

Finance by Invoice Discounting Product Guide

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Finance by Invoice Discounting

The basics

Our finance product is provided to you where we agree to purchase your debts (apart from excluded debts) and will, subject to the terms of the purchase set out in our agreement with you, make a prepayment available to you of a percentage of the value of the debt (typically 80-90%). The remaining balance is available to you after we have received the payment from your customer.

The availability of this funding can improve your cash flow as you will not have to wait for your invoices to be paid and can have cash available to reinvest in your business. Fees and charges apply which are payable by you.

Invoice Discounting is an undisclosed facility. Your customers are not ordinarily aware of our involvement under this arrangement and will continue to pay you, although payments will be made in to a designated account. You are our collection agent for the debts we have purchased from you under this arrangement.

How Invoice Discounting works

- ◆ You notify debts (evidenced by your invoices) and credit notes to us, either manually or by using our automated data extraction platform (see “Integrated Data Solutions (IDS)” section below)
- ◆ Every time debts and any credit notes are notified to us, payments are received by us and you draw against your availability, we will update your funding available to you to withdraw against.
- ◆ The funding we make available to you will take into account relevant amounts we retain and charges and fees due to us under the agreement which are payable by you.
- ◆ As you are collecting the debts as our agent and therefore retaining control of your sales ledger, we will need you to provide a monthly reconciliation and aged debtor report in a form agreed with us, after which monthly adjustments to availability will be made by us to take account of this.
- ◆ We may conduct surveys on the above facilities to ensure it is running satisfactorily and that the data we are receiving in respect of your debts is accurate and complete. This may include a need for one of our surveyors to visit you. This may be chargeable.
- ◆ We aim to communicate with you openly and transparently, and you will have telephone contact points within our business and access to our internet platform to send and receive relevant messages.

What you need to know

- ◆ Certain types of debt are excluded from our agreement with you and should not be notified. Excluded debts are defined in the agreement between you and us but broadly relate to countries or customers subject to sanctions by HM Treasury or the US Treasury’s Office.
- ◆ Certain types of debt are non-notifiable debts meaning that, whilst we purchase these debts under the agreement, these should not be notified to us unless we tell you to. This is defined in the agreement with you but includes (amongst others) debts payable by a customer: that you are closely associated with (e.g. same or similar ownership), that you owe debts to, in cash, where you deliver direct to a customer’s end customer and the customer you trade with is located abroad, on sale or return terms etc.
- ◆ You will need to retain relevant records to prove the debts and make these available to us if requested. This typically includes relevant contractual terms, purchase orders and acknowledgements, invoices, signed delivery notes or time sheets and other documents which evidence the debt due.

- ◆ You must inform us promptly if you become aware of any dispute or query in relation to a debt you have notified to us.
- ◆ The monthly reconciliation process (and aged debtors report if not using our Integrated Data Solutions (IDS) platform) will mean an element of administration is required by you.
- ◆ Changes to availability may be delayed if we have queries that need to be resolved.
- ◆ We may need to apply retentions to limit availability in certain circumstances. This will include, but is not limited to, (a) debts that are disputed (until such dispute is resolved or determined in our favour by a court) as they will be ineligible for prepayment whilst disputed, and (b) materially overdue debts (usually 60 days past due) unless you have credit protection and the relevant debt is protected.
- ◆ Your availability may be reduced or withdrawn altogether in certain circumstances which will include a breach by you of the agreement between us.
- ◆ Security is often required and may include one or more of the following: personal guarantee and indemnity from director(s)/ principal(s);
 - company guarantee from your parent and/or associated companies;
 - personal indemnity against breach of the agreement between you and us (usually given by director(s));
 - fixed charge over debts which fail to be effectively transferred to us as required in our agreement.
 - floating charge over all assets.
- ◆ If we need to, we can exercise our right under the agreement to disclose our ownership of a debt to a customer and require that debt is paid direct to us, or we can cancel your agency to collect debts on our behalf.
- ◆ We will set specific funding limits for your customers which may limit the funds available to you if you have outstanding debts due from a customer in excess of that limit at any time. We will provide a funding limit unless we are aware of adverse information about a customer but may by notice change the funding limit.
- ◆ We will also set an overall facility limit.
- ◆ It is important that you read and understand the agreement between us including what constitutes a termination event and the potential consequences of a termination event arising.

What does it really cost?

- ◆ There are no hidden costs.
- ◆ For certain types of security that may be required, it might be necessary for you to consider taking independent legal advice at your own cost.
- ◆ Every other fee or charge relevant to your agreement with us will be clearly set out in your agreement with us and will usually be debited against the funds available to you.
- ◆ If things go wrong and we have to collect out the debts following a termination of the agreement between us and/or you becoming insolvent, we will not charge you a collect out fee but we may seek to recover from you identifiable costs of recovery.
- ◆ If you request a variation to the agreement (eg an increase in the overall facility limit), that an overpayment is made to you (ie that we extend additional availability to you in excess of what you are otherwise entitled to under the agreement) or that we agree to an early termination of the agreement

during the minimum term, any agreement to do so may be subject to agreeing a fee for providing such variation or overpayment or agreeing to early exit.

- ◆ Our service charge is calculated taking account of predicted annual turnover. The service charge may be subject to a minimum annual charge.

Operating the Invoice Discounting facility

There are two delivery channels available for invoice discounting, which determine how data is exchanged between you and us in order to operate the facility. You have the option to choose one of the following methods of working with us:

- (a) Using Integrated Data Solutions (IDS) which is our automated digital platform for extracting required data from your accounting software.
- (b) Not using IDS, where the necessary data is submitted manually by you as and when required. This may be the appropriate solution if your accounting software is not compatible with IDS.

The following section concentrates on our automated platform, Integrated Data Solutions (IDS):

Integrated Data Solutions (IDS)

Integrated Data Solutions (IDS) is a secure digital platform which extracts the information required by us to operate the Invoice Discounting facility directly from your accounting software. It works with a range of popular accounting software packages and we'll confirm in advance whether yours is compatible.

Our IDS software has no additional charge and we will provide support to install and configure the software if required.

How IDS works:

- ◆ You download and install a small piece of encrypted software provided by HSBC, which is then configured by you to extract sales invoices and credit notes data at specified times, directly from your accounting software.
- ◆ The IDS software is designed to only extract data from customers marked 'notified' to HSBC. Any other customers which are excluded from your invoice discounting facility are made 'non-notified'.
- ◆ You can choose from either daily or weekly adjustments to your facility. You can also send us further data extracts, with no daily limit.
- ◆ The IDS software automatically extracts your sales ledger data (sales invoices, credit notes and customer payments) which will be received by HSBC within 60 minutes from the time an extract is taken.
- ◆ Provided sales invoices are extracted by 17:00 and are not subject to audit checks, we will endeavour to update funding available to you the same working day.
- ◆ For export currency transactions and same day drawdown of funds, extracts should be configured to extract by 14:00 in order for funds to be made available before 15:00.
- ◆ As you are collecting the debts as our agent and therefore retaining control of your sales ledger, we will still need you to provide a monthly reconciliation in a form agreed with us, however there is no requirement to provide a monthly aged debtors report whilst daily funding updates can be made to the facility.

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