

WISCONSIN INTERNATIONAL TRADE CONFERENCE

Presented by MMAC's World Trade Association

Approved Payables Finance

A Supply Chain Finance Solution

May 10, 2016



MAYER • BROWN

Approved Payables Finance (APF)

What it is not

It is not a loan – It is not debt; typically remains as accounts payables for the Buyer and for the Supplier it represents a true sale of their receivables

It is not factoring – 100 percent of each invoice — minus a discount, is paid to the supplier, and there is no credit recourse to the supplier once the invoice is paid

It is not just for large companies – It provides value for firms of all sizes and credit ratings, including SME suppliers



Approved Payables Finance (APF)

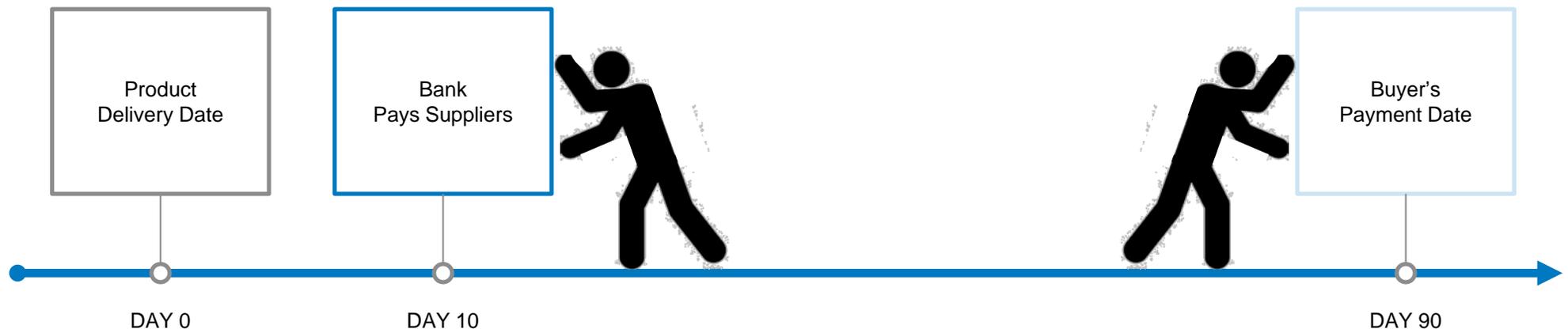
What it is

- APF could enable Buyer to free up cash by extending accounts payable
 - Improve Cash Conversion Cycle
 - Reduce costs in supply chain

Treasury can achieve these benefits with little or no distraction from other priorities; Procurement and AP resources typically lead the effort

- Suppliers can also choose to increase cash flow by getting paid early (e.g., rather than being paid in 30 days, they can get paid in 10 days)
 - The bank purchases eligible accounts receivable on a discounted basis from Buyer's suppliers
 - Suppliers' access to cheaper funding can be translated into lower prices to Buyer

APF: SEPARATES SUPPLIER RECEIPT OF PAYMENT FROM BUYER DISBURSEMENT USING BUYER'S CREDITWORTHINESS



Buyer and its vendors to enjoy the benefits of improved cash flow

APF – How it Works

No Change to Current P2P Process

- Orders are placed, product ships, invoices submitted and processed/matched and posted to AP just as occurs today

Vendor Controls When They Get Paid

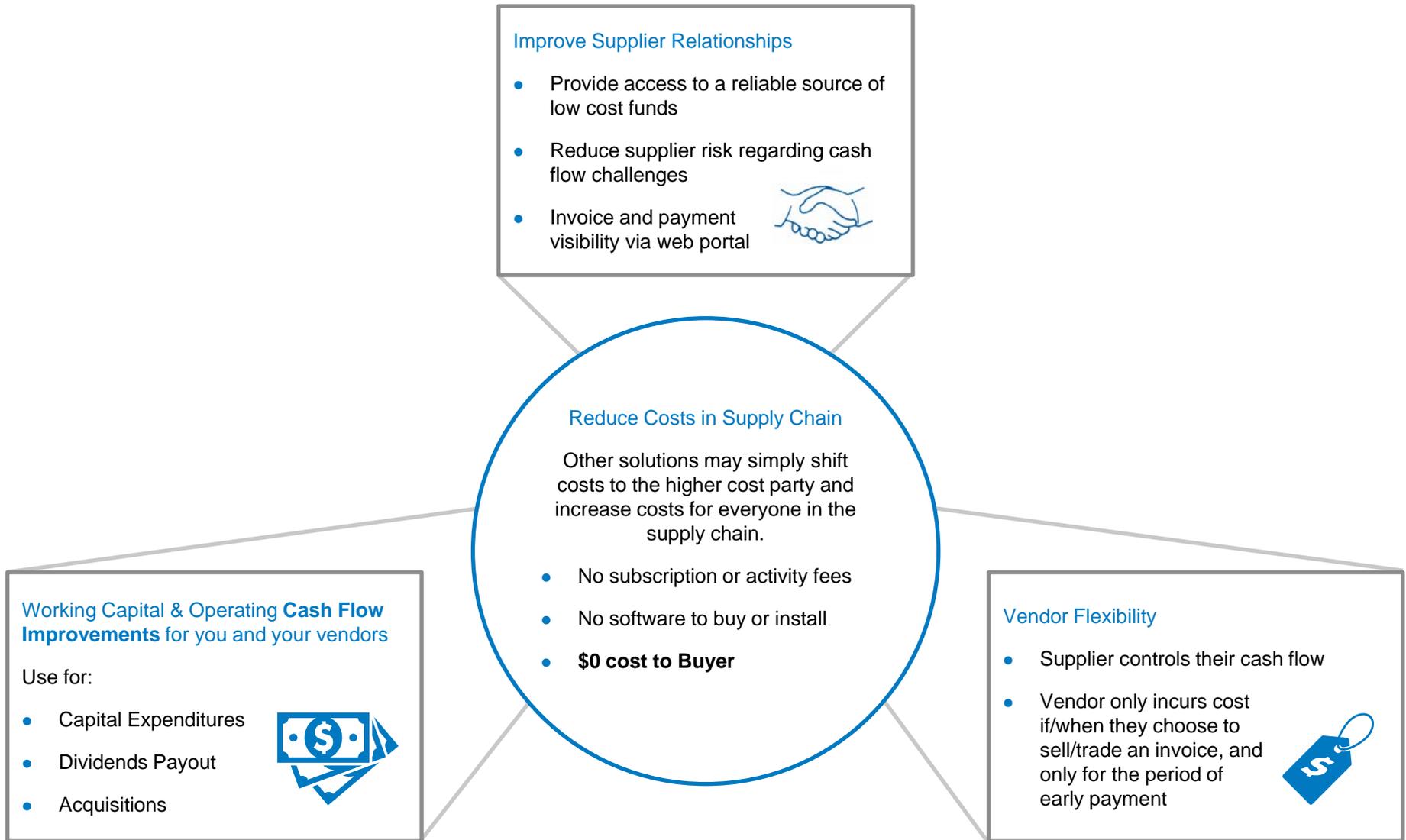
- Posted invoice is communicated to trading platform
- Vendor can choose to sell receivable (w/o recourse) anytime from the time it posts to 5 days before maturity

Buyer Holds Funds Until Maturity Date

- The bank purchases the receivable (at a discount) in a “true sale” and remit funds to vendor, if the vendor chooses to get paid early
- Buyer holds their funds until invoice maturity

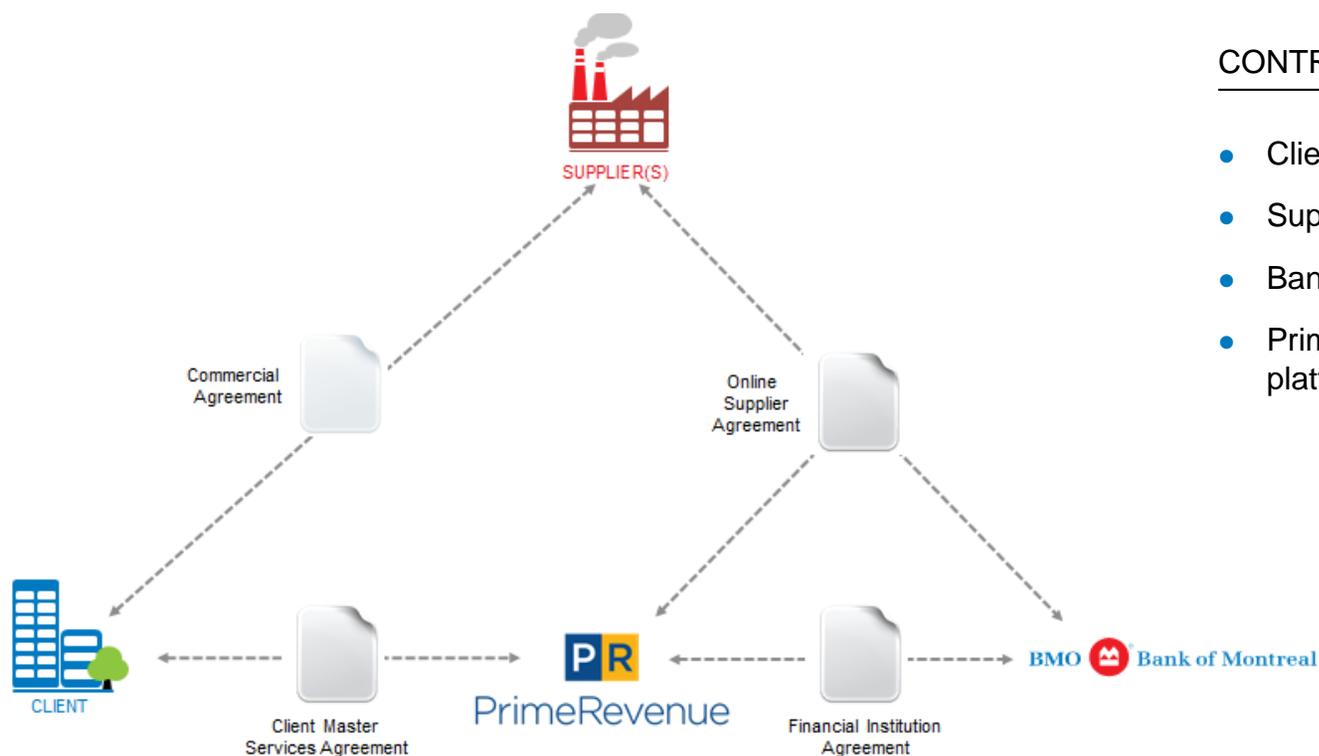
No change to existing process | No cost to Buyer | Only costs vendor if they choose early payment

APF Benefits



Legal Structure – Unsecured APF LOC (Multibank Platform)

- MSA – Buyer has an irrevocable legal, valid and binding obligation to pay, with respect to any invoice issued in connection with such payment obligation
 - It creates Third Party Beneficiary Rights in the Payment Obligations
- OSA - It sets out the terms under which a supplier may access and use the PrimeRevenue system. The supplier also agrees to the timing of the transfer of all of its right and title (to the Bank)

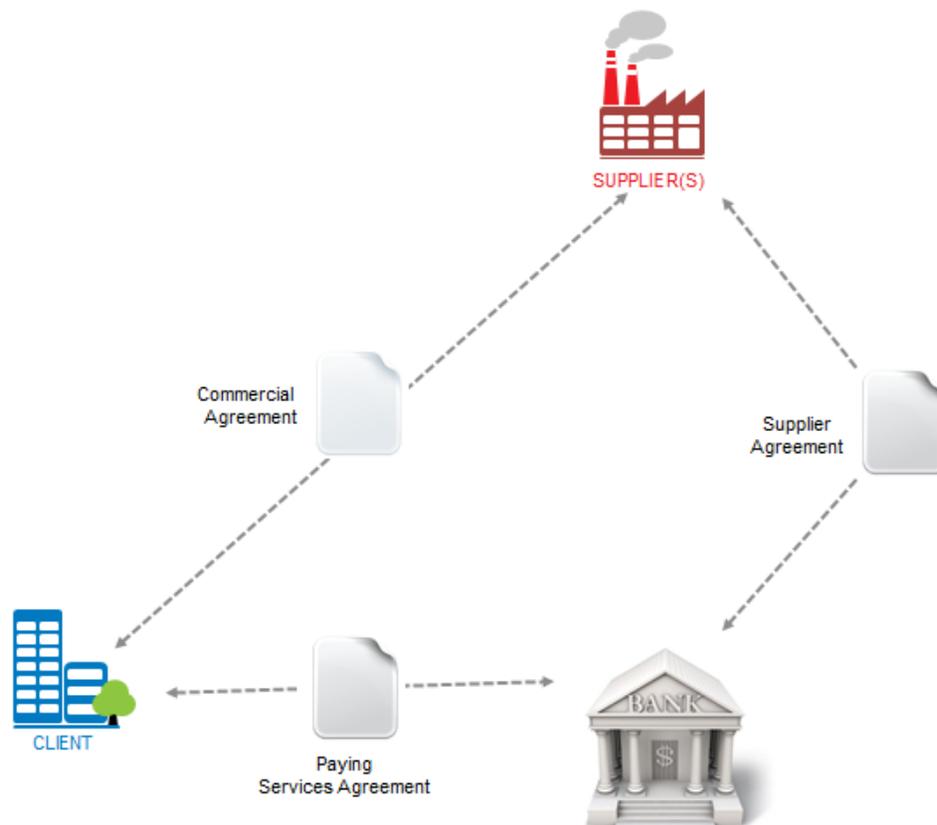


CONTRACTING PARTIES

- Client
- Supplier
- Bank of Montreal
- PrimeRevenue - (technology platform provider)

Legal Structure – Unsecured APF LOC (Bank Platform)

- Buyer acknowledges that if the receivable is sold to the Bank, the obligation of the Buyer to pay the Bank is “absolute and unconditional, without any claim, abatement, deduction, reduction or setoff of any kind”
 - Buyer rights against Supplier not affected
- The sale is non-recourse to the Supplier (i.e., the Supplier does not guaranty payment by the Buyer) and is explicitly articulated as a legal true sale and not a financing



CONTRACTING PARTIES

- Client
- Supplier
- Bank

Accounting Considerations (Buyer)

- In most cases, a Buyer will want to avoid having accounts payable to Suppliers on its balance sheet converted to a short-term payables financing
- Limited GAAP guidance (mostly based on a couple of SEC speeches)
- Requires coordination among procurement, treasury, financial reporting and legal functions
- Negative factors to avoid:
 - The obligation owed to the Bank is different than the obligation owed to the Supplier
 - Supplier participation is mandatory
 - Buyer involvement in negotiations between Supplier and Bank
 - Excessive Buyer control
 - Make-whole arrangements between Buyer/Supplier



Accounting Considerations (Supplier)

- Three Part Test under Paragraph 9 of FAS 166 / ASC 860.20
 - Legal isolation [¶ 9(a)]
 - Legal true sale
 - Free assignability [¶ 9(b)]
 - No “effective control” [¶ 9(c)]



Recent Trends

- The non-investment-grade (NIG) market is set for rapid growth
 - Lots of interest in credit insured receivables
- Lots of interest in financing non-US receivables
- Large Corporates approaching Banks with the ask to implement a Buyer APF Program for some of their suppliers
- Increased interest from banks and fintechs, and growing investment from venture capital and private equity

Appendices

Speakers



David Ciancuillo practices banking law, with an emphasis on securitization, asset-based lending, trade and supply chain finance and other structured finance products. He regularly represents banks, borrowers, investment vehicles and other finance companies in various transactions, including: asset-based lending facilities; subscription facilities; securities offerings; and the purchase and financing of trade receivables, student loans, mortgages, equipment and automobile loans, insurance related products and a variety of other assets.

David has a great deal of experience in reviewing, negotiating and helping clients to create complex financing, refinancing, cross-border and investment programs designed to address a wide variety of legal issues and strategic goals, including matters relating to secured lending; global trade and supply chain finance; insurance related products; and accounting and regulatory matters.



Massimo Capretta focuses his practice on representing both financial institutions and companies across a broad spectrum of domestic and international financing transactions.

Massimo has particular experience with domestic and cross-border trade receivables securitization, asset-based finance, factoring, supply chain/vendor finance, trade finance and other receivables monetization strategies. He regularly advises clients on the creation and management of bespoke receivables finance transactions.

Speakers



Isabela T. Mendes has over 25 years of professional experience in both financial and industrial sectors, acquired working for large Corporations in Brazil and the US in functions within the international and treasury departments. Joined BMO's Trade Finance Sales department in 2007 where she was responsible to cover large corporations and commercial middle market in the US Midwest and east Coast. Most recently she has assumed new Sales responsibilities at BMO's Global Trade & Supply Chain Solutions where she is responsible for increasing BMO's strong market position within the supply chain finance domain.

Isabela obtained her MBA from the University of Toronto Business School/BSP in Sao Paulo and her undergraduate degree in Business Administration from Getulio Vargas Foundation, Sao Paulo. She also holds an ICCE International Certified Credit Executive designation.

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