

▶ Forfaiting

Customised Trade Finance Solutions for Enhanced Export Performance



What is Forfaiting?

Today's highly competitive business environment often requires exporters to provide a buyer with credit terms in order to secure a deal. But every buyer credit presents a dilemma to exporters due to the potential risk of default. This could be the result of commercial, financial or political events which might suddenly occur over the life of a debt. Besides the non-payment risk, exporters also have to face a host of other related issues such as liquidity constraints, bank borrowing, foreign exchange exposure and others.

Forfaiting is a form of trade finance that can address these concerns. Derived from the French word **à forfait**, it means to surrender or relinquish the rights to something. A forfaiting transaction refers to an exporter surrendering to the bank the rights to claim for payment on goods or services delivered to an importer, in return for a cash payment, and on a without recourse basis. The risks are essentially transferred by the exporter to the bank.

Why Forfait?

- ▶ Through HSBC's vast experience and international network, HSBC Forfaiting allows exporters to offer credit terms to their buyers which will greatly enhance their commercial competitiveness.
- ▶ At the same time the exporters will also enjoy the following benefits:
 - **NO** political, credit or commercial risks
 - **BETTER** cash flow, because the exporter has immediate access to funds
 - **LOWER** bank borrowings, thus improving the company's financial statements
 - **NO** interest rate fluctuation risk
 - **NEGLIGIBLE** foreign exchange risk
 - **LOWER** debt collection administrative costs
 - **SIMPLE** documentation

How Forfaiting works

- ▶ Usually an acceptable forfaiting risk would come from one of these two groups:
 - **Sovereign risk**
 - **Commercial bank risk**
- ▶ Subject to the final obligor's risk from any of the above groups being acceptable to HSBC Forfaiting, a forfaiting transaction can be made available by using one of the following commonly encountered debt instruments:

- **Bills of Exchange**
- **Promissory Notes**
- **Documentary Credit** (DC, also known as Letter of Credit)
- **Letters of Guarantee**
- **Deferred Payment DC** (without drawing of drafts)
- **Aval on negotiable instruments**

Costs

- ▶ A forfaiting transaction involves three basic costs:

1. Interest Rate: Essentially a direct reflection of the underlying risk for HSBC. A low margin is applied on a low country / strong credit risk and, conversely, a higher margin is applied on a higher country / weaker credit risk.

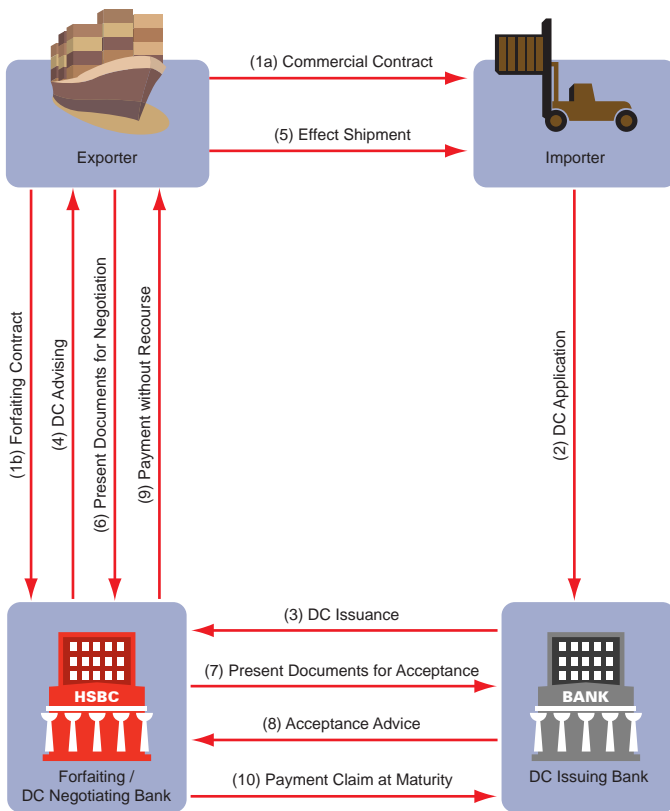
2. Commitment Fee: Payable to HSBC for holding the commitment until a shipment has been completed; the fee will vary according to country and credit risk.

3. Grace Days: A certain number of grace days may be added to the discounting period to offset potential delay in the transfer of payments by the importing country or the obligor, based on HSBC's experience with the country concerned. Often, grace days are exempted for regions with acceptable transfer records.

Structure

Although Forfaiting is based on the simple concept of discounting, the variations of structure are numerous. HSBC will advise on a suitable structure that matches your needs taking into consideration the prevailing market situation.

An example:



- ▶ We will respond to you, normally, within three business days, with an indicative pricing and terms if the deal is forfaitable.
- ▶ We will further guide you on the required documentation or any pricing computation.

HSBC Trade Services in South Africa

- ▶ HSBC is consistently recognised by key industry titles for our trade expertise, quality of customer service and breadth and depth of product range.
- ▶ We have offered Forfaiting services in the Asia-Pacific region since 1984 and are supported by extensive resources from one of the world's largest financial services organisations.

Contact Us

Talk to us today for a discussion on your trade needs. Contact your HSBC Relationship Manager or Trade and Supply Chain Specialist to start using HSBC's Forfaiting Solution. You can also call HSBC Trade and Supply Chain during regular business hours or visit us on the Web at www.hsbc.co.za for further information.

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How to get started

It's simple. Contact your local HSBC Trade Services office and provide us with the following information:

- Name of the importer and importing country
- Name of the documentary credit issuing bank and branch or the underlying credit risk
- Amount and payment period of the transaction
- Nature of the goods to be exported
- Estimated shipment period and the number of shipments, if applicable
- Any other information or documents as may be requested by HSBC Forfaiting

www.hsbc.co.za/TradeAndSupplyChain/

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