TRADE RECEIVABLES SECURITISATION

A PLAYBOOK FOR SUCCESS

TMF GROUP

Global reach
Local knowledge

DEMICA

Transforming trade.
Powering progress.

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EXECUTIVE SUMMARY

Trade receivables is a loosely defined term. In most cases, when referring to trade receivables in trade receivables securitisation (TRS), it is a reference to **invoices that have been issued** to clients where payment is not conditional on any future events.

TRS programmes are structured similarly to other securitisations, with a sale of the receivables to an orphan special purpose vehicle (SPV) that is funded through the issuance of notes to senior funders. Senior funders are generally banks that provide funding through their specialised conduit vehicles. The financing is repaid from the receivables' collections.

Securitisations can provide strong, risk-adjusted returns for investors and competitive, tailored funding for corporate sellers, as well as the option to deconsolidate the receivables from their balance sheet.

With strong investor demand, the market for TRS transactions has been growing steadily. The Association for Financial Markets in Europe (AFME) reports that European TRS represent €42bn of reported commitments as of December 2022, equivalent to approximately 60% of all private securitisations. However, AFME assumes the TRS market to be significantly larger, with around €115bn of commitments.

TRS **have significant structural differences when compared to other asset classes,** including the short nature of the assets, unique and diverse servicing risks, the corporate nature of the originators and debtors, multi-jurisdictional and cross-currency portfolios, the rolling nature of programmes with variable funding structures and simplified tranching.

Some of the main challenges for TRS programmes revolve around the large volume of data, large variance and complexity in the underlying assets, cash dominion and reporting obligations. Additionally, the competition from other non-securitisation products, and the lack of experience of corporate sellers can create multiple headwinds.

All successful trade receivables programmes will require a wide array of third parties and partners to ensure the transaction, reporting and SPV run smoothly and securely. These include corporate service providers, security and data trustees, cash managers to make required SPV payments, as well as a reporting agent to ensure the portfolio is adequately monitored.

TRS **offer a resilient and adaptive financing option,** benefiting both corporate sellers and investors, with growing appeal in today's changing financial landscape.

RECEIVABLES AS AN ASSET CLASS

Trade receivables is a term that often refers to receivables or assets related to documentary trade, such as letters of credit, bills of exchange or guarantees. These are mostly financed by banks and as a direct facility with the corporate supplier or purchaser.

However, the accounting definition is much more useful for our purposes: trade receivables arise "when a business makes sales or provides a service on credit".

Most TRS focus on invoices that have been issued to clients (debtors) but have not yet been paid. Some programmes can include "unbilled" invoices, where the goods or services have been provided but the invoices have not yet been issued.

Invoices are frequently sold in batches set out in a ledger extracted from the corporate enterprise resource planning (ERP) system or other internal systems. In most programmes, all invoices from corporate entities participating in the securitisation (other than specific exclusions) are included.

Funders will normally require certain eligibility criteria to be met, including: payment not being conditional on any further action from the seller; the invoice being transferable and enforceable, issued to a client from an agreed list of countries, not issued to a subsidiary or affiliate, and; and not being a sanctioned client.

The performance of the receivables will be assessed on a portfolio basis. Well-rated debtors are preferred but are not a necessary condition. The focus will be on the amount of dilutions (credit notes), the payment performance (ageing) and concentrations (especially of low-rated debtors).

"Over the years, receivables finance has proved to be one of the most resilient asset classes in the context of an economic downturn," says François Terrade, Global Head of Structuring at Demica. "Whilst corporates have valued the flexibility of this source of financing, investors have benefited from very low levels of net losses, clear risk methodology and a strong legal framework."

OVERVIEW AND KEY BENEFITS

The core structure of TRS is simple and not too dissimilar to standard securitisation transactions.

The receivables are sold on a non-recourse basis to an SPV. TRS programmes are set up as rolling programmes, where receivables are sold to the SPV daily using collections from prior sold receivables to fund these purchases.

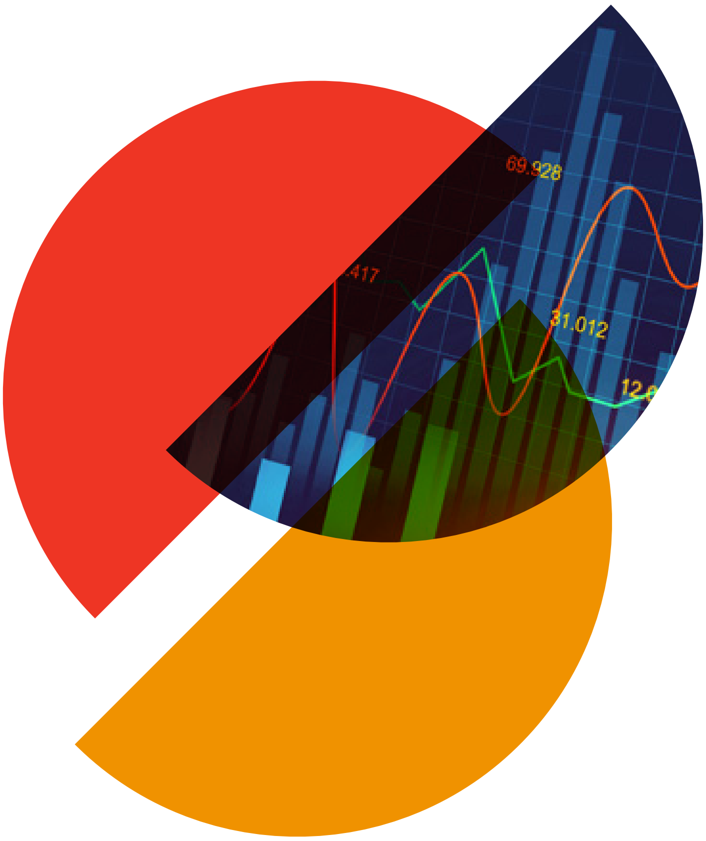
1. The receivables are sold to the SPV (normally as an equitable sale). These are frequently sold at par, and in some cases at a discount due to tax, legal or structural requirements. Receivables are not interest-bearing, so funding costs will need to be paid through contributions from the corporate seller and/or the purchase price discount.

2. The purchase is funded by the SPV through the issuance of variable funding notes or loans, the senior tranches are sold to funders and the corporate seller will frequently hold the most junior tranche. Senior notes funding costs are variable, with a margin added to standard reference rates such as the Euro Interbank Offered Rate (Euribor) or the underlying bank conduit cost of funds.

Settlements between the SPV and the senior funders will normally take place monthly, and, where funding is a core part of the corporate seller's business model, these can be weekly or at even higher frequencies.

Senior funders are frequently banks and bank conduits, with a stronger presence of alternative investors for certain sectors and corporate sellers, as well as in mezzanine tranches.

3. Collections from sold receivables are due by the corporate sellers to the SPV and settled on an agreed frequency. In some programmes, debtors will be instructed to settle receivables directly into the SPV bank account.



Where the corporate seller wishes to deconsolidate receivables from their balance sheet, additional features will be included, such as a third party that will have certain control rights over the management of aged receivables.

Securitisation transactions can provide strong risk-adjusted returns for investors. This is driven by a wide array of structuring features available to mitigate default, corporate seller and operational risks. Most transactions funded by banks and bank conduits can achieve implied ratings of A or AA under the S&P Global's trade receivables criteria.

TRS programmes allow investors to invest in an asset class directly exposed to the real economy, which directly contributes to the funding and growth of small- and medium-sized companies – frequently as suppliers of the corporate sellers.

For corporates sellers, implementing a TRS programme has significant advantages versus other forms of corporate debt and receivables financing. Securitisations are committed for longer terms and can be tailored to client requirements. They are also more commercially competitive and less operationally involved than other receivables financing.

> *"Our corporate clients value the competitive cost and flexibility that TRS can deliver and have shown a significant appetite to expand existing programmes to new jurisdictions and launch new transactions for acquisitions,"* **says François Terrade, Global Head of Structuring at Demica.**

THE CURRENT MARKET

Positive market trends are affecting and influencing the TRS market, making it an increasingly attractive proposition to both corporates and investors.

Policymakers and central banks remain focused on curtailing the worst inflation spike in 40 years. With a sustained period of rate hiking, as well as the general consensus that there may be some further increases, traditional forms of financing remain less attractive for corporates looking for additional liquidity for their businesses. As such, these corporates are now looking at other avenues, outside of their standard credit lines.

OPPORTUNITY KNOCKS

Such an environment has made structured open account products such as TRS a more compelling option.

> *"Traditional financing sources are not so readily available for corporates, and that's why there is a lot of growth out there for TRS,"* **says Alfonso Pagano, Commercial Director at TMF Group.** *"Over the next five years, the compound annual growth rate is expected to be around 5%, showing the uptick in demand."*

That demand is reflected in how banks are gearing up to support it. According to the Demica Benchmark Report 2023, which took the pulse of 190 trade financiers across the globe, 15% believe TRS will have the highest growth potential within their organisation, bumping more typically user-friendly services such as factoring (11%), asset-based lending (9%), and dynamic discounting (6%) down the pecking order.

Payables finance

33%

Receivables discounting

26%

Trade receivables securitisation

15%

Factoring

11%

Asset based lending

09%

Dynamic discounting

06%

SOURCE: DEMICA

Securitisations are not a new tool, having been around for nearly 40 years. They offer a valuable source of funding for sellers, helping them to manage risk, grow business and improve financial performance. Despite their association with the global financial crisis, securitisations also provide a low-risk option for investors, many of whom have close working relationships with the sellers.

INVESTOR DEMAND

This is even more the case with short-term trade receivables assets and is why they are now proving popular with investors, despite tricky market conditions.

> *"When you have a securitisation of this asset type it is probably less affected by the economic cycle,"* **says Alfonso Pagano, Commercial Director at TMF Group.** *"Why? Because a company will do what it can to ensure a stable supply chain. If you were to compare it to a consumer loan, for example, that's far more closely entwined with the economy. In short, you must be very careful, as a corporate, to pay back your supplier."*

And Demica is seeing plenty of sell-side demand. For example, it went to market in the first half of 2023 for proposals for two receivables securitisations worth US$1.8bn and received proposals from a total of 30 banks that were attracted to the strong risk profile of the products and looking to provide financing.

"Demica has extensive experience working with a wide range of funders to find the most efficient and flexible solutions for our clients. Different funders are attracted to deals based on their size, geography and sector, but a common theme is the stability and resilience provided by receivables financing structures, which allow pricing to be competitive when compared with other financing strategies," says Adam Barrett, Head of Distribution at Demica.

TREND ANALYSIS

Historical trend data supports this positive sentiment, notably in the private market which, arguably, is growing faster than public issuance in terms of volume.

According to fresh research covering the European market, TRS a saw healthy 9.1% year-on-year growth (based on committed amount). With a committed amount of nearly €43bn, the product now makes up approximately 60% of all private securitisations in Europe. Extrapolating this data, AFME estimates the total global market for TRS to be roughly €115bn. This far outweighs the size of securitisations of auto loans or leases, and consumer loans – the second, third and fourth most popular forms of private securitisation.

Table 3 - Asset Type Distribution

Asset Type	Committed Amount 2022-12	Committed Amount 2022-06	Committed Amount 2021-12	Committed Amount 2021-06
Trade Receivables	42,523	40,682	38,966	35,689
Auto Loans/Leases	11,132	10,162	11,187	13,985
Equipment Leasing	5,096	4,327	4,183	3,417
Consumer Loans	4,891	4,704	3,760	3,197
Other Types	9,541	7,366	6,968	6,527
Total	**73,182**	**67,241**	**65,064**	**62,815**

△ = Annualised growth rate

Source: H2 2022 data from AFME, True Sale International, European DataWarehouse.

The most prominent seller sectors are manufacturing, financial and insurance, and electricity, gas and steam.

Germany remains the most popular seller region, followed by France and Italy. Banks are by the far the most common investor, while asset-backed commercial paper (ABCP) remains the dominant funding type for all private securitisations. *"And, with the development of the private credit markets,"* says Alfonso Pagano, *"you are beginning to see increased appetite from asset managers in this space."*

Moreover, of all the transactions (by volume) tracked in H2, 2022, more than 87% were undertaken by sellers with ratings of BBB and below at inception, while the average transaction rating was between A and AA. This shows that there can be a healthy potential financial saving for a lower-rated seller.

CONTRASTING TRS WITH OTHER ASSET CLASSES

Even if trade receivables represent a small share of the securitisation/asset-backed securities (ABS) market, their characteristics are very different from other asset classes driving unique structural features.

SHORT-DATED

Trade receivables are generally short-dated; with the most common payment terms ranging from 30-90 days, the portfolios amortise quickly. The amounts are owed for goods or services provided, often critical to the debtor's business. The combination of these two factors results in low debtor repayment risk.

ROLLING FACILITIES

The short maturity of the assets, and the fact that these are originated daily, means a vintage approach is not suitable. TRS programmes are set up as rolling facilities where receivables are purchased daily and variable funding notes or loans settlements occur weekly or monthly.

SERVICING RISK

The short-term nature of these assets introduces a high servicing risk, especially where the corporate seller continues to service and collect the receivables. The time periods required for a back-up servicer to be put in place and/or for debtors to be notified of the receivables sale and new collection accounts, are often longer than the assets' amortisation period.

LIMITED TRANCHING

Tranching is generally limited to a single senior tranche, with one or more funders with equal seniority and rights, and a junior tranche, generally owned by the corporate seller. Certain transactions increase funding by adding a mezzanine note to the structure, generally owned by an alternative investor such as a credit fund.

OFF-BALANCE SHEET

In some instances, a thin “equity” tranche (more junior than the subordinated note) is introduced to transfer the portfolio risks and rewards, enabling the receivables to be deconsolidated from the corporate seller’s balance sheet.

MULTI-JURISDICTION

Receivables portfolios are generally sold by several corporate seller subsidiaries, located in different countries. This means structural adjustments are required in order to meet all local tax, legal and regulatory requirements in relation to receivables sales and financing. For example, France’s bank monopoly rules on the sale of non-matured debt, introducing restrictions on the type and jurisdiction of entities that can buy trade receivables.

GLOBAL DEBTORS

Debtors are often located in a wide range of jurisdictions, frequently significantly broader than the corporate seller’s subsidiary jurisdictions. This requires ensuring the programme is structured to ensure receivables assignments are enforceable and security perfection is possible across all the required jurisdictions.

PRIVATE TRANSACTIONS

Due to the rolling nature, and smaller average size and complexity of TRS programmes, the majority are private transactions conducted directly with banks and bank conduits with almost no programmes financed through public ABS markets.

KEY CHALLENGES

Given the differences in the asset class and transaction structure, TRS programmes have their own unique set of challenges that must be managed to ensure success.

1. Large volume of items and data

CHALLENGE

Receivables books are frequently made up of a large volume of items, including invoices, credit notes, adjustments, offsets and other item types that need to be factored in when calculating performance, advance rates and available funding.

These items are created, and once applied or no longer relevant, are removed, resulting in large streams of constantly changing data.

SOLUTION

- Automate the transfer of information from the corporate seller ERP.
- Build a full reporting suite in-house, or appoint an external reporting agent, such as Demica, to source, process, and report data from the corporate seller ERP.

2. Sector, seller and receivables complexity

CHALLENGE

Each TRS programme will be tailored to the specific sector, corporate seller and receivables type in scope. Each one of these categories can have numerous variations, that make it difficult to replicate previous transactions even if they are in the same jurisdiction and sector.

Different sectors will have different but specific requirements or limitations that will need to be factored into the transaction structure.

Each corporate seller subsidiary may have its own operational, underwriting, servicing and collection procedures, especially where the corporate seller has grown through acquisitions.

Depending on the business and sector, there will be several types of receivables with their own terms and conditions, payment terms, types of service providers and other features that may necessitate risk mitigants or structural enhancements.

SOLUTION

- Understand and document the different characteristics of the sector and the corporate seller.
- Review each receivables type and assess the impact on the required transaction structure.
- Work with funders and counsel to adapt transaction structure and documentation to meet corporate seller and funder objectives, and legal, tax and regulatory requirements.

CASE STUDY

An international transportation corporate seller launched a TRS programme where one of the selling subsidiaries was based in France.

The Gayssot law **protects professional subcontractors in the transport and logistics sector against non-payment from their customers** (in this case, the corporate seller subsidiary) and gives them certain rights to the invoice issued to the end customer resulting from the subcontracted service.

The programme was structured so these receivables could still be financed subject to close monitoring of the days payable outstanding from the corporate seller subsidiary to the subcontractors. This additional feature was included in the reporting suite managed by the reporting agent. If the days payable outstanding were higher than the threshold, the financing was reduced – this feature was also automated within the reporting suite.

3. Cash dominion

Transactions will frequently have multiple jurisdictions, selling entities and collection methods, creating a complex web of collection flows and arrangements.

Being able to monitor these and put in place risk mitigation measures, such as a pledge or control agreement, is complex and will require the right monitoring and reporting tools.

In addition to this, if certain events are triggered, a back-up servicer may be put in place to replace the corporate seller as servicer. This is operationally complex given the large volume of debtors and items, diversity of jurisdictions and short-term nature of the assets.

CHALLENGE

- Include required flows, balances and collections monitoring in the transaction reporting suite.
- Certain reporting agents will have a back-up servicer facilitation capability so that the data they hold can be transferred directly to the back-up servicer without additional work from the corporate seller.

SOLUTION

4. Reporting obligations

A comprehensive reporting suite is put in place to monitor the programme, assess performance and calculate the amount of funding and required payments. This will include a roll forward, ageing, balances across the different levels (total, eligible, etc), performance metrics, triggers, advance rate calculations, funding amounts and required drawdowns and repayments.

In addition to funder reporting, European Securities and Markets Authority (ESMA) reporting is required under the EU Securitisation Regulation. The information for these reports is mostly sourced from the standard transaction reporting.

CHALLENGE

- Appoint a reporting agent, such as Demica, to help manage the transaction reporting obligations.
- Review regulatory reporting obligations and requirements with counsel and funders.

SOLUTION

5. Competition from other open account products and services

There are several reasons for the competition of other open account products and services. These range from corporate understanding of the trade receivables securitisation process, to appetite from a client's bank to push for such an option when more traditional services – such as receivables discounting – offer similar upsides for the client with less of the onerous initial onboarding required.

Even some of the largest global companies are not quite ready to take the jump. "We're certainly keen to do a trade receivables securitisation," says one treasury director at a FTSE100 company, "but you need a good solid treasury base in place first – otherwise your focus will be on tools which give results faster."

CHALLENGE

- The recent uptick in appetite for TRS, especially in Europe, certainly suggests such internal hurdles are being jumped. And while there will be companies looking to resolve short-term financial issues, where securitisation might not be the most appropriate solution, those looking at their working capital with a longer lens, are seeing the benefit of setting up a multi seller, cross-jurisdictional programme.
- In many cases, where corporates have difficulty in understanding the pros and cons of their financing options, having a partner with first-hand knowledge of cross-border regulation and multi currency complexity can give treasury teams comfort.

SOLUTION

6. Lack of experience in securitisation product from corporate issuers

The central theme within the TRS market is confidence, where a lack of experience in the TRS product can prevent corporate sellers (and investors) from having the required confidence to initiate a transaction.

CHALLENGE

- For sellers, that confidence may be born from being assured about the value TRS would offer over something less heavy duty and immediate.
- For other players in the ecosystem, a service provider like TMF Group can provide both the active housekeeping – such as data, GDPR compliance, etc – and all the contingency services.
- As one regular TRS investor puts it: "In the unlikely event of an insolvency, for example, there's probably going to be an element of chaos. You need contingencies in place – in effect shadow servicing those entities in the run up to one. This is where service providers will step in. To put order to that chaos."

SOLUTION

7. Macro headwinds

One area that may have been perceived to be a challenge but has so far proven not to be, is response to macro headwinds.

CHALLENGE

- Research into the European private securitisations market, conducted by AFME, shows that despite black swan events such as the Ukraine war, the pipeline of transactions is proving healthy, with transaction ratings remaining stable.
- "Whatever the case may be, we think that this behaviour makes a strong case for a securitisation product as a stable, reliable, funding source of the real economy," AFME concludes

SOLUTION

LEGAL CONSIDERATIONS BY A&O

Unravelling the legal complexity of receivables securitisation

SPECIAL PURPOSE VEHICLES

In any securitisation, the main objective is to isolate the credit risk of the receivables from their originator. More often than not, this is achieved by the originator selling the receivables to a company set up specifically for that securitisation – otherwise known as a special purpose vehicle (SPV).

A special purpose vehicle will usually be established in jurisdictions that have legal regimes more accommodating to securitisations. The SPV may sometimes be structured as an orphan vehicle outside of the originator's group, with its shares held by a holding company supplied by specialist corporate services providers, who charge a fee for provision and management. These SPVs only accrue nominal profits and their shares are held for charitable purposes.

SPVs are also restricted from having premises or employees, established specifically for the purposes of acquiring receivables and undertaking activities relevant to the securitisation. Meanwhile, the chosen location of an SPV will depend on a range of factors, including where there are fewest tax and regulatory issues, a well-established infrastructure, as well as a supportive legal environment.

SALE

A key feature of securitisation is in achieving legal sale and derecognition of receivables from supplier balance sheets. However, the accounting and legal regimes are not always aligned.

Accounting derecognition will often require an analysis under International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It looks at tests relating to continued control asserted over the assets by the originator (whether through the servicing arrangements in respect of the assets or through control of the SPV) and an analysis of the retained risks and rewards (eg if the originator retains some loss sharing).

Nonetheless, while these factors may be relevant to the legal analysis - particularly as to whether the sale can be characterised as such - the primary focus of a legal sale will often be determined by legal formalities under the regimes applicable to the seller, the governing law of the contract with the underlying obligor and the laws governing the obligor itself. For a pool of receivables owed by a diversified group of obligors in multiple jurisdictions, this may require a due diligence exercise around the legal requirements in multiple jurisdictions where there are concentrations of receivables.

SOME OF THE ISSUES CONSIDERED

- The formalities required to document a sale - typically they must be in writing and can sometimes be entered into in advance of the receivable coming into existence.
- Whether the formalities will be completed under one law - for example, will the governing law of the sale will be recognised by a different legal regime (eg the law where an obligor is located).
- Whether consents are required from the obligors - in some jurisdictions, notarised consents must be obtained.
- The notices to be given to obligors - notices may be deferred to allow originators to continue to collect the receivables in their own names. In some jurisdictions, sales of receivables must be registered in a central registry to be effective.
- Whether the purchase of the receivables constitutes lending activity – understanding whether this will be regulated under banking monopoly laws.

  The terms of the sale will often determine whether it can be characterised as such. If the originator is obliged to make good credit losses due to obligor default, the sale may instead be treated as a pledge or as a security.

DILIGENCE

In order to understand the associated risks (and in addition to a credit assessment of the obligors), a legal analysis will also usually be undertaken in respect of the receivables and the originator.

- A review of the buyer or supplier terms to understand if the receivables are assignable and whether there are privacy or confidentiality provisions that need to be respected.
- Consideration of the circumstances when a receivable may not be paid after invoice. For example, an obligor may be able to return products or otherwise offset claims for future product deliveries (if an invoice relates to part of a larger order or series of orders).
- Understanding any special conditions that must be fulfilled before an obligor will pay.
- Consideration of other arrangements that may restrict the sale by an originator. For example, any other financing facilities it may have entered into or any retention of title arrangements exercised by suppliers to the originator.

TAX

The securitisation of a receivables portfolio will normally aim to achieve tax neutrality. SPVs will normally be structured not to pay tax, because all of the income received will (absent a defined nominal profit) be deductible against the SPV's liabilities to funders and other expenses.

Due diligence may also be undertaken in the jurisdictions where obligors are located to identify any stamp duties or VAT arising on transfer and whether appropriate factoring or securitisation exemptions may exist. Where receivables have an interest-bearing component, withholding taxes may also need to be considered.

ORIGINATOR INSOLVENCY

The legal analysis will also consider the implications of originator insolvency.

- The steps required to enable ongoing collection of receivables to service any financing, independently of the originator. This may include having appropriate back-up servicing arrangements in place, as well as the ability to redirect payment from obligors by giving them notice of the sale.
- Any possible clawbacks that may be asserted under insolvency laws, whereby an insolvency official (such as a liquidator) could challenge the securitisation and sale.

The legal analysis will extend to considering appropriate mitigants prior to insolvency to ensure cash collections can be sufficiently protected from co-mingling with the originator's assets.

SECURITISATION TREATMENT

Receivables financings that are tranched may also comprise regulated securitisations. Essentially, this means originators must retain 5% of the risk in the receivables and also complete complex receivable by receivable reporting. An originator will typically solicit assistance from third parties in collating the data required for this reporting.

CREDIT GUARANTEES

In many cases, originators may have put in place credit insurance for all, or part of the portfolio being securitised. The way in which the benefit of the credit insurance can be transferred to the issuer will vary depending on the insuree's legal jurisdiction and how the insurance has been implemented.

ALLEN & OVERY

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TRANSACTION PARTIES

1. Corporate services provider

A corporate services provider can take on the administrative burden of the overall securitisation structure. Roles include SPV, agency and trustee services to support various ABS, some of which are outlined below, supported by state-of-the-art technology. “In short, we provide the infrastructure and platform for making a deal happen; the skeleton to it,” says Cliff Pearce, Global Head of Capital Markets at TMF Group.

2. Security trustee

Acting in an independent fiduciary capacity, the trustee is primarily concerned with preserving the rights of investors with specific duties set out in a trust agreement. The trustee is also able to subcontract administration and servicing of the securitised assets back to the originator, an affiliate of the originator or a third-party provider. It is a key role within the scope of service providers like TMF Group.

3. Data trustee

With the advent of GDPR, the role of data trustee has become increasingly important, with some jurisdictions, such as Germany, requiring it by law. With the transfer of large volumes of data, many of which are subject to privacy laws, a data trustee can be appointed to ensure data is encrypted and in compliance with the necessary data protection requirements. Providers like TMF Group can act as a guardian of such data.

4. Registrar

The registrar is there to maintain the records of the investors and to process subscriptions and redemptions of the securities issued by the securitisation SPV. Typically, a registrar will require a banking licence, however this is not always the case with private transactions. In such circumstances, companies like TMF Group can provide these services.

5. Cash manager

Effectively acting as the transaction treasurer, the cash manager will deal with all payments that come in from originators/servicers and pay out according to priority of payments. Cash managers must ensure they send payment instructions on each payment date in accordance with the payment report prepared by the calculation agent or programme administrator.

6. Reporting agent

Transaction reporting can be a time-consuming, and resource-intensive process, so a reporting agent, such as Demica, is frequently appointed. Data is automatically transferred daily from the corporate seller's ERP system to the reporting agent's systems and is used to populate the required reports and to perform relevant calculations.

The reporting suite would include:

- Portfolio performance, showing the evolution of the portfolio at all levels.
- Concentrations and relevant stratifications.
- Advance rate calculations.
- Asset base and required funding.
- Funding drawdown or repayment requirements.
- Performance ratios and assessment against agreed triggers.
- Calculation of funding costs and other transaction expenses.
- Priority of payments and required settlements.
- SMA annexes regulatory reports.

Performance reports are generally produced monthly, with more frequent reporting for settlements (where more frequent settlements are agreed) and daily reporting to monitor new receivables and collections.

7. Calculation agent

This role is similar to the reporting agent but more limited in scope. Instead of full item-level reporting, aggregated balances may be shared by the seller and only required calculations would be performed by the calculation agent.

8. Servicer

The servicer is in charge of collecting receivables, engaging with debtors, applying the collections received to the receivables balances and managing receivables in arrears.

In most TRS programmes, the corporate seller will continue to manage the portfolio servicing and will be appointed by the SPV as the servicer.

Unless there is a requirement for debtors to transfer collections into the SPV account, the launch of the securitisation transaction will have no impact on the corporate seller's servicing activities and the underlying processes and debtor relationship will be unaffected.

9. Back-up servicer

If the portfolio performance, or the corporate seller credit, degrades beyond a certain extent, funders have the right to appoint a back-up servicer.

Once appointed, the back-up servicer will get ready to step in as the servicer. In the event the back-up servicer is activated, the debtors will be notified of the receivables sale and the appointment of the back-up servicer, and will be requested to transfer the collections into the SPV account.

In the majority of TRS programmes, however, no back-up servicer is appointed, and, where appointed, is rarely activated. Most back-up servicers will stand ready to be activated within a certain period; the shorter the period, the more frequently the back-up servicer will review the portfolio and ensure it is able to identify the debtors.

CASE STUDY

A corporate seller was required to appoint a back-up servicer in “hot” mode, where the back-up servicer would be able to notify debtors and start collections within two days of being mandated to do so.

The set-up process can be complex and time-consuming, so the corporate opted to do this through the reporting agent. The reporting agent already held all the corporate’s data and had an existing connection with the back-up servicer.

The result was a shorter set-up period and a reduction in overall costs, due to removing the need for any IT integration and incremental data exchange.

10. SPV account bank

The SPV bank account or accounts are opened in the name of the SPV with an agreed bank, normally subject to certain minimum rating requirements.

In most cases, one of the senior funders will be able to act as the SPV bank account bank. Where this is not an option, the account or accounts will be opened with another bank not otherwise involved in the transaction.

11. Counsel

In most TRS programmes, the transaction documentation is drafted by counsel acting for the senior funders and reviewed by counsel acting for the corporate seller. Depending on the circumstances and corporate seller requirements, counsel acting for the corporate seller may oversee the drafting of transaction documentation.

12. AUP auditor

The receivables portfolio, the reconciliation of the portfolio against the corporate seller’s accounting ledgers, and corporate seller procedures and systems, will be audited by a specialised auditor. This audit is referred to as the Agreed Upon Procedures (AUP) audit.

CONCLUSION

TRS have emerged as resilient and adaptive financial instruments, gaining traction due to rising interest rates and the quest for alternative funding sources. While TRS programmes come with their own set of challenges, they offer significant benefits to both corporate sellers and investors.

For corporate sellers, TRS provide a stable and competitive financing option, tailored to their needs and committed for longer terms. Investors, attracted by their stability and low risk, appreciate the direct exposure to the real economy. TRS have shown resilience in the face of macroeconomic headwinds, making them a reliable source of funding.

As the TRS market continues to grow, it remains a compelling choice for those seeking innovative financing solutions, bridging the gap between corporate financing needs and investor demand.

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*Assets under Administration is the total value of the receivables on the Demica platform across receivables and payables programmes as at 31st December 2022.

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