

# WW - Supply Chain Financing Program

## Tasks to be completed when creating an operating procedure (from creation to publication)

1. Enter the Title of the procedure: Description of the operating procedure - Region (APAC, EMEA, LAM, NAM) - Country (Optional) - ERP (PI1, PF1, WP1)
2. Add the following Labels:
  - Region: **apac, emea, lam, nam**
  - ERP: **pf1, pi1, wp1**
  - Domain & Process using the [List of labels to be used in the space CCT](#)
3. Fill all fields as described
4. Once the procedure is completed, publish it using the [SBS-OtC approval workflow](#)

## Table of contents

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- I - Description
  - 1 - What is a Supply Chain Finance Program ?
  - 2 - Who is offering this kind of Program ?
  - 3 - What does it cost ?
  - 4 - How does it work?
    - 4.1. Benefits for the supplier
    - 4.2 Benefits for the other parties
    - 4.3 Accounting impact
- II - Solvay's position (corporate guidelines) with regard to SCFP
  - 1 - Condition for GBU to initiate a new program :
  - 2 - Main disadvantages :
  - 3 - Key conditions for Group Eligibility :
- III - Programm Implementation
  - 1 - Who are the actors of the SCFP implementation?
  - 2 - What are the roles and responsibilities of the different actors?
    - 2.1 - Credit Management :
    - 2.2 - Corporate Treasury
    - 2.3 - Business unit
  - 3 - What are the different steps of the implementation ?
- IV - SCFP Execution

## I - Description

Supply Chain Financing Program is also called Reverse Factoring Program

### 1 - What is a Supply Chain Finance Program ?

- Program to sell our Accounts Receivables, in order to have access to early liquidity
- Additional source of financing

Since 2015, Solvay takes advantage of Reverse Factoring Program thanks to :

- low interest rate (Euribor for EUR and Libor for USD) on the market
- and credit Coverage (Spread)

### 2 - Who is offering this kind of Program ?

The Banks of our customers

### 3 - What does it cost ?

- Discount interest for the period from the date of discount payment to maturity date of the invoice. Discount rate = EURIBOR/LIBOR.
- Spread (bank fee based on the buyer's credit standing) at 1 to 2%

### 4 - How does it work?

## Scope



APAC



EMEA



LAM



NAM

2. Add countries when the procedure is for a specific country (optional)

## ERP



PI1



PF1



WP1

## References

### Content by label

There is no content with the specified labels

## Attachments

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#### 4.1. Benefits for the supplier

- Additional source of funding (« True Sale »)
- Funding with no impact on Solvay's credit envelope (Off-balance sheet funding)
- Attractive financing rates. No additional costs, only discounting fee
- Without recourse financing to suppliers
- Cash Flow optimization through earlier receipt of receivables / improvement of liquidity planning
- Positive effect on important figures (equity ratio, debt ratio, DSO, WC...)
- Receivable portfolio: risk reduction, potential cost savings by replacement of credit insurance
- Reporting tools included in the system
- Flexibility to request discounting at any time during the life of the transaction.

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#### 4.2 Benefits for the other parties

- Customer / Buyer : Payment Terms extension
- Customer's Bank : Additional business / fees, based on non-risky companies

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#### 4.3 Accounting impact

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[Presentation](#)

## II - Solvay's position (corporate guidelines) with regard to SCFP

Such programs are set up if customer has a better credit standing than Solvay.

### 1 - Condition for GBU to initiate a new program :

- Reverse factoring is only permitted when the customer A/R are not eligible to the Group Factoring programs
- Solvay must be able to collect the money on the current dedicated bank account managed by Solvay Financial entity in the country (when applicable)
- The impact of a specific A/R factoring program or reverse factoring initiated by GBU should be recorded in the GBU working capital
- In case a business constraint leads to setting-up a reverse factoring program for a given customer which was part of a Group Program, then GBU cash target will be adjusted to ensure neutrality at group level
- If there is a permanent extension of payment terms, there should be another benefit for Solvay in counterpart. (e.g future increase of volumes, pricing..).

### 2 - Main disadvantages :

- SCF programs durably increase payment terms (while the conditions of discount with a bank are not durably set)
- Entering a SCF program jeopardizes the potential of the BNPP program (internal financing), by using our best quality receivables
- Assignment of receivables to Solvay SA should be cancelled, as receivables can't be sold twice

### 3 - Key conditions for Group Eligibility :

Implementation of new SCFP should remain exceptional and respect a specific process:

- Threshold = 10 M€ (annual sales)
- Case should be submitted to Corporate Treasury (Validation of cost), GAR (IFRS), Legal Corporate and BU Finance and legal for validation :
  - Current payment terms
  - Requested payment terms
  - Financial and contractual Proposal of the partner bank recommended by the customer
  - Impact on WC
  - Business prospect with the customer. Will this extension of payment terms increase the size of the business that we have today?
  - Business at stake, if any.
- If accepted, contract negotiation between Solvay (including legal department, IFRS) and the customer's Bank
- Implementation and execution of the SCF program : to be defined by Credit Management, Treasury or BU Finance

## III - Programm Implementation

### 1 - Who are the actors of the SCFP implementation?

- The customer
- The customer's bank
- Corporate Treasury
- Credit management team
- GAR (IFRS)
- Legal (BU + Corporate)
- BU Financial Director
- BU Market Director or Sales manager

### 2 - What are the roles and responsibilities of the different actors?

#### 2.1 - Credit Management :

is the coordinator of the SCFP feasibility :

- Sends the approval request template to Corporate Treasury with figures & impacts
- Involves all BU within the perimeter of SCFP
- Makes sure that the key conditions of SCFP implementation are met
- Coordinates the actions till the best option is chosen
- Defines a follow-up agenda
- Fills in the necessary documents for banks and BU (for ex : onboarding)

The Credit Manager responsible for the SCFP implementation is the one in charge of the BU that has the largest turnover with the customer.

#### 2.2 - Corporate Treasury

Coordinates the 'technical' aspects :

- Liaises with IFRS, reviews and confirms with IFRS the off-balance sheet treatment of this factoring
- Liaises with Legal, reviews the contract with Legal
- Recommends best option
- Secures this external financial source for the BU
- Negotiate with banks
- Reviews the pricing with BU and CM
- Reviews the contract with Tax

#### 2.3 - Business unit

- Sales Manager : generally receives the original request from customer
- Sales Manager + Finance Director : make the decision
- General Manager or Finance Director : validates the set up

### 3 - What are the different steps of the implementation ?

Implementation is a long process involving different stakeholders & different steps of validation.

- The request to implement a SCFP usually comes from the customer. But it can also be a solution suggested by CM to reduce credit exposure on a customer
- CM checks if the key conditions are met (turnover and BNPP cession)
- CM identifies the BU coordinator who will be in charge of the coordination (the one having the biggest turnover with the customer)
- CM organizes a first call with the Bank and Corporate Treasury to collect SCFP conditions offered by the supplier's bank (automatic or manual, rates, perimeter coverage, payment terms)
- CM defines the concerned perimeter (BU, country, invoicing zone)
- CM collects all the necessary info (Sales + SCFP conditions) :

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- PRS number of customer
- PRS customer
- Customer country
- List of involved GBUs and legal entities
- Payment terms granted by each GBU
- Annual Sales per GBU
- Any specific information on ongoing contracts

to measure the cash and financial cost (AR, DSO, Financial cost) :

#### Financial Impact (examples)

- CM organizes a global call including different BUs (sales manager, BU or Market Director and Financial Director, BU legal ?) and Corporate Treasury to get their validation
- CM communicates the financial impact to BU to get their approval on suggested options & defines the next steps.

#### Financial impact communication example

- Chosen option (meeting BU needs with best market conditions: payment terms, pricing, execution) is submitted to Corporate Treasury for validation through SCFP template :

#### SCFP Template

- Once Corporate Treasury approves the principle of common choice, necessary internal reviews will be necessary up to implementation :
  - Legal and Tax review of the contract/program
  - Treasury to review the pricing with BU and CM
  - IFRS to review and confirm the off-balance sheet treatment of this factoring
  - BU and CM to be kept in the loop as well to follow up the contract implementation and the bank on boarding until finalization

Such steps can take more than 6 months time before implementation.

- CM informs OTC Service Center Manager, Collection Manager and AR Manager about new coming SCFP.
- When contract and bank on boarding are available, CM coordinator (or legal BU representative) makes sure that contract is signed by duly authorized BU representative

#### Enterprise Management Bodies

- Communication of go-live to OTC Service Center Manager, Collection Manager and AR Manager.
- Corporate Treasury organizes bank training for AR.
- Contract and on boarding documents stored by Treasury and BU Legal but also centralized in CM google file

#### Contracts & Onboarding

- CM coordinator needs to update on a quarterly basis all changes or necessary information in the CM shared google file :

#### Reverse Factoring Follow up

- As part of this SCFP structuration, create a CM shared google file and gather copies of current contract

#### Contracts & Onboarding

- Shared google file access given to Treasury, BU Finance Director, OTC Service Center Manager, Collection Manager and AR Manager and CM Team

#### Reverse Factoring

## IV - SCFP Execution

- Receivables are in Solvay SA (PI1) => not visible anymore in the local systems (WP1, PF1)
- Receivables are assigned to PI1 (since 10/11/17) and easily recognizable via the F7 document type
- Standard Collection process in case of manual discounting
- Cash Collector coordinator has to check if invoices are correctly processed in the bank web-portal
- Early payments: should be approved by the GBU and executed by the cash collector coordinator or the credit manager : for Manual option, Cash Collector Coordinator communicates to CM the list of invoices available for discount :

#### Quarterly Selection per BU

- CM coordinator communicates amount to BU Finance.

#### RF Discount example

- Cash Collector coordinator receives automatic remittance advices when invoices are paid and make sure with AR of correct booking
- CM filled up amount factored each quater after closure :

[Reverse Factoring Follow up](#)

- CM regularly checks the rate evolution and if program is still relevant