FCI

Facilitating Open Account – Receivables Finance

NEWSLETTER / MAY 2017

CONNECT. EDUCATE. INFLUENCE.

IN-SIGHT

Connecting and Supporting the Open Account Receivables Finance Industry Worldwide

Contents:

GWENDOLINE DE VIRON
Head of Marketing and Communication

Executive Summary

Hello everyone!

It's my great pleasure to introduce our latest Newsletter which I hope you will agree is probably our biggest and best ever!

Let's take a look at what's in store: We start with the FCI *Chairman Cagatay Baydar's welcome*, introducing and showcasing the Lima Conference which is coming now very soon.

Supervision and regulation in the financial services industry is becoming ever more important; *Compliance* is the hot topic and key to organisations' operational viability and success. Erik Timmermans explains FCI's latest initiatives.

Steven van der Hooft updates us on developments in the *FCI Supply Chain Finance Project* and encourages Members to become involved in the ongoing discussion.

Secretary General Peter Mulroy tells us about the symbiotic relationship between Factoring and Credit Insurance

One of FCI's key pillars is to Connect; read how *Afreximbank held with FCI a joint promotion conference in Douala*, whilst Lee Kheng Leong updates us on an event held in conjunction with the Indonesia Financial Services Association *(APPI) in Jakarta*.

The *CEE Chapter* held its annual conference in Warsaw; Simon Peterman reports on how Poland's burgeoning Factoring business has become one of the key European markets. But as Simon explains, no one is resting on their laurels…

At FCI, we've been delighted to see the recruitment of a wide range of *new members* and it's great to introduce them to you here. Find out about Dun & Bradstreet, Factoring and Supply Chain, Hitachi, MPS, Philip Sidney, TDB…

Another key pillar for FCI is Education; read how *FCI Education* is contributing to the emergence of *Egypt Factors* as a driving force in this developing African market. John Brehcist talks with Ghada Shams, Head of International Factoring and Doaa Hafez, Head of Technical Functions.

And keeping to the theme, Vivid Liu updates us on the *critical impact of FCI education programmes in China*.

Meanwhile, Aysen Cetintas highlights some of the *new and upcoming education offerings* and events. She invites you to attend the Legal Seminar on GRIF in Miami in September, to sign up for the new FCI Foundation Course on International Factoring, as well as reports on Operational Workshops on International Factoring and edifactoring.com in Taipei and Shanghai.

After all that, it's no surprise to learn that FCI is building its educational capacity; let us introduce you to our *new FCI Education Officer*, Mr. Spyros Tsolis.

The third FCI pillar is Influence; hear Alberto Wyderka on *building the Mexican market*, Rodrigo Zamora on *Supply Chain Finance* and Tushar Buch on the opportunities and challenges of the *Indian market*.

Renaud Abonnel gives his views on *how FCI can best work with mature market factors* and Secretary General Peter Mulroy updates us on the status and developments in the *Chinese Market.*

Harry Biletta gives us his annual review of the *factoring industry turnover statistics* and John Brehcist closes with an update on a *Supply Chain Finance Community Forum* event in Singapore.

It's a bumper issue; please enjoy!

Gwendoline

Welcome from Cagatay Baydar

Chairman FCI

ÇAGATAY BAYDAR
Chairman of FCI

Dear Friends,

As we approach our 49th Annual Meeting in Lima, Peru, next month, you can say we are at an inflexion point in our history. Since the financial crisis, we have witnessed the largest expansion of our Industry, a doubling in size in volume generating EUR 2.4 trillion. However, the industry grew in 2016, although at a much slower pace. *Elections for the new Executive Committee* will be held in Lima next month, and this is a consequential time for the development of a new strategy and focus for the Chain. Hence, you will be hearing from the list of members running over the course of the next four weeks and of course during the Annual Meeting in Lima.

Based on the feedback from our members, we will present two major projects during the Annual Meeting, in line with our new Mission and Vision Statements approved in Cape Town last year. The first project, the *Supply Chain Finance* (SCF) proposal will expand our core offering to incorporate reverse factoring, confirming, and payables finance to our suite of services in order to assist our members' foreign supplier on-boarding process and to offer members a platform to develop both domestic and international payable programs. This will offer our members additional means to generate income and support their clients' cross border open account trade finance needs. This will complete the cycle to provide our Industry with various solutions within the Supply Chain. The second project is to establish a more vigorous *compliance oversight around the organization*, to formulate both internal and external compliance policies. More information will be made available in Lima and will be circulated to the members, but ultimately it is to ensure a compliant based association and to ensure FCI on-boards sound and well-reputed companies.

On Monday 12 June 2017, there will be a presentation by the SCF Committee, and additional materials will be made available to you during the Lima Annual Meeting to support your decision regarding the SCF Committee proposal. Included in the report will be information on the pilot implementation and what is in it for you as our members. There will also be a short presentation as well on the compliance project. In the afternoon, during the roundtable discussions, members will also have a chance to hear first-hand from the SCF Committee members on the benefits of the project and selected representatives from the adhoc committee on Compliance, who will present their findings.

On Tuesday 13 June, members will have the chance to hear *regional reports* on how Receivables Finance (RF) is developing around the world. Included will be senior executives from the regional development banks. Thereafter you will hear from three different panels. The first will be on the important work by the Legal Committee specifically in the area of the *development of a model factoring law and the work of the UNCITRAL*. The second one will cope with *credit insurance*, its recent trends and its applicability as a risk mitigation tool in factoring and on its implication in terms of capital optimization. The last panel will be about the *evolution of FINTECHS* and the deployment of distributed ledger technology like blockchain and its impact on the RF industry.

We are excited about the future, and this Annual Meeting in Lima will help set the stage for what I hope to be an exciting and prosperous time for our Chain!

Cagatay Baydar

ERIK TIMMERMANS
Deputy Secretary General

49th Annual Meeting: Compliance introduction

During the Annual Meeting in Lima, the brand new *FCI Compliance framework* will be discussed and rolled out.

Factoring and more generally Open Account Receivables Financing have been identified by regulatory bodies (EU Directive and FATF) as areas with a *high risk for Trade Based Money Laundering*. Even if FCI as an association is unlikely to be directly in the scope of Anti Money Laundering and Terrorist Finance, most of our members are. In Cape Town last year, Compliance in FCI was therefore introduced as an important new project and an ad-hoc Compliance Committee was installed. A vast majority of members agreed with the proposed scope: the Committee should develop an internal Compliance framework for FCI as an association and should make recommendations for an improved framework for Compliance in the correspondent factoring system.

FCI's Ad Hoc Compliance Committee is composed of the following members:

- Peter Ball (HSBC, UK)
- Gert Demmink (Philip Sidney, Netherlands)
- Mary Farley (CIT, USA)
- Niko Kluyver (Factorplus, Curacao)
- Audrey Vedovelli (BNP Paribas Factor, France)
- Stephan Vitzthum (Targo, Germany)
- The FCI Secretariat is represented by Peter Mulroy, Harry Biletta and Erik Timmermans who is Project Coordinator.

The Committee has prepared a number of documents for discussion in Lima.

1. Internal FCI Framework

The FCI Compliance Charter: this document describes Compliance *roles and responsibilities* in FCI. Ultimate responsibility lies with the ExCom, but the ad-hoc Compliance Committee is responsible for the *development of standards* and for *advice and education* in the field of Compliance.

FCI Core Values: this document explicitly describes the values FCI stands for and is to be considered as a Code of Conduct for everyone involved in FCI: staff, consultants, committee members and members in general. Core Values are Honesty, Prudence and Responsibility.

FCI's Speak Up Policy: this document describes the policy and the reporting channels to use for disclosure in case someone is confronted with conduct that goes against FCI's Core Values.

2. Correspondent Factor KYC/AML framework

This is probably the most important piece of work of the Compliance Committee. It contains the tangible recommendations (approved by ExCom) for *the collection of KYC information by FCI*. The Committee recommends the straight adoption of the Wolfsberg AML Questionnaire for all FCI Members who are active on the two-factor system. Secondly, a specific FCI questionnaire has been developed to collect information that is needed for a correspondent factor in its analysis of counterparties. The implementation of this new KYC procedure will improve the Compliance framework of the two-factor system and will facilitate the work that has to be done by each member before entering into a relationship with an export or import factor.

3. Members' Onboarding Procedure

The Committee has also developed a written procedure on different *steps that need to be taken and information to be gathered* when FCI receives an application for membership. Different procedures have been proposed for Associate Members, Affiliate Members and Sponsoring Members.

All documents will be sent out to participants before the Annual Meeting and an introductory presentation will be made by Erik Timmermans and Gert Demmink during the Monday morning session. We look forward to an interesting discussion with the members in Lima!

More information on FCI Annual Meeting: https://fci.nl/en/event/annual-meeting-2017-lima-peru/3678

STEVEN VAN DER HOOFT
CEO Capital Chains

49th Annual Meeting: Supply Chain Finance

It has been only 7 months since we last met in Cape Town for the FCI Annual Meeting, where we discussed the progress of the Supply Chain Finance Committee in finding the best partner for FCI in the field of approved payables finance. A lot has happened since then, and not just at the FCI SCF Committee, but in the Industry as a whole with new players entering the market, and other solution providers completely upgrading their offering to better meet the demands of the market.

Given that the market is moving rapidly at the moment, it is good to learn about the research done by the Supply Chain Finance Community, which reveals that *within Europe, 65% of companies with a revenue over EUR 1 billion are now actively offering Supply Chain Finance*. However, in that same research, it was found that *only 10% of companies with a revenue below 1 billion euros, offer Supply Chain Finance to their suppliers*. The focus of SCF solution providers/funders has long been in the large corporate space, mainly for the same reasons as to why large corporates focus their programs on their largest suppliers first: on-boarding effort per entity is roughly the same, but with larger volumes per entity the benefits of the program scale easy.

What this means however, is that the SMEs and mid-corporate clients are currently operating in a potential finance vacuum. They are being served through existing products and services, but have not yet been able to benefit from the developments in Supply Chain Finance and corresponding potential benefits on the lower cost aspect of funding. This is the driving force behind the project at FCI as we are strong believers that the extensive network of FCI should be able to offer adequate solutions to these (potential) clients at competitive rates. And it is not just the interest rate arbitrage driving the developments of Supply Chain Finance. For corporates, it also allows to streamline their P2P process, to reduce the number of inquiries from their suppliers, to allow for better cash forecasting by their suppliers and ultimately leading to a stronger and more resilient supply chain guaranteeing delivery reliability within that supply chain.

The work done by the Supply Chain Finance Committee in this respect is really a *first step to capture the market potential for each individual FCI member*. Selecting a platform that allows for 3-corner and cross border 4-corner solutions is not the same as implementing and consequently selling it in the global market. During the Annual Meeting in Lima, our progress with the selection of a preferred SCF solution provider will be shared with the members and additional information on the functionality will be provided. We are convinced that the project will get its approval from the Council, and hence the next step would be to create a pilot group of members that will implement the FCI SCF platform before the end of the year. It is of crucial importance though, that the individual FCI members (you!) start thinking about their own offerings and business case now, as this will be an important topic during the group discussions on Monday 12 June.

We are looking forward to having in-depth discussions with you and would encourage you to engage with us before, during, and after the Annual Meeting in Lima, sharing your questions, concerns, challenges and hopefully also ideas and best practices! The ideal place to come together and share your feedback is on the closed (meaning FCI members only) LinkedIn group called "FCI Supply Chain Finance Project", but you can also reach out to the individual members of the SCF Committee.

The SCF Committee

PETER MULROY
Secretary General

49th Annual Meeting:

The Symbiotic Relationship between Factoring and Credit Insurance

The credit insurance (CI) industry has for years played an important role in the offering of factoring services around the world. Since WWII, Europe has led this relationship, having the highest percentage of credit insured exports in the world. However, many markets have been catching up, and indirectly, so has the use of credit insurance to back factoring arrangements. CI is used in all kinds of receivables finance backed deals: invoice discounting/debtor finance arrangements, receivables risk syndications, recourse factoring, non-recourse and reverse factoring/confirmed payables arrangements, and other receivables purchase programs. Last year, *FCI led the initiative to reach out to the two largest CI associations*, the *Berne Union*, which focuses more on the public ECA market, and *ICISA*, which focuses more on the private credit insurance market. The executive management of our three organizations met in Amsterdam last September 2016 and again in London in March 2017 to discuss the most pressing issues of the day and to talk about how we can work more closely together.

We first provided the results of a short survey FCI conducted last February amongst our members concerning the use/importance of CI as a risk mitigation tool. A number of interesting but not too surprising facts came of out this study:

- 85% of the respondents stated they use CI to cover the risk of debtor non-payment
- 75% have their own master policy and 60% state their clients assign their policies to them
- Over 80% state they require whole turnover coverage by debtor
- 50% state they offer some form of reverse factoring program to their clients
- Those offering reverse factoring, 27% state they use CI to offset the concentrated debtor risk
- And nearly 70% would enrol students in an e-learning course on credit insurance

We discussed the possibility to organize *a joint advocacy working group, to support the creation of an eligible credit insurance contract that would be considered CRR compliant as a credit risk mitigation technique under the Basel rules*. One approach discussed would involve lobbying regulators to obtain more favourable treatment with respect to capital requirements for factoring transactions covered by credit insurance. This could be pursued on the one hand but it was also suggested to create a joint position paper that explains the many benefits of CI and the role that our industries play in supporting SMEs, the real engine of economic growth and job creation. We realize that obtaining capital relief would be a long-term initiative and that past experience suggests regulators would require a significant amount of statistical data over a period of 5-7 years. Both organizations will address these concerns with their members and they will come back to us shortly on the direction their members are willing to take in terms of supporting the industry in this area.

85% OF THE RESPONDENTS STATED THEY USE CI TO COVER THE RISK OF DEBTOR NON-PAYMENT

The Berne Union also shared their positive experience working along a similar path relating to Export Credit Agency (ECA) backed financing. They had worked closely together with the ICC Banking Commission and European Banking Federation, in respect of the leverage ratio applicable to ECA-backed export credits. This action had the successful outcome of an amended CRR proposal from the EC (issued in November 2016) which explicitly recognises ECA-covered loans as a separate asset class under European regulation, providing for their exclusion from the exposure measure used to calculate an institution's leverage ratio, and thereby lowering capital requirements arising applicable to these transactions. It was emphasised that the success of this advocacy was largely as a result of the detailed data the ICC were able to present to regulators demonstrating the low-risk nature and LGD rates of these transactions, by collecting loss data from the industry, over the course of many years and recording this in their trade register. I believe FCI needs to develop similar loss data on a global scale together with the ICC Banking Commission to achieve a similar result. We are in discussions with the ICC Banking Commission and both parties have agreed to work together to support the industry to achieve a similar outcome for the factoring industry.

During our meeting, we also discussed the idea to publish a *combined statistical report on the volume of both factoring and credit insurance*, as part of a comprehensive study on all open account receivables finance products. We agreed to exchange our respective annual review/statistical studies and see if we can combine parts of these to create an annual joint message on the state of the open account receivables finance sector. We also discussed the *importance of education*, and the survey results from our members that there is a need to have some training on the benefits and risks of developing a CI policy internally, and the representatives from the CI industry also requested the same, to develop factoring courses for the CI professionals. We also discussed the idea of developing joint webinars that allow for interaction with students.

A panel on credit insurance has been assembled to present in Lima, Peru during the FCI Annual Meeting on Tuesday 13 June to update the members on these and other initiatives.

More information on FCI Annual Meeting: https://fci.nl/en/event/annual-meeting-2017-lima-peru/3678

Afreximbank and FCI hold a successful Promotion Conference in Douala, Cameroon 30-31 March 2017

"Factoring services can bridge the gap in the financing of small and medium-sized enterprises (SMEs) in Africa by addressing the challenges the SMEs face in accessing funding for business activities", according to Kanayo Awani, Managing Director of the Intra-African Trade Initiative of the African Export-Import Bank (Afreximbank) and Chairperson of FCI's Africa Chapter.

Ms. Awani, who was speaking on 30 March during the opening of a two-day factoring promotion seminar organised by Afreximbank and FCI, said that the *effectiveness and potential of factoring services to support SMEs became even higher during periods of financial distress* and that, because of its unique features, factoring was well-suited for facilitating financial inclusion of SMEs.

Cameroon is among African countries where new factors are emerging and its factoring volumes reached about €40 million in 2016.

In addition to providing networking opportunities for international and sub-regional factoring practitioners, the seminar introduced participants to the *principles, mechanics, risks and benefits of factoring, using case studies and success stories*. The Afreximbank Model Law on Factoring was also explained to participants, highlighting the ways in which it could be adapted to suit different local regulatory environments.

FCI Chairman Çagatay Baydar welcomed the participants and shared the success story of Factoring in Turkey. FCI Secretary General Peter Mulroy and FCI Deputy Secretary General Erik Timmermans introduced the audience to the World of Factoring, Cross-Border Factoring and FCI's new Supply Chain Finance initiative. On the second day, they organized a role play, during which the audience could better understand how international factoring works.

More than 150 finance professionals, legal practitioners, corporates and SMEs from Cameroon, the Central Africa region and beyond attended the event.

The seminar follows similar factoring promotion and capacity-building events organised by Afreximbank in cooperation with FCI in Egypt, Ghana, Nigeria, Tanzania, Kenya, Zambia and Mauritius.

LEE KHENG LEONG
Asian Chapter Director

Workshop on Factoring, Jakarta, 6 April

Following the success of the factoring workshop in Cambodia, we organized another workshop in Jakarta on 6 April in conjunction with Peter Mulroy's visit to Asia. This workshop was organized jointly with Indonesia Financial Services Association (APPI) and was sponsored by KAPPS Consultancy. There were 80 participants who are mainly from multi-finance companies and banks. Unlike banks, *multi-finance companies can undertake factoring without the need to get approval from the financial services authority*.

The topics covered during this half-day workshop include introduction to factoring, risks management, client and custom selection, marketing of factoring and the importance of the factoring system.

Apart from attracting new members, the other objective is to instil the importance of management and control of risks in factoring. We hope that with this workshop, Indonesian factoring companies will be stronger after the Asian financial crisis, when the factors were wiped out completely in Indonesia.

The conference has also attracted keen interest from the participants to join FCI, as well as enrolling in our education courses.

"Very good workshop to understand challenges and solutions in factoring business from experts from all around the world. Hopefully FCI conducts this once a year so we can learn and network with other factoring industry players." Andreas Novio Tjendro CIMB, Indonesia

SIMON PETERMAN
CEE Chapter Chairman

CEE Chapters Yearly Conference in Warsaw, Poland, 6-7 April

On 6 and 7 April the CEE Chapter held its traditional yearly conference. This year the obvious choice for organizing the conference was Warsaw, as Poland, in 2016, has overtaken Turkey and Russia as the biggest country in the CEE region by volume of purchased invoices.

Poland has in the last years been able to develop a very mature factoring market and has also been able to promote its factoring industry by organizing regular yearly conferences, under the umbrella of the Polish Factoring Association, publishing several books on factoring and attracting local IT companies to develop tools to support factoring companies with software solutions. But it has been lagging behind in developing a stronger two-factor market, with few exceptions of companies that have been able to break through, as is the case of last year's FCI Award winning member for Best Service Quality Improvement as Export Factor.

For these reasons, we have decided to focus this year's event on *promoting the two-factor business* and building up interest in *the ways FCI can support its members* and non-members in developing this growing business opportunity as CEE countries develop into more international economies.

The first day of the event took on very local topics with a presentation on the local economy and the opportunities and challenges of the Polish and CEE markets, presented by Hanna Kobus of Atradius, Poland followed by a presentation on the SCF and reverse factoring by its FCI Committee Chairman, Josep Selles. To promote the two-factor business, the panel from the diverse sub-regions of CEE, coming from Turkey, Russia, Poland and Belarus, tried to highlight the opportunities that FCI offers in connecting diverse markets. As tradition holds, we finished the day with a presentation from a sponsor for the evening event. This year it was HPD Software, with a presentation on Technical Innovations for Working Capital Finance.

On the second day, FCI topics took the center stage with the opening presentation delivered by Euler Hermes on Cooperation Beyond Risk Mitigation between Credit Insurances and Factors. The EUF legal study, statistics and advocacy were presented by local ExCom members and Erik Timmermans and the presentation of the President of the Polish Factoring Association. The last panel was delivered by FCI Award winning members from Poland, Germany and Turkey to offer guidance and share experiences on how to succeed in developing the two-factor business or just to start it up. The panelists gave great examples and testimonials on how they started their careers and later businesses as International Managers in diverse factoring companies and banks, which, we hope, were able to stimulate ideas with other potential prospects for developing two-factor business.

This years' conference was attended by more than 50 participants, most of them FCI members, but very importantly for our region, also attracting prospective members and often regulators of our Industry.

As for next year, we are looking at holding the Conference during the second part of 2018 in *Istanbul*. As the interest in the factoring industry grows in the CEE region, we have been approached by members, prospects and even EBRD to deliver similar promotion events with their cooperation. Certain CEE countries and regions show a great interest in *developing factoring products and with it, supporting their economies in opening up to international trade and FCI* and its CEE Chapter can and should play an important role in delivering these tools.

"As a credit insurer, I found it a very valuable event to learn about the issues and opportunities facing the factoring industry as we share many of the same " Madeleine Best, EULER HERMES, UK

"Thank you Mr. Erik Timmermans and Mr. Simon PETERMAN 8 It was my great pleasure attending Regional Conference on Factoring in Central East Europe in Warsaw ! Relationships with partners from FCI makes the business better and successful !" Uladzimir FIODARAU, BSB Bank, Belarus

NEW MEMBERS

One of the key reasons we exist is to connect people in the Industry – creating opportunities for business, networking, creating relationships that last.

Since the last newsletter, the FCI family grew as we added the following Members:

When businesses around the world want to understand their most valuable relationships, they turn to Dun & Bradstreet as a trusted source—and they have for 175 years. Their data and analytics bring truth & meaning to its customers' relationship-related decisions, whether these relationships involve customers, prospects, suppliers, and vendors across your systems, regions and departments.

With rich proprietary data assets and a world-class team of data scientists, the company illuminates the path to the best relationships with unique, global analytics capabilities. Dun & Bradstreet's global data—from over 190 countries—comprises the world's largest commercial database of more than 265 million commercial entities (and their hierarchies) to cover your business universe. They draw intelligence from over 30,000 data sources—and leverage capabilities of global data collection to help its clients better manage capital and risk.

But data alone is not enough. Navigating risk is dependent on how you use insights and information to deepen and recognize the opportunities hidden in your relationships with your customers, prospects, suppliers, and partners. Dun & Bradstreet understands especially the challenges that firms face today when it comes to compliance around global regulations related to know-your-customer (KYC) and anti-money laundering (AML), which is why Dun & Bradstreet helps provide the clients with an enterprise-wide common view of entities and their legal relationships—so they can understand the linkages among who you're doing business with today and who you should consider doing business with tomorrow.

Nearly ninety percent of the Fortune 500™, and companies of every size worldwide rely on Dun & Bradstreet for the data, analytics and advanced expertise to create competitive, winning business strategies to manage capital and risk.

FSC is a new player in Receivables Finance sub-sector of Nigerian Financial services industry. FSC is also a member of PanAfrican Capital Limited, an Investment Banking Group and a key player in the Nigerian capital market. It is headquartered in Lagos, Nigeria's commercial capital.

FSC is positioned to offer invoice discounting, factoring & reverse factoring services in the Nigerian market to serve the nation's diverse economy and its under-served service sector accounting for 50% of its GDP. FSC is opened to 2-Factor business from members across the FCI's network seeking for opportunities in the Nigerian market.

FSC's vision consists in being a significant growth driver, facilitating Open Account in Africa's most populous and vibrant economy; while expanding its Trade Solutions and Receivables Finance offerings to SMEs, Local Industries and Multi-nationals, says the company's CEO, Mr. Lanre Bakare.

Hitachi Capital Invoice Finance: Offering cash flow solutions to UK businesses

Hitachi Capital Invoice Finance, a subsidiary of Hitachi Capital (UK) PLC, allows businesses to release cash from unpaid invoices within 24 hours of them being raised, supporting cash flow management and powering UK businesses to meet their growth ambitions. In 2016 alone Hitachi Capital Invoice Finance lent over GBP 800 million to over 650 companies and is one of the fastest growing invoice finance providers over the last five years.

With a wide range of award winning products Hitachi Capital Invoice Finance is able to offer financial solutions that match the economic constraints faced by businesses today. With competitive rates on all products, which also come with award winning service, invoice finance from Hitachi Capital Invoice Finance is an alternative source of funding that is currently helping to improve the health of many businesses cash flows nationwide.

Hitachi is now expanding the capability to develop international markets and looks forward to working with partners within the FCI organisation both within the traditional factoring market but also in the developing supply chain finance area.

https://www.hitachicapital.co.uk/invoice-finance

Based in Italy, MPS Leasing & Factoring, Banca per i Servizi Finanziari alle Imprese Spa is the Montepaschi Group's centre of excellence for specialised lending.

Since 2001, MPS Leasing & Factoring has been providing an integrated offer of Leasing & Factoring products. It has acquired solid experience from more than 20 years of independent activity in all key specialised lending products and from the synergies created with Banca MPS, which has provided tradition and experience, its technical and managerial skills as well as an established customer base.

Technology, expertise and professionalism are considered by MPS Leasing & Factoring to be crucial factors in carrying out its mission: offering integrated leasing and factoring packages to fully support the financing needs of businesses.

Though MPS Leasing & Factoring and Banca Mps share common values as well as the ability to develop products and services tailored to the specific needs of customers, MPS Leasing & Factoring has been able to develop its own experience and its own operational rules which have led it to achieve its current position in the market.

The Montepaschi Group, to which MPS Leasing & Factoring belongs, operates across the country and in all of the major international markets, with operations ranging from traditional banking to private banking, from investment banking to innovative business financing (project financing, merchant banking and financial advisory).

As MPS Leasing & Factoring was a Member of FCI for many years before, we would like to welcome MPS bank

Established nearly a decade ago, Philip Sidney is a multi-disciplinary consulting and training firm, specializing in financial crime prevention and helping clients fulfill their regulatory obligations. Our firm based in Amsterdam serves clients in many sectors including Financial Institutions, Aerospace & Defense, Oil & Gas / Offshore, Transport and Logistics, Manufacturing and Research & Development.

At Philip Sidney, we offer a tailor-made service to clients' Customer and Transaction Due Diligence endeavours and effective monitoring of customers activity in accordance with applicable laws and regulations. We have a team of experts who can assist clients in ensuring that their monitoring activities are performed according to the national, EU and US regulatory requirements. Most importantly, our professionals bring experience to the compliance arena as former regulators or in regulatory-related roles.

Other compliance regulatory risk management services we deliver to our clients include:

- Sanctions Regulations – With stricter sanctions imposed by both United States and European Union on high risk countries, our team understands complex international trade regulations and we are vastly experienced through our previous works at major European banks to help businesses comply with sanction regulations.
- Compliance Functions – We also assist organizations set up a compliance back-office functions, depending on the business nature and extent of the company.
- Export Compliance – Banks active in International Trade and industries that facilitate transactions involving the export or transfer of military or dual-use goods must comply with national and international export regulations. For this purpose, we assist in classification of export goods; determine export license requirement and conduct sanctions screening on its end-user and end-destination.

Our firm also has an Iran-focused desk to help Iranian banks reintegrate into the global banking system. We have a dedicated team which includes a Farsi speaker to support this effort.

Trade and Development Bank (TDB), the leading banking service provider, is the first and foremost commercial bank of Mongolia. TDB offers over 130 types of international standard banking services, including corporate, SME and retail lending, deposits, trade financing, financial consulting remittance, cash management, treasury, foreign exchange and investment banking and acts as the primary lender to the largest corporations in Mongolia as well as foreign corporations and representative offices across all major industrial and commercial sectors, constantly innovating its products and services that are delivered with dynamism and excellence in service and quality.

Leveraging this pre-eminent position and its long-standing customer relationship, TDB has consolidated its leading position in handling international trade finance and remittance, with access to credit lines from major international lenders and correspondent banking relationships with over 150 financial institutions.

TDB, the largest trade finance bank in Mongolia, maintains its leading position in trade related transactions based on its clientele base comprised of the country's major corporations across all business sectors. TDB alone handled around 78.0% of Mongolia's total trade finance related transactions by the end of the previous year. Obtained over USD 658.42 million trade finance lines established by 49 international banks and financial institutions as of December 31, 2016. Furthermore, TDB is the only repeat bond issuer of Mongolia, with successful issuances since 2006.

Ghada Shams & Doaa Hafez
Egypt Factors

FCI EDUCATION IN PRACTICE:

EGYPT FACTORS SHARE EXPERIENCE

Education is an essential element of the FCI philosophy; but what does this mean in reality? How does it translate to action and benefit for real world members with the challenges and opportunities they face?

John Brehcist, FCI Advocacy Director (JB) asks Ghada Shams, Head of International Factoring (GS), and Doaa Hafez, Head of Technical Functions (DH) at Egypt Factors for their thoughts on the role of FCI education in developing the knowledge and ability of their colleagues.

JB: For FCI, Education is one of its three key focus activities; Network, Educate and Influence. How does this fit with Egypt Factors' own philosophy?

DH: *Egypt Factors (EGF), since its incorporation in 2006, is playing a vital role in penetrating the Egyptian market and introducing industry knowhow. The need to provide proper education to EGF team members is not only fundamental to the Company's growth but also in leading the growth of factoring as an important financial instrument in such an emerging market.*

JB: What FCI Education solutions has Egypt Factors used and why did you choose them?

GS: *All the FCI online courses, both the short ones and the diplomas are used by all EGF staff. FCI seminars can also play a good role in improving EGF staff knowledge as well as facilitating communication with colleagues from other members to exchange experiences in our region (and other regions also) to benefit from other experiences and build good relations.*

JB: How do these solutions integrate with your own internal education and people development programmes?

GS: *FCI courses are a main element in our internal education plan, each staff according to his/her department should join the courses/diplomas, subject to how they fit with his/her job description.*

JB: What value has working with FCI Education brought you? For example, do you see FCI Education bringing you a source of competitive advantage for Egypt Factors?

GS: *EGF's main competitive edge in the Egyptian Market is its knowledge and expertise in international factoring which mainly comes from continuous training and exchanging experiences with other FCI members. EGF's main goal is to maintain its premium level in International Factoring, not only in Egypt but also in the whole MENA Region. This is only sustainable with continuous education and through training which is continually updated with all that's new in the Factoring market and so keeping all the staff always as the best international team.*

JB: Would you recommend FCI Education to other factoring companies in developing markets?

DH: *Developing markets are becoming strong users of Trade Finance and the expected growth rates of trade in these regions support the need to promote factoring as a non-standard financial tool. For such growth to be sustainable, it must be supported by comprehensive Education and training for FCI members. Egypt Factors strongly supports expanding the presence of FCI and promoting its Educational activities.*

JB: Are there any other areas where you like FCI Education to deliver? How could it meet your needs even more effectively?

DH: *FCI shall lead the industry development by offering education packages for products such as Supply Chain Finance and to elaborate and inform more on the new technologies such as Blockchain. With Egypt Factors working in an emerging market, offering new product combinations is a must in order to meet new market needs, which in turn necessarily requires proper Education. We strongly believe that FCI Education is approaching a new era of being the "Academy" of open account receivable finance!*

JB: Ghada and Doaa, I think it's worth us noting for our readers that between 2011 and 2017 Egypt Factors enrolled 88 students in the FCI Education programme - 60 students for the career path (Level 1, Level 2, Level 3) courses and 28 students for other courses on specialised topics. It's therefore no surprise to me that Egypt Factors' Service Quality has been rated as "very good" by the correspondents and the Service Score has been in the range 93 to 96% throughout this time.

Thank you both for sharing your very clear and insightful thoughts on the importance of FCI education both for Egypt Factors and for the general development of the Industry. I'm sure your comments will inspire other Members to look more closely at the wide range of FCI offerings available for developing knowledge and capability. More information is available from the website at https://fci.nl/en/education/index

The need to provide proper Education to EGF team members is not only fundamental to the Company's growth but also in leading the growth of factoring as an important financial instrument in such an emerging market.

VIVID LIU
China Construction Bank

OPINION PAPER

FCI EDUCATION IN CHINA

- **Desires for Education**

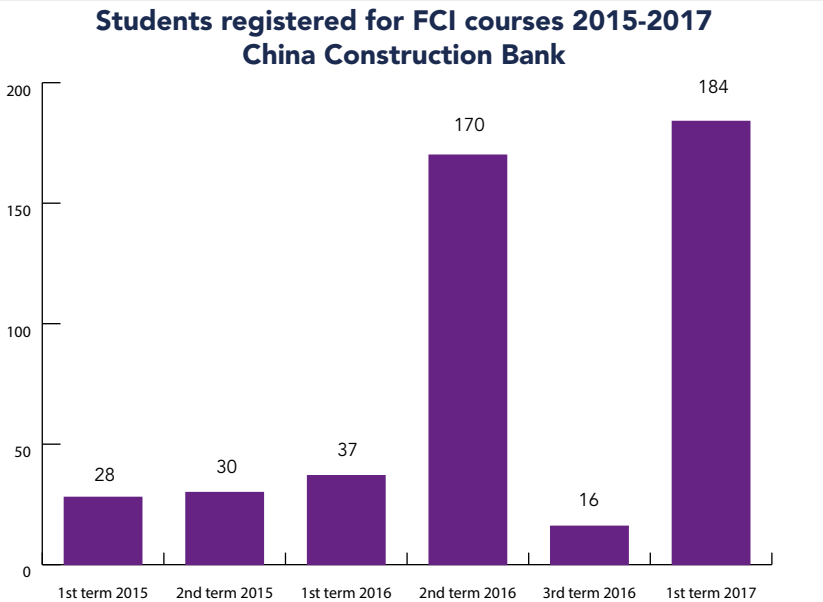
Factoring business is a comprehensive finance service covering various industries. Factoring staff are required to be familiar with international rules as well as knowledge of finance, risk management and marketing. During the past two decades, international two-factor factoring in China maintained the momentum of fast growth and its business volume leaped from EUR 10 billion to EUR 62 billion by the end of 2015, with a growth rate of over 30%. Despite of the fact that the recent growth rate of China's factoring business has slowed down due to a relatively moderate domestic economic development, China is still the largest export factor and the second import factor in terms of business volume, accounting for nearly a quarter of the world's volume.

Along with the popularity of factoring business, a great number of factoring companies were established in China. By 2016, there are already more than 5,000 commercial factors around the country. Such a growing number of factors are keen to receive *FCI's professional education programme to improve their risk management, marketing skills and understanding of the general rules of international factoring*, etc. In this regard, the FCI education programme is exactly what Chinese factors desire-*education and training on international level and widely-recognized qualification certificate, which serve as experience and knowledge-sharing platform*.

- **FCI Courses**

During the last two years, FCI refined its education management and optimized its courses. At present, FCI provides 10 courses, including FCI CAREER PATH and specialized courses to cater for the needs of its members. To better facilitate Chinese members, some courses have been translated into Chinese. In addition to certificate applications from financial institutions, FCI unveils its e-learning foundation course on Domestic and International Factoring for Non-Members, which is a milestone in expanding China's market.

Many Chinese factors are strengthening their education through these courses to further develop their competitive advantages. Take CCB as an example, it always pays a great importance to the internationalization process of factoring business and personnel training. In the last two years, they have sent over 450 employees to take FCI qualification certificate exams with a rather high level of pass rate.



- **FCI seminars**

In addition to qualification certificates, FCI attaches *great importance to seminars and workshops in China*. Seminars on risk management (Shenzhen, 2015), legal (Kunming, 2016) and operation (Shanghai, 2017) received very positive feedback from attendees. Amongst the 50 participants who attended the operational workshop, CCB was represented by 12 delegates. We are happy to see that FCI seminars attract the attention of more and more commercial factors. Feedback from some of the participants are listed below:

"Enabled us to get the deep understanding of the basic business model of factoring, based on the real edifactoring system environment, master the methods of system setting and administration and editing edifactoring messages, also helped us to get a wide relationship with other factors and setup business contact" **Hengxing Li** from CCB Asia

"We met other fellows from various organizations, including other banks and finance leasing companies. We had the chance for communication, getting better understanding of what's going on outside of our company and seeking future cooperation between our company and theirs. Regarding the comprehensive case we practiced during the workshop, it prepared us for complicated scenarios in future daily process." **Huiqi Zhang** from CMBC

China has become the focus of the international factoring community by its significant volume. The needs for *FCI in-depth education opportunities in this market* are just like its business growth. With the well-structured educational programme, valuable pool of professionals committed to deliver the knowledge, also with the dedicated team that supports this function, we would expect to see a greater achievement for FCI`s education in the future China market.

AYSEN CETINTAS
Education Director

Operational Workshops on International Factoring and edifactoring.com

23-24 March 2017 Taipei, Taiwan
27-28 March 2017 Shanghai, China

The workshops focused primarily on the operations of the FCI Two-Factor business and the use of edifactoring.com messages, business rules and their implications for day-to-day business.

The format for the training combined plenum presentations and group sessions with practical examples and many hands-on experiences. Members of the FCI Education Committee and the FCI Communication Committee acted as presenters and instructors in all sessions of the training.

The regional operational workshop in Taipei was attended by 22 delegates representing 11 new or existing FCI members from Taiwan, China, Vietnam, Japan and Singapore.

The second workshop, held in Shanghai, attracted 51 participants from 22 factors in China and Hong Kong. Almost all new FCI members in China attended the training to learn the basics of the two-factor factoring operations and the hints for edifactoring.com

Both workshops were highly appreciated by the participants.

"Business game and sharing of best practice with the lecturers and the peers are invaluable."

"Wonderful opportunity to learn and network."

"FCI has a great operational set-up and the seminars are doing a great job in distributing knowledge among its members."

The workshop will be repeated in the Americas in 2018.

EDUCATE

FCI FOUNDATION COURSE ON INTERNATIONAL FACTORING

E-LEARNING

ENGLISH

SPANISH

CHINESE

FCI's Foundation Course provides an overview of international factoring including a brief history of the industry and information about FCI as well as details on the different types of factoring, benefits, methods and mechanism of the two-factor system.

The course comprises of four modules and a glossary.

- ***AN OVERVIEW OF FACTORING***
- ***FCI***
- ***SELLER SELECTION & ACQUISITION***
- ***MANAGING THE SELLER***

This course is suitable for new and recent entrants to the Industry and is appropriate for staff employed at all levels within the Industry with less than 12 months factoring experience.

The Foundation Course certificate is a prerequisite to taking the Intermediate Course.

Participants take an on-line multiple choice examination covering the study material. Those who pass receive the FCI Bronze Certificate on International Factoring.

Next study term begins on 3 July 2017, registrations are open till **9 June.**

NEW The course is also offered in **Spanish and Chinese**.

More information and registration: https://fci.nl/en/education/online-courses

AYSEN CETINTAS
Education Director

EDUCATE

Don't miss the Legal Seminar on the GRIF

Miami, 20-22 September 2017

After very successful seminars in different continents during the recent years (Bucharest, Barcelona in 2015 and Kunming, Singapore in 2016), FCI will be holding a two-day Legal Seminar with a special focus on everything there is to know about the General Rules of International Factoring in the Americas. The format combines plenum presentations with group discussions and Q&A sessions with practical examples.

Who should attend?

This training is a "MUST to attend" event for all FCI members in mature and emerging markets.

The seminar will benefit those involved in;

- new businesses,
- operations,
- risk monitoring,
- legal,
- compliance,
- litigation departments,
- external lawyers (if appropriate)

Content

The training will focus primarily on the GRIF, the background of certain articles, the implications for day-to-day business and the delicate balance in keeping the GRIF an acceptable document for both the group of Export Factors and the group of Import Factors.

There will be ample time for Q&A sessions, enabling the participants to raise questions or concerns in connection with the GRIF (and the Interfactor Agreement).

Members of the FCI Legal Committee will act as presenters and instructors in all sessions of the training.

Appointment of FCI Education Officer

As part of the strategic plan developed by the ad-hoc Committee on Strategy, the FCI Executive Committee proposed, during the June 2014 Annual Meeting in Vancouver, the investment in an FCI Education Officer, which was subsequently approved by the Council.

FCI continues to increase its membership around the world and we have ambitious plans, i.e. to *increase the number of training programs* as part of the new Education Policy, to *become the global standard for education on factoring and receivables finance* following many requests for cooperation we received from different organizations and to *enhance FCI approach by using highly engaging educational tools*. FCI has also seen a doubling of the number of enrollees in its online education courses in the past two years, the vast majority of which being based in Asia.

The Education Officer will be assisting the Education Director and the Education Committee in achieving the strategic educational aims, developing and implementing the educational tools for our Chain, and assisting our members at large to improve their service quality.

PURPOSE

With the appointment of the Education Officer;

- FCI will increase the number of on-line and residential education programmes and the number of students participating in courses, seminars and workshops.
- FCI will strengthen the assistance to the new members and help them to integrate in the two-factor system successfully and produce quality business.
- FCI will enhance the educational outreach outside the FCI network by development of training programmes with the new development agencies, government agencies and local factoring association.

We are very pleased to announce that FCI has now appointed the new FCI Education Officer, Mr. Spyros TSOLIS. Spyros was selected from a pool of very qualified candidates and started his position on 15 May 2017

Spyros has an MSc in International Trade and Finance from Lancaster University, The Management School, Department of Economics, in Lancaster, UK and a BA in International Economics from Corvinus University of Budapest. He was previously working for Eurobank Factors S.A. previously as Head of International Activities and was already active as a member of the FCI Education Committee. Many of you are already familiar with Spyros and we are confident that he will serve FCI and the FCI members very well during the years to come.

INFLUENCE

Hello MEXICO

ALBERTO WYDERKA
Latin America Director

During the last three years, I visited Mexico several times, and met a large number of banks and factoring companies, which, in my opinion, were able to develop cross border factoring.

This time I will not write about domestic factoring, since it is well expanded and offered by banks, financial companies and factoring commercial companies. However, approximately only 20 % of the Mexican sellers place their invoices in platforms for financing. The rest stays outside this form of financing.

So, let's move to international factoring and allow me to share with you my own questions during these years.

Why have banks not been attracted to explore, set up and offer cross-border factoring ?

Why is it that one of our active members, Bancomext, who had a very important performance for the region, had such *extremely low turnover compared to the country potential*? I would like to highlight that in 2016 Bancomext showed a turnover exceeding EUR 131 Millions, becoming the second largest volume in LA following BCP, Peru, who achieved the largest.

This figure should be framed within the estimated Mexican factorable exports. The total country exports are around USD 375 billion. If we deduct oil, cars, intercompany transactions (counter trade) and very perishable products, they still remain around USD 175 billion. Most probably not all this volume is factorable, but in any case a very huge volume, certainly is.

Why doesn't the service take off as there aren't any legal or trade ruling constraints against cross border factoring?

The reasons I've heard from banks and factoring companies were always the same. Some of them said: "It is difficult to explain" (?). Others argued: "Our clients sell to US, they are doing that for many, many years. They don't feel they are at risk; their US customers have always paid, so they don't think that the American customers could go bankrupt (?????). Also they (the export clients) can collect and obtain financing through "Prime Revenue" (a platform operating transactions between US and Mexico)". So the Banks concluded that *the offer of international factoring will not encourage their clients to change the way they are currently operating*. Therefore, there is no space to develop cross border factoring.

But why did Bancomext achieve such interesting turnover ? Certainly by focusing, looking for business opportunities and knowing how to sell international factoring.

Yet, I still do not have a strong answer to my questions.

At the end of 2016, the US had Presidential elections and on 20 January, President Trump took office at the White House. Leaving aside, with all my respect, the social concerns and fears that the Mexican citizens have, changes on the economic field were announced by the new US President.

And as a consequence of that, from one day to another, the Mexican exporters, who had a concentration of about 85% of their exports towards the US, felt the risk of losing a very important portion of their sales. And it was then that they realized: "it is time to look for new markets".

Now the question is, will they feel as comfortable as they did when exporting the US market? Or will they feel secured exporting to a recently known Brazilian potential importer, or Argentinian, or Italian, Russian, Rumanian, French, etc ? The answer is clearly no.

In my recent visit to Mexico, for the first time I held meetings of approximately three hours with more than six Banks, who were interested in the basic but deep concepts of cross border factoring. My question to them was again: "*Why such an interest today*?" The answer was, "we decided to explore in detail the service, as several of our clients asked if we can offer cross border factoring".

I cannot predict nor assure the future, but I could perceive that *the interest of banks for cross border factoring is changing*, and our expectation for Mexico with several factors offering cross border factoring should be optimistic. The near future will bring us the answer.

Meanwhile, we must continue working to achieve the number of members that our community deserves in Mexico, and likewise, that Mexico needs in order to provide its exporters with risk coverage and finance, now that they are facing new markets.

Alberto Wyderka
FCI Latin American and Caribbean Chapter Director

WE DECIDED TO EXPLORE IN DETAIL THE SERVICE, AS SEVERAL OF OUR CLIENTS ASKED IF WE CAN OFFER CROSS BORDER FACTORING

Four Corner SCF through FCI.

RODRIGO ZAMORA
Banco de Chile

Introduction

In our constant effort to offer our clients efficient, innovative and powerful tools for working capital financing, we have created *a new solution*. This has been developed through taking advantage on the synergies that can be created by belonging to FCI.

The product itself does not differ significantly from the common confirming offered in the market as we know it, but it uses the FCI correspondents' network to get assignments of credits arising from the exporter's activity under legal regulations of the country where the goods or services are to be provided or performed.

We propose to call this service: Four Corners SCF (4CSCF)

Product Description

International confirming relates to account receivables financing to suppliers located abroad. The debtor is located in Chile, and it has previously confirmed the validity and enforceability of export invoices that are to be paid at a certain date in the future (usually under 90 days credit terms).

Based on our 4CSCF concept, the supplier receives payments from Banco de Chile, who advances cash upon receipt of the assignment according to the supplier's country regulations, and after receiving a proper message from an FCI member stating that the legal rights and property of the credit has been transferred to Banco de Chile.

On due date, the debtor will repay Banco de Chile the value of the invoices that were purchased by the bank.

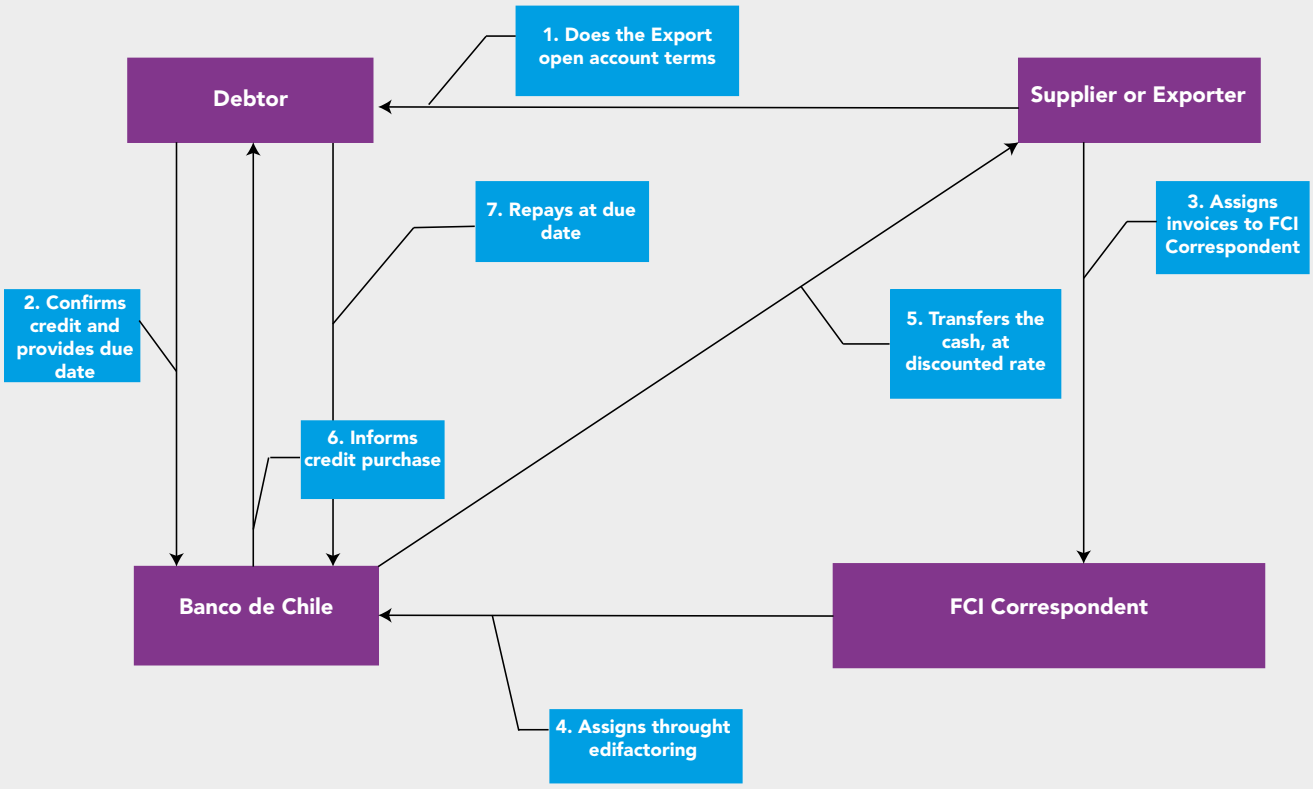
Parties Involved

- *Client or Debtor*: who receives goods provided or services performed from abroad, and confirms the credit, confirming payment at a certain future due date.
- *Supplier or Exporter*: located abroad, the one who sells goods or performs services to the debtor, and assigns the credit to an FCI correspondent.
- *FCI Correspondent*: who will insure the assignment under their own regulations, and who further assign the credit and legal rights and ownership of receivables to Banchile Factoring S.A.
- *Banchile Factoring S.A.*: The entity that purchases credits and takes ownership and legal rights of the credit raised from the receivable and advances cash.

Operating Workflow

Before we describe the workflow, it should be understood that for the scheme to run effectively, full cooperation between parties involved is essential, and that the financing conditions need to be agreed upon between buyer and seller.

According to this, the workflow is as follows:



Procedure

For each payment to the Supplier, the workflow considers:

1. The Debtor located in Chile must notify Banco de Chile about the existence of accounts payable, stating who the supplier is and what are the goods or services that have been performed or received. If it is the first deal under this scheme, Banco de Chile will have to contact the correspondent in the seller's country to set up the assignment protocol.
2. Banco de Chile will quote advancing terms according to market conditions, considering duration of the credit, defining pricing of the assignment.
3. If the quotation is not accepted within 24 hours, the advancing price must be re-quoted.
4. Once the quotation has been accepted, the Debtor must provide legal documents to make the advance payment.
5. The seller must assign invoices in his own country to the Correspondent Bank under local regulations.
6. The correspondent will notify Banco de Chile that legal documents are in their hands, and ready to be assigned through EDI to Banco de Chile.
7. Banco de Chile informs debtor that the legal paperwork is OK in order to advance payment.
8. Banco de Chile will advance payment, and will make a transfer according to the legal documents provided by the debtor upon point 4 and following instructions received.
9. Banco de Chile will send corresponding SWIFT to the debtor and to the correspondent bank.
10. Debtor repays outstanding at due date.

Other Considerations

Banchile Factoring will make the payment to the supplier according to instructions provided by the debtor once it gets full ownership and legal transfer of rights of the credit, subject to credit facility availability at the time of credit confirmation.

Considering that the deal is performed on open account credit terms, all paperwork for customs clearance procedures must be sent directly from seller to buyer. Banco de Chile will not be involved, under any circumstance, as courier or receive supporting paperwork.

This 4CSCF version ensures:

- *Written confirmation* from a local debtor, bound by a confirming program master agreement.
- *KYC and AML procedures* performed by the Exporter/Supplier´s Bank (our Correspondent Bank) of such Exporter/Supplier the involved in the transactions.
- *The assignment from the supplier under FCI's rules*: first to the Correspondent under local regulations, and ultimately from the Correspondent to Banco de Chile through edifactoring message number 9, meaning total transfer of rights and property of the invoice.
- *Payment of the assigned receivables to the supplier*, at a price agreed on a non-recourse basis.

Conclusions

This current procedure may have plenty of room for improvement, but it certainly allows us to participate in an environment that is otherwise restricted to global banks, utilizing the current tools provided by FCI and edifactoring.

I encourage all other members to participate actively providing ideas, prospects, improvements that may allow all parties involved to benefit from this scheme by belonging to FCI and through having an open mindset regarding new products.

LEE KHENG LEONG
Asian Chapter Director

Dialogue with Asia Chapter Director:

View of Indian Factoring Market

Mr. Tushar Buch, Managing Director, SBI Factor, India

Kheng Leong Lee (KL): During the FCI Annual Meeting I made the comments that India is the next factoring giant in Asia. What is your view?

Mr. Tushur (TB): *China like the rest of the world has been affected by the world economic slowdown. Meanwhile China has entered into a phase called "New Normal" with major economic indicators falling into a moderated increase rate of domestic economy growth. Therefore unlike the previous Asian Economic Crisis where China factoring surged ahead of the rest of Asian countries after the Crisis, this time around the impact comes from both the global economic downturn and the insufficient domestic demand, causing a huge drop in our factoring volume. In addition, during economic restructuring, enterprises' default in payment resulted from insufficient domestic demand and event of small probability like fraud also accounted for shrinkage of factoring volume. Despite of all these, the prospect for China's factoring industry is still bright after this short period of adjustment.*

KL: Factoring in India is as old as SBI Global Factors which is the pioneer of factoring in India. Are you happy with the growth thus far?

TB: *Factoring in India has at best remained a niche activity. It is so far yet to be recognized as a preferred financial option and its impact on the financial sector is at best marginal. There are several reasons for factoring not picking up in India. The first and foremost was the absence of a regulatory framework for almost two decades since factoring was started by SBI Factors & Commercial Service Pvt. Ltd. (the predecessor of SBI Global Factors) in 1991. The Factoring Regulation Act, 2011 was finally notified by Government of India in April 2012. The other major reason for factoring not being the preferred financial option is the tremendous way the banking industry has on the Indian economy; which leaves little space in the organized sector for factoring. Things are however, expected to change soon.*

KL: What is the impact of Factoring Regulation Act, 2011?

TB: *For the first time, rights and obligations of seller, buyer and the factor have been defined. Thus, a seller can now assign the receivables under an invoice to a factor and obtain prepayment. After having accepted the assignment, the buyer is discharged from his obligation under a contract for purchase of goods or services, by paying the consideration only to a Factor in whose favour the assignment has been created. A Factor has, for the first time, a legal right created in his favour by an assignment charge and he has a legal recourse to enforce his right against the debtor.*

KL: What do you think of the potential of Export Factoring in India? Do you think SBI Global Factors would be a big player in this regards?

TB: *As a result of improving investor sentiments in Indian market, policy support initiatives from the Government of India and green shoots of revival observed in Indian economy, foreign trade (export & import) is expected to grow at a faster pace in 2017-18, as compared to the previous years. On policy front, Government of India is actively promoting 'trade facilitation' and 'ease of doing business'. Merchandise Export from India Scheme (MEIS) and Service Export from India Scheme (SEIS) announced in the trade policy 2015-2020 by the Government of India is now translating into improving export growth. Data shows Year-on-Year growths in exports at 17.5% during February 2017. Engineering goods, iron & steel bar/rods and ferrous alloy are sectors showing exceptional growth. Besides pharma, textiles, leather goods and processed foods are the traditional strong areas where improved growth is expected.*

However, the new entrepreneurs who would like to take advantage of favorable trade winds are not necessarily eligible for bank finance. This is where the window of opportunities opens up for factors. Under the two-factor model of FCI, SBIGFL is poised to provide credit backed export receivable management services to the newly emerging as well as established export houses in India. With adequate tie up for foreign currency funds as well as necessary licenses from the regulators, SBIGFL has adequate human resources and skill sets to efficiently serve the growing exports from India. In fact, in the 12 consecutive month period from April 16 – 17 March, SBIGFL has recorded export turnover exceeding EUR 40 million. I am told that India Factors, IFCI Factors and banks like Standard Chartered, HSBC and DBS are also adequately equipped to support increasing volumes of export factoring. In fact, looking into the potential, ICICI Bank (a private sector bank) is also keen to set its footprints in the area of export factoring. So the potential is very encouraging.

KL: Banking regulator has allowed banks to do non-recourse factoring recently. Would this be a game changer?

TB: *In July 2015, the RBI had permitted banks to offer export factoring on a non-recourse basis to its clients in India. One of the conditions was that the bank should have an arrangement with an Import Factor overseas for credit evaluation and collection of payment. This condition has been difficult to comply for most banks. To the best of my knowledge, the scheme has been a non-starter.*

KL: What then do you think could be the game changer?

TB: *In 2014, the RBI Governor had announced implementation of the transparent, digital platform where sellers in the MSME sector could offer their invoices for sale of goods and services to top rated corporate buyers. Subsequently the RBI had approved three separate agencies to set up Trade Receivables Exchanges to facilitate the same. Thus, the Trade Receivable Exchange Discounting System (TReDS) came into being and the first such platform, The Receivables Exchange of India Ltd. (RXIL) commenced operations in March 2017. Two more, namely M1 and A.TReDS are expected to commence business very soon. The transparency in dealings backed by relevant financial information on the buyers is expected, in my opinion, to provide a robust market for receivables discounting. While the counter party risk will continue to the on the financier and not borne by the exchanges, the TReDS is expected to deepen the market for finance and management of receivables, especially for the vast MSME segment in India. Since factors are into this business traditionally, the expected deepening of the market through TReDS could be one of the real game changers.*

Opinion Paper

FCI, mature factors and way forward

RENAUD ABONNEL
CGA

The relationship between FCI and Société Générale (SG) dates back from the 1990's with our first FCI member being Romania. Since then, many other SG entities have followed to reach 9 FCI members as of today.

Our strategy towards FCI has always been the same: *how to leverage FCI strengths to increase our factoring business?*. However the way to activate these levers has varied along the years. From an initial opportunistic approach, we have moved to *structured international strategy*. To conduct this strategy aiming at providing our clients with an extended and enriched set of solutions, Société Générale group has created a *worldwide factoring business line*, spearheaded by Eric Frachon, CEO of Compagnie Générale d'Affacturage (CGA). This was necessary to match the increasing global trade volumes and the increasing share of open account trade over the past 10 years.

It all started with i*ncreasing demand from our local clients for financing solutions* in open account relationships. This mainly involved regional trade flows i.e. the European Union as far as Société Générale is concerned. Even today, 80% of our FCI flows are still concentrated within the European Union.

Then we implemented a dedicated *proactive commercial push towards exporters* with a packaged offer which was centered on FCI primary assets:

- It's *network*: important and growing member base, well spread around the world
- It's *communication system*: normative way to share information
- It's *legal framework*: internationally recognized

All these efforts led to an impressive growth of our international factoring turnover over the recent years to reach on average 20% share, in line with global figures of our industry. Although rather limited, international factoring volumes growth rate is double compared to domestic factoring. This is not expected to slow down, leaving a very high potential for growth in the years to come. Indeed, although world trade growth rate would range between 2% and 4% in 2018 (source wto.org), *the international factoring penetration rate will continue to increase in line with the share of open account to total trade volumes*.

That said, I don't believe all the international factoring development will pass through FCI going forward and more precisely on the largest factoring market so far i.e. Europe. Indeed, we've seen the trend emerging from largest factoring companies in the region towards direct export. This has been possible thanks to the uniformed rules across EU but also thanks to the "banking European passport" allowing banks and financial companies to do business from their home base in one member of the EU (or enlarged to European Economic Area adding Norway, Iceland and Liechtenstein). It can also be used by companies outside the EU like Switzerland or the US by setting up one company in any of the EU countries. This trend has emerged with the aim to increase profitability while ensuring high service quality standards.

Indeed, largest factoring companies serving their strategic corporate clients in the region must ensure an irreproachable and constant service experience throughout the relationship on all the perimeters. The best way to do so is *to handle the entire process internally and lower the number of third party service providers*.

On the other side, for non-intra European trade, *FCI remains the most securing and effective solution to find the appropriate partner* in a very decent number of locations. It can also be recommended *to start a new business with a new country*, at least until we feel comfortable to go direct.

I also believe that FCI remains the perfect solution for domestic factors (both export and import) who are willing to benefit or develop trade corridors between two countries or regions. This will give them the same visibility that larger groups may enjoy, being promoted by FCI.

In order to further develop FCI brand and services, and to increase the Chain attractiveness, one of FCI roles could be to *monitor in a more precise manner some quality indicators* (response time, collection, indemnification…) and take appropriate measures towards factors who don't respect the global rules with the aim to maintain high quality standards everywhere. There must be incentives for performing factors and restrictions for those not playing the game.

Concerning sensitive countries, it is sometimes difficult for large factoring entities (mostly linked to international/European banks) to establish relationships with their factors for compliance reasons. FCI could conduct a preliminary check endorsed/done by internationally recognized body on the country under review as well as on the members willing to join. This exercise could be renewed on a regular basis afterwards. *Compliance* as a whole (KYC, AML…) is a vital topic for the Industry and all efforts from FCI in this direction must be encouraged and supported.

We could even imagine FCI adding some more services to its catalogue: in countries with no member, FCI could propose legal opinion/recommend legal advisor to members willing to export there; collection services directly or through local/global partnerships… I also see FCI as the industry broker or facilitator in complex/syndicated factoring deals: finding the best conditions and structure for large clients; adapting and proposing a dedicated legal framework; ensuring global reporting, monitoring and reconciliation…

In the digital era we are living in, the existing communication system used in the Chain seems far from current standards. Investing in an up to date software solution based on new technology: API, blockchain, mobile application, reporting tools, data analytics, reconciliation functionalities… which could enable new use cases, more agile, more mobile, more transparent, more quality oriented… aimed at proposing better services to our clients.

I want to acknowledge the efforts being made by *FCI to pursue the development of memberships in new regions and countries* like in Africa and Asia. This is obviously investing in the future growth of our industry. For instance, the commitment of *Afreximbank to spread factoring culture in Africa is key*. Developing partnerships with regional and international factors/banks would probably help in spreading the word faster.

In conclusion, FCI seems, according to me, to better respond to small factors primary needs and is willing to propose new services and features (i.e. Supply Chain Finance platform). However, we could ask ourselves: what is FCI willing to offer to mature factors in mature markets going forward? There is no straightforward answer, but this definitely calls for deep thoughts, to which I've just modestly contributed.

INFLUENCE

FCI Global Factoring Statistics

HARRY BILETTA
Director Planning and Development

The factoring volume growth remained stable during 2016 and once again the trend is practically flat.

*in Euros	2010	2011	2012	2013	2014	2015	2016	Variation 2015-2016
World Domestic Factoring*	1,402,331	1,750,899	1,779,785	1,827,680	1,857,410	1,838,366	1,868,855	1.66%
World International Factoring*	245,898	264,108	352,446	402,798	490,114	529,379	507,112	-4.21%
World Total*	1,648,229	2,015,007	2,132,231	2,230,477	2,347,524	2,367,745	2,375,967	0.35%

The growth of the factoring volume, which had showed a constant upward trend until 2014 has apparently stopped and the reported 2016 figures indicate that the numbers differ very little from those of 2015: EUR 2,375 billion versus 2,367. The same can be said for the Domestic and International volumes, which *maintained their proportions* of just less than 80% and just over 20%.

The *breakdown by continent*, the individual variation over the previous year and the share of the total can be found in the below chart, which confirms the further *drop in Asia* where some slight improvement is being noted in the first quarter of 2017 and hopes are for a prompt recovery.

*in Euros	2015	2016	Var	2016 Share
Europe	1,557,052	1,592,974	2.31%	67%
North America	100,530	95,072	-5.43%	4%
South America	86,826	104,396	20.24%	4%
Africa	18,721	20,393	8.93%	1%
Asia Pacific	596,633	555,550	-6.89%	23%
Middle East	8,028	7,583	-5,54%	0%
World	**2,367,790**	**2,375,967**	**0.35%**	100%

The volumes of business handled by the members of FCI followed the Industry trend in figures and this pause is mainly attributable to the decrease in factoring volumes out of Asia. The entire Asia region declined by a further 8%, all affected in part from the contagion effect stemming from the slowdown in China (partly neutralised by the support offered by the many commercial banks whose volumes account for over 20% of the market) and the overall effect from the slowdown continues to be felt going into 2017. Japan did not reach the 2015 volumes, nor did Taiwan; on the contrary Hong Kong, Singapore, India and Thailand showed positive variations.

In *Europe*, the traditional factoring countries France, Germany, Italy and Spain recorded a *growth*, whilst *Turkey* stepped back with a *decrease* of over 10%. Russia had impressive results also considering the complicated environment and Netherlands had a remarkable growth. The UK figures are strongly influenced by the fluctuation of their currency and an adjustment had to be made to the variation to account for it.

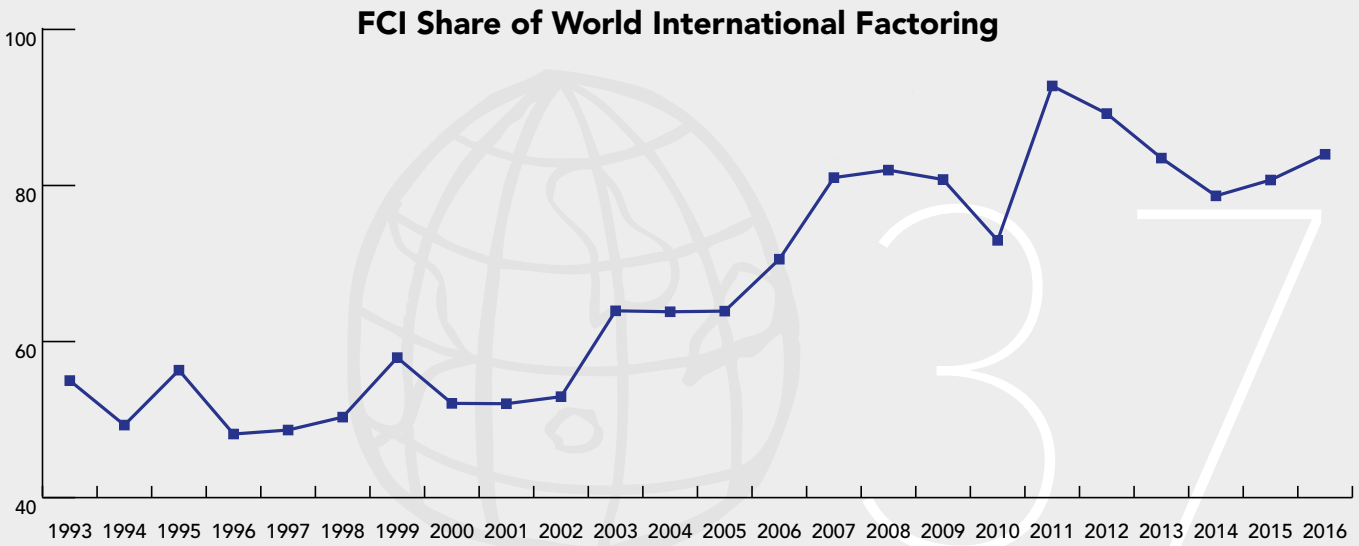
In the Americas, the *Latin block* (Brazil, Chile, Mexico and Argentina) contributed to the *positive end result*, covering the negative figure of the North American countries.

Africa continues in its slow and steady upwards trend mainly thanks to South Africa, but also with the contribution of the newer countries.

The breakdown by product confirmed the shares of previous year, including the "with" and "without recourse" domestic factoring, where we notice again a shift towards the latter.

In Euro	2010	2011	2012	2013	2014	2015	2016		Share Total
Invoice Discounting	204.527	279.113	302.030	330.518	299.930	310.313	333.544	7,49%	
Recourse Factoring	234.889	267.523	306.187	339.644	356.058	301.948	236.613	-21,64%	
Non-Recourse Factoring	283.198	331.257	352.353	344.863	372.115	434.456	481.172	10,75%	
Collections	23.394	26.018	27.786	31.399	40.123	57.725	47.472	-17,76%	
Total Domestic Factoring FCI	**746.008**	**903.912**	**988.529**	**1.046.425**	**1.068.226**	**1.104.441**	**1.098.800**	**-0,51%**	**59%**
Export Factoring	126.032	162.972	192.573	219.285	242.472	261.214	256.551	-1,78%	
Import Factoring	23.584	30.943	36.707	50.481	54.081	66.612	63.446	-4,75%	
Export Invoice Discounting	29.818	51.069	85.163	87.447	89.025	96.871	108.038	11,53%	
Total International Factoring FCI	179.434	244.983	314.442	357.213	385.579	424.697	428.035	0,79%	84%
Grand Total FCI	**925.442**	**1.148.895**	**1.302.971**	**1.403.638**	**1.453.804**	**1.529.138**	**1.526.836**	**-0,15%**	**64%**

Figures for International Factoring also show an increase in the offer of credit protection in the direct business, with a subsequent decrease of cross-border two-factor business, more noticeable in Import Factoring.



INFLUENCE

China Factoring Industry: Current State and Future Developments

PETER MULROY
Secretary General

As most of you know, the factoring industry in China declined in 2016 by 15%, and if you include the decline in 2015, the market has seen a reduction of close to 30% since the industry's peak in 2014. For nearly 15 years, China has been on a tear, increasing at unparalleled rates of growth compared to most other markets, and surpassing the United Kingdom as the largest factoring market in the world. This Chinese "miracle" has been reported on numerous occasions in our past newsletters. So it is not surprising to report for the first time that the factoring market in China has issued its *first major distress signal*. And like most periods of economic malaise, risk increases, and the experience from this disruption in China was no exception. The market experienced a dramatic increase in fraudulent activity, and nearly every member in China was impacted.

The outcome from the crisis was multiple. Some banks hit the hardest focused on *correcting credit metrics and installing best practices, critiquing past credit and risk procedures and adopting new ones with an effort to improve overall asset quality*. In factoring for example, one bank must approve sellers using similar metrics when approving other types of loans, with less emphasis on debtor analysis. Another bank experienced large fines in their overseas branch stemming from KYC/AML issues, and now most of its offshore business will be brought back inside China. As a result, many banks have invested heavily to upgrade their systems and procedures to *protect against money laundering*. Numerous banks experienced significant fraudulent activity, but most of it was from domestic cases. Hence, many of the banks have developed plans to build on their international strategy and expand their factoring operations overseas. In fact, *Chinese banks in general are going abroad* and are following their corporate and retail clients by expanding overseas, bucking a global banking industry trend of retrenchment. China's state-directed "One Belt, One Road" initiative has forced Chinese banks to enter emerging markets in the Middle East, Africa and parts of Southeast and Southwest Asia where the banks otherwise wouldn't venture. That's a major reason the largest Chinese banks have been ahead of smaller banks in expanding overseas. Besides branch openings in markets around the world by the top four state banks, we have seen as well major investment announcements by Chinese banks and investment funds in SE Asia, Africa and Latin America, and FCI can expect to see more Chinese banks as members in markets located outside of the Greater China region.

But the biggest impact to the industry was the *rise in defaults stemming from fraud*. One finding is that the market experienced over USD 15 billion in losses stemming from fraudulent activity in the past two years. Domestic factoring in China has more inherent risks due to the limited transparency compared to cross border trade, as there is no official third party verification such as a customs check neither is there any kind of shipment investigation in the domestic market, therefore it is difficult to prove the authenticity of the underlying transaction, increasing the risk of fraud domestically. It was reported that there were at one time over 400 domestic fraud cases sitting in the lower courts in China. In fact, the system could not grapple with the demand for juris prudence to render prudent decisions. China operates under a continental legal system, top down, based on legal policies as enacted by the National Peoples Congress and interpreted by the Peoples Supreme Court. Factoring, specifically the rules relating to

assignment, prioritization and third party effectiveness are embedded under contract, property and securities laws in China. Today, there is no centralized codified law on factoring or policy that has been handed down by the People's Supreme Court. Instead nearly every provincial court in China has over time had to create their own policies created based on their own experiences from judgements in past years, and not always in harmony with each other from court to court, from province to province. Several High Courts like the People's High Court of Tianjing and Beijing or Shanghai or High Court of Jiangsu Province is believed to have developed their own best practices and have published guidance for their respective courts to follow. The problem is that the guidance may contradict with each other from region to region.

China recently may be considering adopting the UNCITRAL model law on secured transactions which just passed by the UNCITRAL in the early of this year in New York which the Chinese delegation voted in favour, and several departments of the Central Government of China including PBOC and Department of Commerce and other government bodies just issued a NOTICE which has been approved on April 25th 2017 entitled "The Working Plan for Task Force on Receivable Financing for Small and Micro Enterprise (SME) (from 2017-2019) ("Plan"). This plan will expand the Registration Offices Registries System to include all SMEs. But from a factoring perspective, the country is in need of fundamental change and *it is obliviously clear that this country is still undergoing much change*!

As one legal expert put it succinctly:

The problems in the factoring market in China will need both operational and legislative fixes. The Industry needs to advocate for more legal reforms. The Chinese government has embarked on a course to develop the first Civil Code in the country. The first part - General Principles - has passed by the People's Congress in March 15 2017 and will take effect at October 1st 2017. After that, specific Chapters will be developed, maybe including a Secured Transactions Chapter. The other issue in China is definitions. There is a 99% chance for simple words like "Secured Transactions" or "collateral registry" to be translated into very different things. For example, the word "collateral" is often wrongly translated as "mortgage". The secured transactions law in China is called the 2007 Property Law (which is likely to be translated back into Chinese wrongly, unfortunately); and the registry is under the central bank (Credit Reference Center of People's Bank of China, or CRC -- "credit reference" will most likely be translated wrongly too).

This is certainly an opportunity to fix the problems. The China Factoring Association, in association with the CBA have raised these issues and have developed strategies to tackle them. But as one Chinese Lawyer stated, "*In this process, we deeply feel the scarce and lack of Chinese uniform regulations, self-discipline rules and training materials of the Chinese factoring industry.*"

So what can FCI do to assist the Chinese members?

- Though the Supreme People's Court may not directly adopt international practices or rules , they may *adopt the GRIF rules* to cover both international and domestic factoring transactions as well by making specific Justice Interpolation (Sifa Jieshi) on Trial of Factoring Cases, which the Supreme People's Court has already empowered to make by the People's Congress in 1981. This can be compared to changes that occurred over two decades ago, when the PBOC developed rules governing domestic letters of credit transactions (LC) in 1997. The rules governing international LCs obviously is subject to ICC rules of the UCP600. And the

Supreme People's Court has made a special "Sifa Jieshi" on international LC cases in 2005 which took effect in 2006, and the reported latest decision made by the Supreme People's Court about domestic LC case shows this LC "Sifa Jieshi" will also apply in a domestic LC disputes. The same could be done both for international and domestic factoring conducted between banks and commercial factors.

- FCI has invited a Chinese lawyer who was referred to us by one of our good members, to sit as an observer on the FCI Legal Committee later this year. This will give the members of the Legal Committee an opportunity to learn more about the legal system in China but also allow them to *educate this person on the global legal landscape regarding factoring in general, and cross border factoring and the GRIF in particular*, and at the same time support this person's effort to reform the legal system in China.
- We are also working closely with the CBA and some of the other newer regional factoring associations in a concerted effort *to support the development of a healthy industry backed by a strong legal framework*. FCI will hold workshops and develop educational events to target important the supreme and provincial courts by organizing regional legal workshops, in conjunction with the CBA and World Bank/IFC. We are already in discussion with the CBA regarding joint education programs.
- And lastly, we could develop a *joint Chinese arbitration procedure for domestic factoring transactions together with the CBA*. As one of our members recently requested, "*FCI should 1) raise level of awareness of the legal issues in China (like replicating the domestic LC rules for factoring) 2) increase advocacy regarding basel and capital requirements relating to factoring and 3) create a Chinese arbitration experts committee.*"

The 19th Peoples National Congress will take place in the 3rd Quarter 2017, and one fundamental question will be on economic stability, including the focus on a positive and healthy financial sector. The growth of factoring in China is expected to come back to a steady level, as FCI is witnessing in the two-factor volume figures for the first four months of 2017, up slightly compared to the previous year. The growth in the next few years is not expected to be as fast as it was in the past 5 years, nor like the dramatic drop witnessed in the past 2 years, but will stabilize as the recovery continues. As business begins to pick up, in part from the ever-expanding impact from the One Belt, One Road (OBOR) initiative, our members in China will continue to be challenged, but we hope that with their support we can together *support the growth of a healthy and robust factoring sector in China*, and at the same time support the evolution of a more robust legal and regulatory framework to instil confidence in the further development of factoring in China into the future.

Supply Chain Finance Community Forum in Singapore

JOHN BREHCIST
Advocacy Director

FCI is partnering for the Supply Chain Finance Community Forum that will take place on the 6th June in Singapore. John Brehcist (JB), FCI Advocacy Director, interviewed Michiel Steeman (MS), the Community Director to know more about the forum.

JB: What is the Supply Chain Finance Community Forum?

MS: *We launched the Supply Chain Finance Community Forum at Nyenrode Business University in the Netherlands in 2013 with the aim of bringing together academics, corporate treasurers, procurement directors, banks and other SCF providers to map out the future of supplier finance.*

It has grown every year; in 2016, we had over 220 delegates in Amsterdam. They heard from companies such as Lufthansa, Vodafone, PUMA and many others with successful SCF programmes and could meet and network with their peers. Now we are bringing the same idea to Asia.

JB: What are the group's main aims?

MS:The Supply Chain Finance Community is an independent not-for-profit global community consisting of knowledge institutions, corporations, and supply chain finance professionals. It aims to promote and accelerate the understanding, development and implementation of supply chain finance models. We are dedicated to sharing best practice and new research in an open, collaborative environment. See our website SCF Briefing at www.scfbriefing.com

JB: And why now in Asia, in Singapore?

MS: *In Europe, supply chain finance has become both a significant source of liquidity for small and mid-size businesses and a way of optimizing working capital for large corporations. It's now receiving greater attention in Asia. We have the support of the National University of Singapore, the Singapore Economic Development Board and the Association of Corporate Treasurers.*

JB: What makes it different?

MS: *What makes the SCF Forum different is the unique combination of academic research with practical case studies. The not-for-profit, independent status means we are free to produce events that are truly educational.*

We place the emphasis firmly on helping corporates learn from the example of their peers so they can gain maximum value from their own supplier finance initiatives.

JB: Who's your audience and what can they expect from participation?

MS: *It's the same in Asia as it is in Europe: the corporate treasurers and procurement directors who need to work together to implement supply chain finance successfully. They leave us with a wealth of SCF ideas, information and inspiration to help them create value in their own organisations.*

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