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## Another attempt to define Supply Chain Finance


[David Gustin](#) - May 2, 2014 3:07 PM

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I have to applaud the International Chamber of Commerce. In their recent meeting in Dubai, they formed a Global Supply Chain Finance (SCF) Forum to clarify existing definitions around supply chain finance terminology. The effort will encompass five organizations:



- Euro-Banking Association (EBA),
- Bankers Association for Finance and Trade (BAFT),
- Factors Chain International (FCI),
- International Factors Group (IFG) and the
- International Forfaiting Association (IFA).

Kah Chye Tan, Chair of the ICC Banking Commission said: *“SCF is a growing market with considerable business opportunities identified for the near future. Given increased collaboration among the wide range of bank and non-bank representatives facilitating domestic and cross border trade, and the advent of Internet and new communication technologies, it is more important than ever before for all market participants to adopt universally-accepted terminology that corresponds to the rich array of processing, financing and risk management techniques currently being developed by the industry to support increasingly globalized supply chains.”* 

Amen to that. It should be an interesting intellectual exercise. And hopefully it will lead to some standard discussions as we all know this space is filled with buzzwords and confusion. If you Google Supply Chain Finance, a common definition would be, *“Supply chain finance is a buyer-led initiative that facilitates favorable financing for the supplier in order to achieve mutual benefits for both trading partners, through the use of a technology platform and a third-party financial institution or otherwise.”*

### So what’s our interpretation of the impact of this announcement?

Here is why I think it will be a nice intellectual exercise but may not move the ball down the field.

**Trade Finance has a data problem.** If you make data available and credible, investors can make decisions. Any well established market has a hierarchy of necessary data and right now trade finance is not close to establishing. That hierarchy includes:

- Relationship data (like the legal agreements at the relationship level) and the Product agreements.

- The Products themselves and which standards they use. (For example, XYZ Company is using a Letter of credit governed by the UCP.)
- Transactions details
- Transaction execution – what is executed and is it according to the agreements.

Data would also need to be collected at the product level and credit party rating by product, by client, by legal entities, and by geography. And then you have to deal with collateral and valuation, loss given default and the recovery rate.

Trade Finance just does not have that data. And while you can say standardizing definitions around supply chain finance is a start, its been done in the past. It took BAFT 3 years to [standardize definitions around Open Account trade](#), and for what? Again, show me the data, and I will show you the money.

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