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A Study on Risk Management of Concerned Parties in Forfaiting

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I. Introduction

Possibility of credit risk, foreign exchange risk and interest rate risk of exporter increases in the recent international Commercial transactions, due to financial crisis of Europe and liberalization of Middle East.

Forfaiting is trade finance that forfaiter¹⁾ purchase negotiable debt

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1) The forfaiter will be a bank, finance house, or discount company etc(Leo D'arcy, et al., Schmitthoff's Trade -The Law and Practice of International Trade, 10th ed., Sweet & Maxwell 2000, p.232.).

instrument²⁾ without recourse from exporter, which occurred related with international commercial transactions, and credit risk, contingency risk, foreign exchange risk and interest rate risk of exporter can be transferred to forfaiter.

Characteristics of forfaiting are that small amount of transaction is possible, but is especially favorable to large amount of transaction. If amount of bill is more than USD 50,000,000, frequently the bill is jointly discounted by syndication group formed by forfaiter. And period that credit is granted by forfaiter is various from 1month to 10 years according to region, and interest rate depends on credit rating of country or credit rating of guarantor and importer.³⁾

Forfaiting cost depends on credit of guarantor. debt instrument which is guaranteed by world -class bank has low interest rate, and exporter can avert risk, and reduce financial cost through forfaiting. And importer can obtain benefit of relatively low international interest rate.

With regard to the background that forfaiting was introduced to Korea, it was started from forfaiting service that was provided to exporter by foreign financial company in Asian currency crisis.⁴⁾ As Korea Export-Import Bank Law was revised in 2002, Export-Import Bank of Korea provided forfaiting to support the company that does not have enough securities⁵⁾, but study and understanding of financial institution is not sufficient.

2) Supported target by forfaiting transaction is not only promissory note, bill of exchange, documentary credit and payment guarantee that occurs in relation to providing goods, service, technology, capital equipment, and turn key plant construction/project and so on, and matures at time limit, but also open book receivables, check can be conditionally supported, but mainly used debt instrument is aval, documentary credit, and payment guarantee and so on. Recently forfaiter does not collect debt instrument in forfaiting transaction when credit of importer or debtor nation is satisfactory sometimes.

3) EXIM Bank supports transactions that export price per transaction is USD 10,000~USD 20,000,000, and period of payment is above 30 days and below 2 years. Because transaction for 2 years and over is possible after consultation, generally period is short and amount is limited.

4) Park, Se Hun·Jung, Young Dong·Kim, Jung Nyun, "A study on debt instrument in forfaiting", 「Korea Trade Review」 Vol. 34 No1, (The Korea Trade Research Association 2009.2) p.298.

5) *ibid.* p.272.

Forfaiting service of Korea has limitation as follows. First, forfaiting in Korea deals with unrestricted irrevocable documentary credit as debt instruments. Period that forfaiting is provided is short and amount of money is limited, compared with advanced forfaiting. But forfaiting provided in advanced countries deals with various methods such as guarantee for bill, payment guarantee, and can be resold in financial market.

Recently importance of forfaiting is increasing in international commercial transactions. Therefore profound study on forfaiting is required. The study will examine the risk that happens to the concerned parties in forfaiting, and its management measures.

The study adopted literature review method such as local and foreign books and papers about trade finance, internet information about forfaiting, and professional journal related with international finance.

II. Concerned parties in forfaiting and risk covered

1. Concerned parties in forfaiting

1) Exporter

Credit risk, contingency risk, foreign exchange risk and so on is transferred to forfaiter as follows, because exporter collects export price without recourse in forfaiting.

First, because the maximum 10 years long-term credit is provided to importer in making sales contract, comparative advantage in finance can be obtained, and financing for market development of high country risk is possible, and then there is advantage over competitors.

And after exporters are paid in advance, they don't have to worry about anything, and then cost for collection of bills is reduced. And possibility of collection of bills is decided in a short time, and export capital can be

obtained through preparation of simple documents. Lastly, if exporters use forfaiting export financing after shipping of exported goods, they can immediately collect the exported goods price with effect.⁶⁾ But the exporters should completely check all the documents. Exporter should request importer to submit letter of guarantee that forfaiter approves, for forfaiter carries out forfaiting transactions by trusting credit rating of guarantee institution.

2) Forfaiter

Rapid financial support is possible, for forfaiter requires less document in forfaiting than other trade finance transactions. And forfaiter can sell the debt instrument that they bought through financial market. And forfaiters show higher earning rate than other investment asset.

On the other hand, forfaiter should bear the risk according to default of importer. Therefore thorough credit check is required, for forfaiter should bear credit risk of importer or guarantor. And imbalance in operation of funds may occur, because maturity date and amount of forfaiting debt instrument is not uniform.

Exact knowledge about the law of related countries is required, in preparation for dispute that may occur due to forfaiting transaction.

3) Guarantor

In forfaiting, guarantor has responsibility for paying amount of debt instrument to exporter and creditor at the maturity date of debt instrument for forfaiting. The guarantor is exposed to risk, if importer or debtor does not pay the amount of debt instrument. At all events, guarantor is important in forfaiting transaction, for forfaiter makes forfaiting contract with exporter according to credit rating of guarantor.

6) Payment in advance does not have effect on bank credit limit for export and financial statements.

4) Importer

Importer finances import payment capital for import price in long-term fixed rate of interest in forfaiting. And importers do not have to inform about their financial status according to the practice that information about concerned parties in forfaiting is kept secret. On the contrary, cost of forfaiting is a little bit higher than other financial cost. Therefore price of imported goods may increase.

2. Risk covered by forfaiting

Forfeiter covers credit risk, contingency risk and foreign exchange risk of exporter in forfaiting. Risk of forfaiting is as follows.

1) Credit risk

Credit risk is uncertainty in credit status of importer, and means possibility of economic loss of exporter, and is the largest risk of exporter.⁷⁾⁸⁾ credit risk of international trade is as follows.

First, protracted-default is intentionally delaying payment after importer received goods. It means delay of payment more than 1 month for short-term trade, and more than 6 months for mid to long-term trade, from settlement day. Payment delay leads to the same results as insolvency. Usually contract is made, that part of price is paid in advance in mid to long-term export trade. Insolvency may occur if deposit is not paid. If delay in payment is caused by

7) Generally it is caused by insolvency such as the case that purchaser unilaterally terminates contract after making contract, and (ii) purchaser delays establishment of L/C, who did not pay contract deposit, and (iv) purchaser delays payment after receiving goods, and (v) purchaser rejects acceptance of bill of exchange, and (vi) applicant, issuing bank goes bankrupt.

8) Main cause of credit risk is change of financial status, and intentional rejection of importer. The former is the case that fulfillment of transaction or collection of price is impossible due to variation of financial status of importer, and unexpected change of circumstances, and the latter is that importer intentionally delays payment, for price falls suddenly, or market situation is unfavorable for importer.

lack of ability for payment, it is considered to be credit risk.

Second, non-acceptance is rejection of payment without good reason, though exporter ships goods, and demands payment according to the terms of contract. Because acceptance of bill of exchange is promising to pay for bill of exchange at the maturity date of the bill, time bill takes effect only if the bill is accepted. Therefore, because non-acceptance of bill is rejection of payment, it becomes credit risk to exporter.

Third, reputation is that importer intentionally rejects payment. It is different from protracted-default, for importer does not admit the obligation itself that should be fulfilled. Management of reputation is impossible, for it is related with morality of importer.

Fourth, insolvency is the status that importer can not normally pay the debt. Insolvency includes bankruptcy of importer and compulsory administration of bank. Insolvency is typical factor that causes credit risk.

Fifth, unilateral termination of contract means that importer unilaterally terminates contract after importer makes sales contract. It occurs when drop in price, uncertain market and so on is unfavorable for importer, after sales contract is made.

2) Contingency risks

Contingency risk is the risk that is caused by war, civil war, riot and sabotage of importing country, and economic risk, import restrictions, import prohibition, and lowering of custom duties due to government regulations of importing country, and the risk that is caused by delay of payment due to the scarcity of foreign exchange.

3) Foreign exchange risk

Foreign exchange risk is caused by difference between contract amount and real value of payment. Foreign exchange risk commonly occurs in trade.⁹⁾ Exporter receives currency of its own country through translation, when price

is denominated on L/C in foreign currency. Risk of variation of exchange rate occurs between sales contract and collection of bill. And importer also bears risk of foreign exchange rate between sales contract and payment.

III. Risk of concerned parties in forfaiting

1. Risk of Exporter

Exporter is freed from risk in transaction, after selling shipping documents to forfaiter for forfaiting transaction in fixed interest rate. Exporter bears interest rate and foreign exchange rate volatility risk from the time that he makes forfaiting contract to the time that forfaiter pays discounted price.

1) Interest rate risk

Exporter is exposed to interest rate risk. Interest rate risk that exporter bears during commitment period of forfaiting means risk according to opportunity cost. It is the opportunity cost caused by loss of opportunity to make forfaiting contract with the third forfaiter in lower discount rate due to decrease of international interest rate during the period, if exporter did not make forfaiting contract with the forfaiter. And when importer unilaterally terminate contract during commitment period of forfaiting, and the contract is canceled, the exporter should compensate forfaiter for the loss.

2) Foreign exchange risk

Exporter is exposed to foreign exchange risk. Foreign exchange risk is an

9) Exporter should hedge foreign exchange risk through lagging, netting, price management, and currency futures contract, in order to manage the risk according to exchange rate volatility. And it is one of the good methods to insure for foreign exchange risk insurance of Korea Trade Insurance Corporation.

important risk that exporter should bear during commitment period of forfaiting. It occurs, when denominated currency of bill that exporter sells to forfaiter is different from settlement currency of exporter, and exporter should bear foreign-exchange loss, if exchange rate changes into the direction unfavorable for exporter. This foreign-exchange loss is the risk that may commonly occur in international trade of goods and financial activities in international transaction.

2. Risk of forfaiter

Forfaiter is exposed to risk according to option period, risk according to commitment period, and risk according to purchasing of bill and so on, from the time that forfaiter gives option ¹⁰⁾ to exporter to the time that the bill is paid back, in forfaiting. If it is examined in detail, it is as follows.

1) Risk due to change of interest rate during option period

Forfaiter may bear risk according to option period. Option period is the period from the time that exporter requests forfaiter to make forfaiting contract to the time that importer gives consent to the forfaiting condition.

Exporter decides whether to continue or to give up forfaiting contract during option period. Therefore, forfaiter is not sure that forfaiting is carried out from the view point of forfaiter. Thus forfaiter cannot make any contract for borrowing necessary capital during option period.¹¹⁾

Borrowing cost of forfaiter increases, if interest rate increases during option

10) Option in forfaiting transaction is that forfaiter consents to keep the condition that both parties agreed with, when trade contract is made between exporter and importer, and document agreeing with the terms of contract is presented. That is to say, forfaiting contract becomes effective, when document having proper rights according to requirements by forfaiting transaction is presented to forfaiter.

11) It does not matter that forfaiter makes contract of forfaiting after making sales contract, but exporter may give up making forfaiting contract with forfaiter, if exporter makes sales contract after making forfaiting contract.

period. forfaiter bears risk due to change of interest rate during option period.

- 2) Risk according to change of interest rate and foreign exchange rate during contract period.

Forfaiter is exposed to risk according to sudden change of interest rate or foreign exchange rate during contract period.¹²⁾ forfaiter eliminates risk of change of interest rate by borrowing capital in fixed interest rate during period of forfaiting contract. But the maturity date of bill for forfaiting is not made to be agreed with the maturity date of loan, for most of forfaiters manages liquidity in the form that capital is borrowed in a short time and is lent in a long time.

Reason to borrow capital with bearing risk is that generally interest rate of short-term borrowings is lower than long-term borrowings, and sometimes it is impossible to finance more than 5-year long-term borrowings of fixed interest rate, depending on the denominated currency of forfaiting. debt instrument used for forfaiting is negotiable, and can be resold in financial market.

Forfaiter can give up the opportunity for selling forfaiting asset on condition of financing contract of long-term borrowings in purchasing forfaiting asset, when it has opportunity for selling purchased debt instrument of forfaiting.

- 3) Risk according to purchasing of debt instrument

Forfaiter can cancel forfaiting contract, if debt instrument has discrepancy of document, or does not satisfy requirements for forfaiting, after forfaiting contract is made.

But forfaiter bears the risk except the debt instrument has legal flaw after

12) Commitment period is time until sale delivery of bill. Fees that exporter pay to forfaiter during the commitment period are commitment fees. Commitment fees are the concept to compensate for opportunity cost according to giving up investing in asset that more earning rate is expected, for forfaiter makes necessary capital wait for a certain period of time.

purchasing the debt instrument. First, forfaiter is exposed to foreign exchange risk according to purchasing of debt instrument. forfaiter borrows capital of the same currency as the denominated currency in purchasing of debt instrument. But forfaiter is exposed to foreign exchange risk, when forfaiter borrows capital in different currency from the denominated currency in purchasing of debt instrument. forfaiter is exposed to foreign exchange risk, when forfaiter borrows JPY in purchasing of debt instrument, and purchases debt instrument in USD.

Second, forfaiter should be careful of the maturity date of borrowings and liquidity management, because forfaiter may temporarily lack in capital at the maturity date of borrowings due to difference between the maturity date of purchased debt instrument which is used for forfaiting and the maturity date of borrowings.

Third, forfaiter bears credit risk of guarantor according to forfaiting contract, for forfaiter takes over credit risk of guarantor from the time that option is given. Credit risk may occur, that amount of purchased debt instrument cannot be collected due to bankruptcy of guarantor at the maturity date of the debt instrument.

Fourth, It is the risk that document discrepancy of forfaiting occurs. It is the case that document discrepancy occurs, or purchased debt instrument violates local law of guarantor in forfaiting.

3. Risk of guarantor

Guarantor has obligations to pay export price and purchasing price to exporter or forfaiter, if importer cannot pay the bill at the maturity date in forfaiting. The risk that guarantor bears in forfaiting transaction is exposed to credit risk and liquidity risk of importer.

1) Credit risk

Guarantor has no problem, if importer pays importing price at the

maturity date in forfaiting, but guarantor should pay amount of debt instrument to forfaiter, if importer default on obligations. guarantor should thoroughly carry out credit ratings surely in forfaiting. Specific and reasonable business process standard and procedure should be made, for the items related with setting up guarantee limit and approving guaranteeing of importer. Clear-cut lines of authority and responsibility should be established, according to approval, by approved amount, in the approval of guaranteeing.

2) Liquidity risk

Guarantor should pay amount of debt instrument to exporter or creditor at the maturity date of debt instrument that is used for forfaiting in forfaiting. guarantor is exposed to liquidity risk, in case that importer or debtor does not pay amount of debt instrument at the maturity date of debt instrument, though guarantor fulfilled surety obligations to exporter before the maturity date of the debt instrument.¹³⁾

First, overdue debt instrument should be managed, and list of forfaiting transactions that debt instruments are not paid back should be prepared and managed, in order that liquidity risk is dealt with.

4. Risk of importer

1) Foreign exchange risk

When importer agrees to payment by promissory note or bill of exchange in forfaiting transaction, importer as debtor should pay back the fixed amount at the maturity date. In this case, importer does not bear risk according to the change of interest rate.

And importer is not exposed to foreign exchange risk, when denominated currency of bill agrees with the currency of importer. Importer should issue

13) Possibility that liquidity risk occurs is low, for guarantor for forfaiting is the world -class bank.

bill in international standard currency, because forfaiter will avoid purchasing bill denominated in the currency of importer's own country, if settlement currency of importer is not used in international financial market.

Therefore, importer hedges foreign exchange risk in payment, through forward exchange, lagging, netting and currency futures contract and so on.

2) Liquidity risk

Importer has liquidity risk to pay back amount in payment of import price. Liquidity risk occurs at all credit transactions. Payment of importer in forfaiting is carried out when considerable time passes after contract was made. Importer should take a good look at cash flow. Importer should minimize cash flow liquidity risk.

IV. Risk management of concerned parties in forfaiting transaction

1. Risk management of exporter

With respect to forfaiting transaction, risk that exporter is exposed to is interest rate risk and foreign exchange risk. First, interest rate risk does not largely matter, for it is risk according to opportunity cost. But foreign exchange rate risk may be important risk that exporter can be exposed to in forfaiting transaction.

In practical business, the measure that exporter can take is that exporter manages risk according to change of exchange rate for the corresponding currency, by classifying and arranging contents of contract of its own forfaiting according to currency and maturity date. If necessary, exporter should hedge foreign exchange risk through netting, price management and currency futures contract.¹⁴⁾ And it is one of the good methods to insure for

foreign exchange risk insurance of Korea Trade Insurance Corporation

2. Risk management of forfaiter

Forfaiter is exposed to interest rate risk, foreign exchange risk, credit risk and contingency risk from the time that forfaiting is transacted to the time that repayment is completed. Risk management of forfaiter is as follows.

First, forfaiter borrows capital in fixed interest rate in order to deal with risk according to the change of interest rate. If this is difficult, after borrowing of capital in floating rate till the maturity date of forfaiting debt instrument, interest rate risk is hedged through interest rate futures or interest rate swap transaction.¹⁵⁾

Second, forfaiter is exposed to foreign exchange risk, because forfaiter borrows capital in different currency from the purchased debt instrument. forfaiter can eliminate foreign exchange risk by forward exchange transaction. It is difficult to eliminate foreign exchange risk of forfaiter, for debt instrument that is used in forfaiting does not agree with borrowings in the maturity date.

Third, forfaiter manages risk for guarantor by set-up limit according to each guarantor, in order to deal with credit risk of guarantor.¹⁶⁾

Fourth, forfaiter sets up and manages credit limit and guaranteed amount limit of each country, in order to deal with contingency risk. But it is hard to eliminate contingency risk, though forfaiter evaluates contingency risk, and inspects factors to change contingency risk. It is advisable to insure for trade

14) If exporter makes many forfaiting contracts that have different maturity date, exporter should prepare and manage the list of contents about forfaiting contract and currency futures contract.

15) In practical business, forfaiter has a limit to hedging interest rate risk in a futures market, for it is realistically difficult that forfaiter makes futures contract which agrees with debt instrument that used for forfaiting in maturity date and denominated currency.

16) Forfaiter should make standard and procedure such as setup of guarantee limit for guarantor. If guaranteed amount limit is exceeded, business report system should be established, in order that rapid report may be carried out to the manager who has related decision-making rights.

insurance, in order to deal with contingency risk.¹⁷⁾

3. Risk management of guarantor

Guarantor should pay amount of guaranteed debt instrument to exporter at the maturity date of guaranteed debt instrument, in forfaiting. If importer does not fulfill payment obligation of guaranteed debt instrument at the maturity date, guarantor is exposed to credit risk and contingency risk.

Risk management method of guarantor is as follows. First, guarantor manages exposure by setting up guarantee limit of each customer, in preparation for credit risk of importer. And guarantor should make specific and reasonable business standard related with setup of guarantee limit. And it should prepare regulation according to each approved amount in guaranteeing.¹⁸⁾ Second, guarantor sets up and manages guarantee limit of each country in advance, or may consider an alternative to insure for trade insurance.

4. Risk management of importer

Importer may be exposed to foreign exchange risk and liquidity risk in forfaiting transaction. First, foreign exchange risk may be avoided by making denominated currency of debt instrument agree with currency of importer's own country. But if currency of importing country is not internationally widely used, forfaiter avoids purchase discount, thus it is hard that importer uses currency of importing country as denominated currency. Importer hedges foreign exchange risk by forward exchange transaction, in order to eliminate

17) It is hardly applied to forfaiting transaction, for insurance is high, which is applied to the country that contingency risk is relatively low. It may be applied to forfaiting transaction, if trade insurance product is developed, because trade insurance system is the only method to avoid contingency risk in forfaiting transaction.

18) It is better to prepare the system that the contents are rapidly reported to decision maker, in case that guaranteeing is approved, as set-up limit is exceeded.

foreign exchange risk. Importer can manage exposed foreign exchange risk according to maturity date, if it prepares and manages list of borrowings and futures transaction that maturity date is coming up.

Second, forfaiting transaction is generally long-term transaction, and then it is hard that importer grasps cash flow of the future, thus importer is exposed to liquidity risk. Therefore, Maturity to the importer by accurate analysis of cash flow and management of liquidity risk will be minimized.

V. Conclusion and Summary

Forfaiting is trade finance that forfaiter purchase negotiable debt instrument without recourse from exporter, which occurred related with international commercial transactions, and credit risk, contingency risk, foreign exchange risk and interest rate risk of exporter can be transferred to forfaiter.

In forfaiting, concerned parties are exporter, forfaiter, guarantor and importer. specifically, looking at their risk in forfaiting as follow.

First, exporter is freed from risk in transaction, after selling shipping documents to forfaiter for forfaiting transaction in fixed interest rate. Exporter bears interest rate and foreign exchange rate volatility risk from the time that he makes forfaiting contract to the time that forfaiter pays discounted price.

Second, forfaiter is exposed to risk according to option period, risk according to commitment period, and risk according to purchasing of bill and so on, from the time that forfaiter gives option ¹⁹⁾ to exporter to the time that the bill is paid back, in forfaiting.

Third, guarantor has obligations to pay export price and purchasing price to

19) Option in forfaiting transaction is that forfaiter consents to keep the condition that both parties agreed with, when trade contract is made between exporter and importer, and document agreeing with the terms of contract is presented. That is to say, forfaiting contract becomes effective, when document having proper rights according to requirements by forfaiting transaction is presented to forfaiter.

exporter or forfaiter, if importer cannot pay the bill at the maturity date in forfaiting. The risk that guarantor bears in forfaiting transaction is exposed to credit risk and liquidity risk of importer.

Fourth, importer may be exposed to foreign exchange risk and liquidity risk in forfaiting.

For the aforementioned risk of concerned parties in forfaiting measures are as follows.

First, exporter may be exposed by forfaiting the interest rate risk and foreign exchange risk.

Interest rate risk does not largely matter in forfaiting, for it is risk according to opportunity cost. But foreign exchange rate risk may be important risk that exporter can be exposed to in forfaiting.

In practical business, the measure that exporter can take is that exporter manages risk according to change of exchange rate for the corresponding currency, by classifying and arranging contents of contract of its own forfaiting according to currency and maturity date. If necessary, exporter should hedge foreign exchange risk through netting, price management and currency futures contract. And it is one of the good methods to insure for foreign exchange risk insurance of Korea Trade Insurance Corporation

Second, forfaiter is exposed to interest rate risk, foreign exchange risk, credit risk and contingency risk from the time that forfaiting is transacted to the time that repayment is completed. Risk management of forfaiter is as follows.

(a) forfaiter borrows capital in fixed interest rate in order to deal with risk according to the change of interest rate or after borrowing of capital in floating rate till the maturity date of forfaiting debt instrument, interest rate risk is hedged through interest rate futures or interest rate swap transaction.

(b) forfaiter can eliminate foreign exchange risk by forward exchange transaction.

(c) forfaiter manages risk for guarantor by set-up limit according to each guarantor, in order to deal with credit risk of guarantor.

(d) forfaiter sets up and manages credit limit and guaranteed amount limit

of each country, in order to deal with contingency risk.

Third, Risk management method of guarantor is as follows.

(a) guarantor manages exposure by setting up guarantee limit of each customer, in preparation for credit risk of importer.

(b) guarantor sets up and manages guarantee limit of each country in advance, or may consider an alternative to insure for trade insurance.

Forth, Risk management method of importer is as follows.

(a) foreign exchange risk may be avoided by making denominated currency of debt instrument agree with currency of importer's own country.

(b) forfaiting transaction is generally long-term transaction, and then it is hard that importer grasps cash flow of the future, thus importer is exposed to liquidity risk. Therefore, Maturity to the importer by accurate analysis of cash flow and management of liquidity risk will be minimized.

The limits of this paper, a secret due to forfaiting real analysis on the risk of parties and the legal dispute was not about the study.

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ABSTRACT

A Study on Risk Management of Concerned Parties in Forfaiting

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Possibility of credit risk, foreign exchange risk and interest rate risk of exporter increases in the recent international Commercial transactions, due to financial crisis of Europe and liberalization of Middle East.

Under this circumstance, Forfaiting is trade finance that forfaiter purchase negotiable debt instrument without recourse from exporter, which occurred related with international commercial transactions, and credit risk, contingency risk, foreign exchange risk and interest rate risk of exporter can be transferred to forfaiter.

Forfaiting is typically medium-term finance(three to five years) concluded at fixed interest rate, although it can also arranged on a floating interest-bearing basis for periods from six months to ten years or more."

But Forfaiting service of Korea has limitation as follows. First, forfaiting in Korea deals with unrestricted irrevocable documentary credit as debt instruments. Period that forfaiting is provided is short and amount of money is limited, compared with advanced forfaiting. But forfaiting provided in advanced countries deals with various methods such as guarantee for bill, payment guarantee, and can be resold in financial market.

Recently importance of forfaiting is increasing in international commercial transactions. Therefore profound study on forfaiting is required. The study will examine the risk that happens to the concerned parties in forfaiting, and its management measures.

The study adopted literature review method such as local and foreign books and papers about trade finance, internet information about forfaiting, and

professional journal related with international finance.

Key Words : Forfaiting, Risk Management, Debt Instrument