The ITFA Muse

Tuesday, 14 July 2015

CHAIRMAN'S MESSAGE - Paolo Provera, Chairman ITFA

Dear Members and Friends,

I would like to take this opportunity to inform you all that the time has come for me to close one of the longest chapters of my life. 30th June marked my last working day at ABCIB Milan. As I step out into my new life and start focusing on different projects, I wish to let you know that the friendships established in the international banking community will definitely remain with me forever and which I will continue to cherish. I will never forget the wonderful people I have had the opportunity to work with and I am proud of what I have been able to achieve with them over the past years, with their faithful support and cooperation.

Despite this I will continue to remain loyal to ITFA and look forward to seeing you all in Dubai in September. With half the year already behind us, it is safe to say that the challenges we faced together as an industry provided us with opportunities to better withstand market and growth volatility.

Investor sentiment in June in emerging markets followed the downward trend witnessed in May, and despite this sharp correction, mainly reflecting rising expectations that the US Fed will soon start to raise interest rates, and the growing risk of Greece exiting the euro-zone, the moves were not dramatic. China was an outlier during the month however, with the Shanghai Composite index trailing other equity indices by quite a margin, as fears that Asia’s largest economy is on course for a hard landing precipitated. This resulted in the Chinese central bank lowering interest rates for the fourth time since November 2014 to record lows of 4.85%. Nevertheless, analysts expect emerging market economies to withstand the Fed's first rate hike, albeit there is a high chance that a near-term "Grexit" would trigger volatility in the region.

June was characterised by the Greek government and its creditor’s failure to reach an agreement on extending the country's bailout. The standoff culminated on the last trading day of the month as the Greek government called a referendum on whether to accept the terms of its creditors. Till well into the second week of July, no deal had been struck on this never ending impasse, with the Greek PM seemingly backtracking on his pre-referendum pleas on one end and other Eurozone leaders claiming that there is a certain lack of trust in the Greek’s new proposals on the other end, which the EU insist are passed by law by July 15. As German chancellor put it on the weekend of July 12; *“The situation is extremely difficult if you consider the economic situation in Greece and the worsening in the last few months, but what has been lost also in terms of trust and reliability.”*

Despite the ‘No’ outcome of the July 5 election and the deadlock still unbroken, we would expect the uncertainty around the country’s finances to

The Newsletter of the International Trade & Forfaiting Association

July 2015

Contact us

For information about ITFA please visit www.itfa.org or send an email to info@itfa.org www.itfa.org

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continue to weigh on market sentiment well into the summer, and expect volatility and investor sentiment to be put to the test across the global economy, a topic which will be inevitably touched upon in our well awaited ITFA Annual Conference.

May I remind you all that the ITFA team is working endlessly to make this event a great success for all and that we will be accepting attendee's registrations till 31 July 2015. Therefore, we urge you all to register on-line as soon as possible by clicking on the following link. As always, we thank you all for your continuous support.

We look forward to hearing from you with any feedback you may want to share with us by sending an email to myself, any of the Board Members or to our general email, info@itfa.org.

Best wishes
Paolo Provera

Posted by Alexia Vella at 05:46 No comments:

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Labels: July 2015

Monday, 13 July 2015

DUBAI EDUCATIONAL SEMINAR, by Paul Coles - ITFA Board Member, Education

As you are all now well aware, our next Annual Conference is rapidly approaching, and this signals that it is also time for the annual Educational Seminar!

The seminar is being held on Sunday 27th September, and will immediately precede the conference (which starts on Monday 28th). Unlike previous years, it will be held on a single day rather than split over an afternoon and following morning.

This is a great opportunity for me and my fellow presenters to take a fresh look at the format of the training, and to ensure that we provide the best possible introduction to the world of forfaiting, trade receivables finance and international trade.

We are especially excited to bring the seminar to the Middle East on this occasion, as it will enable a new audience to learn about our industry and take that knowledge back into their respective organisations.

We are also fortunate to be collaborating with Dubai Chamber of Commerce and Industry, who are both assisting us in promoting the event and generously hosting our seminar.

Delegates can naturally rest assured that the quality of the training will be of the highest degree. Four ITFA Board members will be covering the multiple techniques and issues, and collectively we have in excess of 80 years' trade finance experience which we will be sharing with the attendees.

Whilst ITFA members will obviously benefit from a preferential rate, the seminar nevertheless represents excellent value for money and is open to both members and non-members. We are keen to have as wide an audience as possible, as our mission is to pass on as much knowledge as possible to colleagues in our industry - be it those who are already seasoned professionals looking for an update, or equally those who are just starting out in trade finance-related roles and therefore looking to rapidly increase their understanding.

The ITFA Board, and myself in particular, therefore invite you to follow this link and take a further look at the programme.

We look forward to seeing you there!

Posted by Alexia Vella at 22:52 No comments:

Labels: July 2015

LEVERAGING THE SUPPLY CHAIN TO SUPPORT THE FUTURE OF GLOBAL TRADE, by Anurag Chaudhary - Global Head of Trade Risk Distribution, Trade &Treasury Services, Citi

Trade is becoming more complex for both banks and corporates. Supplier finance provides an ideal solution but will require innovation on the part of banks if capacity is to keep pace with demand, writes Anurag Chaudhary, Global Head of Trade Risk Distribution, Trade & Treasury Services at Citi.

The fundamental shift that is taking place in the way that buyers and sellers interact – essentially a movement away from letters of credit to open account trading – is leading banks to re-think their trade strategies in order to continue to grow their trade business, both in terms of volumes and revenues. Many trade banks around the world have come to a similar conclusion following such reassessments: finance focused on the supply chain will play a major role in the future of trade.

Supplier finance has a number of benefits for trade banks. From a credit perspective, it generates short-term self-liquidating assets that are critical to the vendor management process and have demonstrated a low historical probability of default. Given the limited opportunities for banks to sell short-term products to investment grade multinational companies, supplier finance is a highly attractive trade asset class, and internal credit approvals tend to be straightforward. Supplier finance also aids banks by enhancing their trade product portfolio, enabling them to meet clients' increasingly complex needs.

From a corporate's perspective, global economic turbulence and geopolitical instability create pressure to improve their vendor management process and enhance manufacturing process efficiency. An important part of this strategy is strengthening the supply chain by ensuring that vendors have access to an ample supply of credit and liquidity. Supplier finance provides a solution by making cost-effective finance available to vendors from the corporate's banks. Moreover, as a banking solution, supplier finance can enable clients to grow sales and procurement while ensuring robust internal risk management and controls.

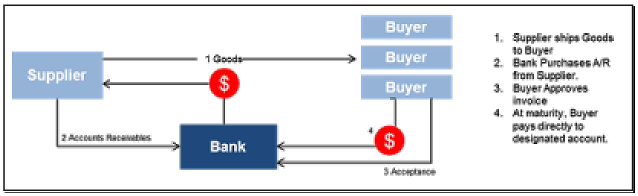
Most companies are seeking to optimise their procurement and exploit low-cost geographies while simultaneously selling their products in global markets to enhance sales and expand their customer base. This strategy has created an outsourcing industry that has expanded immeasurably over the past decade. Outsourced and offshore operations have in turn resulted in ever-longer supply chains, which increase complexity and risks. As globalisation accelerates, supplier finance can help corporates to manage vendors and supply chains more effectively, increasing their resilience to shocks and enabling them to become a critical source of competitive advantage.

Meeting the needs of different types of clients

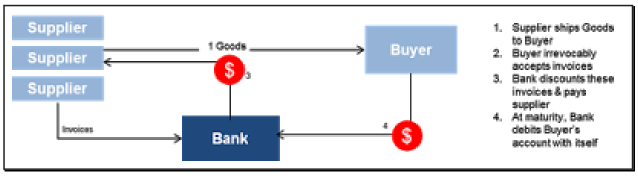
Supply Chain business can primarily be classified into two product offerings:

1. **Account Receivables** (also called a supplier-centric solution): The bank purchases Account Receivables from the supplier and takes the buyer risk. The supplier gains liquidity, risk mitigation and balance sheet optimisation, while the bank retains control over the cashflow pertaining to

these receivables and right of recourse to the seller for any dilution risks. At maturity the buyer pays directly into a bank-controlled account. Given their short-term nature (usually up to 180-days) and self-liquidating nature, these assets are attractive to both banks and investors.



2. Account Payables (also called a buyer-centric solution, reverse factoring or supply chain finance (SCF)): This solution has a longer gestation period and requires both buyers and sellers to be onboarded to an electronic SCF platform. However, once this process is complete the solution is automated and efficient. Moreover, SCF is easily scalable: as additional vendors join a programme, the platform easily accommodates increased invoice volumes. The buyer irrevocably accepts invoices before uploading them to the platform, consequently removing the risk of commercial disputes in the underlying transaction.



In any trade transaction, there is a tension between the needs of buyers, which want to pay as late as possible, and suppliers, which want to collect their money at the earliest opportunity. Both Account Receivables and Account Payables programmes aim to ease this discord between buyers and suppliers. The programmes allow a supplier to sell its invoices to a bank at a discount once they are accepted by the buyer. That allows the buyer to pay later and the supplier to secure its money earlier, permitting both parties to improve their working capital cycle while lowering associated costs and enhancing their balance sheets.

Challenges to supplier finance

Both Account Receivables and Account Payables programmes have a proven track record and have created considerable benefits for buyers and suppliers over many years. When supplier programmes begin they are typically of a size that can be easily booked and held on a bank's balance sheet. They are simply one of a range of trade financing solutions, including credit, cross-border funding and short-term liquidity, made available to clients to meet their requirements. However, the success of supplier finance creates its own challenges.

Often the success of an initial programme at headquarters level prompts an expansion to include overseas subsidiaries. Increasingly, the size of supplier finance programmes has grown to a level – as much as $1 billion for large multinational companies - that is difficult for a single bank to accommodate alone. To facilitate such enormous programmes, it is necessary for banks to partner with other banks or investors so that a comprehensive global trade financing solution can be provided.

Partnering with other institutions raises a number of critical issues for banks to address, including:

(i) The need to restructure the bilateral agreement between client and bank to make it available for sale

(ii) the creation of true sale structures for selling assets to investors

(iii) invoices denominated in multiple currencies

(iv) sourcing of legal opinions regarding account receivables across each country

(v) the requirement for operational capabilities to implement defeasance solutions

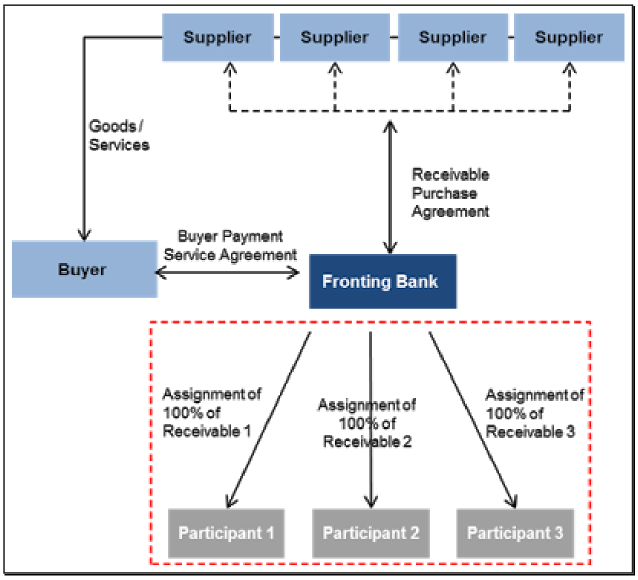
(vi) automated systems to bill the client for all invoices irrespective whether they are sold or not.

Possible solutions for asset sell-downs:

1. 100% of each invoice:

This is usually applicable for Account Payables programmes. Under this asset sale solution, the bank assigns 100% of each individual invoice to the investor via an assignment structure while at the same time continuing to act as a collection agent on behalf of the investor with reference to the client. After acceptance of the invoice by the buyer, the bank discounts the invoice in favour of the supplier and then assigns the specific invoice in favour of investors prior to their funding. Since each investor will hold and own a specific set of 'whole' receivables, investors have the right to serve notice and take legal action directly against the buyer in case of payment default. The bank can get off-balance sheet treatment from this structure as it sell/assigns 100% of each invoice on getting funds from investors.

The disadvantages of an assignment structure are that each invoice must be notified to buyers to ensure legal assignment, making the process onerous for the buyer. Generally, the buyer does not want to change its payment process and prefers the bank to act as a collection agent on behalf of the investors. Therefore there is a need for the bank to upgrade its electronic platform to manage these asset sales for supplier finance. Given the large size of supplier finance programmes, an assignment structure also entails a high volume of invoices that need to be managed by the electronic platform.



2. Pro rata share in the overall programme:

This is usually used for Account Receivables solutions. It uses an assignment structure where each investor participates in the entire supplier-centric programme. It works in a similar way to a syndicated loan facility where the bank has a bilateral account purchase agreement with the client/seller and a bespoke risk participation agreement with investors as a group. The bespoke risk participation agreement usually needs to address the following key components:

(i) the need for all parties to have pro rata participation and rank pari passu at all times

(ii) the roles and responsibilities of the collection agent

(iii) procedures in case of remedial management or default scenarios

(iv) voting rights for each investor

(v) the ability to transfer from one investor to another investor

(vi) as investors' participation is funded, it is imperative that there is no settlement risk for the bank.

For Account Receivables programmes, additional potential issues that need to be considered include:

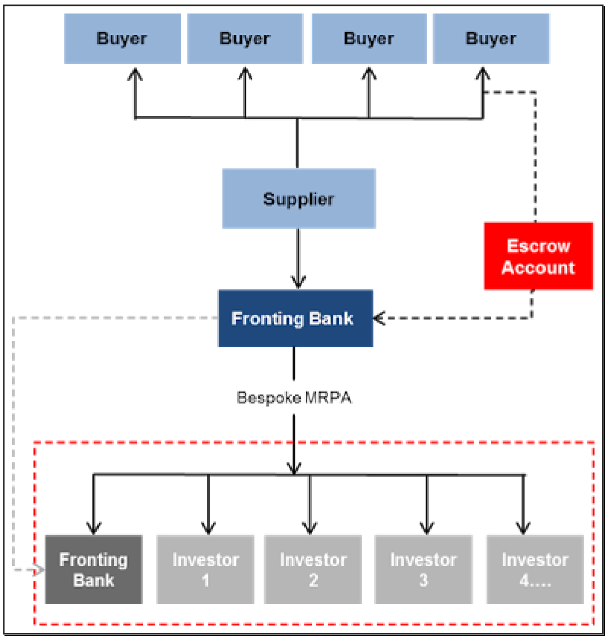
(i) the risk of invoices being presented for factoring/financing before goods have been shipped

(ii) the risk of the bank being unaware of invoices being issued together with credit notes that effectively cancel the invoice.

(iii) the risk that invoices are paid into another bank account without the bank being informed.

(iv) the possibility of a commercial dispute between parties that the bank is unaware of.

These risks highlight the importance of alignment between the bank and investors for the smooth and efficient running of a programme.



Meeting the challenges of the future

Individual banks managing supplier finance programmes face numerous challenges. They must meet the needs of buyers, suppliers and investors simultaneously. In addition, banks need to structure off-balance sheet solutions for supplier finance assets sales, have the capability to sell down assets at regular intervals, manage their credit and liquidity exposure under each programme, and service clients' ongoing needs.

At the same time, the trade business also faces challenges as supplier finance continues to grow. The inclusion of non-bank investors in supplier financing will facilitate the continued expansion of programmes as they become too large for any one bank to manage on an overall basis.

However, to enable broader investor participation, banks must collaborate to help standardise product definitions for both Accounts Receivables and Account Payables programmes. Underlying Master Participation Agreements also need to be standardised, via independent bodies, to make it easier for banks and non-bank investors to negotiate documentation.

As the market continues to evolve, banks must ensure they change with it. They need to invest in order to build electronic platforms and operational infrastructure that deliver economies of scale, not only to manage the client interface to purchase account receivables but also to process the periodical sale of large number of invoices to investors. Banks may also need to reorganise: trade distribution and syndication teams in bank are likely to play a critical role – as they did in the loan syndication market – as the supplier finance business grows.

Posted by Alexia Vella at 22:50 No comments:

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NEW ITFA MEMBERS

The ITFA Board is pleased to announce the following three new members to its fast growing family.

AIG Europe Limited is the world's leading insurance organisation, with more than 90million customers around the globe. They are leaders in property casualty insurance, life insurance, retirement products, mortgage insurance, and other financial services.

AIG is a network of approximately 65,000 people in more than 100 countries and jurisdictions who come together every day to take on the world's new challenges. They believe that by striving to provide the greatest value to customers, they can deliver improved operating and financial performance and sustainable, profitable growth. AIG's strategy is focussed on enhancing the value and competitive position of their insurance businesses and investing their capital where they can achieve attractive risk-adjusted returns, while maintaining strong levels of liquidity and capital.

Neil Ross will be the principal contact in relation to ITFA matters.

First Gulf Bank (FGB) is one of the leading banks in the United Arab Emirates. It is the number one bank in the UAE in net profits for 2014, for the second year in a row, and the number three by total assets.

The Bank offers a full range of financial products and services through ITS Wholesale & International, Consumer and Treasury & Global Markets businesses and is focussed on achieving its mission to be the 'First' choice for customers. Internationally, FGB operates through branches in Singapore and Qatar, representative offices in India, Hong Kong, South Korea and the UK, and a subsidiary in Libya.

In 2014, FGB was named the 'Best Bank in the United Arab Emirates' and 'Best Wealth Management Firm' at the Banker Middle East Industry Awards. It was also ranked as the 8th most powerful company in the Arab World in Forbes' 'Top 500 companies in the Arab World' list. FGB was also recently recognised as an 'Employer of Choice' at the GCC Best Employer Brand Awards 2014, and has been honoured in the SME Banking Sector category of the inaugural Enterprise Agility Awards.

Manoj Menon, Global Head of Transaction Services and Financial Institutions will be the main contact in relation to ITFA.

The Governor and Company of the Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom. Services include branch banking, personal and business loans, loan insurance, mortgages, foreign exchange, correspondent banking, credit cards and stockbroking.

Bank of Ireland Corporate and Treasury has offices in eight locations worldwide – Dublin, Belfast, London, Bristol, Paris, Frankfurt, Chicago and Stamford, Connecticut.

James Collins will be the principal contact in relation to ITFA matters.

Posted by Alexia Vella at 22:49 No comments:

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UPCOMING EVENTS - SAVE THE DATE

Indeed the ITFA Annual Conference is fast approaching and we hope that you are currently making all the necessary arrangements to be present for yet another well attended and successful ITFA event. To register for the Conference on-line, please click here. Keep in mind, that to attend the Conference and be included in the delegate's list which will be provided to all attending, one must register by 31 July 2015.

This year's Conference is going to be held between Monday 28th September and Wednesday 30th September, 2015 at Jumeirah Beach Hotel in Dubai.

The wealth of expertise of our speakers, paired with the extremely varied subject matter, will make the ITFA Conference one to remember. To view the Conference programme, please click on the following link.

So do not forget to save the date! We look forward to seeing you all in Dubai.

Posted by Alexia Vella at 22:30 No comments:

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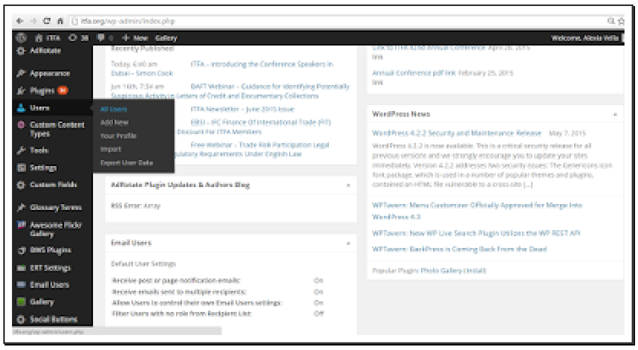
TUTORIAL - BECOMING FAMILIAR WITH VARIOUS FUNCTIONS ON THE ITFA WEBSITE

As the Summer flies by, we find ourselves tackling yet another tutorial session. By now, I'm sure you have all become very confident using our ITFA website, which was the intended aim of these tutorial sessions. With the help of these tutorials, all our users now have the know-how on how to successfully use the various functions of our ITFA website - www.itfa.org.

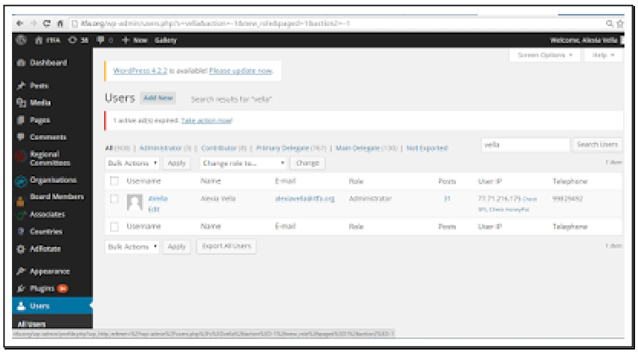
In the this issue we will be learning about two vital functions of the website; how to edit user details, which is a function regularly used, and how to add team members in the website.

How would you go about editing user details?

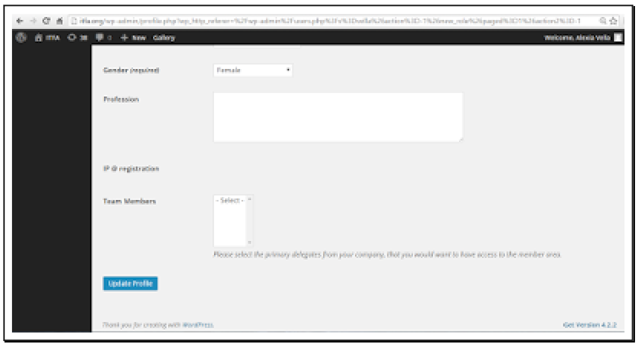
To edit user details, hover on the ''Users'' menu item and select ''All Users''.



Search for the user you would like to apply changes to, and simply click on the username.

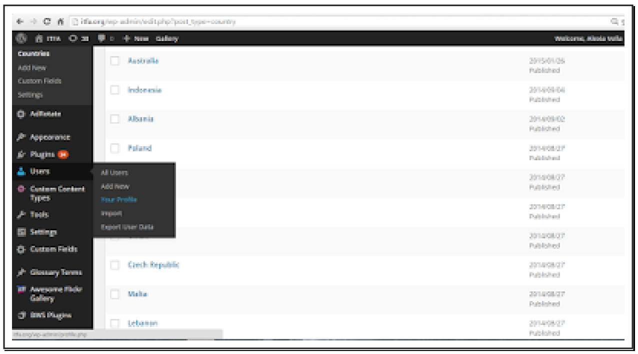


After updating the required user fields, click on ''Update User'' on the bottom left of the page. The changes to the user details are then reflected.

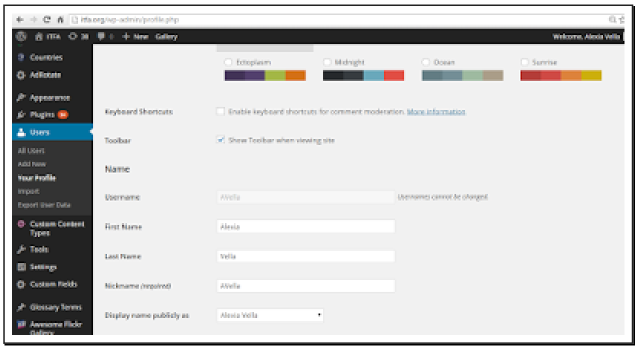


How would one go about adding a team member?

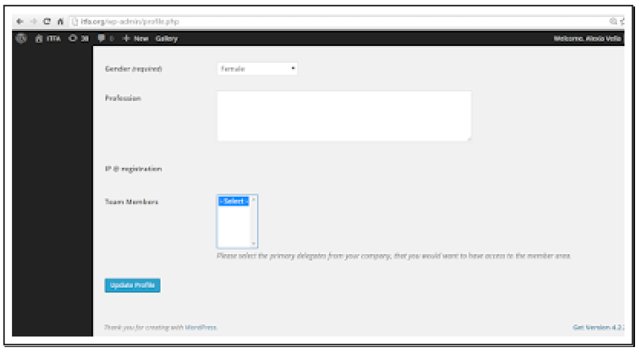
To add team members, simply hover on the ''Users'' menu item and select ''Your Profile''.



Search for the user you would like to apply changes to and click on the username.



Scroll down to the very bottom of the page and you should find a section titled ''Team Members''. To select multiple team members, hold down the CTRL key for Windows and CMD key for Mac.



Once you have selected all the team members, click on the ''Update Profile'' button.

Posted by Alexia Vella at 22:29 No comments:

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