

The New Face of Trade Finance

The Rise of Supply Chain Finance (SCF)



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Toolbox and Terminology

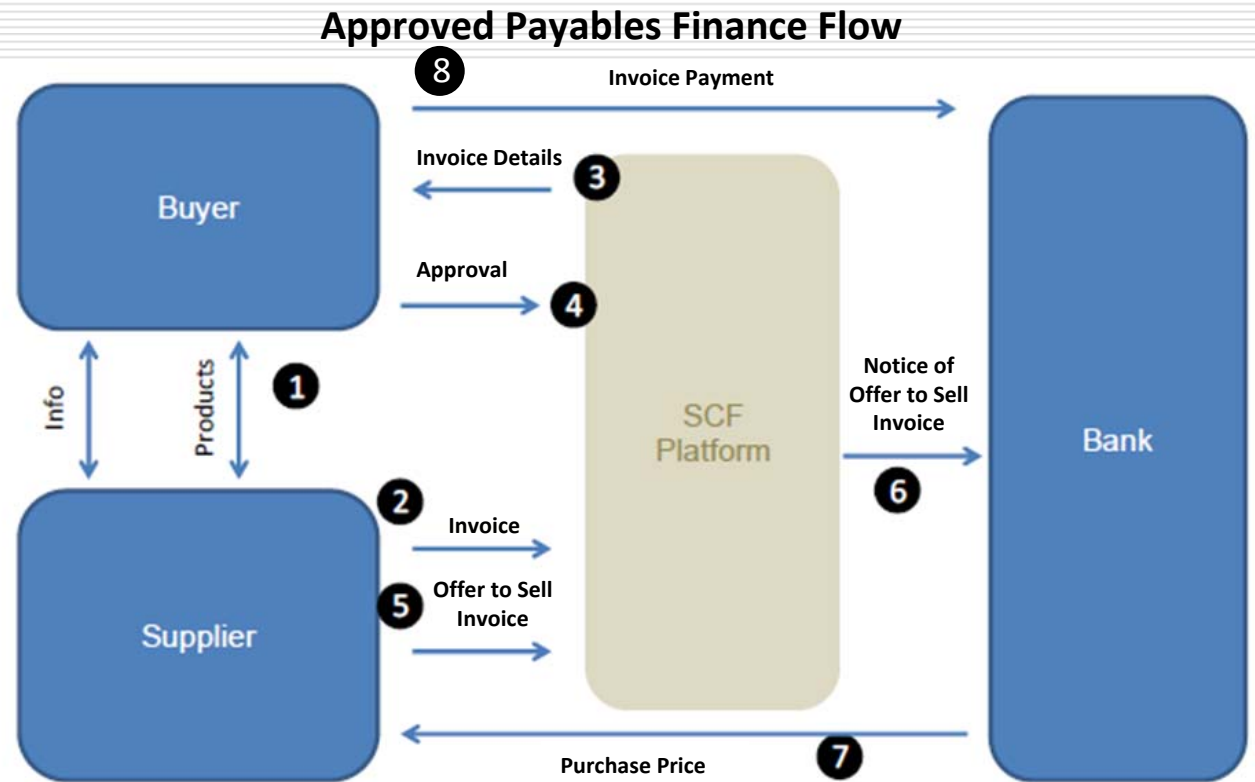
- Transaction vs. enterprise financing

- Transaction financing structures:
 - Inventory-centric - purchase order funding and warehouse finance
 - Supplier-centric - receivables purchase facilities, invoice discounting and factoring
 - Buyer-centric - approved-payables finance and dynamic discounting

- The different meanings of SCF

SCF (Approved Payables Finance) in a Nutshell

Program provider purchases, on a non-recourse basis, supplier invoices that have been approved by the buyer, at a discount that reflects the buyer's credit rating.



Source: Euro Banking Association, Supply Chain Finance, European Market Guide, May 2013

SCF vs. Receivables Purchase Programs

SUPPLY CHAIN FINANCE

- Marketed to buyers
- Approved invoices
- Limited/no recourse to supplier
- Priced on buyer's credit
- Discount does not reflect dilution
- On-boarding costs high in relation to volume

RECEIVABLES PURCHASE

- Marketed to suppliers
- All invoices
- Limited recourse to supplier
- Priced on supplier's credit
- Discount may reflect dilution and payment timing
- On-boarding costs much lower in relation to volume

SCF Benefits

■ To the Buyer:

- Extend DPO at little or no cost
- Fund working capital with trade debt
- Keep supply chain healthy and loyal

■ To the Supplier:

- Reduce DSO
- Take advantage of buyer's low cost of funds

■ To the Program Provider:

- Intermediate in the supply chain
- Leverage other financial services

Typical SCF Documentation

- **Agreements with buyers**
 - Disbursement account and paying agency
 - Designate eligible suppliers
 - Mechanics and timing of approval and payment

- **Agreements with suppliers**
 - Mechanics of offer and acceptance
 - Pricing
 - Limits on recourse to supplier

- **Agreements with Participants/Liquidity Providers**
 - Financial terms
 - Securities representations
 - Responsibility for handling disputes

Common Legal Issues

- Perfection and priority
- True sale
- Recourse events
- Intercreditor issues
- Discharge risk
- Commingling risk

The Future of SCF

- Expected annual growth of 30-40% through 2015, 20-30% through 2020 and 10% after that.

- To handle that kind of growth, SCF programs have to deal with several significant challenges:
 - The limited number of creditworthy buyers
 - The high cost of on-boarding suppliers
 - The uncertain treatment of receivables assignments and lien priorities under foreign laws

For further questions, please contact:



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