

The ITFA Muse

Thursday, 3 September 2015

CHAIRMAN'S MESSAGE - Paolo Provera, Chairman ITFA

Dear ITFA friends,



The time has come for me to say goodbye and resign from the position as Chairman of ITFA.

As you probably know, I have resigned from my previous employment to take a sabbatical period for relaxing and thinking about my private and professional future.

It seems only yesterday that day in September, 1999 when I was in Heidelberg and a group of passionate forfaiters founded the IFA with a great team spirit and a lot of ideas and initiatives; some of them are still in the market and some others have retired since then, but thanks to them we have created a solid Association.

I joined the IFA Board in 2004 acting as Regional Head and then Treasurer until 2007, when I had the privilege to be elected Chairman.

Under my Chairmanship I had the honour to work with excellent people who contributed to our success and brought ITFA's flag to be internationally recognized and nowadays even collaborates closely with important international Associations and plays an important role in the world Trade Finance market.

Nonetheless, I was lucky to have had the possibility to organize the last 14 Annual Conferences which gave me the chance to meet fantastic people and to visit amazing venues; your kind appreciation for each Conference was the best satisfaction of my professional life.

I take this opportunity to say thank you to all those forfaiters who worked with me during my long period at ITFA, not only for their superb contribution but primarily for their loyalty and friendship, and to each one of you for your support and trust.

Although I may feel sad at this moment, I am happy to hand over the Association in very good hands and I wish the new Chairman and the new Board every success in obtaining the same satisfactions I have managed to fulfil.

I will always cherish the memories I have made throughout my time at the Association and I look forward to seeing you all in Dubai, where I will be delighted to bid farewell to each and every one of you in person.

Briefly touching upon the upcoming conference, one of the key topics which will inevitably be discussed is the prevailing volatility in markets, particularly during the month of August. Fears of a slowdown in China sent shivers down investors' spines, thereby sparking risk-off mode as risks of contagion into emerging markets began to materialise faster-than-expected. Chinese fears continue to drive market and investor sentiment and the key monetary policy moves by the major central banks coupled with the sharp

The Newsletter of the International Trade & Forfaiting Association



September 2015



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decline in commodity prices and recent strength of the US dollar against emerging market currencies, will be the key themes to watch out for in the weeks ahead.

Warm regards,
Paolo Provera

Posted by [Alexia Vella](#) at 12:53 No comments: 

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RECEIVABLES FINANCE: FORFAITING by Clarissa Dann, Editor - Trade & Forfaiting Review (TFR)

Clarissa Dann reflects on her past four years of attending ITFA's forfaiting and trade finance conferences and observes that this vital tool in the receivables armoury has huge potential.

You have to hand it to the International Trade and Forfaiting Association. In the run-up to their 42nd annual conference (this time in Dubai), I find myself reflecting on how this professional body has used the basic purchase of future payment obligations on a without recourse basis to inspire an entire global community.

Part of the family

This personal reflection is partly down to a certain amount of self-indulgence on my part. I took up the TFR helm on 1 August 2011 and found myself in Vienna a month later at the then IFA's 38th incarnation of what has always been a high point of the receivables finance calendar.

The passion for education shone out back then – thanks to chair Paolo Provera and vice chair Sean Edwards – this was a crash course in trade finance par excellence, and was the start of something of a love affair with this committed and passionate network of trade financiers. As one Russian first-timer put it last year at the 41st conference in Barcelona, "I feel I have gate-crashed somebody's wedding, and have been made to feel part of the family."

In the beginning

Having put the trade into its forfaiting title in Barcelona last year, what was formerly the IFA has achieved a lot since its formal foundation with officers and committees on 4 August 1999 in Zurich and launch at the Heidelberg conference a month later.

With previous chairs having included Lucio Matassoni (now at OCBC and formerly at SMBC), and FIMBank's Margrith Lutch-Emmenegger, current chair Paolo Provera (formerly of ABC Bank and now exploring new opportunities) took up the helm in 2009 and set about uniting the different geographic regions and developing the ITFA's Asian reach (Bank of China having representation on the Board). A multi-linguist (I was trying to work out what language Provera did not speak), he is widely regarded as "one of those guys that enabled people to make things happen with fabulous people skills".

It's what you call it

"What's forfaiting?" I am repeatedly asked, when those outside this eclectic industry quiz me.

Eyes glazed over when I started talking about straight discounting and I don't go there with formula used to work out the net value of a discounted debt. I explain that it is a very important tool in the receivables finance armoury which takes us into supply chain finance country before outlining what you can do to get paid more promptly if you are supplying pickles to Lidl.

Forfaiting is generally regarded as the buying or selling of the right to future payment through discounting of future cash flows, but the inclusiveness of the term has sometimes led to confusion over what it can mean. It can cover a wide range of receivables, it may or may not be trade related, it includes the discounting of letters of credit (LCs) or other payment

obligations, but traditionalists tend to see forfaiting as trade finance through and through because of the need to have an underlying rationale for the business.

UniCredit's global head of trade products Markus Wohlgeschaffen (a regular as a panellist and a speaker), thinks forfaiting has suffered from an issue of "not being disciplined in our nomenclature". "I find it bizarre that people see forfaiting as a special animal – it's just a tool," he explains. But it still suffers from identity challenges.

Wohlgeschaffen says this is one of the reasons for the ICC Banking Commission's project to create a consistent and common understanding of supply chain finance.

Edwards, representing ITFA views, has been part of the drafting group and contributed the definition of forfaiting. "When you put up all the component parts in the spotlight and you set them alongside the other receivables purchasing techniques such as factoring, you quickly see that there is nothing outdated or irrelevant about forfaiting. The skills, conceptual approaches and structures sometimes get overlooked by some trade financiers or are simply used under a different name." He continues, "In both cases, the wider trade finance industry could be missing a trick so looking at the essence of this technique is a very worthwhile exercise."

Historically, forfaiting for many has been, says Edwards, "a matter of promissory notes and bills of exchange funding the export of capital goods". He adds, "That those markets still exist is often forgotten by many critics. Large export markets such as Germany have thriving forfaiting communities as do large parts of Asia where the preferred instrument is the letter of credit."

Impacts and outcomes

The beauty of forfaiting is that it allows suppliers to offer longer-term payment terms to buyers without adversely impacting their liquidity or inflating their balance sheets. "It's one of the most important instruments to unleash trapped liquidity," confirms Wohlgeschaffen.

"I find the ITFA is one of the most active organisations that delivers tangible results and the fact they have enlarged it with a 'T' shows they really understand what is going on in trade," he enthuses. He cites the adoption by the ICC Banking Commission of the Uniform Rules of Forfaiting (URF800) in January 2013 after three years of drafting as a "huge achievement".

Another example of the body's forward thinking is how to attract new talent into the industry. Having launched the so-called "Young Professionals Network" in Barcelona, work is well underway to build a strong network of junior colleagues to foster the education and career development of the next generation of trade financiers and forfaiters in trade finance.

Volumes and price compression

The inexorable rise of open account trading is directly correlated to the long-term growth of forfaiting. This, combined with the ever growing tendency of suppliers to provide stretched payment positions will, say observers, lead to increased take-up of the instrument.

However, right now, most providers confirm that forfaiting volumes "have dropped" although unlike the Factors Chain International statistics, there is, as yet, no repository of global forfaiting statistics; there are efforts being made to change this with the assistance of the Asian Development Bank (ADB). The main reason for the slowdown in activity is the slump in commodity prices. Says Wohlgeschaffen, "At UniCredit we have experienced reduced volumes of forfaiting transactions, but if we ignored the commodity trade finance sector there would actually be an increase."

London Forfaiting Company (LFC) director Tony Knight makes the point that "there is far too much liquidity chasing a narrow group of countries as a consequence pricing in, for example, Turkey, bears no relation to the risk."

Sources of business

A number of institutions have "discovered" sub-Saharan Africa, where there is still a requirement for classical trade finance products and, for the most part, a good performance record. While most would agree that in Angola and

Nigeria, the reverse is at play because of the collapse in oil price, Knight observes that the other smaller countries in sub-Saharan Africa, where LFC enjoys a regular flow of business, "have attracted growing interest, again putting downward pressure on pricing while there is no discernible pick up in credit metrics".

It was at last year's ITFA conference in Barcelona where Afreximbank president elect Dr Benedict Okey Oramah told delegates, "Opportunities therefore exist for forfaiters willing to take African payment risk. In this context I believe that Africa will underpin the rebirth of forfaiting business. Africa will be forfaiting's new frontier".

It is not all doom and gloom on pricing, however. Knight adds, "We still attempt to generate the majority of our business from well-established relationships with a number of export clients. While this entails more work (structuring advice, letters of credit, FX), it brings added value and builds upon the relationship with the exporter.

On pure forfaiting, Knight says LFC has no pressure to trade if it does not feel the opportunity is right. "We have a diverse risk appetite and strong liquidity as such LFC employ trading as a portfolio management tool. This enables LFC to take a considered view on transactions that do not readily fall within the volume trade finance market. As a consequence there is less competition and a pick-up in pricing."

From Knight's perspective, "there is no point trying to compete in the volume countries such as India and China". LFC looks further afield or at different aspects of the trade cycle and interjects where it sees an opportunity, or when there is a correlation between risk and margin.

'R' is for...

You may hate it, but you may need to learn to love it. I am, of course, talking about regulation. In this environment ITFA would not be giving its members a proper service if it did not get stuck into the various issues affecting the wider trade finance industry.

One of these has led to a very concrete solution being provided by ITFA. CRR (the Capital Requirements Regulations, one of the measures which enforces the new Basel III rules in Europe) obliges banks to obtain legal opinions on the effectiveness of any credit risk mitigants (CRM) they use. One such CRM is the sub-participation agreement. ITFA, working with BAFT, commissioned and negotiated a generic market legal opinion with Sullivan & Worcester on the BAFT MPA which avoids the need for each bank to obtain its own opinion or at the very least significantly reduces the scope and therefore expense of any such opinion. All ITFA members are expressly allowed to rely on the opinion.

ITFA has also assisted BAFT in the United States to lobby the US authorities to avoid sub-participation agreements being classified as swaps under the Dodd-Frank legislation.

Joining the 21st century

One of the current impediments to forfaiting's wider adoption is the difficulty in documenting and evidencing the debt. "Until there is an absolutely standardised document for every trade document in the world, forfaiting will stay manual," says Knight. UniCredit's Wohlgeschaffen is concerned about the lack of progress on the digitisation of forfaiting and sees this as a collective responsibility. "We want to offer clients the facility to upload the data that represents an invoice without being forced to present a paper one", he says. "We are in the process of revamping our trade finance IT platforms and we have partnered with IT vendors to support this endeavour. Whatever our corporate clients upload, be it an invoice or an LC, it will be possible to initiate and execute a forfaiting transaction," he concludes.

All that needs to happen now is for everyone else to do the same.

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NEW ITFA MEMBERS

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

The **Saudi British Bank (SABB)**, a Saudi joint stock company was established in 1978 and is an associate of the HSBC Group. The Bank commenced its activities with the taking over of the operations of The British Bank of the Middle East branches in the Kingdom of Saudi Arabia (KSA).

Over the years SABB has developed a market leading trade finance proposition which is supported by a team of 132 dedicated trade associates located in all major business centres and various industrial and inner-city commercial areas within KSA. SABB's Trade and Supply Chain team assists customers in implementing efficient and optimal financing structures to meet their trade and working capital requirements while minimising market risk. During 2014, SABB had successfully commercialised its Receivable Finance proposition. SABB has also rolled out various initiatives aimed at enhanced client experience and risk mitigation.

SABB retains its strong links with the HSBC Group, which provides an unrivalled international access and connectivity for the benefit of its clients, and remains the leading international trade bank in the Kingdom supporting and servicing both domestic and foreign companies. SABB has been awarded the trade finance bank recognition by Global Finance (7 times in a row), The Asian Banker (Best Trade Finance Bank in KSA – 2014) and GTR (MENA Leaders in Trade Award 2009-2011,2014).

Arup Roy will be the principal contact in relation to ITFA matters.

United Bank UK's principal activities are to provide retail banking products through its branch network in major cities in the UK; wholesale banking, treasury and money transmission services to financial institutions, and trade finance facilities to businesses of all sizes.

Sunita Mehta will be the principal contact in relation to ITFA matters.

Liberty Specialty Markets (LSM) offers specialty and commercial insurance and reinsurance products across key UAE, Middle East, US and other international locations. The team, in particular, is a leading provider of insurance protection. Their global client base includes government agencies, international banks, multinationals and global commodity companies as well as a wide variety of exporters and contractors.

Classes of business include: non-performance by private and public obligors, non-payment by private and public obligors, fair and unfair calling of contract bonds, and political risk for fixed and mobile assets. The team of 15 consists of expert underwriters and analysts based in London, Paris and Singapore.

Elizabeth Dexter will be the principal contact in relation to ITFA matters.

RK Harrison has delivered insurance solutions to meet the sophisticated requirements of wealthy individuals since 1882. They deliver expert insurance developed by brokers who are as passionate about the service they provide as the items they insure.

RK Harrison Financial Risks works within the political & structured credit and international trade credit insurance markets as insurance brokers. By creating insurance that is fit for purpose, they offer their clients value for money. Their experts build solutions that meet precise individual requirements, so clients only pay for the coverage they need.

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

Posted by [Alexia Vella](#) at 12:48 No comments:

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UPCOMING EVENTS - SAVE THE DATE

With the **ITFA 42nd Annual Trade and Forfeiting Conference** only a few weeks away, the ITFA Board is working extremely hard with the last minute preparations to ensure that the event is one to remember. To register for the Conference on-line, please [click here](#).

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

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

On a different note, we wish to remind you all that IBC is organising a 2-day Conference titled: "Trade Credit Finance, Risk & Insurance - exploring corporate finance and risk management in open account trade". This event is going to be held between the 23rd and 24th September, 2015 in Central London. For more details about the conference please [click here](#).

Posted by [Alexia Vella](#) at 12:30 No comments: 

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TUTORIAL - BECOMING FAMILIAR WITH VARIOUS FUNCTIONS ON THE ITFA WEBSITE

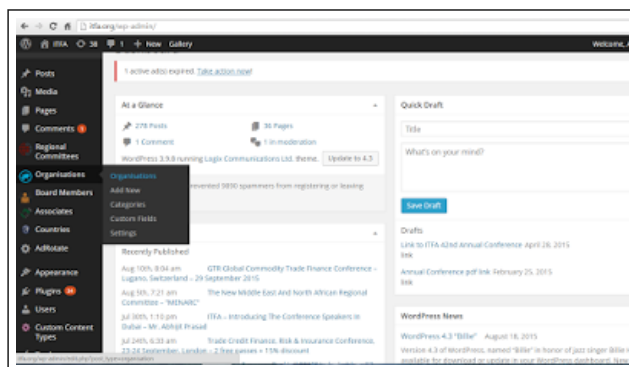
As time flies by, we find ourselves tackling yet another tutorial session. By now, I'm sure you have all become very confident using our ITFA website, which was the intended aim of these tutorial sessions. In fact, this will be the last tutorial as we have tackled all the main areas of the website which you might need to access and edit.

With the help of these tutorials, our users now have the know-how on how to successfully use the various functions of our ITFA website - www.itfa.org.

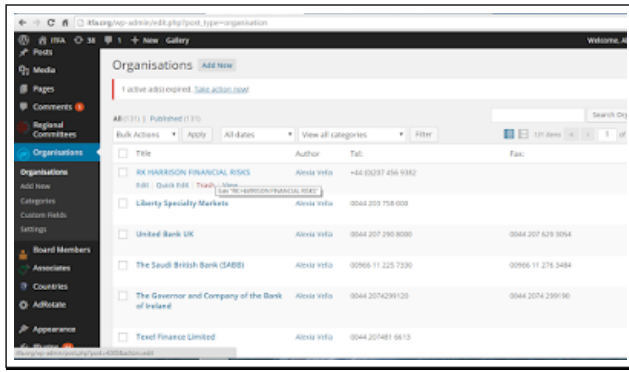
In this issue we will be tackling the function of editing organisation details. So the question arises:

How would one go about editing 'his/her' organisation details?

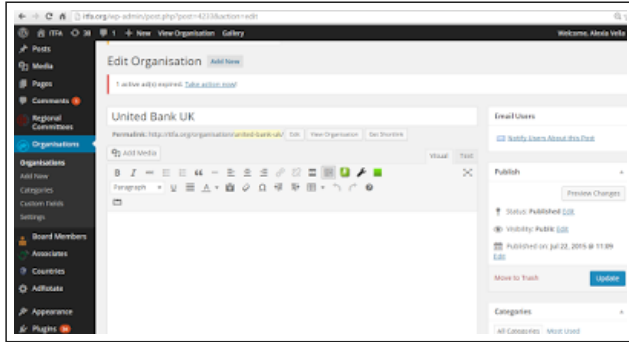
To edit an existing organisation, hover on the '*Organisations*' menu item and select '*Organisations*'.



Search for your organisation and click on the title to edit the organisation details.



Once you have updated all the required fields, simply click on 'Update'.



I sincerely hope that you enjoyed these sessions and will be experimenting with the functions you now know how to use.

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