ITFA

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TRADE FINANCE GUIDE 2026

The definitive reference for trade finance professionals

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Foreword

Trade is one of the most important drivers of economic development and poverty reduction. It supports businesses, creates jobs, helps countries develop, and improves access to goods and services around the world. Even if, it would seem, amidst the polycrisis of the current moment, the smooth movement of goods around the world can no longer be taken for granted. Conflict, sanctions, tariffs, shipping disruptions, and a more fragmented trade environment overall have all conspired together to expose how fragile global commerce can be. Nevertheless, at the heart of that vital and resiliently counter-cyclical system, and helping companies manage these rising risks, access fleeting working capital, and move goods across more protected borders, is trade finance.

But trade finance can be a complicated industry to understand, and with advancements in technology, it is changing fast. New electronic trade laws and frameworks, including UNCITRAL's Model Law on Electronic Transferable Records (MLETR), Negotiable Cargo Documents initiatives, and the Commonwealth model law, are helping support the use of electronic trade documents, and technology is now being used to improve how information moves across supply chains.

The advancement of technology and particularly artificial intelligence, was one of the primary impetuses for revising this guide, as it is having an outsized impact on how trade information is processed, analysed, and shared across the industry. At the same time, existing trade finance techniques are evolving, with areas such as supply chain finance seeing significant growth and renewed attention being given to more traditional instruments such as documentary collections.

As the industry evolves, there is an increasing need for practical and accessible educational resources that help explain the many products and techniques used in the industry, but also how all of the seemingly disparate parts of the wider ecosystem fit together. Adding to the importance is the fact that the market is expanding beyond traditional bank-led financing models, with growing participation from non-bank investors, private credit providers, insurers, and institutional capital viewing trade finance as an investable asset class.

Trade Treasury Payments (TTP) and the International Trade & Forfaiting Association (ITFA) have partnered on this updated edition of the guide. For many years, ITFA has played an important role in supporting education, industry dialogue, and the development of market standards across global trade finance. This includes supporting important industry initiatives, such as TF COP and others, around digital trade, sustainability, financial inclusion, and the continued development of trade finance as an investable asset class. We hope this updated guide will be another pillar in that ongoing effort.

This guide is designed as a resource for both emerging and established professionals. Whether you are entering the industry for the first time or looking to better understand adjacent areas of the market, we hope it helps provide a clearer and more accessible overview of modern trade finance and the important role has in supporting global trade and the real economy.

Deepesh Patel
Managing Director,
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Sean Edwards
Chairman
ITFA

1 Introduction

Since publishing the first edition of this Guide, much has changed in the way trade and trade finance are delivered, even as the fundamental requirements of buyers, sellers and banks remain the same. In particular, the digitisation of trade has begun an unstoppable, if slow, trajectory. New laws, inspired by UNCITRAL model legislation, have provided the needed underpinning to develop a new class of digital trade documents, which are now beginning to be deployed. Of course, the fact that something can legally be done doesn't mean that it should be done or that it makes financial sense to do it. Commercialisation of the opportunities offered by electronic trade documentation is now beginning to scale, albeit from a low base. Real advances are being seen in the use of electronic bills of lading and, excitingly, some market participants are now beginning to implement structures and arrangements which, in commercial terms, allow sale, purchase and financing of a transaction to be end-to-end processed within a digital environment.

This edition also integrates references to the Trade Finance Taxonomy created by ITFA and Komgo. The taxonomy is a comprehensive map of the trade finance ecosystem, including primary and secondary markets, products and instruments and risk mitigation techniques. It provides a holistic and exhaustive picture of how the different parts of trade interact, a valuable resource as trade becomes more complex.

The Trade Dilemma

Trade finance is a set of techniques aimed at mitigating and transferring trade risks to the financial sector, and/or using bank funding to enable domestic and cross border/international trade flows. Trade finance focuses on supporting the physical flow of goods across borders while primarily using the goods, receivables and cash generated from the trade as the principal security.

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Trade Finance deals typically involve at least three parties: the exporter (seller), the importer (buyer) and the financier, and differ from other types of credit products as transactions should have the following features:

- An underlying supply of a product or service
- A purchase and sales contract
- Shipping and delivery details
- Other required documentation (certificates of origin, etc.)
- Insurance cover
- Terms and instruments of payment, e.g. letter of credit, advance payment, deferred payment, etc.

Trade Finance exists to finance the trade cycle at various points of the transaction, also allowing participants to manage the capital required for trade, while mitigating or reducing the risks involved in an international trade deal.

International and local financial institutions support international trade through a wide range of products that help manage their international payments and associated risks, as well as catering for the need for working capital.

2 *Risks of Trade Finance*

Risks of Trade Finance

International trade has particular characteristics that give rise to different types of risks. Trade financiers thus spend most of their time understanding and mitigating these risks. The following is a selection of some of the key risks in international trade finance:

Country Risk

A collection of risks associated with doing business with counterparties based in a foreign country, including exchange rate risk, political risk and ultimately, sovereign risk. Factors to bear in mind when considering country risks involve the current political climate in the country, the state of the local economy, the existence of reliable legal structures and the availability of hard currency liquidity, among other factors.

Corporate Risk

These are risks associated with the exporting/importing entities, primarily focusing on their credit rating and any history of defaults, either through non-payment or through non-delivery/deficient delivery.

Commercial Risk

This refers to potential losses arising from weaknesses stemming from, or defects in, the underlying trade (quality/adequacy of the goods being traded, robustness/adequacy of the contracts, pricing matters, etc.).

Fraud Risk

These are risks typically associated with either unknowingly engaging with a fraudulent counterparty, receiving forged documents and insurance scams.

Documentary Risk

Documents play a vital role in international trade. Missing or incorrectly prepared documents pose risk for both buyers and sellers as this can cause delays in shipments and ultimately delays in payments.

Foreign Exchange/Currency Risk

This is the risk posed by fluctuations in the exchange rates, relating to payments and receipts in foreign currency. Unless it is hedged, the exporter or importer has no control over this movement in the rate of exchange and on occasion such changes can wipe out the profit or even more attributed to the transaction.

Transport Risk

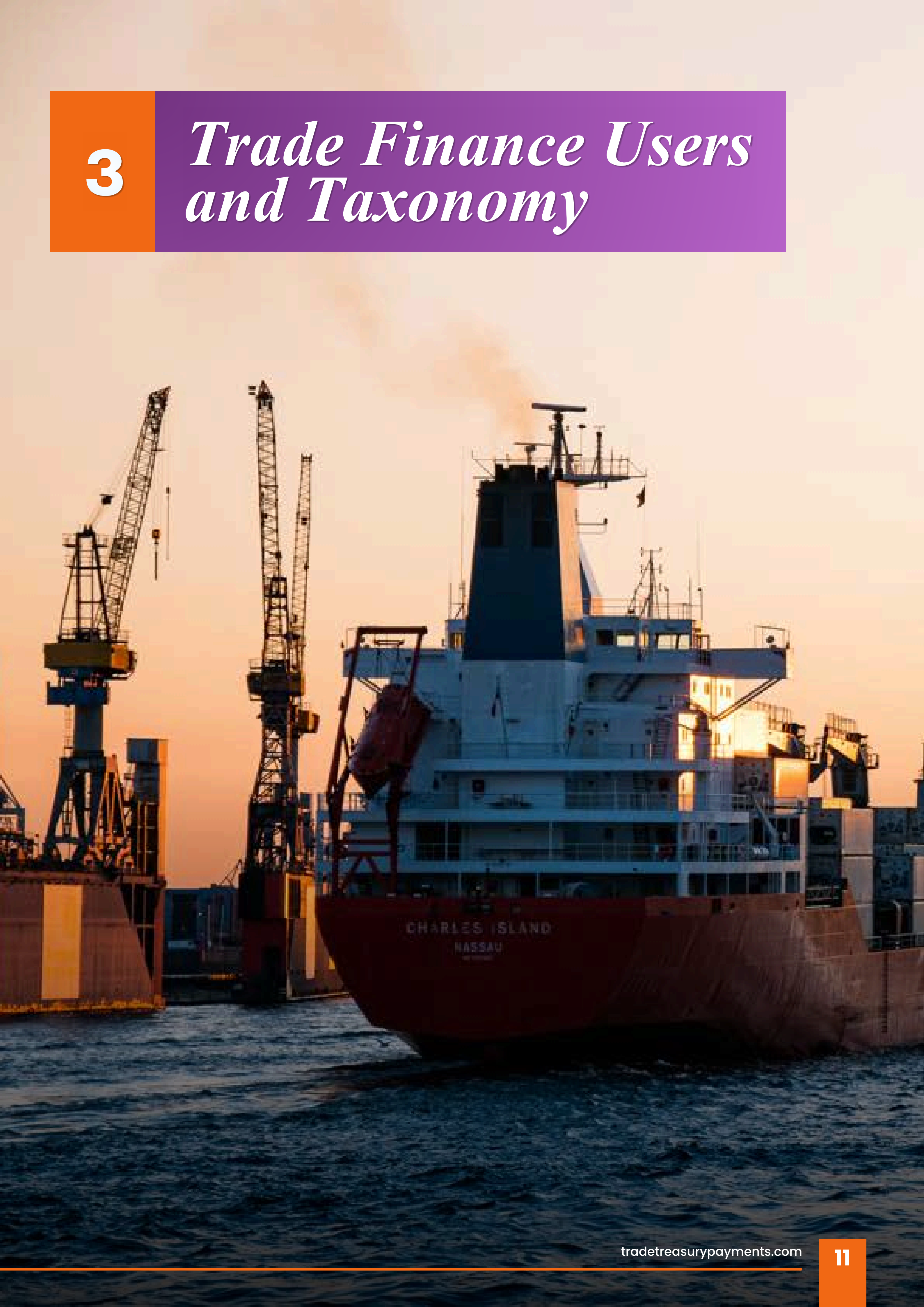
About 80% of the world's major transportation of goods is carried out by sea, which gives rise to a number of risk factors associated with transportation of goods. Storms, collisions, theft, leakage, spoilage, cargo theft, scuttling, piracy, fire and robbery are just some of those risks.

Examples of Trade Finance Providers

- Banks
- Funds
- Alternative financiers such as forfaiting houses
- Insurance brokers and underwriters
- Trading companies
- FinTech companies

Financial institutions support trade with a variety of trade finance products – some focusing chiefly on risk mitigation and others on the actual financing requirements inherent to cash flow gaps in the underlying trade. The products required are typically determined by the stage of the trade cycle participants may find themselves in.

3 Trade Finance Users and Taxonomy



Users of Trade Finance

In a trade transaction both buyers and sellers have it in their best interests to have as much control as possible over the transfer of title of the underlying goods and, naturally, over the proceeds of payment relating to those goods.

As such, trade finance products focused on risk mitigation help settle the conflicting needs of the parties – normally an exporter and an importer, as far as international trade is concerned.

The names of the parties used in the description of the trade flows vary depending on the product used. When we speak about Letters of Credit, beneficiary and applicant terms are used; in Supply Chain Finance – buyer and seller; etc.

The names can be used interchangeably, but throughout the guide we will keep the primary role in the exchange: **buyer** and **seller.**

- **Buyer** / Importer / Applicant / Recipient / Drawee
- **Seller** / Exporter / Beneficiary / Supplier / Drawer

Where a seller needs to mitigate the payment risk from the buyer, it would be in their best interests to accelerate the payment from the buyer. On the buyer's side, their aim is to mitigate the supply/performance risk of the seller and thus receive the goods before it has to affect payment.

In these cases, trade finance products effectively function as a mechanism whereby providers absorb the risks inherent to the trade (mostly payment and supply related risks), whilst also potentially providing the seller with accelerated receivables and the importer with extended credit. Depending on the commercial trade risk, there are 4 main methods of payment:

- Open Account
- Documentary Collection
- Letter of Credit
- Cash in Advance

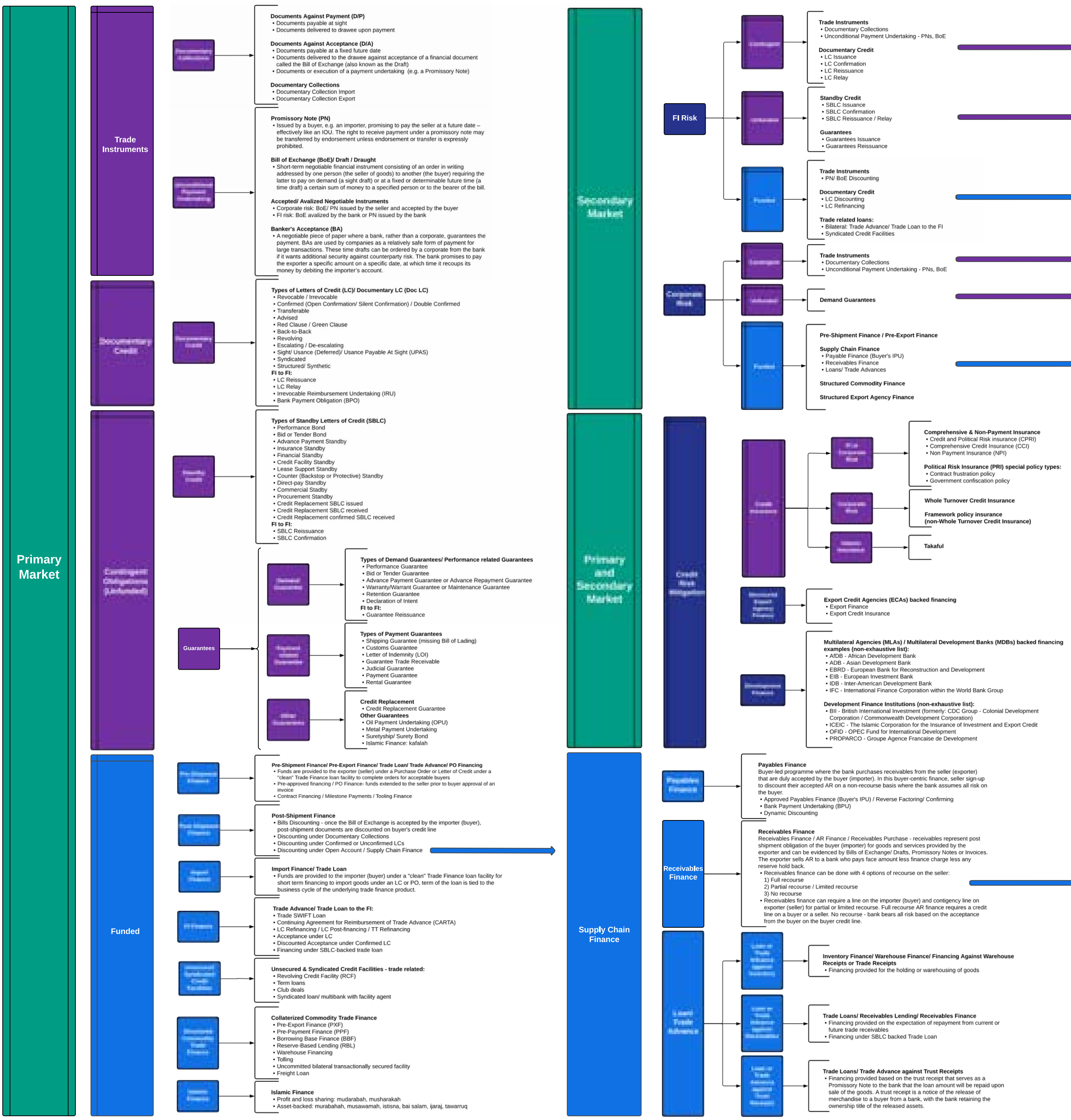
Trade Finance Taxonomy

In August 2022, ITFA & Komgo jointly published the Trade Finance Taxonomy which was the first attempt to put the whole range of trade finance products and techniques on a single page. The taxonomy is available at: [**https://itfa.org/wp-content/uploads/2022/08/Trade-Finance-Taxonomy.pdf**] The image set out in this guide is necessarily shrunk to fit the pages and reference should be made to the original document.

The taxonomy depicts different areas, techniques and instruments involved in trade finance in a holistic diagrammatic manner. One of the benefits of visualising the trade finance universe is to help identify the connections and synergies that exist between different areas of trade finance, thereby providing a menu of options which bankers and financiers can make available to their clients once they are aware of their existence and understand their workings.

Traditionally, primary and secondary markets have been quite siloed; the taxonomy brings them together. In some classifications, credit insurance has been mistakenly named as a trade finance product; the taxonomy places it in the credit risk mitigation techniques, alongside Structured Export Agency Finance or Development Finance: Multilateral Agencies (MLAs), Multilateral Development Banks (MDBs).

TRADE FINANCE TAXONOMY



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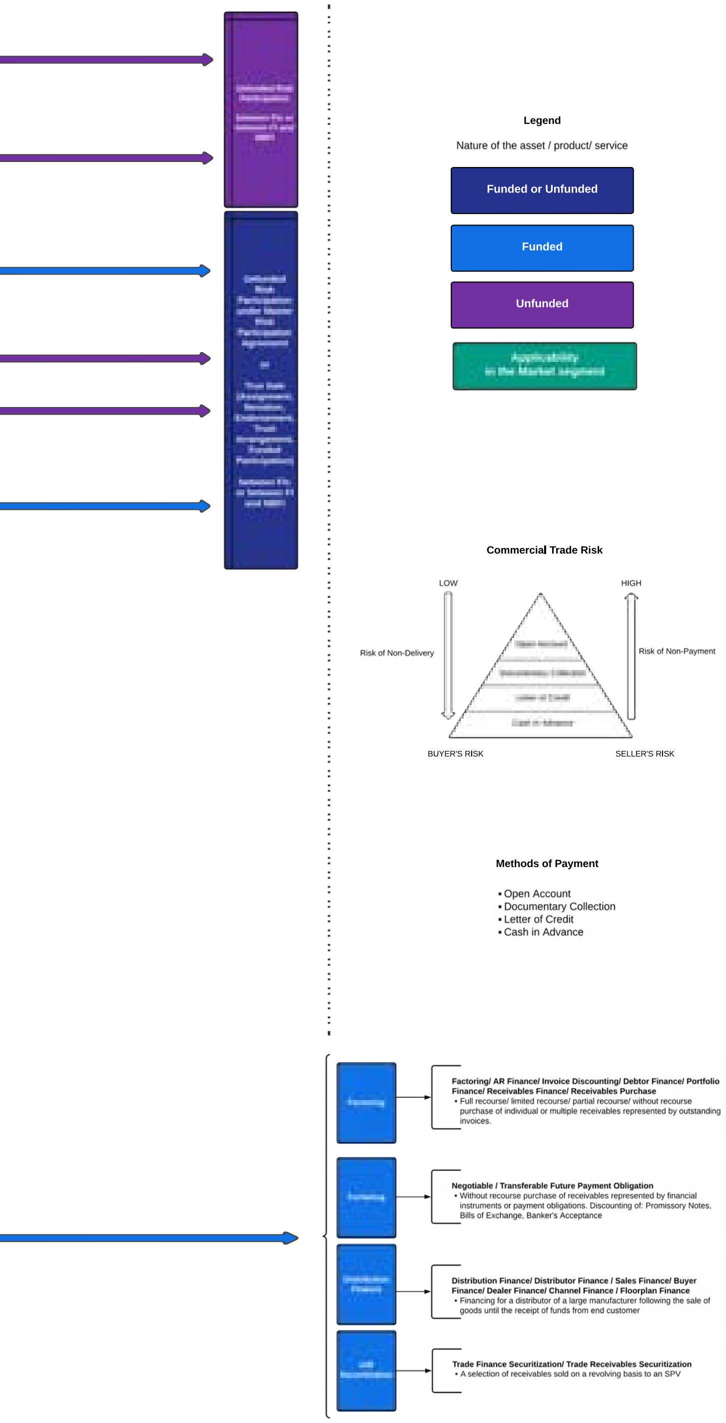
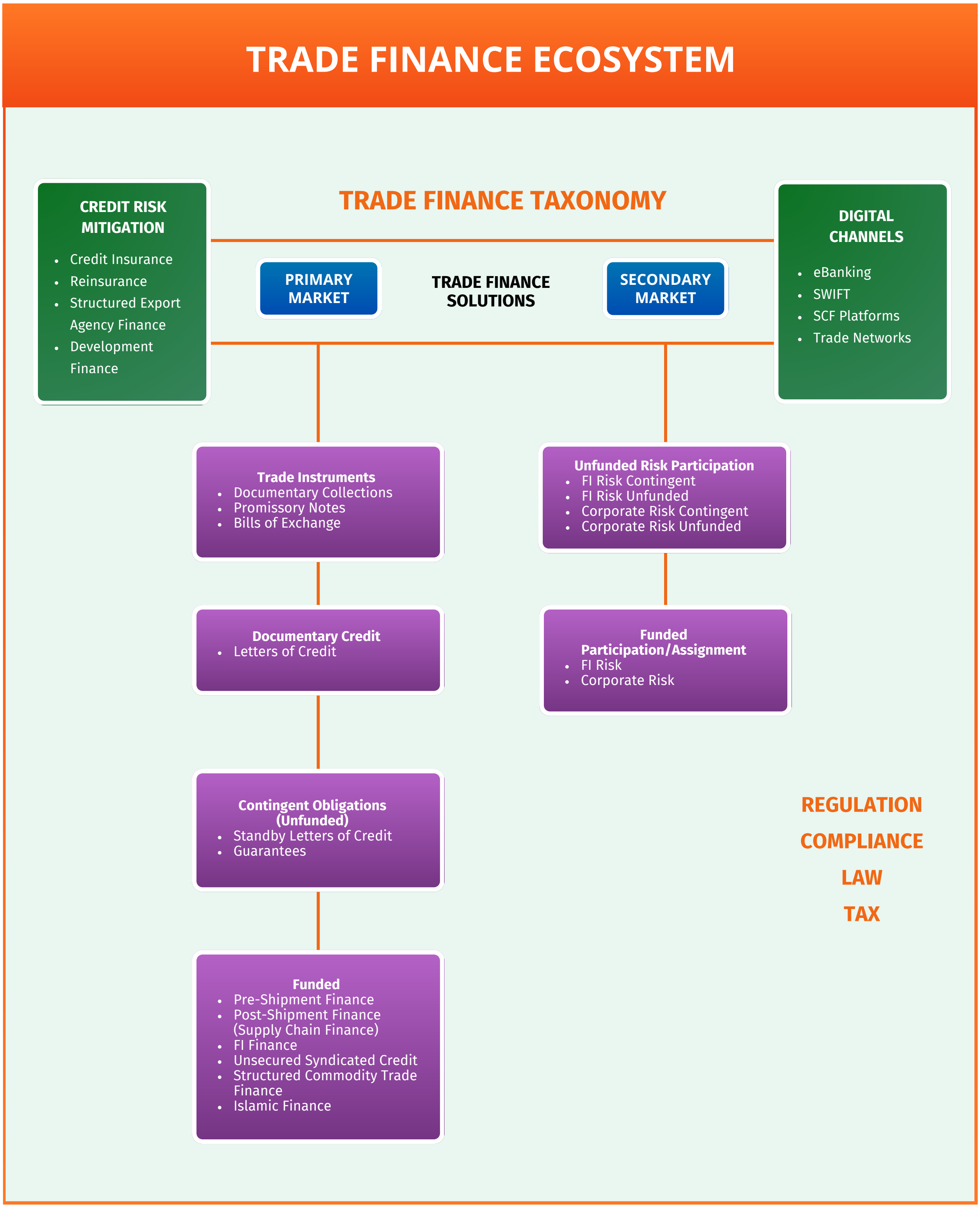


The colour-coded classification categorises each technique or practice by its primary or secondary market affiliation and then categorises them into either funded or unfunded.

- **Funded** trade finance products focus on the provision of liquidity from a financial institution to the parties in a trade transaction.
- **Unfunded** trade finance products are focused on credit enhancement or support, such that the trade finance provider does not offer direct liquidity to the parties in a trade transaction but supports the transaction by guaranteeing the performance of the parties in their different roles.

Further to this, where relevant, the taxonomy breaks down these groups into instruments or sub-categories. For example, supply chain finance arises in the primary market, is funded and then broken down into payables, receivables, and loan-based sub-categories. The taxonomy additionally divides receivables finance into different instruments that use receivables as their base asset like factoring, forfaiting, distribution finance and A/R securitization.

In the 2025 refreshed version of the trade finance guide, it's worth placing the Trade Finance Taxonomy in the wider trade finance ecosystem. While the ecosystem calls for further detail of the surrounding regulatory, compliance, legal and tax requirements covered in other sources, the digital channels underpinning trade finance solutions are added to this guide.


TRADE FINANCE ECOSYSTEM
CREDIT RISK MITIGATION
Credit Insurance
Reinsurance
Structured Export Agency Finance
Development Finance
TRADE FINANCE TAXONOMY
PRIMARY MARKET
TRADE FINANCE SOLUTIONS
SECONDARY MARKET
DIGITAL CHANNELS
eBanking
SWIFT
SCF Platforms
Trade Networks
Trade Instruments
Documentary Collections
Promissory Notes
Bills of Exchange
Documentary Credit
Letters of Credit
Contingent Obligations (Unfunded)
Standby Letters of Credit
Guarantees
Funded
Pre-Shipment Finance
Post-Shipment Finance (Supply Chain Finance)
FI Finance
Unsecured Syndicated Credit
Structured Commodity Trade Finance
Islamic Finance
Unfunded Risk Participation
FI Risk Contingent
FI Risk Unfunded
Corporate Risk Contingent
Corporate Risk Unfunded
Funded Participation/Assignment
FI Risk
Corporate Risk
REGULATION
COMPLIANCE
LAW
TAX

4 Primary Market

Primary Market

From the list of available products in the taxonomy, the guide focuses on the following examples:

Trade Instruments

- Documentary Collections
- Promissory Notes
- Bills of Exchange

Documentary Credit

- Letters of Credit (LC)
- LC Refinancing

Contingent Obligations (Unfunded)

- Standby Letters of Credit
- Guarantees

Funded

- Pre-Shipment Finance
- Post-Shipment Finance (Supply Chain Finance)
- Payables Finance
- Receivables Finance
- Factoring
- Forfaiting
- Loan/ Trade Advance
- FI Finance – SWIFT Loan
- Unsecured Syndicated Credit Facilities
- Structured Commodity Trade Finance
- Islamic Finance

Trade Instruments

Documentary Collections

An arrangement in which a seller will present documents to a bank acting on behalf of a buyer and check those documents for compliance with the agreed schedule of documents. If documents are complaint, either payment will be made against the documents or a draft (bill of exchange) accepted by the bank for payment. Collections are normally handled under ICC Uniform Rules for Collection (URC) or its digital counterpart (eURC).

Promissory Note

An unconditional and irrevocable negotiable instrument issued by a buyer/borrower, such as an importer for example, promising to pay the seller/financing party a definite sum of money at a future fixed date. The right to receive payment under a promissory note may be transferred by endorsement unless endorsement or transfer is expressly prohibited. The same applies to bills of exchange.

Bill of Exchange

An unconditional and irrevocable order in writing addressed by the drawer (exporter) to the drawee (importer) requiring the drawee to pay on demand or at a fixed determinable future time a sum certain in money to, or to the order of, a specified institution/person (payee) or the bearer on demand or on a specified determinable future date.

Documentary Credit

Letter of Credit (LC)

One of the products commonly used to achieve this goal is a Letter of Credit. A letter of credit is a contractual payment undertaking issued by a financial institution on behalf of a buyer of goods for the benefit of a seller, covering the amount specified in the credit, payment of which is conditional on the seller fulfilling the credit's documentary requirements within a specific timeframe.

The primary aim of this instrument is to provide increased assurance to both the buyer and seller of the fulfilment of each party's obligations in a commercial trade – namely the seller's obligation to deliver the goods as agreed with the buyer, and the buyer's obligation to pay for those goods within the specified timeframe.

Some variations to the main letter of credit include revolving, escalating, de-escalating, transferrable, back-to-back, as well as red and green clause letters of credit.

An issuer will use its customer's funds to make the payment.

LC Refinancing

The utility to importers of post-shipment financing is centered around the importer's cash conversion cycle. Letter of Credit (LC) refinancing also includes several other instruments and techniques, such as goods in transit financing, warehouse financing and receivables financing from the importer's perspective, whereby receivables are those generated by an end-buyer.

Refinancing letters of credit is a financial product wherein the financial institution issuing the letter of credit assumes the liability created by the buyer/applicant under the letter of credit and pays the seller on the buyer's behalf. In principle, this gives the buyer a longer timeframe to sell the goods purchased under the letter of credit, while allowing them to keep up with their commitment to pay the seller within the terms of the original letter of credit.

It is very common for the Issuing Banks of these refinanced letters of credit to seek to refinance themselves in the market.

Contingent Obligations (Unfunded)

Standby Letters of Credit and Guarantees

These instruments can be classified as an independent payment undertaking, i.e. an undertaking issued by one party in support of another party's obligations under an underlying agreement, where the issuing party's obligations are independent of those of the supported party.

These instruments are typically required within a contractual framework with the objective of providing greater certainty and security as to a party's fulfilment of its contractual obligations. In effect, a financial institution intervenes assuming the position of the party they are supporting, there-by replacing that party's ability to perform with their own, providing increased comfort to the contractual party benefiting from the undertaking.

The most common requirements for the issuance of these instruments arise from the need to support bids on projects or contracts, to guarantee the performance of contractual obligations and to ensure the protection of advance payments made under an agreement. In trade finance terminology, the instruments issued by financial institutions to cover the aforementioned purposes are, respectively, bid, performance and advance payment bonds.

When structured either as demand guarantees or standby letters of credit, no shipping documents are needed and only a demand is presented.

Whilst financial institutions usually issue many of these performance related instruments, support for projects can come from other sources including insurers, reinsurers and specialist companies. These instruments are often called surety bonds. They perform much the same purpose- a claim by way of simple demand if performance has not occurred. Fee structures and documentation often differ from usual bank related documents.

Funded

Supply Chain Finance (SCF) – Payables Finance

Supply Chain Finance has recently been defined as a much broader category of trade financing, encompassing all the financing opportunities across a supply chain. **The Global Supply Chain Finance Forum** (GSCFF) is a consortium of a number of trade associations including ITFA which has published the Standard Definitions for Techniques of Supply Chain Finance, available free of charge on the GSCFF website.

> **‘the use of financing and risk mitigation practices and techniques to optimise 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’.**

The Standard Definitions offer a wider insight into supply chain finance and can be a very useful menu of options and choices for creating a broadly-based and more responsive financing programme.

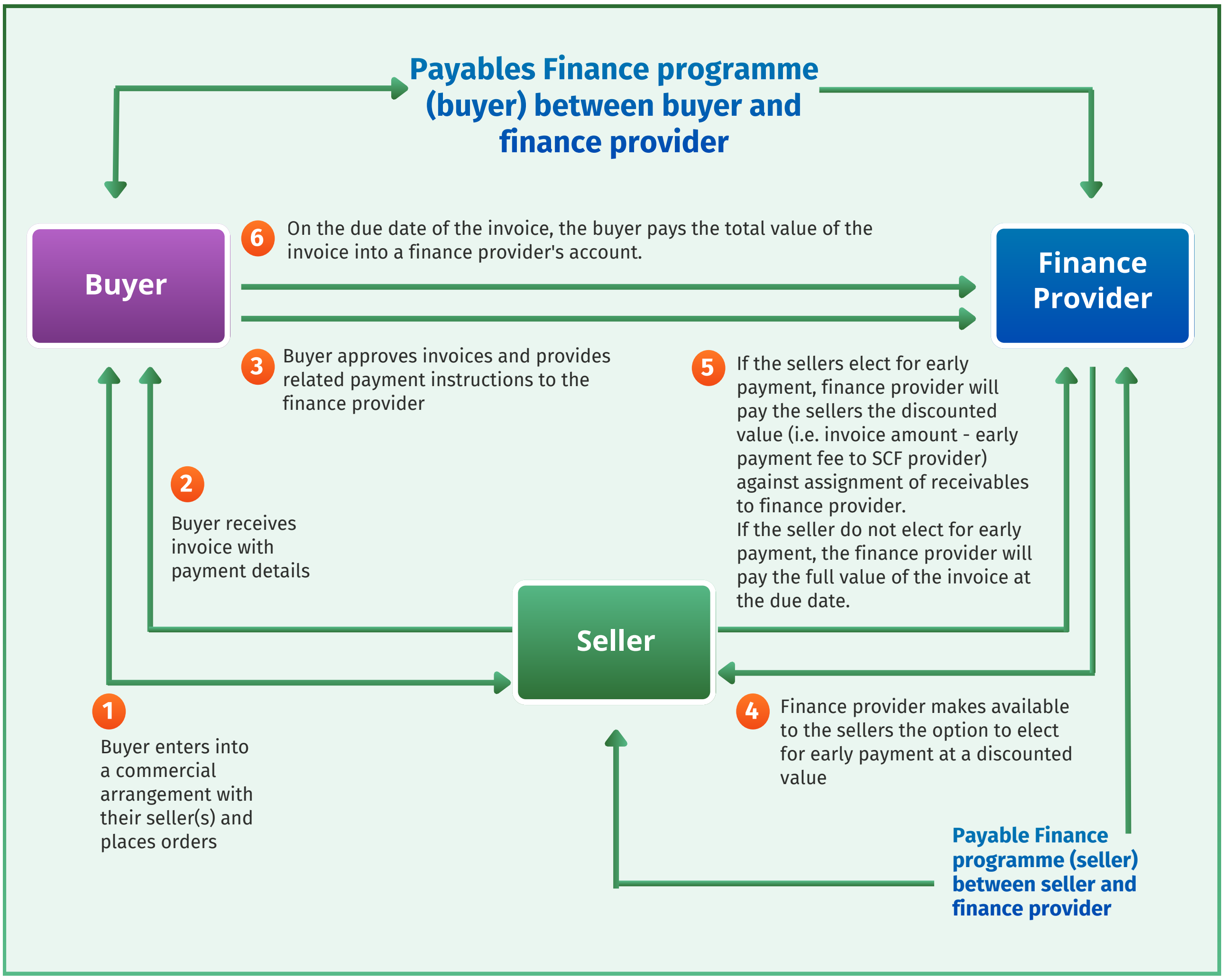
Notwithstanding this, the product is still very much seen from a narrower perspective, where its key feature is that it is buyer/debtor driven. In such a case, a buyer approaches its financial provider for the establishment of a receivables discounting line for its suppliers to use and discount the invoices they issued to that buyer. This technique is sometimes called reverse factoring or payables finance (the latter is our preferred term).

This is a very efficient way to underpin the stability of a Buyer’s supply chain and market reach vis-a-vis its suppliers, allowing it to benefit from better credit terms and streamlined invoice payment procedures (supply chain finance tends to be made available through online platforms).

It is also very beneficial to suppliers, as it allows them to shorten their receivables cycle and therefore reinvest their operational cash-flow at a faster pace. The advantages also tend to include financing in better terms for both parties, as suppliers don't need to take out financing under their own credit lines and may benefit from their clients' access to credit at lower rates, and buyers may get credit from their suppliers at a lower cost than that of taking out a loan.

Process:

1. A Supply Chain Finance facility is entered by the buyer, financier and seller (supplier)
2. Goods are shipped and sales invoice is raised on the buyer by the seller
3. Seller submits invoice to financier's supply chain finance platform
4. Buyer approves the invoice on the financier's supply chain finance platform
5. The financier pays the seller, excluding interest and fees.
6. The financier debits the account of the buyer on the maturity of the invoice



Supply Chain Finance (SCF) – Receivables Finance

Factoring and Invoice Discounting Finance

These tools achieve the same end-result, i.e. the acceleration of a seller's receivables under a commercial transaction, from their original due date in the future to the present. Both techniques utilize different methodologies, with a focus on the factor/discounter taking security from the repayment of the buyer's debt on its original due date either through ownership of the receivable or, less commonly, through a charge or pledge.

Factoring

Factoring solutions offer the seller of a receivable a wider service than just the advance of funds to shorten its cash conversion cycle as the entity buying the receivable will also usually take on the responsibility of collecting the debt.

Factoring can take several forms. For example, a factor may agree, subject to limits, to buy the whole of a seller's receivables. This is known as whole turn-over factoring. Conversely, a factor may select which invoices he wishes to buy. It can be with or without recourse to the seller and may or may not be notified to the buyer or obligor.

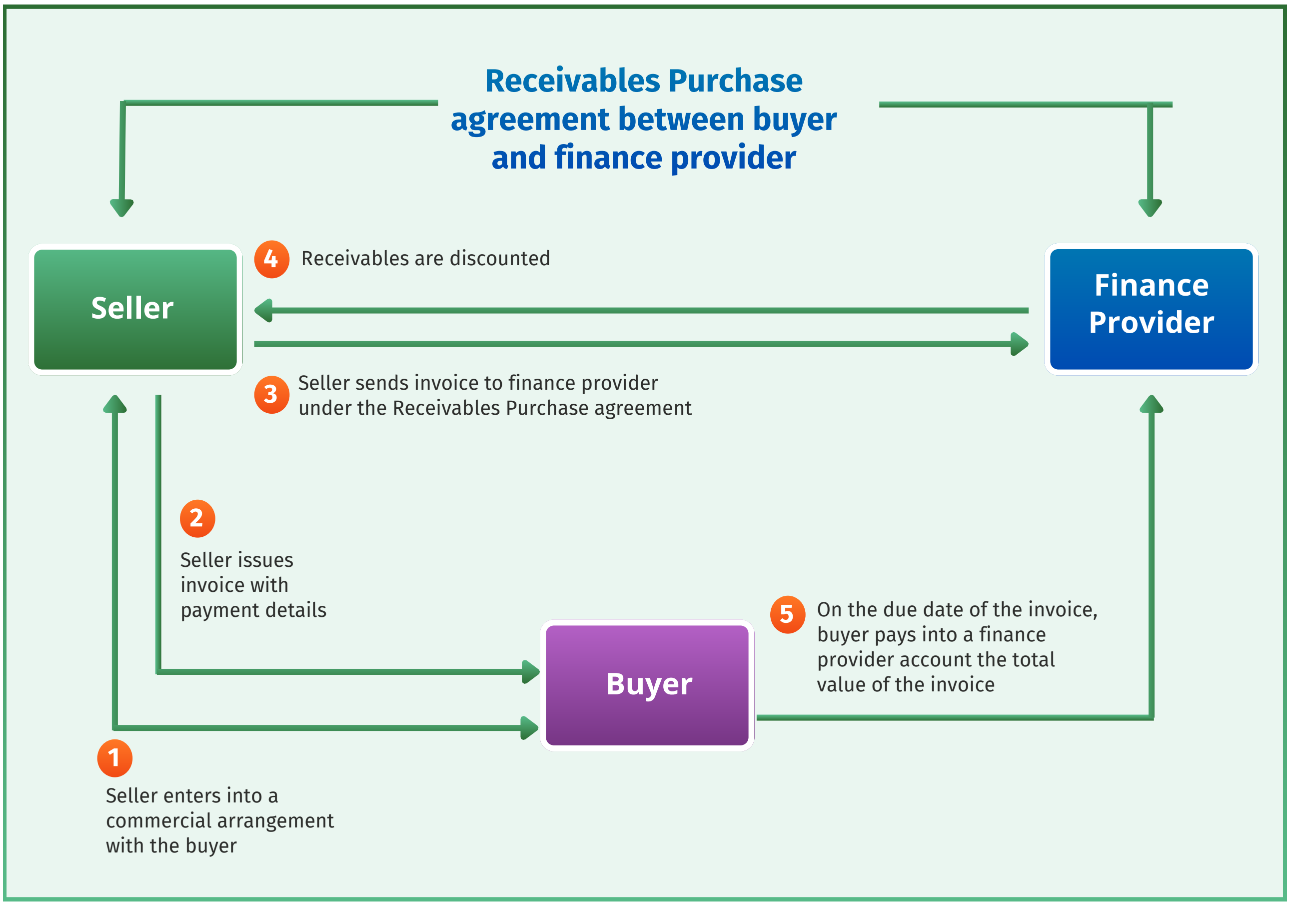
The vast majority of factoring is domestic and individual invoices are often of a low value. Cross-border factoring is possible using the two-factor system. One factor is in the buyer's country (known as the 'Import Factor') and the other in the seller's country (known as the 'Export Factor').

The two Factors establish a contractual or correspondent relationship to service the buyer and the seller respectively under which the Import Factor in effect, guarantees the receipt of funds from the importer and remits payment to the Export Factor. Typically, the two factors use an established framework such as the General Rules for International Factoring (GRIF), provided by FCI.

Invoice Discounting

Invoice Discounting solutions tend to focus on shortening a seller's cash conversion cycle, as opposed to encompassing debt management and collection aspects. The degree of disclosure to the debtor under this type of facility varies, ranging from full disclosure to no-disclosure, depending on the level of comfort taken by the purchaser of the receivables over the nature and standing of the seller. In most cases, the greater the control the financing entity/purchaser of the receivables manages to attain over the process, the better the discounting conditions offered.

An invoice discounting facility without disclosure to the debtor will grant the seller of the receivables full confidentiality, and therefore avoid reputational hazards. Most invoice discounting is without recourse to the seller so as to ensure de-recognition of the receivables from the seller's balance sheet (so-called "true sale") but recourse is normally retained for commercial dispute e.g. where the buyer refuses to pay because the goods or service are defective.



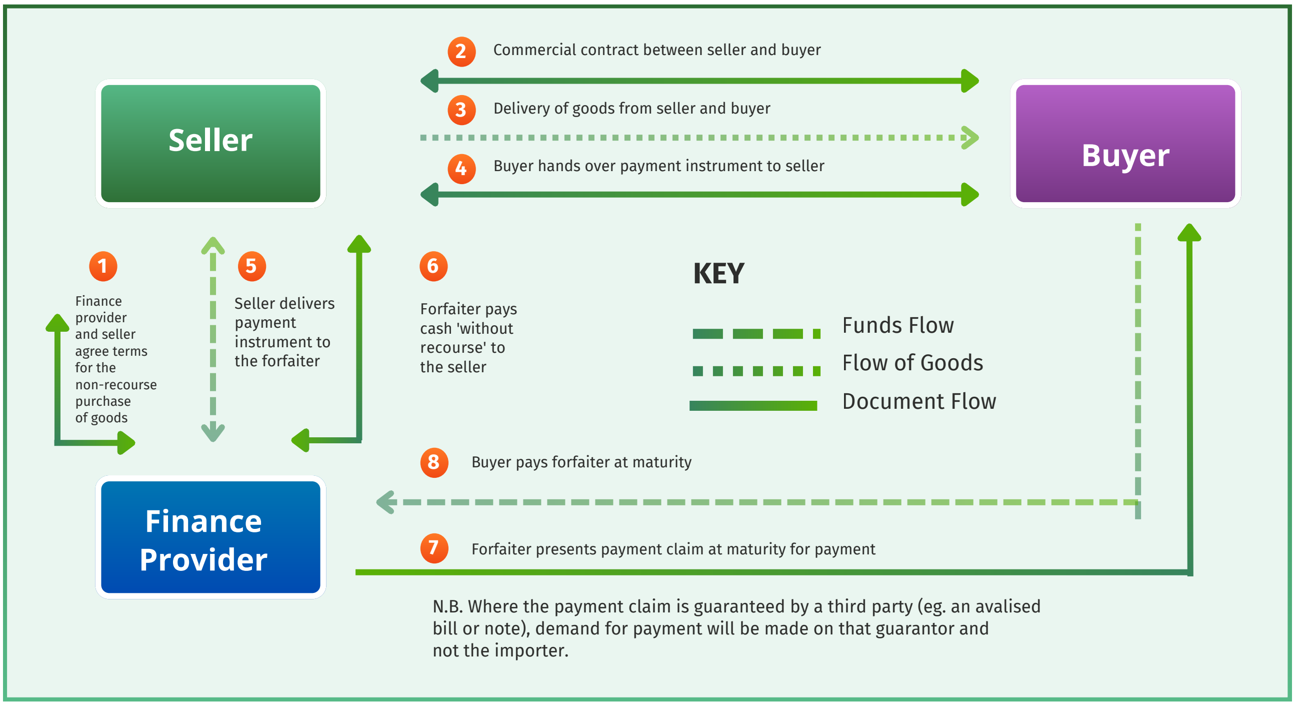
Forfaiting

Forfaiting is a form of without recourse receivables purchase, enabling exporters to receive immediate cash by selling their medium and long-term payment obligations, represented by financial instruments or payment obligations (normally in negotiable or transferable form), at a discount or at face value in return for a financing charge. Typical payment instruments in Forfaiting include negotiable instruments such as: bills of exchange and promissory notes.

The main benefits of forfaiting include:

- Working capital optimization for buyer and supplier, where 100% of the contract value may be financed on a without recourse basis
- Eliminating or minimizing the risk of payment default, arising from political, credit and transfer events
- Potential finance raised against a strong credit rating (either of buyer or financial institution providing security for the payment obligation) with lower implied cost of funding for the Supplier
- Assists suppliers in selling to countries where they have little or no knowledge of the country's legal framework and where open-account sales would not otherwise be possible
- Potentially improved payment and commercial terms for the supplier and buyer
- Finance and liquidity availability for suppliers with limited credit availability from traditional banking sources
- Supply chain stability
- Relieving Suppliers of administration and collection costs

ITFA has published rules for traditional forfaiting (the Uniform Rules for Forfaiting co-published with the ICC) and for electronic payment instruments (the Uniform Rules for Transferable Electronic Payment Obligations).



FI Trade Loans

FI Trade Loans are a popular method by which one bank can provide short term (up to one year) financing to another, typically covering one or multiple underlying trade transactions. These bilateral loans enable banks in emerging markets to gain access to foreign currency quickly and efficiently, predominantly in USD.

These are often documented through a standalone authenticated SWIFT, sent by the borrower bank to the lender bank, requesting financing at terms and conditions previously agreed between the parties. An example of this is the ITFA Short Term SWIFT FI Trade Loan template.

Alternatively, a master agreement can be executed between the borrower bank and lender bank, allowing for simple subsequent funding requests. The BAFT Master Trade Loan Agreement is an example of this type of arrangement.

Unsecured Syndicated Credit Facilities

Syndication is financing provided by a group of lenders for a single borrower. Usually, syndication occurs when a borrower requires more funding than an individual lender can provide or when the credit facility is not wholly within the scope of the lender’s risk exposure policies, but it has capabilities in raising funds from other financial institutions.

The lead bank which is the bank that oversees the arrangement and administration of the syndication, recruits the syndicate members and negotiates financing terms. The lead bank conducts the necessary due diligence and thereafter an information memorandum is prepared. The information memorandum includes financial statements, company profile and directorship details of the borrower.

Syndications have become a major source of corporate funding. Firms seek loans and funding for various business reasons that include capital for mergers and acquisitions and capital expenditure projects. The prime motive of a syndicated loan is to distribute the risk of a borrower's payment default across multiple lenders. Usually, there is only one loan agreement for the entire syndicate.

Process:

- The Arranger Bank analyses the funding requirements of a client;
- The Arranger Bank receives documents from the client i.e. company profile along with financial data and credit score;
- The Arranger Bank approaches different banks for participation in the syndication; those who agree to advance the largest "tickets" will normally form an arranger syndicate and will undertake various roles in the syndication e.g. book-runner, documentation bank, facility agent etc.;
- A term sheet will be drafted. This document will include details such as terms and conditions, repayment schedule and collateral;
- The loan documentation is circulated amongst the syndicate members for review;
- The loan documentation is eventually executed by all parties and, where the loan is secured, the process of perfection immediately commences at the Stamp Duties Office; Land Registry; Ship Registry; and Corporate Affairs Commission depending on the type of asset used as security;
- Upon execution of the documentation, the borrower has to satisfy the conditions precedent stipulated in the loan agreement before any disbursement can be made on the loan;
- Often in syndications, bankers appoint a security trustee - the security trustees act on the direction of syndicate lenders for security enforcement;
- In any syndication an individual entity cannot take enforcement action, it requires majority votes from other lenders.

Structured Commodity Trade Finance

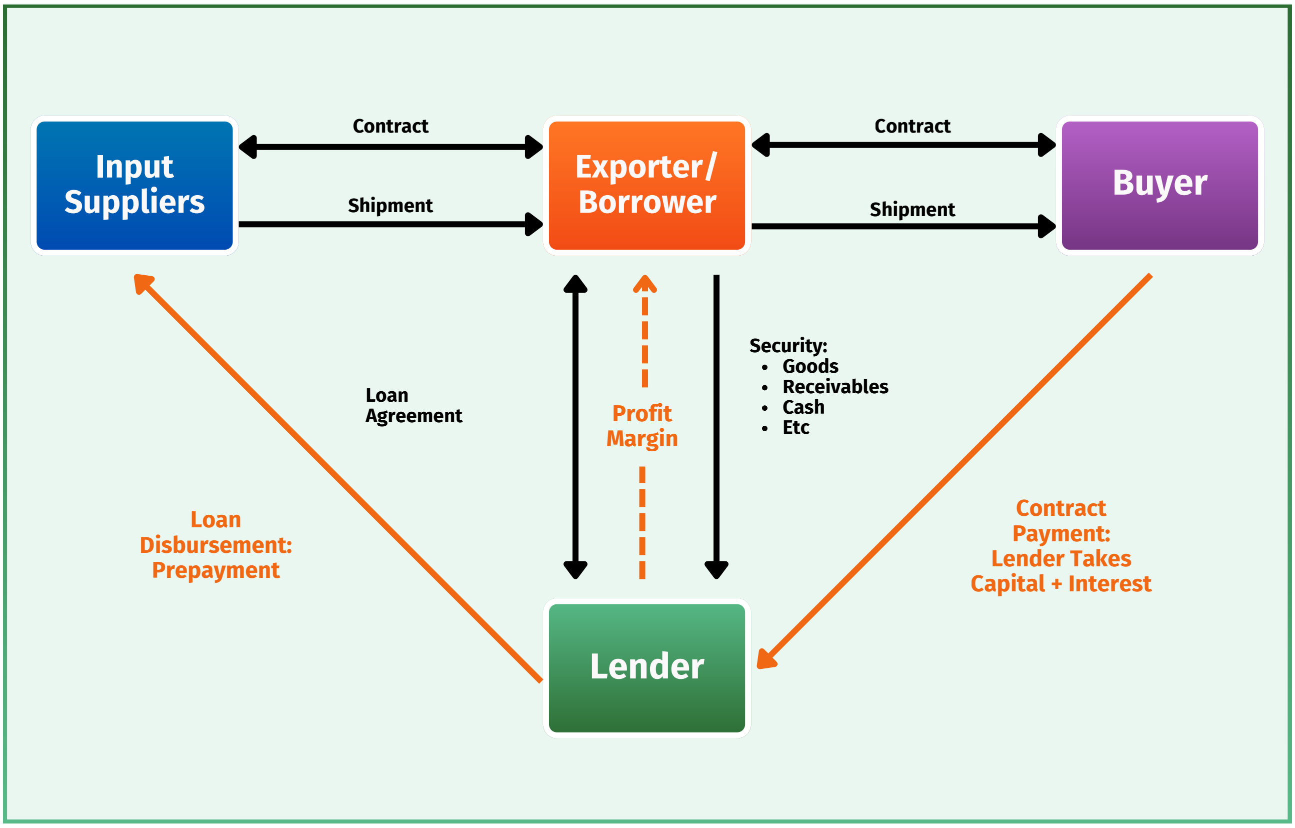
Pre-Export Finance (PXF)

Pre-export finance takes place when the borrower (seller) requires funding in order to produce and supply goods prior to delivery and shipment. Financial institutions advance the funds based on proven orders from buyers and an assessment of the performance risks related to the production and supply of the financed goods.

Commodity businesses are some of the largest users of pre-export financing, usually using the funds to finance large production operations. The borrower needs to ensure it has sufficient liquidity to maximize production, which is one of the key reasons exporters use pre-export financing.

Funds are provided directly from the lender to the borrower, with legal provisions that focus on the borrower being able to produce commodities and sell the product. Lenders will consider factors including production and delivery risk as the repayment of the loan is contingent on the production and sale of goods. Payment is made directly to the lender from the buyer, with the lender sending funds on to the seller once charges, interest and the original borrowed amount has been deducted.

Payment risk is also an issue the lender will consider, in the event that the seller distributes the goods and the buyer fails to pay. Pre-export finance transactions are based on a strong buyer or additional payment security to support the firm orders and commercial contracts.



The lender will generally take security by obtaining:

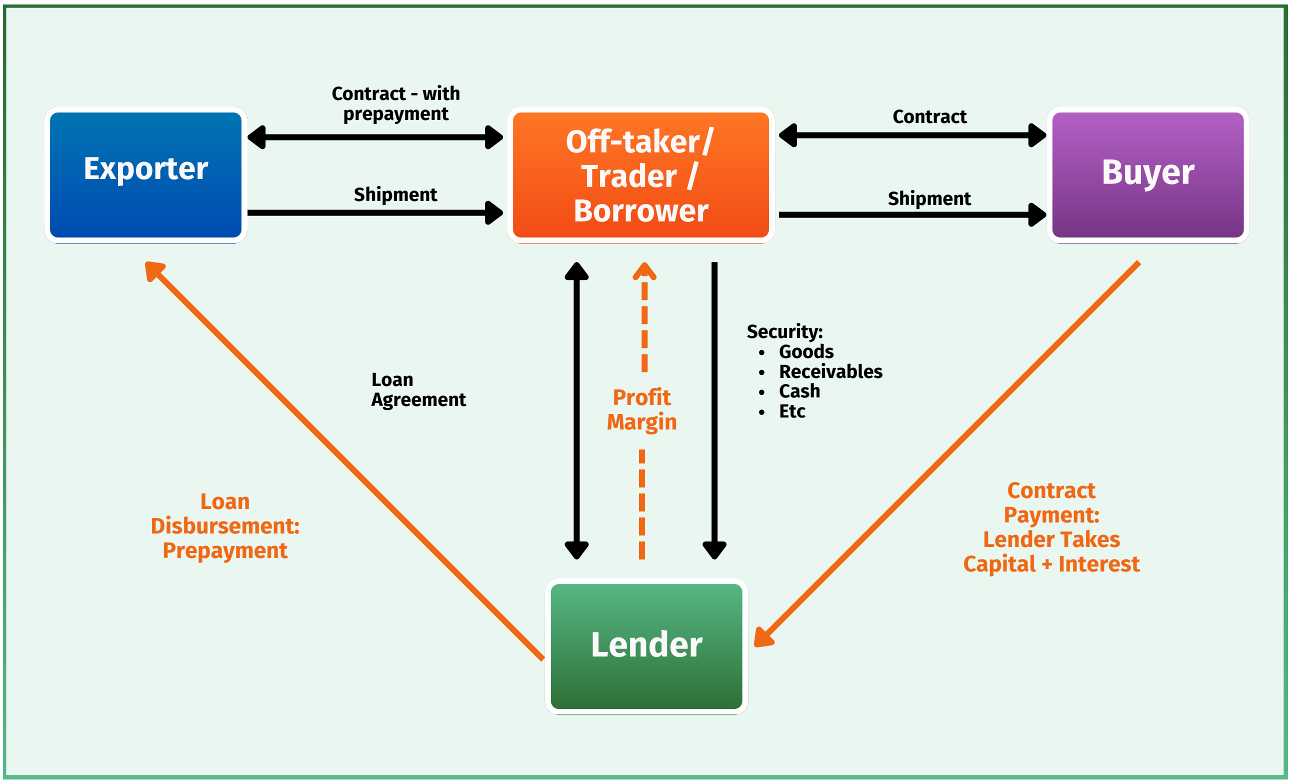
- An assignment from the producer of its rights under an 'offtake contract'
- A charge over collection or segregated bank accounts that proceeds from the sale are paid into; and
- Security over the goods or commodities

Third-party collateral management firms are often employed in Pre-export financing structures. This is to ensure that goods financed are properly stored, monitored and held to the order of the lender.

Pre-Payment Finance (PPF)

The underlying rationale of a prepayment finance facility is similar to that of a pre-export finance facility, i.e. to allow an exporter to obtain sufficient funds in order to procure and store raw materials, undertake production and deliver finished goods to the buyer under an export contract.

The main difference lies in the fact that rather than the seller, the buyer is the actual borrower under the facility and uses the financing to prepay the seller. Repayment of the facility originates from money received under the onward sale of the imported goods by the buyer to another ultimate end-buyer.

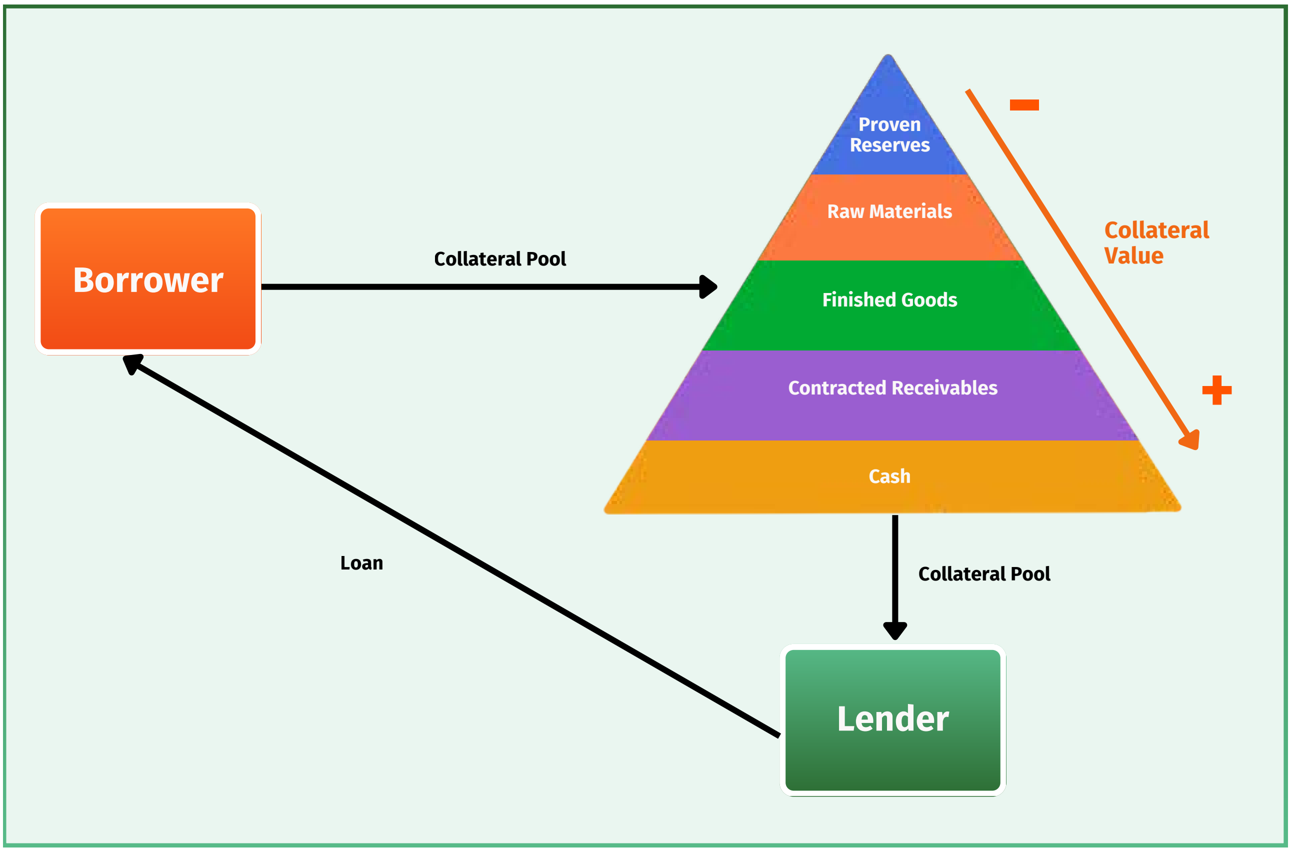


This type of financing is widely used in the international trade markets, primarily by traders with a requirement to source goods to deliver to their end-buyers, seeking to empower their suppliers by financing their operations and thereby gaining access to the goods they require in more advantageous conditions. The key support elements that financial institutions look for when considering prepayment finance are the nature of the goods involved and the creditworthiness of the end-buyers. An assessment of the exporter's track record and ability to deliver is also pertinent, considering the financing institution may retain performance risk on the exporter.

Borrowing Base Finance (BBF)

Contrary to inventory finance, borrowing base facilities do not only rely on goods stored, but rather on an evolving pool of stocks, receivable and cash, including reserves of unextracted commodities (and respective production licenses and equipment).

A borrowing base is usually established using proved commodity reserves (if applicable), warehoused stocks of raw materials and ready-for-sale goods, goods in transit, goods sold (receivables) and cash. The amount made available to the borrower is a ratio of the total value of the collateral pool, with a different financing percentage applicable to each type of collateral, reflecting inherent risks.



As may be easily perceived, borrowing base facilities provide an encompassing technique that extends the monetization concept throughout the collateral pool, therefore enhancing the release of cash from the operational cycle.

The Loan Market Association (LMA) publishes a form of borrowing base facility which can be used as a starting point for documentation. It is interesting to note that the latest version of this document has incorporated provisions to deal with electronic or digital bills of lading. These provisions are drafted broadly to be technology neutral, and many are placeholders with final wording consequently dependent on the operation of the relevant technology.

They consist of additional definitions and space for additional formalities which again will vary on the chosen technology, but which will especially need to be considered when security is granted over digital instruments eg maintenance of and access to an electronic ledger in the name of the agent but held for the benefit of all lenders. Consideration should also be given as to the level of comfort required on the reliability of the technology system in use. This could be in the form of a legal opinion or official approval/licensing by a relevant authority.

There has already been some use of electronic trade documents in this context, especially e-bills of lading.

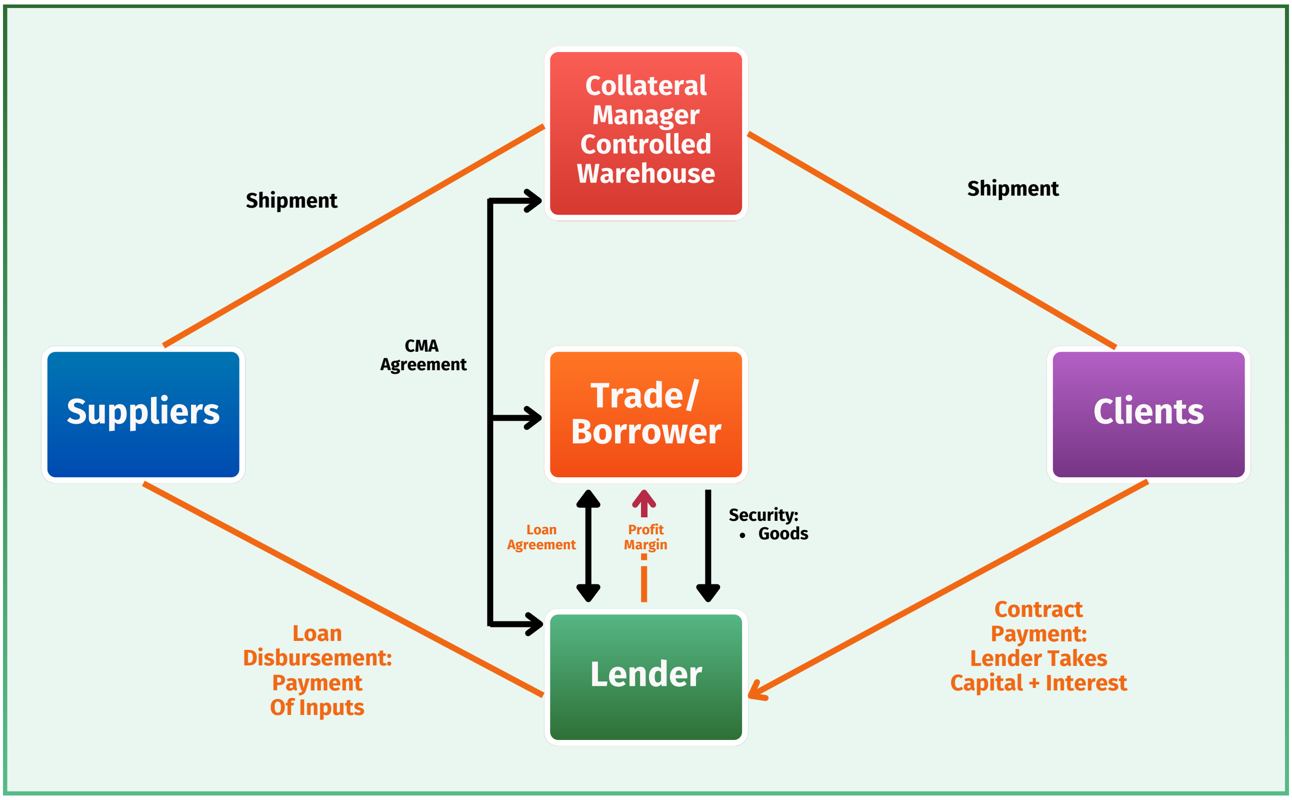
Inventory Finance

Inventory finance, also known as warehouse financing, aims at monetizing stocks held by the borrower, releasing cash-flow which can be reinvested in the operational cycle.

When establishing the degree of security associated with a potential inventory finance facility, financial institutions will assess the available legal instruments, allowing them to retain adequate security through the establishment of tight control mechanisms over the goods being financed (or even direct or indirect possession in some jurisdictions) and entitling them to sell the goods being financed in the open market should the borrower default, under the shortest timeframe possible, with the least amount of red tape.

This assessment allows a lender to establish an acceptable ratio of financing vs goods given as collateral, against which the borrower will be able to draw on the facility on a revolving basis.

The repayment of an inventory finance facility is made with the money received from the sale of the stored goods, and as such, the structure may be extended to include the use of trade receivables as collateral in addition to stocks.



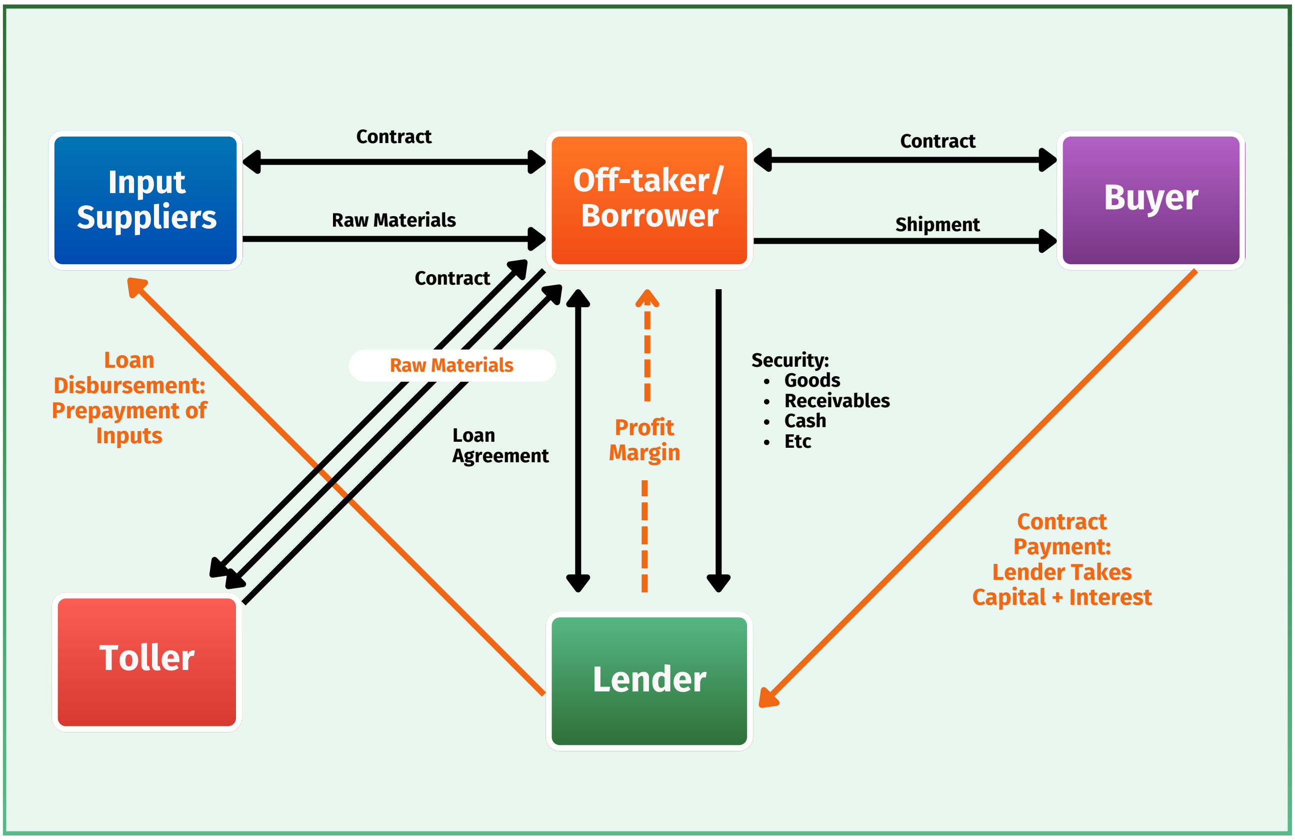
Tolling

A tolling facility adds to the concepts underlying pre-export and pre-payment facilities. In a tolling facility, the borrower is usually a trader or company that requires financing for the acquisition of raw materials, payment for the transformation of these raw materials into finished goods and delivery to an end buyer under an order or a contract.

The first leg of the financing can be seen as a pre-export or pre-payment finance, whereby the lender will finance the export of the raw materials in order to enable the trader to facilitate the fulfilment of their obligations.

The raw materials are then delivered into a production facility/toller and more funds are disbursed by the lender for the settlement of the production/tolling fees. Finally, the finished goods are delivered to the end-buyer who makes the payment that settles the financing.

With the goods continuously evolving and being transported through various jurisdictions, a structuring challenge becomes apparent and will need to be addressed carefully. This is such that the notion of collateral is kept intact throughout the life of the facility, benefitting both the lending institution and the borrowing trader/company.



Islamic Finance

Islamic Finance is the means by which individuals and companies in the Muslim world can conduct financial activity that complies with the principles of Sharia, or Islamic law. Islamic Finance also refers to the types of investments that are permissible under this form of law. Sharia is a religious law forming part of the Islamic tradition based on the teachings of the Qur'an and the traditions of the Prophet.

Sharia's key prohibitions are
- Lending money in return for payments of interest (Riba)
- Uncertainty / the sale of what is not present (Gharar)
- Gambling (Maisir)
- Unethical Investments
- Unjust Enrichment

Conventional financing is not Sharia compliant and so Islamic Finance seeks to replicate the economics and risk profile of a conventional financial instrument by using assets and services.

A benchmark is set by using a conventional financial instrument, but Islamic Finance will differ largely in a structural way. One of the most notable differences in a Sharia compliant financing structure is that interest and price speculation are not permitted.

The main structures of Islamic Finance are:
- Murabaha (Cost-plus financing)
- Ljara (Leasing)
- Mudaraba (Investment Capital)
- Musharaka (Partnership)
- Istisna'a (Construction)
- Wakala (Agency)
- Sukuk (Islamic Bonds)

Every transaction under Sharia will need to be approved from a Sharia perspective. Approval is provided by qualified scholars who typically have good knowledge of conventional financing. Most financial institutions who provide Islamic Finance have their own board of Sharia scholars.

5 Secondary Market

Secondary Market

From the list of available products in the taxonomy, the guide focuses on the following examples:

Trade Risk Distribution

Master Participation Agreements

Unfunded Risk Distribution

Funded Risk Distribution

Credit Risk Mitigation

Structured Export & Agency Finance

Multilateral Development Banks

Trade Risk Distribution

Trade Risk Distribution provides the opportunity to distribute and manage the risk of trade finance transactions with a number of investors (participants).

Main objectives

- **Risk mitigation and creation of additional lending capacity**

While the reasons for distributing risk have evolved, risk mitigation and capacity creation are usually the main objectives for establishing a programme and a dedicated distribution team.

Distribution operates by way of securing credit protection against the underlying risk (unfunded distribution) or by a true sale of the risk (funded distribution).

While credit policies differ from bank to bank, most will recognize the effect of the protection or sale and allow the creation of additional lending capacity.

- **Increased return on capital and increase the return on assets for a particular transaction**

An increased return on capital is best achieved by funded distribution but can sometimes be achieved by unfunded distribution.

Distributing unfunded to a "better" rated entity generally allows for a lower capital cost to be allocated to the transaction.

An increased financial return on assets is only achieved through funded distribution which qualifies for true sale treatment.
(See the ITFA paper on IFRS 9).

Unfunded distribution sometimes helps in increasing the return on risk weighted assets by lowering capital costs but will always be detrimental to the cash or bottom-line return on asset ratio.

Master Participation Agreements

The BAFT Master Participation Agreement (MPA) is an industry standard document that is widely accepted by the players in the trade risk distribution market to facilitate the buying and selling of trade finance assets globally.

The English Law MPA was originally launched by BAFT, an international financial services association, in 2008, to streamline the sub-participation documentary process by developing a two-way agreement (i.e. balanced), making it trade-finance specific, and most importantly simplifying the exchange of documentation, reducing legal costs, increasing efficiency and promoting trade.

The Supplementary Form governed by New York was introduced in 2010.

During 2018-2019 BAFT and ITFA put together a working group of experts to review the existing forms and identify necessary changes based on current market practice. The international law firm, Sullivan & Worcester, drafted the modernised English and New York law MPA forms and associated usage guidelines. A further set of small amendments were made in 2022 to reflect the demise of LIBOR as a reference rate. Both English and New York MPAs facilitate both unfunded and funded risk distributions. The MPAs are accompanied by legal opinions as required to obtain bank capital relief under the Basle rules. ITFA members may legally rely on these.

Subsequently, ITFA has also published the Master Accounts Receivable Assignment Agreement (MARA) in 2024, which is an English law template specifically designed to facilitate the distribution of open account facilities (i.e. Supply Chain Finance and Receivables Finance which involve an ongoing and recurring programme-level distribution). The MARA broadly follows the structure of the English law BAFT MPA, although it should be noted that it is for funded distributions only.

Non-Bank Investors in Trade Finance

The institutionalisation of trade finance as a discrete fixed-income asset class is now well advanced. Specialist trade finance funds, pension schemes, insurers and the more sophisticated family offices have moved, over the past decade, from opportunistic participation to programmatic allocation alongside the bank market. The migration rests on the asset class's credit profile with weighted-average tenors typically inside twelve months, contractual self-liquidation through identified underlying trade flows, and default frequency and loss given default metrics as documented across successive editions of the ICC Trade Register that compare favourably to similarly rated corporate exposures.

For real-money allocators managing long dated liabilities, the combination of short duration, floating-rate coupon, granular obligor diversification and demonstrably low correlation with public credit markets is a structurally attractive complement to traditional fixed income mandates.

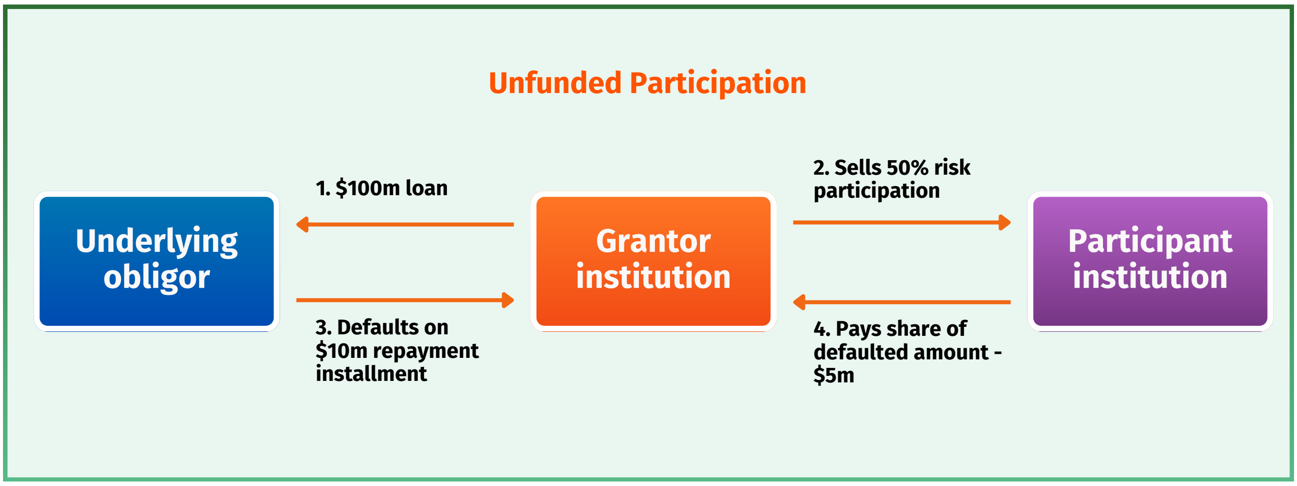
Real-money allocators approach the market with a disciplined mindset. For investment grade and lower risk obligor cohorts, direct funded participation on a clean risk basis remains the predominant access route. For sub investment grade, structured or emerging market exposures, the strong preference is for a manager with deep credit expertise or for credit insured assets wrapping the underlying obligor risk.

The prudential framework has accelerated this realignment. The Basel III finalisation package colloquially Basel IV, implemented in the EU through CRR3 and equivalently across other jurisdictions recalibrates the capital intensity of bank trade finance. The marginal effect is a higher risk-weight on unrated, sub investment grade and longer dated exposures: precisely the cohorts where economic returns to bank capital have historically been thinnest.

Real-money capital typically deploys via funded sub-participation, true sale or collateralised debt structures. The obligors secure a committed, repeat liquidity and competitive economics from a stable, long duration investor base. Trade finance is transitioning from a bank product to a layered capital structure in which banks can retain primacy in origination, structuring and client coverage while the capital market participants absorb and redistribute credit risk, and institutional real-money capital is deployed across the rating spectrum based on the risk profile. The resulting market architecture is more capital-efficient, stable across cycles and materially more resilient to bank specific dislocation and it more accurately matches the asset class's economic characteristics with the liability profiles matching up with those best placed to hold it.

Unfunded Risk Distribution

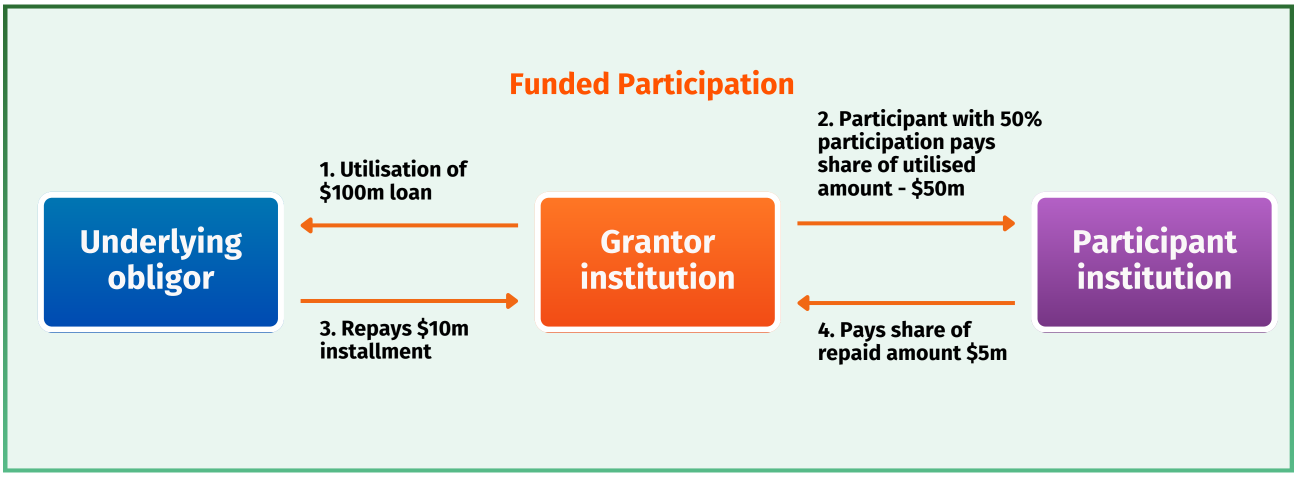
In an unfunded scenario the participant 'participates' in the risk by agreeing to pay upon default – akin to a guarantee.



Funded Risk Distribution

The dynamics of funded distribution are relatively straightforward – funds are provided from the outset.

It provides liquidity and the Grantor (seller) has no risk on the participant, since they have funded their participation up-front.



Credit Risk Mitigation

Credit Insurance

Credit insurance is a risk mitigation tool which can be used as a protection against commercial and political risks. It is used by both private and public companies and can be provided by private insurers and state-owned Export Credit Agencies (ECAs). Credit insurance presents a series of unique characteristics that make it a safe product while acting as a catalyst for the real economy:

- Credit Insurance **contributes to the reduction of systemic risk due to its risk sharing between banking and insurance markets** (which present low levels of correlation). This limits possible contagion risks in case of economic downturn.
- **Recovery rates** are high
- **Non-payment insurance policies are bespoke contracts** that create and require a trust-based long-term relationship between banks and insurers and therefore allow assessing credit risk with high levels of precision. **Claims performance is of the highest quality**. Non-payment insurance is well tested and proved to be a well-functioning insurance cover corresponding to the expectations of all parties. According to published statistics in the period from 2007 to 2018 capturing data from the single risk insurance market, 486 claims on banks' policies were made for a total amount of USD 3.19 billion. Out of that number 471 claims were paid in full, within the required timeframe and without difficulties, amounting to USD 3.07 billion.
- Only 15 claims had to undergo a compromise, mostly due to failure by the bank to comply with insurance policy requirements (and yet 44% of the "compromised" amounts claimed were still paid in settlement agreements). In a survey for ITFA of claims for 2024, 185 claims were made and paid, totalling c. USD 4.8 billion. Of the 185 claims, 4 (or 2% of claims made; 1% by claims amount or USD 3.8 million) were not paid by the contractual deadline due to operational failure as the liability and amount was not disputed by insurers.
- The **insurance claim process is in the bank's control**. The policy as a bespoke contract is tailored to the specific exposure that the bank is running. A long-term relationship combined with standardized claims procedure clauses allows predictable communication during the whole process.
- Due to the credit insurance characteristics (personal and highly prescribed contracts), there is no basis risk i.e. no discrepancy between the cover and underlying risk.
- Additionally, the conditions are fully in the bank's control which means that, apart from an operational failure on the bank's side where the settlement would be compromised, there is no reason why a bank could not expect settlement in full.

Importance of Credit Insurance

Credit insurance has a significant role in providing support to the real economy, which goes beyond the actual amount insured, as in many cases the decision on whether a bank grants financing to a company depends on whether there is credit insurance cover available for that particular transaction. This is confirmed by a survey done by ITFA among its members, which shows that (under conservative assumptions) EUR 87bn of insurance cover supports at least EUR 155bn of banking facilities to the real economy, which would not have been supported without credit insurance. This role for credit insurance has been confirmed by the European Investment Bank (EIB) which considers that credit guarantee schemes are significant tools for unlocking lending in Europe because they enhance risk taking capacity of banks through risk sharing. This adds to the situation that in Europe in many instances capital markets cannot accommodate such large-scale transactions in an efficient manner.

Structured Export & Agency Finance

Export Credit Agency (ECA) financing is used to assist importers in challenging jurisdictions, materializing through a number of incentives being availed to importers by export credit agencies linked to developed exporting countries.

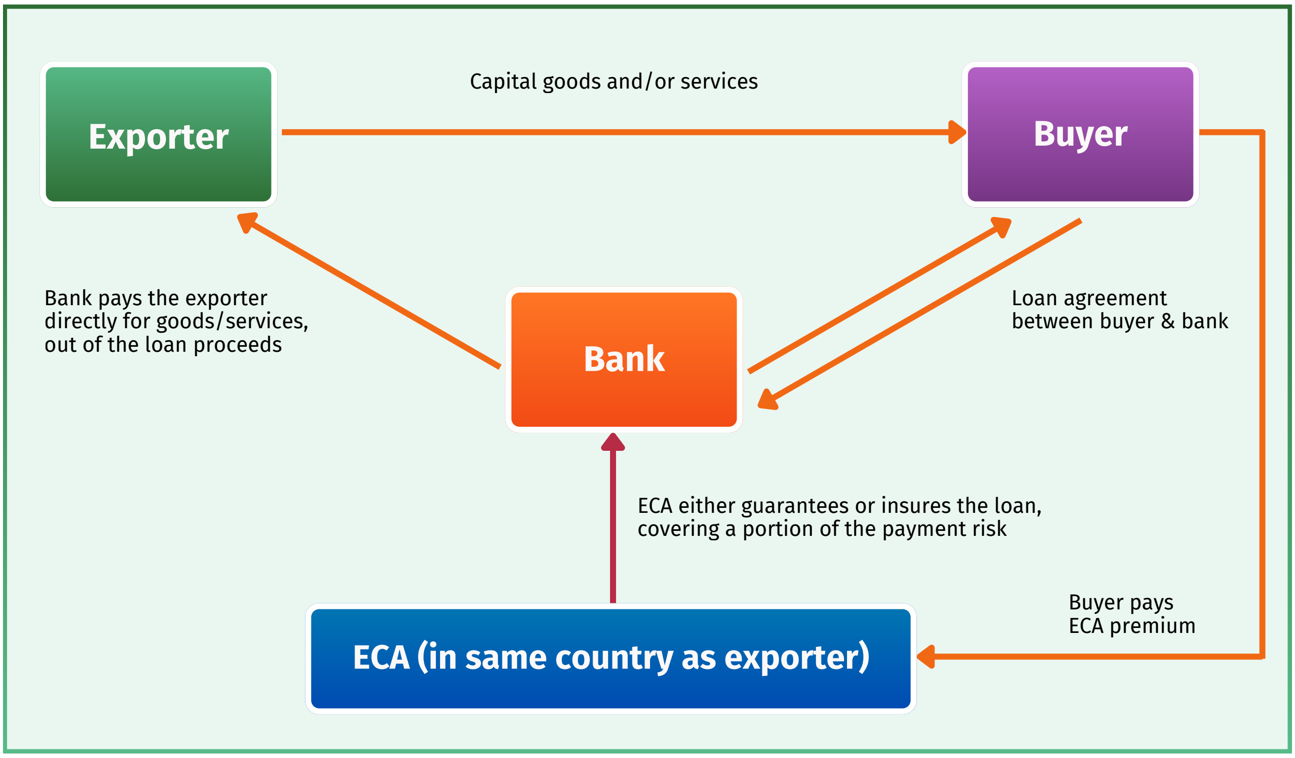
The types of transactions usually supported by ECAs are capital intensive, including the importation of heavy machinery to be included in large scale projects in the importing country, offering long term financing maturities with attractive conditions.

ECA support is usually provided via:

- Government guarantees offered to financial institutions supporting exports
- Financing facilities directly offered to importers
- Insurance mechanisms offered to both exporters and financing entities under the underlying trade transaction with a view of enabling credit to the importer

What are the eligibility criteria for export finance?

- Most ECAs have national content criteria and will only support exports that they deem beneficial to their economy and, if applicable, in accordance with the OECD Agreement. In practice, the exact criteria vary from country to country;
- ECAs finance a portion of home country content plus a varying amount of foreign content of the purchase order amount;
- The project must be deemed to be creating enough national value;
- The importer must be able to find alternative means of payment for at least 15% of the contract value, called the down-payment. Buyers can use equity or finance the downpayment, the latter on a subordinated basis to the ECA;
- Local parts of the contract may only be supported up to a 30% of eligible procurement.



Multilateral Development Banks

Multilateral Development Banks (MDBs) play a crucial role in supporting international trade, particularly in developing economies, by providing essential financial backing and technical assistance that bridges market gaps. Through initiatives like guarantee and trade facilitation programmes, MDBs help mitigate risks associated with cross-border transactions, enabling importers and exporters in high-risk environments to access crucial funding. ITFA has built good relations with, amongst others, the Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and International Finance Corporation (IFC) all of which have active programs in this space.

Beyond direct financing, MDBs also foster international trade by offering policy advice, sharing best practices, and facilitating the mobilization of private capital. They can therefore open markets perceived as too risky by commercial banks, so encouraging private sector investment. MDBs also work on creating enabling conditions for trade, including supporting sustainable trade finance initiatives and efforts to digitalise trade processes. Their strong credit ratings enable them to raise funds at lower interest rates, which can then be passed on to borrowers, making trade financing more accessible and affordable. In addition, their status under the Basel risk capital framework for banks means that their support can reduce the cost of bank capital for lenders making previously un-bankable transactions commercially feasible.

Finally, MDBs are very active in capacity building providing both training and advocating for legal reform.

6 Digital Channels

Trade Finance Company Landscape

This guide is a non-exhaustive list of some of the entities active in their particular field. It is not a recommendation to use the services of any particular company

Front-End E-Banking / Primary Market

Mono-bank and multi-bank access points for corporations, FIs and insurers

Mono-bank

Bank-owned — Large and mid-size bank proprietary portals

White-label — COMARCH, DEMICA, komgo (Powering Trade Networks)

Mono-bank

Trade Instruments — AROIT, enigio, SECRO

LCs / Guarantees / SBLCs — komgo, mitigram, Surecomp, 360

SCF Payables / Receivables — CRXMARKETS, DEMICA, FINVERITY, gscf, komgo, LENDSCAPE, Levantor, ORBIAN, PRIMATRADE, PrimeRevenue, taulia, 360

Structured Commodity Trade Finance — komgo

Internal Workflow & Processing Systems

Bank Back Office infrastructure and corporate trade finance management

Core Banking & Specialised Back Office

Core / Back Office — avaloq, CGI, China, Infosys, FINASTRA, intellect, mitech, MAMBU, ORACLE, Surecomp, temenos

TFMS for Corporates

SWIFT Connectivity — komgo, mitigram, nomenta, Surecomp

Proprietary Bank Network — komgo

Front-End Extensions

Secondary market distribution and insurance digitisation

Secondary Market

Bank-owned	Large-bank proprietary distribution platforms
Platforms	komgo (Powering Trade Networks), LIQUIDX, TRADEASSETS, TRADETEQ

InsurTech

Platforms: DIALOGUE, LIQUIDX, komgo (Powering Trade Networks), MERCURY, PPL, schumann, TepfinX, tinubu, TRADETEQ

Trade Networks

Shared rails for documents, data, messages and workflow checks

Network Utilities

Core / Back Office: avaloq, CGI, China, Infosys, FINASTRA, intellect, mitech, MAMBU, ORACLE, Surecomp, temenos

Trade Execution Platforms

Automated Doc Checking	cleareye.ai, TRAYDSTREAM
Electronic Bills of Lading	CargoX, enigio, ice, SECRO, wave BL
E-invoicing	Avalara, basware, COMARCH, edicom, eské, SPENDESK, tipalti, TrueCommerce, Tradeshift, TUNGSTEN AUTOMATION, xero
Financial Data / Instructions	ebics, komgo (Powering Trade Networks), Swift

1. Front-End e-Banking Solutions for Trade Finance

Primary Market

Mono and multi-bank portals for corporates and FIs to access trade finance services.

1.1 Mono-bank

Description: Bank-specific digital platforms, developed in-house or implemented as a white-labelled solution.

Use case: A corporate logs into the bank's portal to initiate a trade finance transaction.

Key players:
- Own platforms of large and mid-size banks active in trade finance.

White-labelled solutions: Comarch, Demica, Komgo.

1.2. Multi-bank

Description: Software-as-a-Service (SaaS) platforms enabling corporates to interact with multiple banks and insurance providers for trade finance. Corporates and FIs can access the digital exchanges via login to the platform or via system integration.

Use case: A corporate uses a single portal to connect with multiple banks and insurance providers. A bank or insurance provider uses a single portal to communicate with multiple corporates.

Key players:
- Trade Instruments (Promissory Notes/ Bills of Exchange): Arqit, Enigio, Secro.
- Letters of Credit/ Guarantees/ SBLCs: Komgo, Mitigram, Surecomp, 360tf.
- Supply Chain Finance (Payables/ Receivables): CRXMarkets, Demica, Finverity, GSCF, Komgo, Lendscape, Levantor, Orbian, Prima Trade, PrimeRevenue, Taulia, 360tf.
- Structured Commodity Trade Finance (Borrowing Base Finance, loans): Komgo.

Secondary Market

Description: Platforms enabling banks (risk originators on the secondary market) to streamline the trade assets distribution processes both internally and externally with the asset buyers (risk participants).

Use case: A seller bank uses a single portal to connect with multiple banks and insurance providers for price discovery and deal execution. A buyer bank connects with multiple asset sellers to disclose appetite and participate in secondary market transactions.

Key players:
- Own platforms of large banks active in trade distribution.
- Komgo, LiquidX, TradeAssets, Tradeteq.

InsurTech

Description: A high-level market survey of third party InsurTech platforms that provide digitisation solutions in respect of insurance cover has been created by the ITFA InsurTech Working Group.

Use case: There are subprocesses of the insurance transaction lifecycle that can be digitalised from origination, documentation (including insurer risk analysis, policy drafting, binding), through closing (including syndication insurance), transaction monitoring, operations, repayments to claim management and recoveries.

Key players:
- Aronova, Dialogue, LiquidX, Komgo, Mercury+, PPL, Schumann, Tepfin X, Tinubu, Tradeteq.

2. Core Banking and Specialized Trade Finance Back-Office Systems for Banks

Description: The broader IT infrastructure used by banks to run core operations, including trade finance modules, to process transactions.

Use case: A bank processes a trade finance transaction using integrated core and back-office systems. Systems integrated with Multi-bank Business application and eBanking Solutions.

Key players:
- Avaloq, CGI, China Systems, Finacle, Finastra, MITech, Mambu, Oracle, Surecomp, Temenos.

3. Trade Finance Management System (TFMS) for Corporates

Description: Internal digital platforms for corporates to centralize, automate and process trade finance transactions.

Use case: A corporate defines hierarchies in own organization, creates approval workflows, builds transaction lifecycles for each type of trade finance solution which may or may not include the bank or insurance providers involvement. TFMS can be operated on a standalone basis (corporate internal only) or have connectivity access to financial partners.

Key players:
- Basing on SWIFT connectivity: Komgo, Mitigram, Nomentia, Surecomp.
- With proprietary bank network connectivity: Komgo.

4. Trade Networks

Description: Digital networks facilitating secure trade finance workflows and document exchange across many parties.

Use case: A corporate or a bank uses the network to perform trade auxiliary activities (exchange financing and issuance messages, prepare documents, automate checks) with multiple banks and/or insurance partners.

Key players:
- Automated document checking: Cleareye AI, Traydstream.
- Electronic Bills of Lading: CargoX, Enigio, ICE Digital Trade (previously essDOCS), Secro, WaveBL.
- E-invoicing: Avalara, Basware, Comarch, Edicom, Eske, Pagero, Spendesk, Tipalti, TrueCommerce, Tradeshift, Tungsten Automation, Xero.
- Financial data/ instructions: EBICs, Komgo, SWIFT.

ITFA initiatives:

DNI – Digitalisation of negotiable instruments

ITFA has launched an initiative to transform negotiable instruments, which currently must be on paper in many jurisdictions, into digital assets e.g. on a blockchain. The technology for this already exists but digital transformation faces a number of legal and regulatory hurdles. The Digital Negotiable Instrument Initiative (DNI) proposes an interim contractual solution whilst continuing advocacy efforts for a permanent legal change. Details can be found on the ITFA website.

TFDI Initiative

The TFD Initiative helps trade originators automate trade asset/risk distribution and find new avenues for growth by partnering with institutional investors. The TFDI technology combines old and cutting-edge technology to allow banks and other originators to transfer and transform trade assets via a repackaging vehicle which can turn trade assets into instruments more closely resembling bonds which are easier for many investors to handle.

FCCi – Financial Crime Compliance Initiative

The FCCi examines the use of technology in improving and optimising financial crime detection and reporting. A common framework is proposed for financial institutions (FIs) and vendors for the operationalisation of advanced technology, such as artificial intelligence (AI) and machine learning (ML), as well as sophisticated deterministic rules-based models. Please refer to papers published on the ITFA website.

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The International Trade and Forfaiting Association (ITFA) is the worldwide trade association for companies, financial institutions and intermediaries engaged in trade and the origination, structuring, risk mitigation and distribution of trade debt. ITFA also represents the wider trade finance syndication and secondary market for trade assets. ITFA prides itself in being the voice of the secondary market for trade finance, whilst also focusing on matters that are relevant to the whole trade finance spectrum. Expanding from its original focus on the purchase and discounting of simple but robust payment instruments, such as negotiable instruments and letters of credit, the forfaiting industry has embraced new instruments and created new structures to become a prominent part of supply chain finance. ITFA acts as a valuable forum for its members to interact and transact business together profitably and safely.

ITFA presently has around 400 members, located in over 60 different countries. These are classified under a variety of business sectors, with the most predominant being the banking industry. Others include forfaiting, insurance underwriters, law firms, fintechs as well as other institutions having a business interest in the areas of Trade Finance and Forfaiting.

To find out more about ITFA, please visit www.itfa.org or send an email on info@itfa.org.

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