

Standard Definitions for Techniques of Supply Chain Finance

Frequently Asked Questions

What is Supply Chain Finance?

Supply Chain Finance (SCF) is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform.

What is the objective of the new SCF terminology?

The objective of *Standard Definitions for Techniques of Supply Chain Finance* is to standardize and harmonize the existing Supply Chain Finance market terminology to make it operational and usable in daily practice by banks and non-banks when processing, financing and mitigating risk in trade transactions. Issued as a “living” document, the definitions will be widely disseminated to promote the global adoption of the suggested terminology and updated when deemed relevant to remain aligned with market developments.

Why is there a need for a common terminology on SCF?

The varying rate of adoption, development and deployment of Supply Chain Finance in markets around the world has resulted in a situation where the novelty of the subject matter led to the creation of a range of expressions, terms and terminology that were – and remain today – often inconsistent, opaque and even contradictory.

There is agreement on the clear benefits to the financial industry, regulatory authorities, clients and other stakeholders, from the development and dissemination of standard definitions and terminology.

Who should use the SCF terminology?

Definitions featured in the publication will be useful to finance providers, corporates, commercial and SME clients, investors, regulators, legal practitioners, information technology and infrastructure providers, as well as other trade finance related communities.

Who developed the SCF terminology?

The publication is the result of a collaborative, inclusive and consensus-based joint initiative of the International Chamber of Commerce (ICC) Banking Commission as project facilitator, BAFT, the Euro Banking Association (EBA), Factors Chain International (FCI) and the International Trade and Forfeiting Association (ITFA). The International Factors Group (IFG), one of the original sponsoring associations is now integrated with FCI.

The drafting effort, executed by a team of senior practitioners, has benefitted from the guidance of an international and multi-industry Steering Group, and has actively sought a wide range of commentary and feedback from the market, including providers of supply chain finance solutions as well as end-users.

To what extent should the terminology and definitions be applied by SCF users?

The suggested terminology is for global adoption over time. Given that the document incorporates many existing definitions and was explicitly developed following a review of existing market literature, the content can legitimately and immediately claim a degree of authority as a statement of market practice. Education and advocacy efforts will follow to support global market adoption.