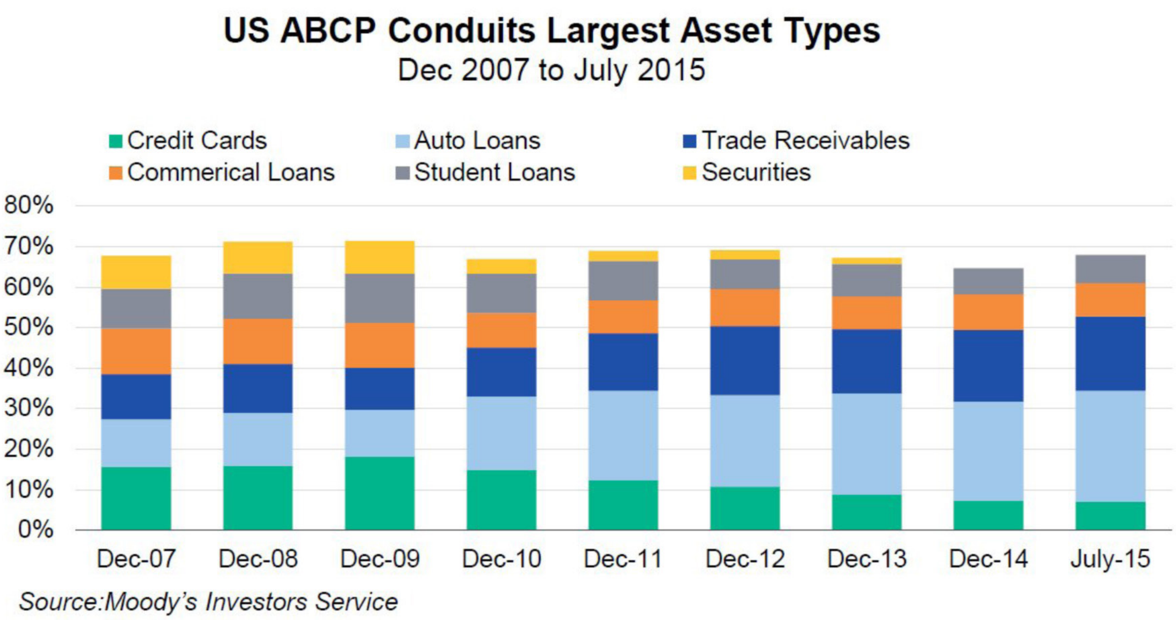
1. **Goods owned by or secured by others but sold by borrower** – what if a borrower sold goods with a trademark that is not owned by them and was never authorized.
2. **Rendition of services** – financing the service industry poses many unique problems versus goods sellers. Service providers may have multiple entities and it may be difficult to ascertain which one did the service. Borrower may have a business structure for tax purposes or other reasons that deliberately divides its service functions amongst its' entities.
3. **Bill and hold receivables** – Seller bills customer when goods made, but holds them, possibly because the customer may not have storage space due to seasonal items. Difficult to finance transactions that are not complete.
4. **Hidden or competing liens** – If a borrower is a contractor or sub that performs work backed by a payment or performance bond, a lender must be careful about extending credit based on receivable. The bonding company (the surety) may by means of subrogation, obtain priority over perfected security interest over the borrower receivable.
5. **Non Assignability clauses in purchase orders** - Sales agreements or purchase orders between borrow and customer sometimes have provisions stating receivables cannot be assigned. This provision is not effective under U.C.C.
6. **Contra Accounts** - Can a buyer offset a receivable because the supplier may have leased property or borrowed money or purchased goods or services if borrower fails to perform obligation? For example, a company buys coal from a borrower and they go bankrupt, can they offset outstanding receivable with cost of procuring new coal supply? Or if receivables to be financed are under a master supply agreement that covers more than just one or two receivables, the customer may have a right of offset if the borrower fails to perform.

Traditional – Securitization

In trade receivable securitization programs, receivables are pooled into a special purpose vehicle (SPV) and the vast majority are packaged into conduits and funded through commercial paper (CP), commonly known as Asset Backed Commercial Paper (ABCP). The increased use of collaboration and technology can transform a trade receivable to a credit risk only asset (ie, buyer nonpayment). This creates advantages in financing the receivable given the attractive nature of this asset class (ie, short-term, the receivable has favorable structural issues, occurring at the operating company level, and also in bankruptcy.) While individual trade receivables have high idiosyncratic risk, this risk can be virtually eliminated from a portfolio through diversification.

Access to this method of securitization has been historically limited to large sellers with good creditworthiness and provide companies funding terms up to 364 days. Many types of ABCP programs exists, including those for credit card receivables, auto loan receivables and even student loans. According to Moody's, trade receivables and auto loans and leases will continue to represent the largest asset types financed through the ABCP conduits.

Figure: U.S. Market for Asset Backed Commercial Paper



There are a number of benefits to securitization:

1. Flexibility in designing a program to either lower the interest cost or maximize the advance rate. For example, companies can take their receivable portfolio and use the best receivables, but perhaps they only represent 50% of a firms receivable base. You can package them into a AA or AAA facility and get the lowest cost but not the highest advance rate.

2. Securitization represents a committed facility, not only with respect to funding, but in term and cost as well. Companies will know they have a fixed funding for a specific cost for a specific time period.

However, setting up programs involves a number of legal and underwriting costs. In addition, credit insurance is typically purchased on the pooled receivables, as well as a standby Letter of credit facility to backstop the SPV's issuance of Commercial Paper. Daily monitoring of the receivable is also necessary and in order to determine whether or not the assets of the SPV are sufficient to support the liabilities of the SPV, a collateralization test must be performed. This test may be applied as infrequently as monthly, or as often as daily.

Generally, minimum size is driven off of a cost-benefit analysis sizing up the relatively fixed costs of setting up the program with the advance rate, and spreading it over the expected life of the program.

How appropriate is my trade receivables portfolio?

Generally, a minimum size is driven off of a cost-benefit analysis sizing up the relatively fixed costs of setting up the program with the advance rate, and spreading it over the expected life of the program. A $100 million receivable pool has been used as the threshold minimum size before excluding ineligible receivables and over concentrations. Today, according to **Demica**, a specialist provider in this space, who has been bringing these types of programs to non investment grade companies, that threshold has move down to $25 to $30 million. The new generation of securitization arrangers are able to work with smaller receivable pools using scaled down securitization infrastructure, avoiding public debt ratings, and partnering with non banks.

Traditional Distributor Finance

Think about distributor finance this way. I am a major computer manufacturer with both third party resellers and distributors in multiple countries. If my resellers can get more credit from me, they can buy and sell more of my stuff. But who will lend to them? That's where distributor finance comes into play.

Typically, banks or other lenders are involved in funding OEM dealer/distributors in one of two ways:

- The first method is a receivables-based finance program where the OEM receives early payment via the purchase or discounting of its distributors' receivables. The OEM is paid immediately upon shipment of goods to the dealer, and the dealers pay the lender directly when goods are sold. The OEM's motivation for building a receivables refinancing program is to enhance sales rather than to bolster its own liquidity. OEM's were initially attracted to distribution finance providers due to organizational limitations such as not having the ability or expertise to extend credit in a cost effective or low-risk manner.

- The second technique involves the provision of direct loans and credit facilities to distributors, backed by varying levels of support and involvement by the corporate OEM. These facilities are typically used for financing inventory and receivables.

This is the traditional view of dealer/distributor finance, which looks at it from managing the inventory holding costs at sales locations, typically going by the name Channel or Floor Plan finance. The **International Chamber of Commerce** focuses on this definition when it defines distributor finance as "the provision of financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer."

But a big opportunity is with connected platforms that facilitate date and document flow in an OEM Dealer/Distributor and Group Purchasing Organization structures (a GPO is an entity that is created to leverage the purchasing power of a group of businesses to obtain discounts from vendors based on the collective buying power of the GPO). In this model, all of the seller's accounts are paid (less those subject to dispute) in full, at regular intervals. This payment of a dealer or distributor's sales accounts is the idea behind distributor finance, which can be defined as:

"Financing solutions that support the working capital needs of a corporate seller's distributors and potentially the distributors' resellers, to ease the flow of product through the channel."

This form of distributor finance involves with the OEM as the "middle party" working with its dealer network and its large national accounts to manage invoicing, matching, price validation, dispute management, credit and collections, and also making the payments to its dealers and collecting receivables from national accounts. Third party providers could add risk management or logistic support to broaden the solution.

Distribution finance can provide financing solutions to the automotive, technology, construction, agriculture, healthcare, manufacturing, and many more industries. Yet, despite significant improvements in predictive models based on "Big Data" on purchase orders and invoices, distribution finance has not materially evolved in terms of its services, pricing, or market participants.

We believe that OEM's distributors, dealers, and resellers will be able to take advantage of increasing efficient and cost effective financing solutions in the years ahead.

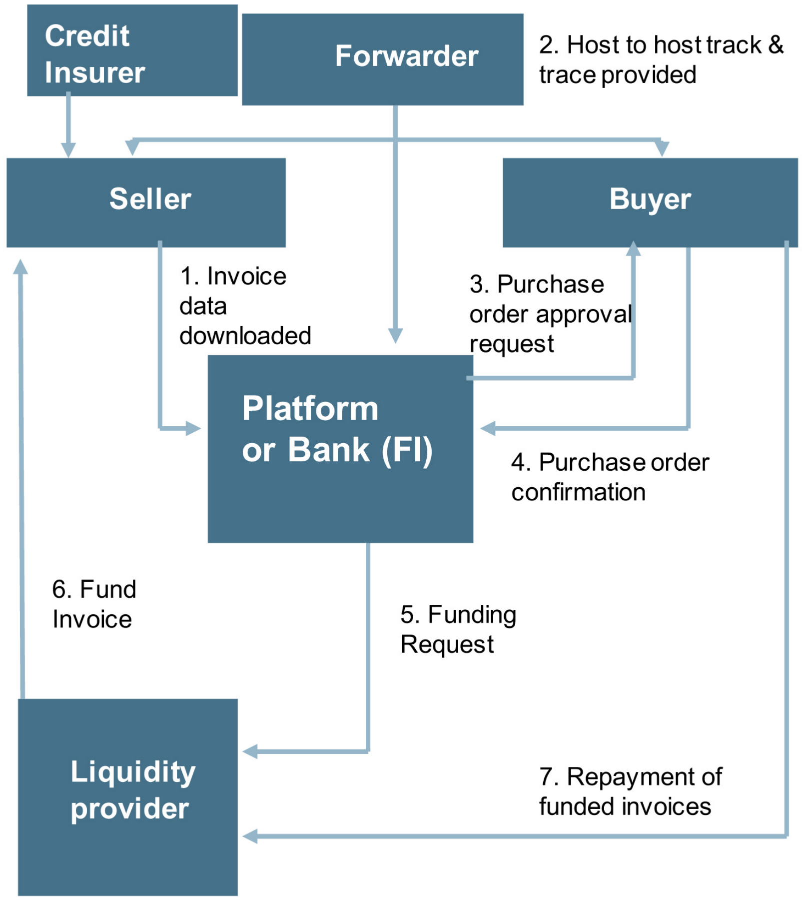
Two key dynamics in the marketplace which have occurred in the last few years are:

1. *The ability to provide for the highly efficient exchange of 'real-time' transactional information flows and an open, global collaboration between buyers, sellers and financial institutions, and*
2. *The level of supply chain integration and digital data and document exchange has dramatically increased over the last few year both upstream and downstream.*

Distribution finance, historically a US channel finance proposition, can now enjoy a wider reach with platforms that connect the key constituents.

Seller centric models (both customer and distributor finance) involve more third party data feeds to ensure proper control. The figure below shows how platform providers and or liquidity providers must interface with the systems used by large OEM manufacturers and their dealer distributor network to have visibility into the shipment details to the various logistics service providers. Typically a credit insurance policy is wrapped around, and what that does is offer credit insurance protection to the vendor's receivables portfolio and also helps service the financing program. A system must be in place to use invoice information matched to this logistics data.

Figure: High Level Payables Backed Supplier Finance Business Model – Vendor Centric



There is a tremendous opportunity to leverage seller-centric solutions to build OEM/distributor and GPO finance models. Despite significant changes to buyer-centric models, distribution finance has not materially evolved for the seller-centric side. Through the use of electronic B2B platforms that enable the efficient flow of data and documents to lenders, a transformation can occur that will be healthy for all parties to the supply chain, thus enabling the OEM to achieve superior sales growth, and helping dealers and distributors to effectively manage their cash flow. Such solutions will require expertise in channel finance ecosystems, B2B transactional technology, supply chain finance and risk mitigation.

Non Traditional Receivable Solutions

Non Confirmed Invoices (Post Shipment but Invoices Not Approved by Buyer)

More and more vendors are attempting to play the non confirmed invoice finance space with different models. There are only a few that are active and many that are ramping up. Active ones include **Tungsten Network**, and **PrimeRevenue** and ramping up includes **Taulia** with Greensill, **GT Nexus** (now part of Infor) and **Seabury TFX**, and **Basware** through their partnership with **ArrowGrass Capital**.

For non confirmed invoices, networks add value via their information. The challenge to build intelligent underwriting models to do non confirmed invoice finance is critical. If your information relies on external third parties like Dun & Bradstreet to assess risk, that is one thing. But if you can tie back the transaction to the purchase order, contract, shipping and receiving data, etc. and take this data and make credit decisions; that is powerful. Having access to extensive network data allows a funder to model Buyers to determine their risk position based on network data, all in real-time.

What makes this financial product so interesting is that it is true factoring, which works with sellers and does not require a buyer approved invoice unlike many of the other models that offer early pay, dynamic discounting, or reverse auction solutions. Factoring allows businesses to sell their unpaid invoices at a discount in order to meet cash flow needs.

A non confirmed invoice essentially means more risk. What does a non confirmed program need to protect against?

- **The first risk is there will be variations in the payment date**, ie the payment is not made on the value date.
- **The second risk is dilution.** Funders will need a way to manage diluted payments by the buyer, either contractual dilution known at the time of invoicing (volume rebates, customer credits) or non contractual (short shipments, pricing errors, etc.).
- **The third is fraud.** Funders will need to assess if these invoices from the seller are fraudulent.

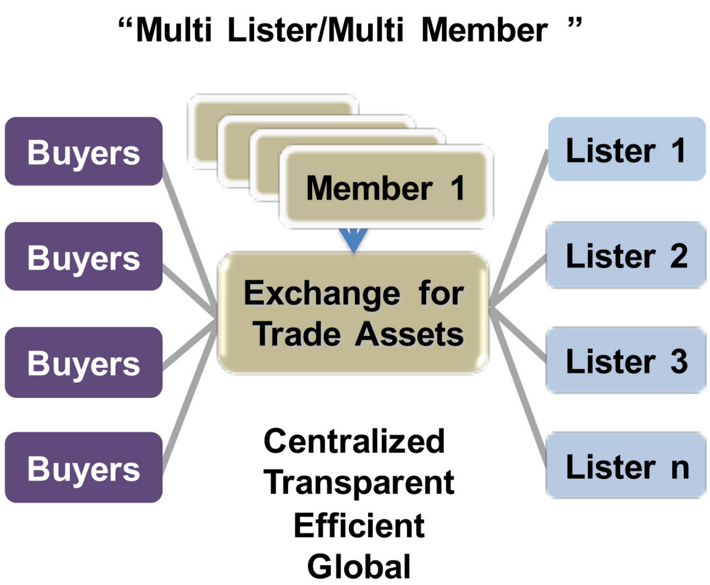
Every vendor who claims they can do this will have a different business model. This is the important things to understand. There are many questions to ask. Here are a few:

- How to use the data contained in supplier networks to make a finance decision?
- What data is required (historical data on trading relationship)?
- Does the data extend across business cycles?
- Does it include dispute and dispute resolution?
- Can you actually track an invoice to a payment?
- What risk mitigation techniques are required? e.g., trade credit insurance, cash dominion control of accounts, etc.

Invoice Auctions

The idea of creating an electronic auction marketplace for investors to purchase assets (in this case invoices, or future dated cash flows), was novel back in 2007 when the Receivables Exchange designed an invoice auction exchange for single or multiple invoices that were not credit enhanced. Sellers of invoices set the parameters (minimums, advance rates, etc.) and Investors, known as Buyers (including banks, hedge funds, asset-based lenders, and family offices) compete in real time to purchase them. The concept was an alternative to factoring for single or multiple invoices.

Figure: Conceptual Example of an Electronic Marketplace



Invoice auctions were a novel and innovative idea a few years back.

So where are we today?

There certainly have been tremendous changes since the formation of the **TheReceivablesExchange** back in 2008 to develop a marketplace for small business invoices. When NYSE Euronext acquired a minority stake in The Receivables Exchange back in 2009, the business was split in two – one focused on a "Corporate Receivables Program " program that targets Sellers in the Fortune 1000 and the original Small Business "SMB" program.

Today, the platform is purely for large corporates and as of January 1 2016 TheReceivables Exchange is now known as **LiquidX** and has been recapitalized and no longer has ICE or the former NYSE as an equity partner.

In the UK, you have both **Platform Black** and **MarketInvoice**. Platform Black started their first auction on June 2012 and by June 2013 were processing close to £3.2M weekly. Since June 2012, the platform has processed about £125m and has run over 2,600 auctions.

MarketInvoice is a UK-based invoice financing company that launched in 2011 and has funded over £670M to date. They use a proprietary underwriting model to group their loans into ten risk-based price grades. Their biggest supporter is the UK Government, which buys invoices through MarketInvoice as part of the British Business Bank initiative. Recently MarketInvoice released their loan book for public consumption.

From a seller's perspective, auctions provide liquidity, a form of adhoc, transactional finance. The timing, amount and type of invoices 'sold' through the auction process are driven by the seller. This is certainly a great feature, particularly as the need for cash increases if orders increase or the service business grows. And that can be an awesome feature when there is a need for cash. And unlike factoring or invoice discounting lines, there are no annual or set up fees being paid when not used and the business is not reliant on one specific funder. In fact, unlike factoring, which must cover the operation costs of monitoring and collecting receivables, auction pricing should be cheaper.

Still, there are several challenges from a seller's perspective when selling receivables via an auction process:

- First, it can be expensive - Fees for money can run 2% month, plus platform fees of 1% fee over 30 days. Since these platforms are not gaining in funding spread since they offer no balance sheet, fees must support the business model.
- Second, what the seller does not know is will my invoice get financed 6 months from now, or a year from now? It is not a contractual form of finance like a loan.
- Third, lending organizations such as factors may threaten to sue sellers who have extended credit to the business and now find the business selling those same receivables that are being used for collateral.
- Finally, this type of finance tends to be "Blue Chip" finance, meaning sellers can auction invoices from recognized names, but when it comes to obligors that are unknown, private, and hard to get data about, it is difficult.

This is not to say that auction markets will not be successful. But creating a market is very difficult. You have to satisfy both the Seller and the Investor while ensuring the service provider can make a profit. It can be done, but no one said it would be easy.

Credit Enhancing Receivables for Finance

There are four primary reasons insurance can be purchased to protect receivables:

1. **Provide incremental sales,**
2. **Provide default risk protection if customers do not pay**
3. **Act as a tool to increase the percentage of receivables eligible for finance**
4. **Act as a cost reduction tool to reduce bad debt reserves.**

The reasons for purchasing trade credit insurance are not always so black-and-white. Many companies use the coverage for more than one reason: receivables financing; risk mitigation; penetrating new markets; expanding sales; using longer credit terms to convince distributors to stock more inventory in-country, thereby transferring inventory carrying costs from the seller to the buyer; etc.

Insurance cover to facilitate financing and lending on foreign receivables lending appears to be an area of opportunity. What we have seen with companies that have gone this route is a substantial increase in their eligible assets for the lending pool. For example, if a bank client is borrowing at 6% over Libor, and has 70% of his receivables eligible, through insurance, they are able to get 85% of the pool at the same or better rate.

It's important to note that credit insurance is a derivative product. You take Contingent Performance Risk against the credit risk you had.

Data below reflects low "insured" usage in the USA, and low overall for finance purposes. Credit insurance represents an opportunity to enhance overall quality of receivables portfolio (eg. From 'A' to A+ rated). There are two ways for A/R financing to occur with insurance:

- **A/R Funding with Credit Insurance:** in this case the corporate buys the policy and assigns it to the bank
- **A/R Funding with a Bank Master Policy:** in this case a bank buys a policy and insures all the accounts receivables it buys from multiple clients/suppliers

Trade Receivables	% Insured	% Financed
Europe	35	5
US	5	4

Source: SCF Capital

When assessing the "risk" of your buyer or customer portfolio, here are some things to think about:

- **First, can you leverage insurance to support overseas receivables?** Insurance cover to facilitate financing and lending on foreign receivables appears to be an area of great opportunity, especially for the middle market.

- **How can insurance help with your sales account concentration and country exposure risks?**

- **What partners can help bring together the right tools for risk participation and technology?** including asset based lenders, insurers, software companies, etc. Technology can enable tracking of compliance against policy conditions. This enhancement broadens financing options for a company's use of trade receivables financing.

- **Evaluate the tradeoffs of moving transactions off Letter of credit.** Understand the risks involved by moving to open account and learn various techniques that can help with risk mitigation – ie, use of Standbys so your dealers can maintain open account payment terms, use of private insurance, or perhaps even the use of letter of credit confirmations.

It's important to note that credit insurance is a derivative product. You take Contingent Performance Risk against the credit risk you had. You possibly transferred your risk and improved the overall quality based on the underlying insurer, but there is still contingent performance risk based on the underlying contract.

9 Market Size Globally

Market Size Globally

Trying to determine just how much SCF and alternative business finance is occurring versus mainstream lending is not a straightforward task. Information on size, volumes, etc. for the majority of SCF and alternative business finance is kept private, no different than trying to find the payment terms and commercial agreements between a Bechtel and a Sunoco or an IBM and one of their Engineering suppliers. That data is just not public. One banker commented,

> *"I guess the key problem is that market estimates are based on surveys and anecdotal inputs. BCR Publishing in their World Supply Chain Finance Report 2015 estimated SCF funds in use (financed outstandings) of EUR 37 – 49 billion (based on their survey of SCF practitioners in Nov-Dec 2014). I compare this to an ACCA report that estimated the market size for reverse factoring to be between US$255-280 billion. McKinsey mentions $2 trillion of 'financeable highly secure payables globally' and a potential revenue pool of $20 billion, and a current SCF revenues of $2 billion. I find the figures hard to makes sense of – what is the factor they use on payables to derive their estimated revenues.. potential revenue of $20 billion is 1% of $2 trillion, and if 1% was the financing margin assumed, that would mean an average of $2 trillion of balance sheet for financing!"*

All in all, it is a highly fragmented market with limited data.

Basically no league tables exist and the only accurate data is publically traded companies if they report and breakdown certain lending. Many times they do not. There are ways to help estimate the size of the market. If you look at a few objective measures such as:

1) assets transferred to third parties (and not self-funded by companies) or
2) invoices financed by early pay solutions (either self-funded or third party), you can attempt to see the size of some Payable and Receivable based solutions.

The market today for alternative forms of receivable finance is coming from multiple sources.

- **Purchase to Pay, eProcurement, eInvoicing and Supplier Network IT solutions** are getting more established early pay finance techniques. Large global corporations that use these networks enable their suppliers to receive early payment via dynamic discounting, invoice finance, or third party finance. These solutions first start with an integration project around eInvoicing, eProcurement, EDI replacement, etc. that leverages the infrastructure to enable early pay.
- **Working Capital Auction platforms** that provide a site for vendors to bid for their approved invoice and act as a cash management tool for the Fortune 1000 to pay suppliers early.

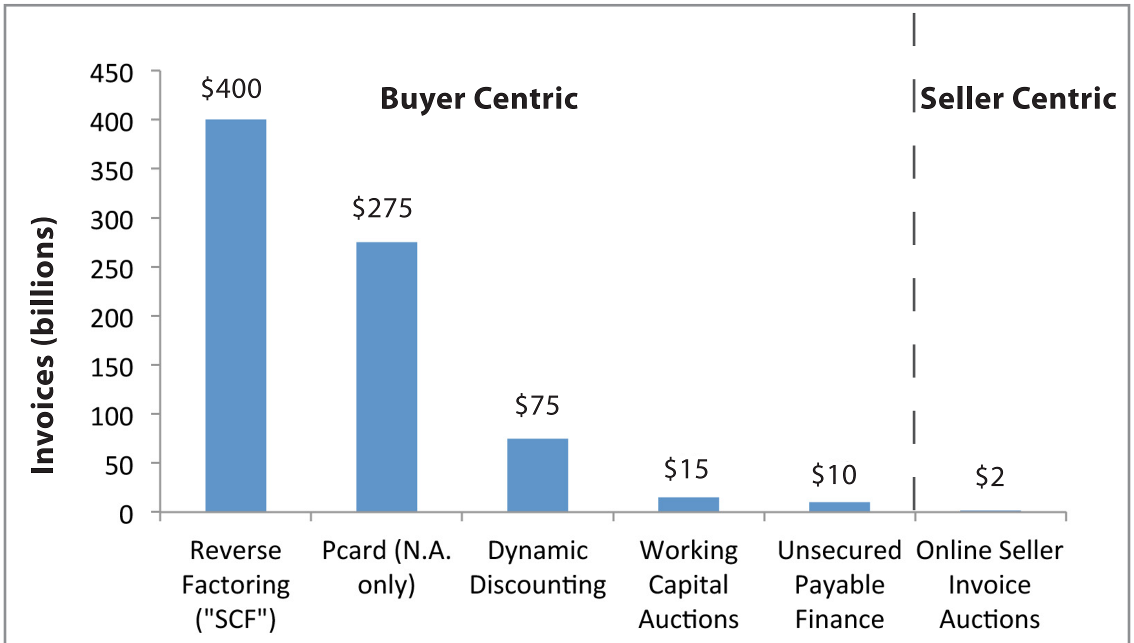
- New online lenders that offer innovations in factoring:
  - > **Marketplace lenders** such as **OnDeck, LendingClub, Prosper** and others leverage their underwriting expertise and speed for small business to greatly expand their product offering.
  - > Online **merchant cash advances** are expanding beyond credit card sales and into product that fund all revenue using daily ACH debits to control cash.
- The **Pcard** market also is looking to extend beyond the 2% to 5% of spend they manage for corporates today by coming up with new interchange models, especially for larger dollar invoices.
- **Seller based Invoice Auction markets** are struggling and some of the first few auction providers have moved into more established line of credit offerings.
- Traditional **Supply Chain Finance or Reverse Factoring** programs are moving downstream to near non investment grade and larger middle market companies and funders are finding more efficient ways to manage supplier onboarding.

As you can see with these new forms of alternative business finance, the receivable side is much smaller than working with large buyers and pumping their payable volume through to be early paid.

Early Pay Solutions

The relative size of select early pay models - including corporate self-funded and third party funded - pales in comparison to total receivables outstanding. At the moment, most partnering propositions are going after the low hanging fruit of " Buyer Approved Invoices". Technology is a necessary enabler to do in scale.

Figure: Estimated Market Size Various Early Pay Funding Techniques
(ie, Annual $Billions of Invoices using Specific Early Pay Technique)



Source: GBI Analysis

The Supply Chain Finance application market is still small at around $750 Million.

Supply Chain Finance Applications

This publication defines the SCF application market as vendors that sell solutions to a corporate and provide a way for third parties to invest in an asset. These are not vendors that sell software to banks, and the bank goes out and develops products and then originates, onboards, etc. The market for applications that facilitate finance by providing a platform that augments information to transfer assets (in this case a supplier receivable) to investors has seen tremendous amount of developments and press releases these last few years. The estimated worldwide revenue for 16 vendors that provide a platform that augments information to investors is around $750 million. The market is mostly full of private companies that do not provide public data on revenue. Only three companies are public (Ariba, part of SAP, Basware, and Tungsten).

Most of this action is centered on what we call B2B or Supplier Networks that support early payment to suppliers. Think of vendors like **Ariba, Basware, Tungsten, Taulia,** and others. In the mid 2000s, you had three primary vendors offering finance solutions in this space, **PrimeRevenue,Demica and Orbian**. These vendors offered solutions for corporates to implement multi-bank funding solutions to the largest of suppliers.

The top five vendors based on overall revenues (mostly network revenues and not finance) are Ariba, Basware, GT Nexus, PrimeRevenue, Taulia and Tungsten. Revenue attributable to finance (either transaction fees from finance flow or basis points from using the platform) is still small but growing.

10 Accounting Issues with Supply Chain Finance

Accounting Issues with Supply Chain Finance

Buyer Issues

Background

With the explosion of early payment solutions to assist a buyer's supplier group (egs. dynamic discounting, reverse factoring, pcards) and the start of receivable auction markets, the issue of rebates and retiring payables early has become serious. The concern is that such an arrangement could prompt the Securities and Exchange Commission to require the company to reclassify its trade payables as short-term bank debt, potentially impacting loan covenants and leverage ratios.

For dynamic discounting programs, most of these programs are generally small and still self-funded by the corporate themselves. But, and here is the big issue, what happens when non banks become more significant and touch on more spend besides indirect?

Robert Comerford, a former professional accounting fellow in the SEC's Office of the Chief Accountant (OCA), first addressed the issue of supply chain finance in speeches he did back in 2003 and 2004. Comerford posed several rhetorical questions about SCF arrangements, including whether the financial institution makes any sort of referral or rebate payments to the client, and whether it reduces the amount due from its client so that the payment is less than it otherwise would have paid to the vendor. This was a time when rebates (think of rebates as the buyer participating in the benefits of the financing by taking a portion of the spread) were rampant.

Two things have changed in programs since that time:

1. First, back in 2003 when Mr. Comerford made his comments, the bank had an agreement with the buyer that guaranteed them payment. Today, in most SCF programs, the banks purchase receivables from the supplier, check for liens against the receivables, file UCC statements (in the US), etc. In order to get paid the bank needs to rely on the validity of their receivable purchase, not on a guarantee from the buyer. That was not the case in 2003.

2. Second, and this is most important, companies are aware of the rebate concerns with supply chain finance programs and most have taken the conservative route. The concern has long been that a funding provider is paying the buyer for access to their suppliers and the data from their internal systems and the buyer is participating in the benefits of the financing in some form of rebate (or cut of the spread). We believe that is because the rebate issue so critical back in Comerford's days is no longer an issue.

How to Account For Self Funded Early Payment via Dynamic Discounting

Self-Funded Early Pay

As more companies adopt various early pay programs, there are concerns that thrid-party arrangements could trigger accounting problems.

Dynamic Discounting (DDM) means the supplier gets paid earlier than the due date on the invoice and money comes from the balance sheet of the buyer. This implies two things. First, the DPO metrics of the buyer will change as the Buyer extinguishes a payable earlier. Second, the buyer earns a discount in return. Essentially, DDM is an online request for a change to payment and pricing terms.

Dynamic discounting programs can be funded one of three ways:

1. self-funded by the corporate themselves
2. third party funded
3. a hybrid model (self-funded and third party funded)

The accounting issue with self-funded early pay is largely limited to one thing – what do you do in a VAT regime? Depending on the country, it can be calculated on the amount of the invoice and other times it can be calculated on the amount paid. This is not a Securities and Exchange issue as there is no funding occurring.

Vendors operating in different tax jurisdictions, whether it be sales tax, VAT, or some VAT equivalent, should be able to adopt their platform whether you adjust net or gross price. For example, in the U.K., if an invoice is for £120 gross, £100 plus VAT and the buyer has a 2% rebate program, payment made to a supplier is £98 + VAT, so the supplier gets £117.60. With technology or manually, the vendor can provide an adjustment to the account system of the buyer to show that they paid less to the supplier – and the fact VAT is less. In addition, the system can supply a debit note to supplier so they can reconcile new price for the goods and new VAT for the goods.

Recording the Discount

As to how companies record discounts, most corporations account for the discount the same way they account for traditional discounting (i.e., in most cases there is a discount account and that gets split back across cost centers where the original invoice – or buying decision – is credited to the buying department.

Accounting for DDM should not be any different than what's been done for decades with 2% net 10 term accounting. Perhaps most important, every company should have a policy on how they handle traditional discounts that has been vetted by their external auditor.

Start Here

But where should an organization begin? For any company considering programs, a good first step is to consult your internal auditors. Then, as noted, get an external, professional opinion just to play it safe.

Funded by Third Party (Factor, Bank, Non Bank, Pcard)

What the market calls Supply Chain Finance, this is where the supplier is paid early but the money comes from someone other than the buyer. Now the issue becomes does the buyer keep it as trade payable or should they reclassify as debt.

This definition of third party funding can apply to a number of early pay techniques, including:

- **Bank Approved Trade Payable programs (or Bank Supply Chain Finance)**
- **Third party funded DDM**
- **Factoring**
- **Pcards – pcards clashes with many of the criteria that Big 4 use with classification but all pcard is classified with Trade Payables.**

The determination comes from the criteria that are applied. The Big Four accounting firms have established criteria (which is mostly consistent, but there would be some differentiation), to make that determination. There is not 100% consistency across the firms that make this determination.

It is important to note that when a corporation implements an early pay initiative, the two big areas that drive programs are Procurement and the Assistant Treasurer, and neither one of these deals with the external auditor. They may ask their internal auditor to get an opinion. Their internal auditor may ask the external auditor how to contemplate treating the proposed program. What is most important is the criteria the lead auditing partner for Disney or Kraft uses to instruct his staff when reviewing Disney or Kraft's receivables and payables. This is the most important checklist. And I am sure every company's checklist for AP and AR is different.

Vendor Criteria to determine Trade Payable or Trade Debt

When it comes to the question of criteria for vendors using third party funding sources, the three questions to ask are:

1. **What are these criteria?**
2. **How does any third party funded model perform against these criteria?**
3. **How do you minimize risk of reclassification to trade debt?**

Key Criteria

While this list is not complete, the following questions tend to be very important in evaluating programs:

> Is the Buyer providing a higher level of comfort to the funder? The crux of the issue is if the Buyer is confirming to the financial institution that it will pay at maturity of the invoice regardless of trade disputes or other rights of offset it may have against the supplier, then it is giving a higher commitment to pay to the financial institution than it owes to the supplier and this may be construed as a bank financing and not a trade payable on its books.

> What type of agreements are in place between Buyers, Suppliers, Lenders and their Service and Platform provider? In general, it is important not to have tri-party agreement, ie, no tri-party agreement between buyer, seller and funder. It is very important to keep these programs with independent agreements.

> Does the Buyer know who the funder is? Buyers generally must keep a hands off approach as to who funds the program.

> Does the Buyer have discretion over the lender?

> Does the Buyer know the commercial borrowing terms?

> Does the Buyer have as part of the initiative the desire to extended payment terms?

If you answer yes to many of these questions, that is an indicator of trade debt.

Besides using Receivable Purchase Agreements, Liens, etc. to outright purchase these receivables to fund programs, there are other methods used by banks and non banks to fund programs. These include:

- Paper Drafts (several banks)
- Electronic Drafts (PrimeRevenue)
- Non UCC commercial agreement
- A variety of promissory notes used in single buyer/supplier relationships which also effectively extinguish the receivable.

Seller Accounting Issues with Supply Chain Finance

What accounting standards impact how the supplier must classify their receivable as a funding provider steps into the existing rights of the Supplier?

Ultimately, Suppliers must know if this is truly a receivable they can move off their books. For suppliers, the major complexity around participating in these reverse factoring programs is signing the Receivable Purchase Agreements and paying legal and accounting costs (such as compliance with accounting requirements under IAS 39, FAS 140/FAS 166 and, most importantly, various restrictions and covenants in lending agreements).

In these reverse factoring programs, even if suppliers are attracted to low cost Libor priced money, they still should get an outside auditor opinion to ensure the receivable is "true-sale" and complies with the FAS-140 - Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

11 Solution Provider Segmentation

Solution Provider Segmentation

As we look at solutions that enable Supply Chain Finance, some segments originate assets direct for consumption by investors while others are indirect. Key vendors providing solutions to enable supply chain finance or alternative forms of business credit can be segmented as follows:

Direct Originators

- Enterprise Solutions sold direct to Large Companies
- B2B Digital Marketplaces
- Small Business Marketplace Lenders & Auction Markets
- Small Business Software Providers/ Platforms

Indirect Originators

- Vendors selling solutions direct to Banks

Other

- Assets Advisors / Brokers / Asset Managers / Funding Providers

Segment Overview: Enterprise Solutions direct to Large Companies

Vendors playing in this space offer an array of Source to Settle and Order to Cash solutions including eprocurement, e-invoicing, supplier networks, Treasury management, receivables management, etc. Typically these solutions are integrated into a data warehouse or the client's ERP. The vendor market typically focuses on the Global 2000 companies.

Examples:

1. **C2FO** - operates a working capital auction market for large companies including Costco, Walgreen, Sysco, ToyRUs and Toshiba. Using the online marketplace, large companies can use C2FO as a liquidity management tool for treasury, designating the amount of cash they have available for early payments and what amount of discount or return they'd need to accelerate an invoice. Their suppliers will then bid for a share of that money depending on their own cash flow and cash management needs (this is the unique "supplier-pull" model of C2FO).

2. **Basware** - provides P2P, e-invoicing, supplier network and trade financing solutions. Basware launched Alusta, a cloud-based platform for business-to-business transaction collaboration. Alusta is the Basware platform that underpins and powers the B2B Cloud.

3. **Demica** - provides an end-to-end solution for supply chain finance, distribution finance and receivable securitization programs for large corporates and banks. It has a unique combination of structured finance professionals, a proprietary technology platform that enables the funding of $50bn of receivables per year, and an experienced implementation team. Demica has a flexible financing model that uses clients' own relationship banks as well as Demica's institutional investor partners.

4. **Invoiceware** - setting up Special Purpose Vehicles in Brazil and Mexico to funnel transaction invoices that have gone through their tax compliant network. Invoiceware International's supply chain financing solution offers a "Pay Me Now" option for suppliers in those markets. Investors purchase notes issued by an SPV. The SPV will use these funds to acquire invoices (trade receivables) thereby giving investors a return linked to the economic performance of the receivables.

5. **GT Nexus (part of Infor**): GT Nexus helps corporates with documentation on compliance instructions, customs manuals, routing guides, human rights guidelines, process updates and training materials. Given the data from purchase orders, packing and shipping documents residing on the GT Nexus Platform, it can assist importers in complying with the U.S. Government's 10+2 trade regulation and help expedite the customs document creation and filing process. GT Nexus offers preshipment and approved invoice finance through their partner.

6. **Kyriba** – Treasury Management solution provider offers payable finance (dynamic discounting and reverse factoring) to their Treasury Management clients (and white labels their platform to some banks) as well as has the potential to roll out a receivable finance service for companies using their SaaS Treasury Management solution.

7. **PrimeRevenue** – In addition to the largest non bank provider of reverse factoring programs, PrimeRevenue offers suppliers options to sell receivables where their Buyer does not want to increase their facility.

8. **Tungsten Network** - The strategic vision of Tungsten is to create a leading cloud-based global trading network that monetizes the existing OB10 e-invoicing platform through electronically secure encrypted invoice discounting against "approved for pay" invoices.

Segment Overview: B2B Digital Marketplaces

If you are a small business selling on **Paypal** or **Ebay** or **Amazon Business**, you may be getting offers to borrow based on your platform sales. These marketplaces are now offering finance to their "sellers" or vendors.

1. **Amazon B2B** – Amazon can provide small and medium sized business (SMB) eProcurement tied to finance. It's in the works, and they have resources, shopping experience, data, and clout to make it work.

2. **Paypal** – offers a Merchant cash advance service using their bank partner Webbank. PayPal Working Capital is now lending 2 million a day in the United States alone. In total, the 18-month-old small business loan has lent $500 million to 40,000 businesses across the globe. With the split up with eBay, is much more focused on new working capital solutions.

Segment Overview: SMB Marketplace Lenders & Invoice Auction

Marketplace lenders provide a platform to match borrowers and investors via automation. There are a number of players here, both on the spot invoice auction side as well as credit lines and small business loans.

1. **Spot Auction Players** – Marketinvoice, Platform Black, LiquidX and others play in this space and use spot invoice auctions to provide alternative and adhoc liquidity for companies.

2. **SMB Marketplace lenders** – Lending Club, Funding Circle, Dealstruck, Kabbage Biz2Credit and others use real time data and algorithms to provide innovative lending products to small business using banks and non bank capital. Small business lending is typically loans for less than $250,000. Small business can mean many things, from micro small business, to Mom & Pop under $2 million to firms in the $5M to $10M range. But when we go one step up from micro business and move into lower middle market, these firms have bigger needs for capital, perhaps to finance machinery, or inventory or a building (or even a sales force). New digital business platforms like **Dealstruck, P2Binvestor, TheCreditJunction**, and others that are getting into this space with technology first, investors and bank lines, and using the internet to originate deals.

Segment Overview: Small Business Software Providers/Platforms

Tools, typically cloud based, that offers procurement, financial, or accounting services to small business.

1. **Mastercard** - has launched the latest version of its professional site, Business Network 2.0 financial, along with marketing and data management tools to help manage daily business. In addition, Mastercard is working with Basware to link Mastercard's global payment network with Basware's e-invoicing customers and supplier network.

2. **QuickBooks** – QuickBooks, given their relationship with millions of small business clients, has made it easy to apply for financing and has a network of banks and alternative lenders, including P2P loan companies to fulfill that need. Alternative players have done a nice job of taking QuickBooks data and combining it with other sources to combine and change the underwriting process for small business.

Segment Overview: Software Providers/ Platforms selling Solutions to Banks

Vendors playing here help banks with everything from running Asset based lending and securitization programs to back office software for letters of credit.

1. **Finacity** –specializes in the structuring and provision of efficient capital markets receivables funding programs, servicing, and bond administration. Finacity currently facilitates the financing and administration of an annual volume of receivables of approximately US $100 billion.

2. **Global Supply Chain Finance** - is a service provider that structures, implements and manages financing programs based on companies' accounts receivable and accounts payable and has $7 billion in dollar limits under management.

3. **Misys** - provides integrated commercial and retail banking, lending, treasury, capital markets, investment management and enterprise risk software solutions to over 2000 banks. More than 200 use the award winning FusionBanking Trade Services solutions, which support both traditional trade and supply chain finance on a single platform for financial supply chain management. The platform delivers flexible corporate-to-bank and API integration, corporate digital channels and comprehensive back-office operational and risk management solution.

Segment Overview: Assets Advisors / Brokers / Asset Managers / Funding Providers

This segment plays a critical role as they connect investors (those institutions willing to take credit risk) via these platforms to companies (ie borrowers), typically without banks involved. Asset originators may or may not take some risk, or as they say, have skin in the game. Most don't, but some do. Think of Lending Club or Quickbooks being a platform and data engine for others to take risk.

We know there is a massive movement to create non bank entities because of the dislocation of capital and credit markets. Institutional Investors will require fiduciaries to buy these assets. More and more asset managers are setting up teams to scour for trade receivables.

Right now, there is not a deep level of understanding what these platforms do (think eInvoicing or eProcurement networks). For example, a technology vendor may act as fiduciary for their client (ie, the obligor) but have no payment obligation towards the investors over and beyond the amounts received from the obligor. Investors take risks, for example, on if the platform executes properly.

Investors buy assets that are accounting driven or inventory driven – a form of collateral – that are tied into balance sheets. For a material market to develop, the information about those assets is powerful – what state they are in, who physically owns, that information is not on a balance sheet. Right now, the vendor, investor, and asset manager community are still evolving.

Understanding the role that Brokers, Asset Advisors and Asset Managers play in the world of Alternative Business Finance will become increasingly important if trade receivable distribution is to move from a private placement market to a transparent asset class that many claim and speak about in writings but is not evident.

Advisors can originate and structure assets, and can be involved in servicing, brokering, and structuring, but generally receive no fees for managing money because they are not allocated money with various parameters to invest. Many times they are confused with Brokers, and the points below helpful to understand the differences.

Different characteristic between an Advisor and a Broker

- **Fiduciary** - Asset managers have a fiduciary duty to act in the absolute best interest of their clients. Essentially what that means is they can be sued! And that is a big leverage point and differentiator between advisors and others. On the other hand, brokers only have a suitability standard, which like a consultant, they give the best advice they can according to their data collection efforts, but it may not be the absolute best advice for the client.
- **Registered via SEC or equivalent** - Is the company registered with the SEC or UK's Financial Services Authority or some other government body as a Registered Investment Advisor?
- **Advice vs. Transactions** - Typically, Brokers are paid commissions on products sold, so have a sell bias. Advisors are not looking to sell, but get paid for providing advice to clients, not transactions.

Example Asset Advisors / Broker / Funding Provider

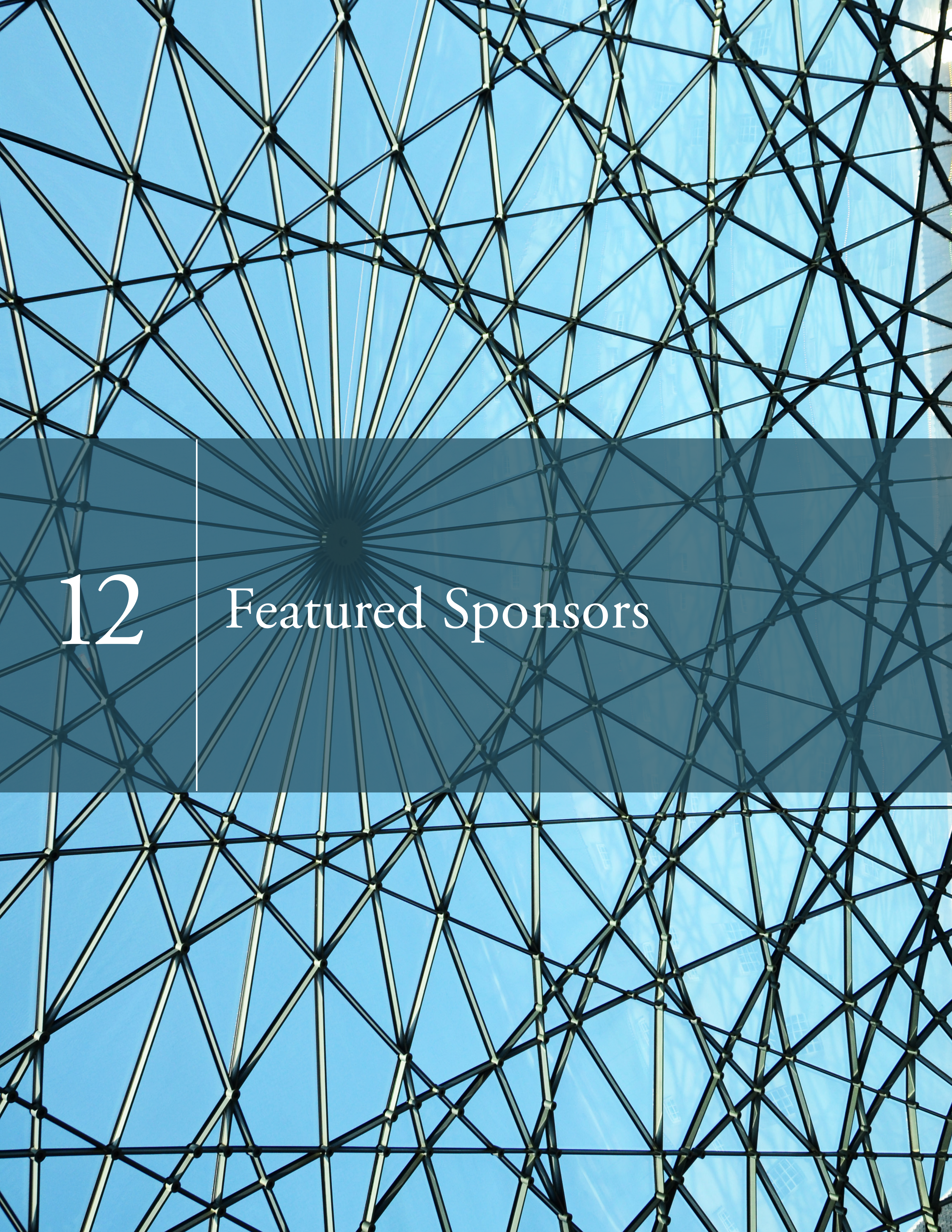
1. **Seabury TFX** - a specialist originator of trade finance. Unlike many other supply chain finance providers focused on approved invoices, they believe supply chain finance can provide cash flow all along the different points in a supply chain and not just after an invoice has been approved by the buyer. They work with multiple supply chain platforms to provide funding solutions for companies involved with global trade from purchase orders through to payments including inventory and invoices.

2. **GLI Finance** - GLI Finance is a strategic partner to over 10 alternative finance platforms. They want to become market leaders in their chosen areas and have platforms in America, Africa, and Europe are looking at Asia and the Middle East as well. Their two part strategy appears to be first, make an equity investment in the platform and second, have first call on being an investor in the platform. They recently launched a new investment trust to invest in loans to smaller companies. The fund raised just £52 million, with most of the money from its parent GLI Finance.

3. **Hitachi Capital** - working with a number of platforms, and heavily focused on the non confirmed invoice space as well as inventory finance.

4. **Greensill Capital** - specialize in structured trade finance, working capital optimization, specialty financing and contract monetization and focus on non-investment grade companies Greensill Capital (UK) Limited is the majority shareholder and bank holding company of Greensill Bank AG .

5. **Macquarie Group** - is a global provider of corporate finance. Macquarie recently launched a structured-trade finance businesses that targets manufacturers, distributors, integrators along the supply chain with their unsecured payable product.



12 Featured Sponsors

Enterprise Solutions

FINANCIAL AGILITY WITH NETWORKED PURCHASE-TO-PAY

Purchase-to-pay (P2P) can play a major role in helping finance professionals gain the visibility and control they need over their cash flow. Networked P2P is a dynamic way to simplify and streamline key financial processes leveraging open B2B networks. Companies that take a networked approach to P2P are better able to optimize working capital, free up cash within the business, and unlock new profit streams.

A New Approach to P2P

The move to a more networked approach to Purchase-to-Pay is made possible by the latest innovations in the cloud and open B2B networks that make access to payment and financing services easier for buyers and sellers. These services enable greater financial agility to uncover new profit streams that are currently hidden within the balance sheet.

By simplifying and streamlining key financial processes, businesses can increase their financial agility while increasing control, reducing costs and boosting cash flows.

A New Level of Financial Agility

Visibility and control throughout the purchase-to-pay cycle enable organizations to be more efficient.

Deep collaboration between finance, accounts payable, procurement, treasury and trading partners enables the financial supply chain to become a powerful just-in-time tool for financing and payment.

What's more, businesses have the power to choose how to manage their working capital by leveraging the optimum mix of payment strategies.

Solutions for Networked Purchase-to-Pay

Basware solutions for Networked P2P are globally scalable. They cover the entire P2P cycle, enabling you to transform your procurement and AP processes:

Basware Purchase to Pay: Automate your invoice handling process for visibility and control and increase spend under management.

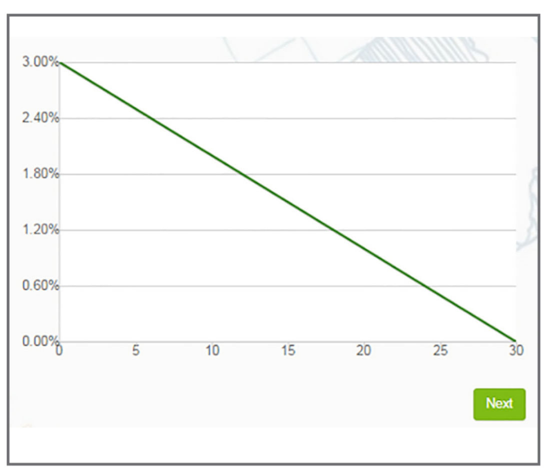
Basware Commerce Network: Collaborate with your suppliers and exchange purchase orders and invoices electronically over the world's largest open commerce network.

Basware Financing Services: Optimize cash and working capital and improve B2B relationships by leveraging financing and e-payment solutions on the Basware Commerce Network.

"Since we implemented our AP automation solution, we've seen tremendous improvement in the approval process. We are not only able to pay our vendors on time, we can pay them ahead of time. This has enabled us to go back to our top vendors and negotiate early payment discounts. We have turned Accounts Payable from a cost center into a revenue generator."

Rock Persaud, Senior Manager AP, Take Two Interactive

Actionable Insights with Basware Analytics



Dynamic discounting with Basware Discount

BASWARE SOLUTIONS FOR NETWORKED PURCHASE-TO-PAY

Basware's industry leading network-centered purchase-to-pay portfolio includes best-of-breed solutions with best practices based on 30 years of industry-leading experience, as well as proven integration with over 250 different ERPs and high level of configuration options for businesses of all sizes. Implement the full solution or parts, in the cloud or on-premise.

BASWARE PURCHASE TO PAY

AP AUTOMATION

Feature-rich and configurable Accounts Payable solution to automate the most demanding global processes.

- 100% paperless from day one
- Advanced invoice approval automation
- Accurate forecasting to manage working capital and cash flow
- Automating matching of invoices, purchase orders and payment plans
- Review and approve invoices on your phone and tablet

E-PROCUREMENT

Increase spend under management, realize significant cost savings, and increase supplier value.

- Consumer-style shopping experience with one-click catalog purchasing
- Flexible free-text forms to manage services procurement and capture input
- Configurable workflows for increased compliance and control
- Anytime, anywhere access from mobile and tablet devices
- Actionable spend and procurement analytics with data visualization

BASWARE COMMERCE NETWORK

E-INVOICING

Send and receive e-Invoices through the world's largest open commerce network.

- Easy integration to all financial management systems
- Buyer and supplier portal and activation services
- Multiple invoice formats supported
- Convert invoices to purchase orders
- Scan and Capture and printing services

E-ORDERS

Electronic exchange of purchase orders, confirmations and changes with buyers and suppliers.

- Easy integration to any P2P or Financial system
- Supplier portal to receive and convert purchase orders into invoices
- Improved visibility and collaboration
- PO format conversion and routing services

BASWARE FINANCING SERVICES

GLOBAL ELECTRONIC PAYMENT

Pay suppliers promptly to avoid late payment fees while optimizing cash position.

- Simple, efficient, global payment processes
- Extend payment terms to optimize cash position
- Simplify supplier reconciliation with rich remittance information
- Increase supplier adoption of electronic invoicing
- Easy access to payment financing

DYNAMIC DISCOUNTING

Buyer-funded supplier financing for suppliers to get better control over their receivables.

- Save money by paying invoices earlier
- Reduce supply chain risk
- Strengthen supplier relationships
- Accelerate e-invoice adoption
- Self-service onboarding for suppliers
- Improved visibility and control over cash

Basware is the global leader in providing purchase-to-pay and e-invoicing solutions in the world of commerce. We empower companies to unlock value across their financial operations by simplifying and streamlining key financial processes. Our Basware Commerce Network enables easy collaboration between buyers and suppliers of all sizes. With Basware, businesses can introduce completely new ways of buying and selling to achieve significant cost savings and boost their cash flow.
Find out how Basware helps money move more easily and lets commerce flow at **www.basware.com**

https://twitter.com/basware • www.facebook.com/BaswareCorporation • www.linkedin.com/company/basware

basware

www.basware.com

DEMICA

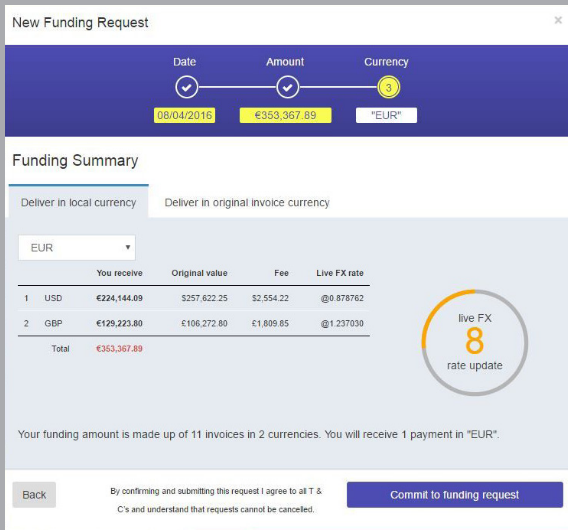
Introduction

Demica is one of the most trusted supply chain finance & trade receivable finance companies, enabling the funding of over $50bn of receivables each year for our clients. We are pleased to announce the launch of our next generation SCF platform and the 2016 road map of product development:

Transform the Success of Your Program

Designed to enable SCF programs to reach deeper into the supply chain, support large numbers of suppliers and high volume of payments, the intuitive design offers easy migration from other platforms and the following features:

- Single supplier login and a consolidated view of multiple supply chain programs;
- An integrated supplier portal that includes support for unapproved invoices, messaging & alerts and user self-management to minimise administration for buyers and funders;
- Automated reconciliation of expected payments with cash receipts for funders;
- A unique cashflow planner giving all parties visibility of their payments and a simple click through to view each underlying invoice and credit note:



Revolutionise Cross-Border Supply Chains

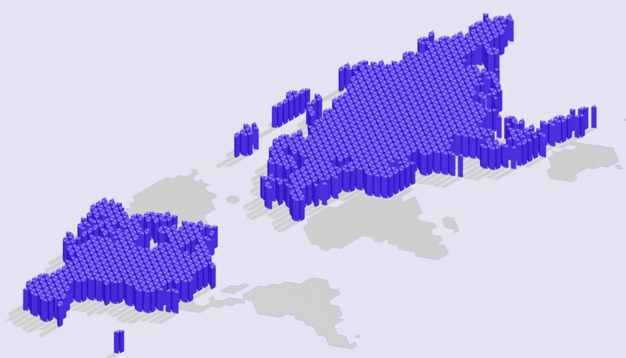
Demica revolutionises cross-border programs by offering:

- Integrated foreign exchange – a supplier will be able to take direct payment in 21 currencies at attractive rates with no risk to the Buyer or Funder, minimising FX delays at their local bank;
- Multi-currency invoices with consolidated reporting in suppliers' chosen currency;
- Multi-lingual – Demica's platform is available in 9 languages with additional ones available on request.

Simplify Supplier On-Boarding

Demica is transforming the supplier experience with:

- Unique logins with customised messaging from the buyer explaining the program benefits;
- The on-boarding screens overlaid on the underlying platform to give suppliers an integrated experience and access to data from Day 1;
- A working capital calculator tailored to each individual supplier's situation; and
- Step-by-step forms and an online tutorial for easy self on-boarding.



Explore the platform further: www.demica.com/scfvideo

Why Demica

Expertise

Since 2002, Demica has powered over 90 large receivables finance and supply chain finance programs worldwide.

Global

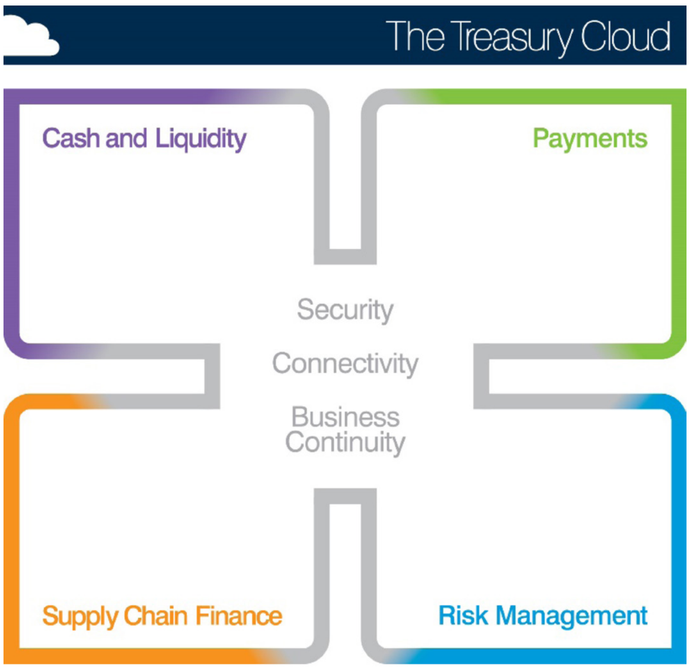
We are financing receivables from 130 countries for clients across Europe, North America & Asia.

Client Satisfaction

Since our launch as a working capital solutions provider, we have never lost a client to a competitor.

Karel Krejci
Supply Chain Finance – Origination Director
DD +44 (0) 20 7450 2547
M +44 (0) 7576 102 002
karel.krejci@demica.com

Kyriba is the global leader in cloud treasury and finance solutions, uniquely integrating cash management, payments, and supply chain finance in a single cloud platform. Kyriba supports over 1,200 corporate clients with financial operations across all global regions.



Cash and Liquidity
Global Cash Visibility
Cash Forecasting
ERP Integration
Bank Connectivity

Payments
Treasury and Supplier Payments
Payment Factories
Bank Format Transformation
Bank Connectivity
ERP Integration

Supply Chain Finance
Reverse Factoring
Dynamic Discounting
Supplier Onboarding
Cash and Payment Integration

The keys to effective supplier financing programs
Supply Chain Financing programs offer tremendous opportunities for buyers to unlock working capital or generate high yields on cash, while at the same time, reducing cost, capital and minimizing the risk in the supply chain due to illiquidity. To be effective, Supply Chain Finance must be a collaborative effort with complete information transparency and integration across internal teams and systems.

1) Cash and Liquidity
With visibility into cash, liquidity and working capital, CFOs can determine the priorities of the supply chain finance program – namely cash accumulation through DPO extension or earning implied returns on excess cash and liquidity via supplier discounts. Treasury's responsibility is to supply the CFO with perfect visibility into existing cash balances – by currency and by region – as well as a predictable cash forecast to understand the time frames that cash is available or required for. In short, the combination of a clear, accurate cash position and forecast with the control levers afforded by supply chain finance, companies have the ability to control cash flow like never before.

2) Payments
Visibility and control of payment workflows is critical for supply chain finance programs to efficiently function. The integration, within a single cloud platform, of payments with the supply chain finance portal allows payment terms to be automatically updated, ensuring that payments do not require manual intervention to be routed to suppliers. This automation and integration allow supplier payment workflows to be aligned with internal payment policies and controls, reducing the risk of payment fraud.

3) Supply Chain Finance

CFOs need the flexibility to support reverse factoring and dynamic discounting programs to meet their changing cash and liquidity priorities. While these priorities may change based on financial scenarios, the technology to support supply chain finance must be adaptable and fully integrated.

To be effective, a supply chain finance portal must be:

- Integrated with cash and liquidity for a complete financial picture
- Integrated with payment workflows for straight through processing from ERP to Bank
- Flexible to support changing supply chain finance program requirements

With Kyriba, clients using cash and liquidity as well as payment capabilities already have supply chain finance technology in their existing cloud portal.

For more information on a single cloud portal to integrate supply chain finance, payments, and cash & liquidity, visit kyriba.com or email me directly at eriddle@kyriba.com.

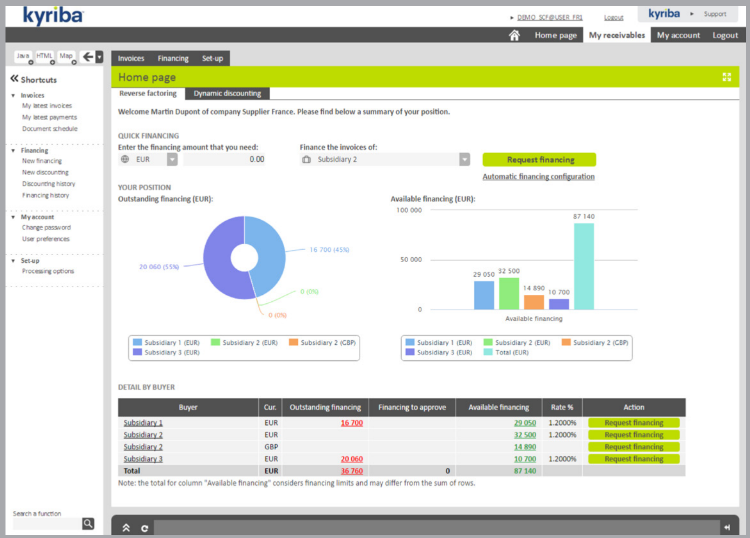
Thank you,

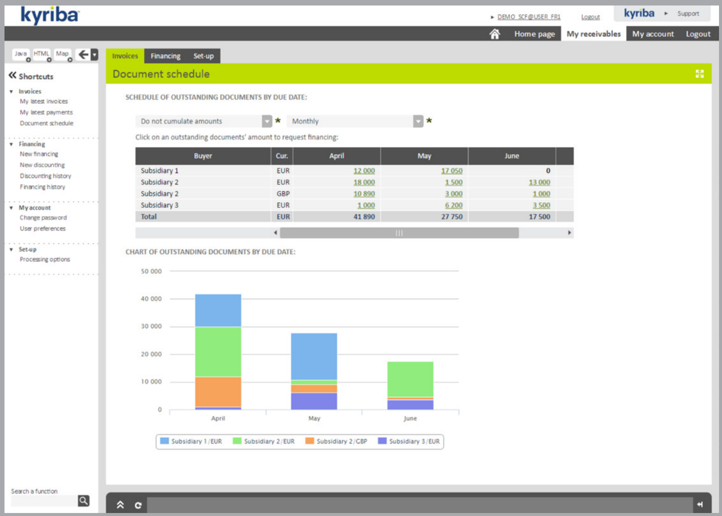
Eric Riddle

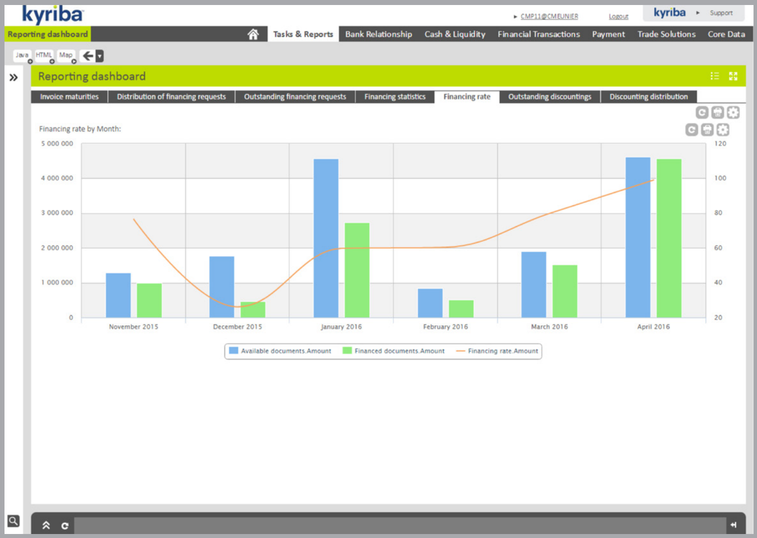
EVP, Supply Chain Finance | Kyriba Corporation

+1 (203)-470-9377 | +33 6 14 53 45 32

eriddle@kyriba.com







TUNGSTEN: POSITIVE TRADING WITH A NETWORK EFFECT

Self-generating trading benefits

A good relationship between supplier and buyer is at the heart of successful business. This is of course created through meeting and exceeding expectations around price and quality, but it also requires trust and respect. We believe that the environment of a trade is as important as the trade itself.

We believe that the environment of a trade is as important as the trade itself.

Automated accounts payable (AP) processing creates that environment. Incorporating clear benefits to both suppliers and buyers, it enables specific attention to be paid to the needs of each party. We should know, as it's what we do. Tungsten offers a world-class e-invoicing solution that improves the exchange of critical trading data across its network of buyers and their suppliers. We remove unnecessary costs and obstacles associated with completing a trade, and improve visibility of the process.

The number of buyers and suppliers using our e-invoicing solution is growing daily, and as it does we're seeing a network effect. As more people use it, its value grows. We're now looking at a future where the need for paper invoices is disappearing as more and more businesses recognise the benefits of going digital. Tungsten provides a suite of services to support the process of eliminating paper and getting better access to data, ensuring maximum opportunity with minimal risk. What we're also seeing is an opportunity to create additional applications that take these trading efficiencies to the next level.

One of these opportunities is offering working capital. By improving access to finance in this way, we're strengthening the financial supply chain and improving the trading environment for buyers and suppliers, cementing those relationships even further.

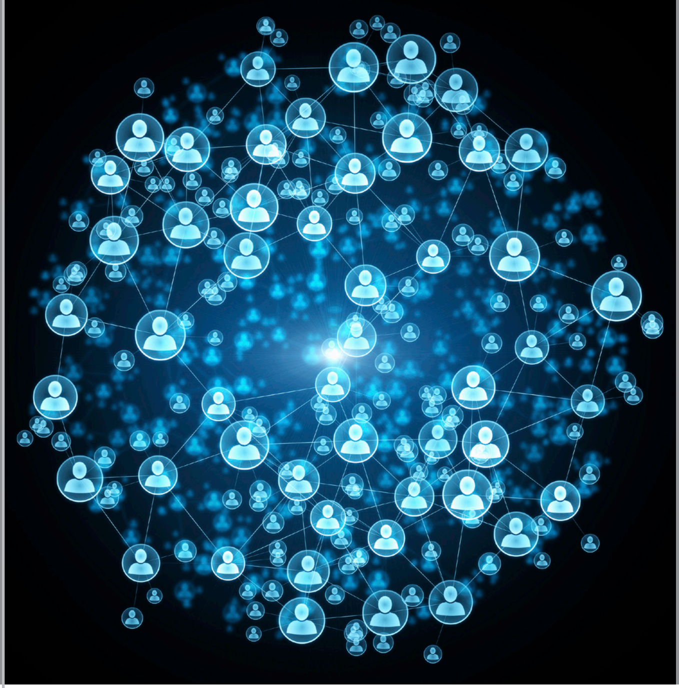
Tungsten's approach to working capital finance

We have created distinctive financing solutions that ensure buyers and suppliers can better manage their working capital position to stimulate business growth. In our view, two critical factors of successful supply chain finance (SCF) programmes are risk and access.

Risk: By utilising the digitised trading history, automated invoice status monitoring, and flexible funding parameters, Tungsten's financing solution provides premium returns with no or low risk to funders – whether this is the buyer or a third party – while at the same time ensuring attractive working capital financing for suppliers that they can rely on when they need it.

Access: Getting suppliers on-board for SCF programs is often a barrier to success. However, if the suppliers are already using an e-invoicing platform such as Tungsten's, they can access financing directly via their existing portal, and have PO management, accounts receivable admin and working capital finance all in one simple interface.

As thousands of Tungsten's clients around the world will attest, Tungsten prides itself on viewing buyers and suppliers on our network with equal commitment. They all form a critical part of the trading network and wider business ecosystem.



Contact details:
Henning Holter
+44 (0)20 7280 7707
henning.holter@tungsten-network.com
www.tungsten-network.com

Benefits of integrated supply chain finance

- Strengthens suppliers' commitment to AP automation and e-invoicing
- Creates a more robust supply chain throughout the supplier base
- Lowers the cost of disruption from liquidity issues with smaller suppliers
- Simple path to financing for suppliers if payment terms are extended or for general working capital funding needs
- Supports Corporate Social Responsibility policies

Whether a supplier is large or small, invoicing $1,000,000 or $100 at a time, selecting financing on every invoice or only in their peak season or for unexpected bills, the Tungsten financing solution creates a simple, effective and affordable route to better working capital management.

Tungsten's infrastructure

The way working capital is accessed can be designed to meet a business's treasury objectives and working capital strategy. We can work in a number of different ways:

1. Buyer, Tungsten or 3rd party funded

- Buyer participates as funding partner on the network
- Buyer can invite its banking partners or regional/relationship banks as a funding source
- Economic benefits from investment return and/or increase in DPO

2. Dynamic discounting

- Use the Tungsten solution for quick access to a dynamic discounting platform
- Buyer makes rebate offer via Tungsten portal on a supplier-by-supplier basis
- Possible to maintain or extend DPO via separate funding solution

3. A combination of the above

- Use regional or sector differences to deploy the optimal solution for both buyer and supplier
- Ensure suppliers have access to funding regardless of buyer's fluctuating demand on its own working capital

TUNGSTEN

Direct to Bank Solutions

MISYS: CROSSING THE CHASM WITH A TRUSTED PARTNER

Major institutions with global footprints in the trade finance market require operating models, business processes and technology platforms that bring together the best of both worlds: cost-effective modes of operation with appropriate levels of standardisation and consistency, together with the ability to reach into local corporate organisations to devise appropriately tailored solutions suited to the client and the market(s) in which the client does business.

On the one hand, buyers and sellers are looking for solutions that facilitate 'connected commerce' bringing visibility and control, improving predictability, productivity and profitability. On the other, banks are seeking ways to deliver 'bonded banking' whereby trade finance is more tightly integrated not only with corporate banking but also capital markets so as to support the 'de-risking' of trade assets and take advantage of alternative liquidity pools.

The Misys approach to crossing the chasm

In the face of conflicting market forces banks need to select strategic partners that can not only deliver best in class solutions but can respond in an agile way to the drivers of change through a shared vision and a collaborative approach. This type of partnership is critical to competitive positioning and the successful delivery of strategic ambitions. In this regard the Misys roadmap is founded upon four main pillars:

Regulation

The increasing burden of regulation means that banks and corporates are arguably facing the most challenging time in the history of trade finance. Not so long ago, compliance was considered nothing more than the examination of documents. Nowadays, the risks extend to embargoes, terrorist financing (including fraud) and sanctions.

Fundamental to addressing the real and present challenge of compliance, is the ability to gain a consistent, flexible approach across the trade business i.e. to roll out regional variations, rules and workflows within a highly auditable technology framework across global trade finance operations. Systems are required to support dynamic screening that can be integrated at any point of a trade transaction lifecycle.

Risk and financing

Misys takes the view that financial supply chain management (FSCM) comprises any financial solution that can be applied to help a corporate (a) optimise its working capital and/or (b) minimise the operational costs/risks associated with supply chain processes. Accordingly, the underlying technology platform needs to support a comprehensive range of traditional trade as well as 'bank-assisted open account' services, many of which are data driven and based upon the discounting of commercial invoices.

At the same time, banks today invariably need a complementary channel to distribute risk, not least to support the optimum deployment of regulatory capital. Distribution can be achieved either by inviting other financial institutions to participate to a risk on a funded or unfunded basis or potentially by making use of a special purpose vehicle to securitise the underlying trade assets and make them available to selected e-investors via capital markets.

Digitisation

Transaction banking models have historically failed to meet fundamental customer requirements for aggregated information, integrated delivery, self-service, real-time payments and information. Banks' customers are demanding that new services be delivered as part of the cash management lifecycle, and that these services be aligned with financial supply chains. For example, cash flow forecasting, multi-bank consolidation and intraday movements. The majority of banks' IT and operations infrastructure has been built ad hoc and the resulting operational silos have limited the ability to deliver the services that customers demand.

Just as there is a trend towards commoditisation of banking services so there is a move towards the commoditisation of data. Corporates require easier access to information, including a single view on working capital. Banks have an opportunity to transform their offerings in order better to serve customer demands leveraging increased standardisation to support tighter integration between business units including trade, payments and securities.

Globalisation

The market share for letters of credit is forecast to reduce to around 10% by 2020. New products and services are required to support mitigation of risk and provision of financing in open account. Whilst buyer-driven approved payables targets one end of the spectrum for selected counterparties, a range of supplier-driven invoice discounting solutions are focused on lower values / higher volumes. In between, there is a gap in the market which the ICC Bank Payment Obligation (BPO) potentially can fill. The versatility of the BPO in terms of its relevance to financing (e.g. approved payables in a 4-corner model) and risk distribution has yet to be fulfilled.

The recent growth in global trade has also been accompanied by a displacement of traditional trading relationships. We have long been accustomed to seeing trade conducted along the traditional north/south and east/west axes but we are now witnessing the significant development of so-called south/south trade, much of which is emerging market to emerging market. State of the art technology platforms designed to support global processing must equally be capable of supporting delivery of local services to local standards, taking account of local needs such as licences in parts of Africa, monetary authority regulations in the Middle East or taxes in India.

Crossing the chasm

Financial institutions aspiring to be leading service providers in the world of trade and supply chain finance need to get the formula right, both for defensive reasons and to support long term growth, profitability and sustainability. The choice of technology partner is critical to the fulfillment of market potential, crossing the chasm in order to exploit better channels to market, service new corporate segments and streamline back-office processes.

MISYS
FINANCIAL SOFTWARE

Contact details: **Ben Singh-Jarrold**

Global Solutions Marketing

Misys One Kingdom Street, Paddington, W2 6BL, United Kingdom

D: +44 (0)20 3320 5526 | M: +44 (0)7737 270 884

SMB Software Providers /Platforms

VIEWPOST: SMALL BUSINESS CASH FLOW MANAGEMENT

The Small Business Working Capital Gap

According to a 2015 small business survey by Nav,* small business owners (SBOs) are facing an increased need for working capital while the challenges to accessing affordable capital are also trending upward.

The Need

- 29% of SBOs say it's harder to reduce operating costs than 12 months ago
- 24% of SBOs say it's harder to plan for unforeseen expenses than 12 months ago
- 20% of SBOs have considered closing up shop
    - of those, 29% sighted lack of growth
    - of those, 22% sighted cash flow issues

The Reality

- 53% of SBOs have applied for business funding or credit line in the last 5 years
- 1 in 4 SBOs has applied for funding/credit more than once during this time
- 1 in 5 SBOs who applied for funding in the last 5 years was turned down
    - 45% were denied more than once

When we combine the growing need for cash with the growing absence of capital availability, its no wonder small businesses across the country are turning to alternative lending solutions. According to Small Business Trends, this banking environment has increased the market share of non-bank lenders from 10 to 26 percent, despite the higher interest rates that come with the territory.** For small business owners who can't access the working capital they need and who don't want to pay the higher rates, the Viewpost solution is the growing new alternative.

**Small Business American Dream Gap Report, Nav 2015; **Small Business Trends, December 6, 2015*

New Solutions for Small Business Capital Needs

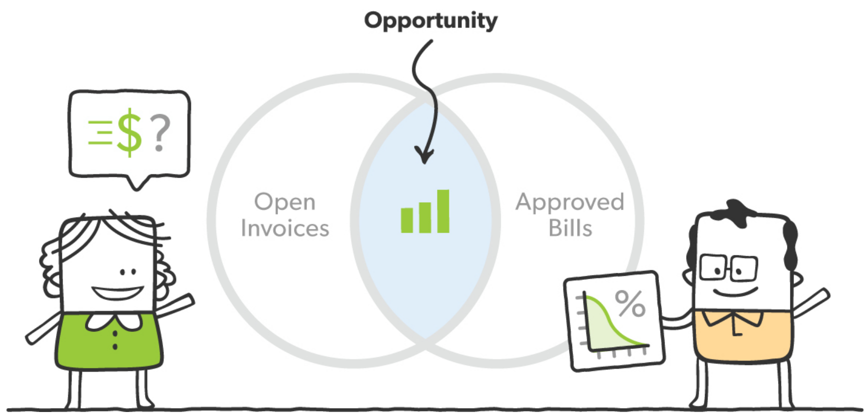
Viewpost is a could-based B2B network designed to connect suppliers and buyers of any size in a single, secure location to exchange and track invoices and payments electronically for better cash flow management. More than $24 billion has transacted over Viewpost since its founding in 2011.

viewpost

Viewpost Express® Early Payments & Discounting

Viewpost has a built-in discounting tool designed to give both suppliers and buyers an ability to easily share their willingness to participate in dynamic discounting. At the touch of a button, suppliers can offer their buyers a discount on approved invoices in exchange for early payments. The buyers can then see the offers on their Viewpost dashboard, pay early and save on the invoice totals, earning risk-free returns. Likewise, buyers can initiate the collaboration by setting up custom discount terms for their suppliers, sending electronic notifications across the network to alert suppliers of their willingness to pay early in exchange for a discount.

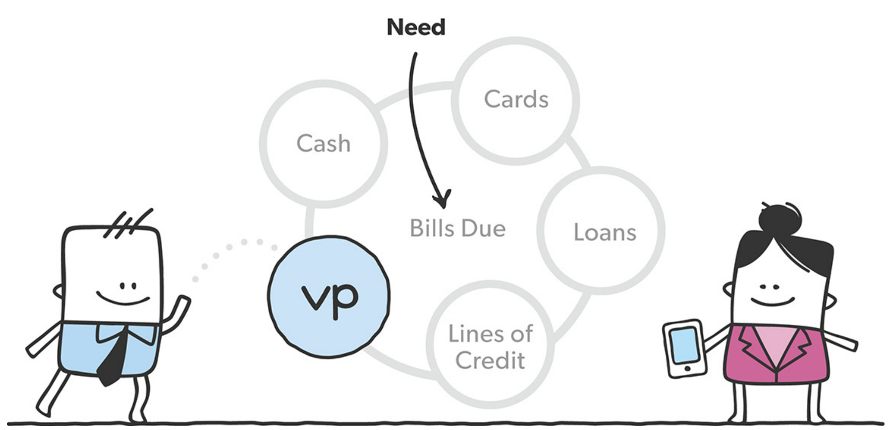
Early Payments and Discounting



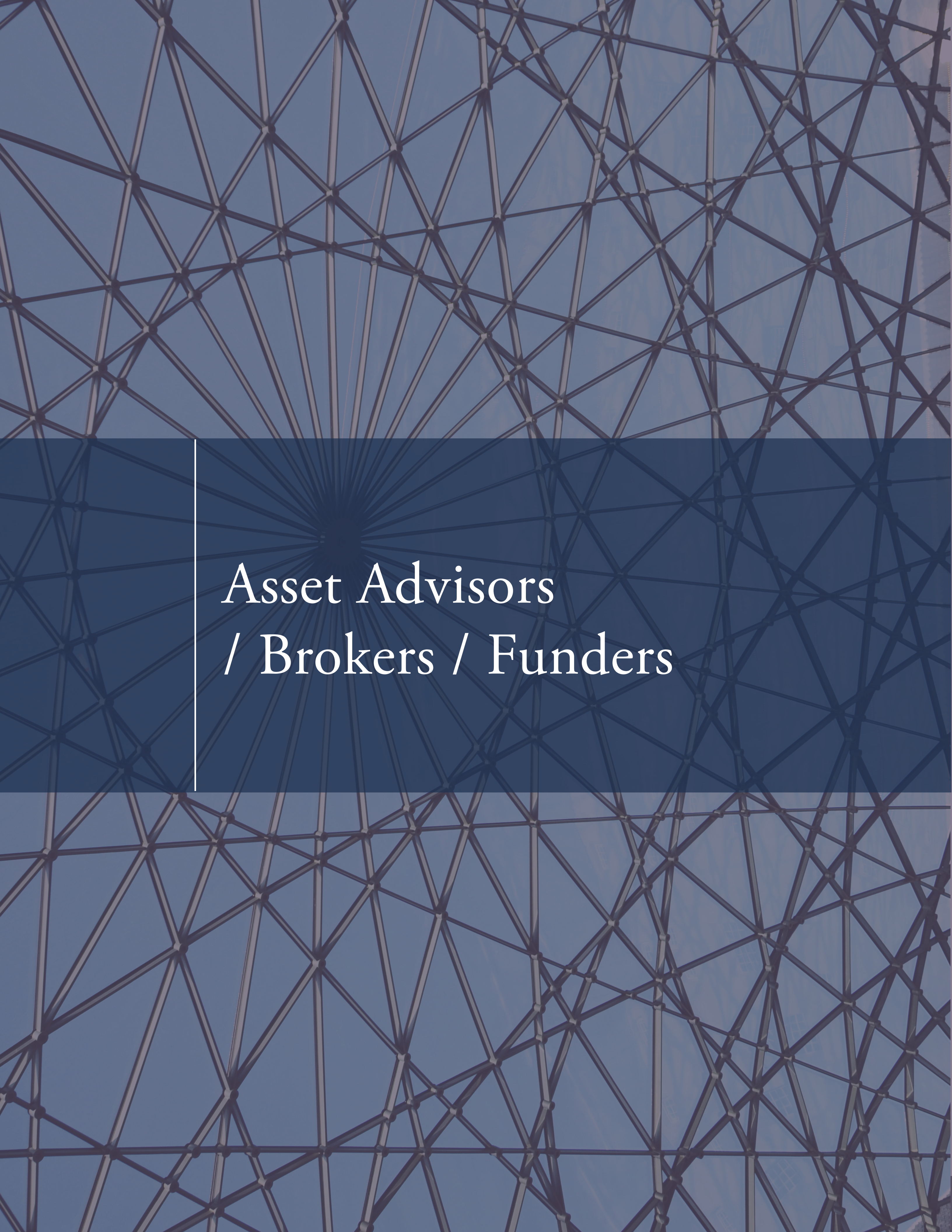
Viewpost Flextime™ Payments

In Q1 of 2016, Viewpost will add the ability for small business owners to pay bills on time even when they're experiencing a cash shortage (slow month, seasonal sales fluctuation, etc.). Where in the past a cash-starved business may need to risk their client relationship by sitting on the bill for 40, 50 or 60 days, now they can use a Flextime payment to have their supplier's bill paid on time through Viewpost without paying from their bank account for 10, 20, or 30 days.

Working Capital



viewpost



Asset Advisors / Brokers / Funders


Live accelerated.
To seize opportunities and accelerate the growth of your business, you need a banking partner to help optimise your working capital and mitigate risks in your supply chain.
As a leading provider of supply chain and receivable financing, DBS offers bespoke solutions that can monetise your receivables, unlock liquidity, lower suppliers' costs, and offer protection from buyers' credit risk.
Partner with DBS, the Best Supplier Finance Bank in Asia today, and gain more than a competitive edge. Get more out of life and business.
GLOBAL FINANCE
Best Supplier Finance Provider in Asia 2016
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Asia's Safest, Asia's Best
Safest Bank, Asia 2009–2015, Global Finance
Asian Bank of the Year 2015, IFR Asia
Best Asia Commercial Bank 2015, FinanceAsia
Living, Breathing Asia
DBS

SEABURY

TRADE FINANCE

Trade Finance offers investors the potential for a source of uncorrelated return, with low volatility and attractive spreads and protection against high interest rates. It is also an asset class that requires specialized expertise including intensive legal and operational due diligence, a deep understanding of risk and how to mitigate it, and relationships with the largest global supply chains for trade origination.

As the worldwide demand for trade continues to grow, a diversified pool of trade transactions will consistently deliver the "pure alpha" that investors seek. This lending activity is supported by export credit agencies as well as multilateral agencies.

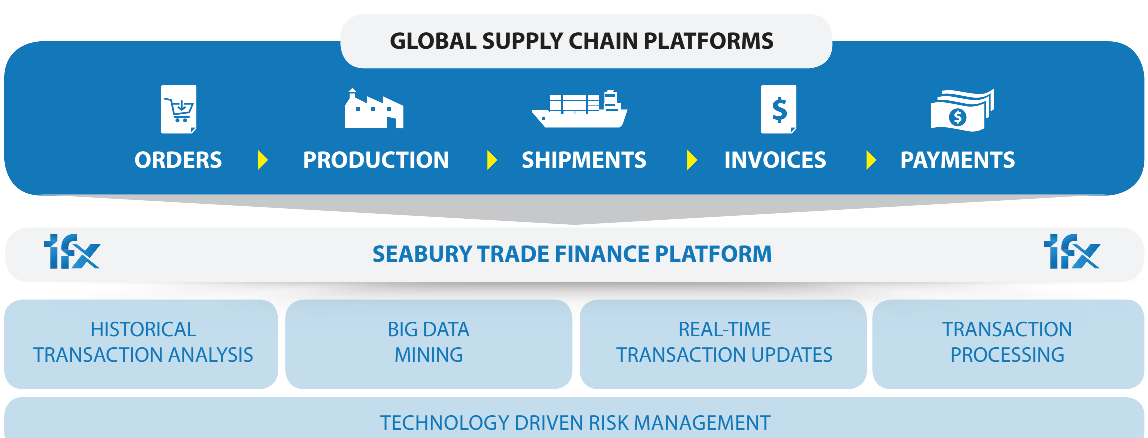
Facilitating Investment in Global Trade

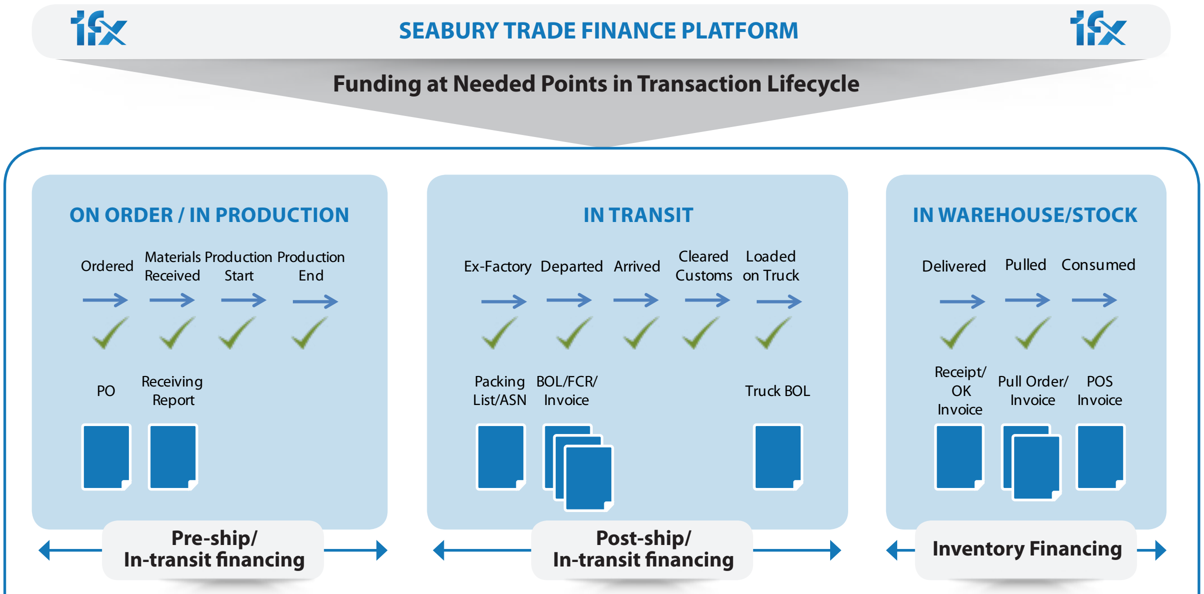
Seabury TFX provides liquidity to the financial supply chain by bringing easy to access financing to the supply chain participants

A trade finance company organized under Seabury Group, Seabury TFX ("STFX") is a **hub for investors** who are looking to invest in trade finance related securities, specifically structured trade finance, project finance or export finance.

STFX **partners with existing physical supply chain trade participants** with **reliable** and **significant historic data performance for analyses** to allow portfolios of trade receivables for structured secure loan terms.

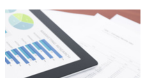
STFX **credit analysis model** utilizes **current and historic credit data**, proven **trade settlement technology**, and **established legal framework** to lower and mitigate risks to benefit all participants.





By providing access to institutional funds, STFX lowers overall borrowing cost for suppliers – thereby bettering the cost of goods for supply chain participants

Unique Capabilities within Seabury TFX



Financial expertise to structure and originate the right solutions to match the needs of trading partners

Supply chain expertise to understand the needs and challenges faced by trading partners along the entire supply chain

Technology expertise to implement and service the large volume of unique transactions with multiple program parameters

Combining Technology and Finance for Automation

Seabury TFX platform provides expertise and technology to perform collateral management, funding control and report exceptions

Supply Chain Network Partners

- Integration with corporate EDI and supply chain network providers

Connect buyer and supplier information

- Trade history
- Flow and volume of business

Technology Supported Financings

- Tracking of payables and/or receivables transaction lifecycles

Structured Finance

- Credit Insurance enhancement
- Non-Bank funders

Contact:
Hong Kong
Robert Lin
Tel: +852 2824 8440
rlin@seaburytfx.com

SEABURY

seaburytfx.com

TRADE FINANCE

for information, contact:

David Gustin

President,
Global Business Intelligence
and CoFounder,
Trade Financing Matters

> David Gustin has deep expertise in working with Corporates and Banks around Supply Chain, Procurement and Trade finance issues. He has an established network of Corporates in Procurement, Supply Chain, Logistics, Treasury, and Shared Service Centers and Banks in Treasury, Trade and Global Transaction Banking.

> Twenty plus year background in trade finance and trade credit (eg. Payable and receivable finance) and trade instruments (eg. Standbys, Letters of Credit, guarantees, etc.).

> Cofounder and Editor, Trade Financing Matters

> Publisher of the Global Supply Chain Finance guide 2007, 2009, 2012, 2014)

> Over 2,000 followers on Linkedin's Supply Chain Finance Group

> Authored over 50 research reports on Trade Credit related issues

phone: 604 924 0851
fax: 604 904 0087
info@globalbanking.com
www.globalbanking.com