

LIQUID X<sup>®</sup>

# Beyond Reporting Challenges

A New Era for Trade Receivable  
Securitization



# Intro

In today's business environment, faced with increasing costs and inflationary pressures, fiscal drag, and supply chain disruptions, managing cash flow and optimizing liquidity have become top priorities for treasurers.

Corporate treasurers are prioritizing customized solutions to unlock capital tied up on the balance sheet, locked into accounts receivable. Breaking down previously high barriers to entry has prompted the re-evaluation of securitization of trade receivables in the current, more turbulent market. The 2008 financial crisis brought securitization under intense scrutiny, with traditional market participants pulling back or withdrawing altogether. Today's market has evolved, with private lenders stepping in, looking for new and attractive yields across a range of asset classes. This is presenting treasurers with an opportunity to convert locked assets into investable instruments, creating a new competitive funder market.

# The Appeal of Trade Receivable Securitization

Trade receivable securitization presents an enticing proposition for corporates seeking liquidity and can be attractive to investors seeking diversified portfolios with stable cash flows. Here's why it's gaining significant traction:

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## **Improved Liquidity for Corporates:**

The inflationary environment and increasing costs of funds, coupled with risk of further repricing during refinancing – brings risk to balance sheets of all sizes. Converting trade receivables provides a potentially untapped liquidity source, creating a steady and predictable balance sheet and cash advantage. Financial flexibility empowers corporates to seize opportunities, optimize supply chains, navigate unforeseen economic challenges, and drive down capital costs.

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## **Diversification for Investors:**

For investors, trade receivable securitization offers a welcome divergence from traditional investment avenues. Asset-backed securities (ABS) linked to trade receivables exhibit low correlation with equities and bonds, making them a desirable inclusion for diversifying investment portfolios. Banks and non-banks are showing increased demand for uncorrelated assets such as trade finance-backed ABS.

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## **Attractive Risk-Return Profile:**

Trade receivable securitization is hailed for its favorable risk-return. Underlying trade receivables are typically short-term and backed by assets generated from the company's business, offering a measure of security often absent in other debt instruments. The result is an asset class delivering competitive risk-adjusted returns, appealing to a wide range of risk appetites.

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## **Stable Cash Flows:**

One of the most enticing features of trade receivable securitization is its ability to generate stable and predictable cash flows. As customers fulfill their payment obligations, investors receive regular distributions, making these securities an attractive option for income-seeking investors, such as pension funds and insurance companies.

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## **Credit Risk Mitigation for Corporates:**

With trade receivable securitization, corporates can effectively manage credit risk. By transferring the trade receivables to a Special Purpose Vehicle (SPV) issuer, isolating the credit risk associated with non-payment by customers for the benefit of investors.

As corporate treasurers and investors embrace this innovative financial tool, liquidity optimization becomes a reality, and investment portfolios gain a new layer of resilience.

It's crucial to approach trade receivable securitization with careful consideration and thorough due diligence. Corporates must assess the quality of the underlying trade receivables and work with experienced financial advisors to structure the securitization, ensuring effective reporting infrastructure. For investors, a diligent evaluation of credit risk, particularly the quality of reporting, and market conditions is essential to make informed investment.

# How It Works

The financial techniques used in Securitization allow for the packaging and transfer of the assets through an SPV, providing comfort to Funders – key to the entire process. Structuring and funding institutions can hold or on-sell the financial instruments through recognized markets. More difficult and heterogeneous “Accounts Receivables” are thus converted to tradeable and easily-transferred assets. Depending on the structure and the funder, these securities can then be held or sold to investors in the financial markets.

## 01

### Trade Receivables:

Trade receivables are short-term assets representing the money owed to a company by its customers for goods or services delivered on credit. These are typically recorded as accounts receivable in the company's financial statements. As the customers make payments, the receivables are converted into cash, providing a source of working capital for the company, but terms offered to customers may delay the payment significantly.

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### Securitization Process:

The securitization process involves several steps:

#### Creation of Special Purpose Vehicle (SPV):

To isolate the securitized assets from the company's balance sheet, a Special Purpose Vehicle (SPV) is created. The SPV is a separate legal entity that holds the trade receivables and issues the securities.

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#### Transfer of Receivables:

The company transfers the identified pool of trade receivables to the SPV in exchange for cash or other financial instruments.

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#### Issuance of Securities:

The SPV then packages the trade receivables into financial instruments known as asset-backed securities (ABS). These ABS represent ownership stakes in the underlying pool of assets to qualifying investors.

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#### Selection of Receivables:

The corporate treasury identifies a pool of trade receivables that they wish to securitize. These receivables should meet certain criteria, such as being of high credit quality and having a history of timely payments.

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#### Cash Flow to Investors:

As customers of the company make payments on their outstanding invoices, the cash flows are collected by the SPV. The SPV then distributes these cash flows to the investors based on the terms of the ABS.

# The Challenges of Reporting

Daily reporting on a trade-receivables securitization can be a significant challenge. Timely information is essential. Without a sophisticated and scalable platform, implementing the necessary reporting infrastructure is complex and resource-hungry. Funders will demand specific reports & information in critical timescales, whilst typical Securitization reporting actually provides little insight, at risk of introducing manual errors. Several factors contribute to the complexity of this process. Transaction volumes compound and limit the ability to manually operate the processes.

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**“We explored a securitization, but the reporting requirements were so complex that we decided to forgo it until we were prepared. We just don’t have the resources internally to commit to such a project.” – LiquidX Corporate Client**

## **ERP Limitations**

Many corporates use ERP systems to manage their financial data, customized to their specific needs. These systems are often built up over time, and many corporates have subsidiaries operating on different systems not specifically designed to handle the complexities of securitization. Customizing ERP modules to accommodate the unique requirements of securitization for reporting can be time-consuming and expensive, requiring significant IT resources.

## **Numerous Sources of Data**

Securitization involves data from various sources, such as the corporate's accounting system, customer databases, loan-level data from investors, and cash flow reports from the SPV. Consolidating data from disparate systems can be challenging, error-prone, and require manual intervention.

## **Allocation of IT Resources**

Building and maintaining the necessary IT infrastructure for securitization reporting requires significant IT resources. For many corporates, dedicating specialized IT teams may strain their existing capabilities and resources.

## **Complex Calculations**

Daily reporting demands sophisticated calculations to assess the performance of the securitized assets accurately. Understanding detailed reserve methodologies, building the detailed filters for eligible assets, and monitoring numerous sub limits is often a manual task managed on a complicated excel file that few in the team understand. This includes computations of interest payments, cash flow distributions, and accounting for prepayments and defaults.

## **Manual Adjustments**

Despite automation efforts, manual adjustments might still be necessary to address data discrepancies or reconcile information from different sources. These manual interventions increase the risk of errors and can be time-consuming.

## **Reconciliation Problems**

Delays and complexities in reconciliation cash in the SPV creates a risk for funders in misrepresented assets and also increases the corporate's cost of funding. Reconciling data between the corporate's systems and the SPV's records can be a challenge. Any discrepancies between the two sets of data must be investigated and resolved to ensure accurate reporting.

## **Lack of Internal Expertise**

Securitization involves specialized financial and accounting knowledge. Smaller corporates or those with limited experience in securitization may lack internal expertise to manage the complexities of reporting effectively.

## **Lack of Visibility**

Investors must rely on the corporates' systems and processes, receiving a static file without significant transparency into the underlying data.

# Mitigating the Complexities:

To address the complexities of daily reporting on trade-receivables securitization, LiquidX has developed several strategies that corporates can adopt:

## **Automated Reporting Solutions:**

- 01 Implementing automated reporting tools or investing in securitization-specific software can streamline data collection, calculation, and reporting processes. These solutions can improve accuracy and reduce manual intervention.

## **Data Integration and Standardization:**

- 02 Centralizing data and establishing data standardization protocols can enhance data integrity and simplify data reconciliation between systems.

## **Partnering with a Technology Provider:**

- 03 Engaging third-party service providers with expertise in securitization reporting can help corporates offload reporting responsibilities and ensure compliance with reporting requirements.

## **Investing in Training and Expertise:**

- 04 Providing training to internal teams or hiring professionals with experience in securitization can build internal expertise and competence.

## **Close Collaboration with SPVs and Investors**

- 05 Maintaining open communication with the SPV and investors can facilitate data sharing and streamline reporting processes.



# Conclusion

The daily reporting requirements in trade-receivables securitization present numerous challenges for corporates. Complex calculations, data integration issues, ERP limitations, and resource constraints can hinder efficient reporting.

However, by leveraging automated reporting solutions, outsourcing when necessary, and investing in expertise, corporates can overcome these challenges, streamline their reporting processes, and ensure accurate and timely compliance with securitization requirements.

Effective reporting management is essential to unlock the benefits of trade-receivables securitization, optimize liquidity, and drive financial success for corporates.

Partnering with fintech experts helps bridge the gap between manual, error-prone reporting and automated management with easy onboarding and efficiency. LiquidX streamlines the securitization process, freeing up time and resources for corporates to strategically increase value in their organizations.

**“LiquidX’s team and technology delivered exactly what we were looking for in this transaction. We were very impressed with their speed, flexibility, and ability to deliver the robust reporting required for this facility.”**

Managing Director & Head of Asset Backed Finance  
at NORD/LB

# About LIQUIDX<sup>®</sup>

LiquidX is a leading global technology company that enables finance professionals to transact more efficiently by digitizing their trade finance and working capital management. Headquartered in New York with offices across the globe, LiquidX delivers the industry-leading ecosystem for working capital optimization to its diverse network of global participants, including corporations, banks, institutional investors, and insurance providers. LiquidX's technology greatly enhances transparency, reporting, and forecasting for financial professionals. Our partnerships with the likes of Broadridge, U.S. Bank, and Citi bring a broad spectrum of clients access to the turnkey front-to-back solution that streamlines transactions between suppliers, buyers, and their banks.

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