

Assignment prohibition: how to handle restrictions on assigning receivables in supply contracts

An assignment prohibition is a contractual clause that prohibits a contracting party from assigning claims arising from the contract to third parties. In industrial procurement it is typically found in general terms and conditions of purchase, framework agreements and Master Service Agreements. For buyers and suppliers alike, the clause has significant financial and balance sheet implications, particularly when financing via factoring or reverse factoring. Those who understand the effect and the limits of the assignment prohibition avoid supply stoppages, payment disputes and unnecessary liability risks.

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Key facts at a glance

- 01** An assignment prohibition prohibits the contracting party from assigning claims arising from the contract to third parties.
- 02** In practice, general terms and conditions of purchase frequently prohibit all assignments, whereas suppliers' general terms and conditions seek to permit assignments to factoring institutions.
- 03** Under German law, an effective assignment prohibition can render assignment inadmissible; an assignment that is inadmissible from the outset is generally void.
- 04** Exceptions exist, among others, for claims arising from tort, for price adjustment claims and, pursuant to Section 354a HGB, in cases of mutual commercial transactions.
- 05** In procurement controlling, the topic affects capital commitment period, Payment Term Adherence and the use of reverse factoring.
- 06** Clear arrangements in the negotiation minutes and reviewed clauses in the general terms and conditions of purchase significantly reduce the potential for disputes.

Definition: assignment prohibition

An assignment prohibition is an agreement under which a contracting party is obliged not to assign claims arising from the contract to third parties. It protects the party making payments from having to pay unknown third parties or being confronted with multiple creditors. In the B2B sector it is a standard instrument for steering receivables financing and risk allocation.

Legal background

The assignment of a monetary claim is in principle permissible and a well-established instrument of receivables financing. Under German civil law tradition, however, a contractual assignment prohibition has effect: claims subject to such a prohibition can in principle not be validly assigned. Important exceptions concern, among others, claims arising from tort, claims to consent to price adjustments, and balance claims after termination of the contractual relationship. For mutual commercial transactions, Section 354a HGB can additionally render an assignment prohibition partially ineffective in respect of payment claims – the details must be examined legally on a case-by-case basis.

Distinction from an assignment undertaking

The prohibition must be distinguished from an assignment undertaking, under which a contracting party commits to assigning certain claims (e.g. warranty claims against third parties) to the buyer. Both clauses steer the same mechanism in opposite directions. In supply contracts they often appear side by side: the buyer prohibits assignments to unrelated third parties while simultaneously demanding the assignment of claims it wishes to use itself. Buyers should review both provisions together, as they complement each other in their economic effect.

Typical clause formulations

Wording frequently found includes formulations such as "The assignment of claims arising from this contract is excluded" or permissive provisions with a reservation of consent ("Assignments require prior written consent"). Practically relevant is the distinction between an absolute and a relative assignment prohibition: the absolute prohibition renders the assignment ineffective, whereas the relative prohibition (consent requirement) permits the assignment as long as the creditor has not demanded it. The wording therefore determines the position of factoring partners and financiers.

Methods and approach: systematically steering clauses in procurement

For buyers, the assignment prohibition is not merely a legal detail but an instrument for steering financing flexibility and supplier retention. A systematic approach comprises clause review, negotiation and ongoing control of payment routes.

Clause review in general terms and conditions and framework agreements

When concluding a contract, it should be checked whether your own general terms and conditions

contain an assignment prohibition and whether suppliers' general terms and conditions contain conflicting provisions. Since deviating general terms and conditions often "neutralise" each other, a clear provision in the individually negotiated part of the contract is recommended, for example in the Master Service Agreement (MSA) or framework supply agreement. A clause catalogue with standard positions on assignment, security assignment and factoring has proven effective in practice; it is documented via the negotiation minutes for every enquiry and negotiation. This creates traceability of who has agreed which clause arrangement.

Negotiation strategy with suppliers

Suppliers with factoring financing have a legitimate interest in being permitted to assign receivables to their factoring institution. A blanket prohibition can strain their liquidity and be reflected in higher prices. In negotiation practice it has proven effective to deliberately permit exceptions (e.g. assignment to solvent financing partners subject to notification) and, in return, to commit to Payment Term Adherence and reliable payment runs. Buyers offering reverse factoring must adapt the clauses to the programme in any case, since receivables are transferred in a structured manner to a financing institution there.

Control in ongoing business

In day-to-day operations, buyers ensure that payments reach the correct creditor. After an effective assignment, the assignee may authorise payment – a breach can have adverse consequences. This includes controlled changes to bank details (verification of IBAN and BIC/SWIFT against fraud risks) and documented approvals for deviating payees. Coupling this with e-procurement and automated payment processes reduces error rates and makes exceptions auditable.

| Key KPIs relating to assignment and receivables steering

Although the assignment prohibition is not itself a metric, it has a measurable impact on liquidity and process figures. These KPIs help to quantify the effects in procurement.

Payment and liquidity indicators

Key figures are the capital commitment period (the period between goods receipt and payment trigger, or between payment to the supplier and sale of the product) and Payment Term Adherence, i.e. the proportion of invoices paid on time. Both indicators show how reliably the payment route functions – a significant factor where suppliers rely on receivables financing and clauses on assignment therefore become relevant.

Process indicators for contract and payment steering

Additionally suitable are the proportion of contracts with a clear assignment clause, the number of confirmed deviating bank details and the number of payments reclaimed from incorrect creditors. Those assessing suppliers with factoring can also capture the acceptance rate of their own reverse factoring programme. These indicators frequently belong on the procurement controlling dashboard alongside savings types and the savings forecast.

Risks and controls: typical pitfalls

Poorly understood assignment prohibitions can strain supplier relationships and cause legal disputes. Risks can be largely defused with clear control mechanisms.

Legal and financial risks

The main risk is payment to the wrong creditor due to undetected assignments. In addition, supply interruptions threaten if a financing partner cannot accept receivables under a blanket prohibition and the supplier comes under liquidity pressure. The reverse also applies: anyone operating as a supplier under an assignment prohibition can pledge receivables only to a limited extent. Currency, credit and concentration risks in the receivables portfolio can be better managed through financing structures and a clear contractual position.

Fraud risks in payment approvals

Offers to "redirect" payments on the grounds of an alleged assignment are a classic fraud scheme. Controls include call-back verification for changed bank details, four-eyes review of approvals and comparison with BIC/SWIFT data stored in the supplier master. The right to audit vis-à-vis process service providers and finance department service providers, together with documented approval processes, increases verifiability. Goods receipt inspection and clean demand reporting also contribute indirectly, as they stabilise the procurement cycle and reduce grounds for dispute.

Controls in contract management

A central contract register with mandatory fields for the assignment clause, regular reviews upon contract renewals and checklists for onboarding new suppliers are proven control instruments. Combined with a structured sourcing wave plan, clause quality can be raised across entire supplier groups. Documentation is key: what was negotiated, which exceptions were granted, who gave consent?

Current developments: receivables financing and supply chain pressure

The importance of assignment issues is growing with the spread of structured receivables financing and the digitalisation of procurement. Buyers should actively monitor these developments and adapt their contractual building blocks accordingly.

Reverse factoring and supply chain finance

Programmes such as reverse factoring presuppose that suppliers can assign their receivables to a financing institution. Blanket assignment prohibitions in general terms and conditions of purchase conflict with this and must be excepted or adapted for participating suppliers. In practice, a tiered clause model has proven effective: a general prohibition, permitted exceptions for defined financing partners, a notification requirement and a reservation of consent. This keeps control and supplier

financing compatible.

Digitalisation and standardised receivables transfers

E-procurement platforms and digital invoice processes increasingly lead to automated receivables transfers, for example in factoring with silent assignment or in platform-based financing offers. Standardised data formats and automated checks are increasingly replacing manual approvals. Buyers are well advised to design clauses and IT processes together, so that contractual restrictions are not automatically breached.

Sustainability and supply chain requirements

Alongside classic financing issues, supply chain requirements are gaining in importance – for example packaging regulations or metrics such as the Product Environmental Footprint (PEF). While these topics are not part of the assignment prohibition, they are increasingly regulated in the same framework agreements. A coherent contract structure that addresses financing, compliance and sustainability together reduces duplicate reviews and contradictions.

Typical metrics

Metric	Typical value
Payment Term Adherence	> 95 % <i>Proportion of invoices paid on time; important for suppliers using receivables financing</i>
Capital commitment period	typically 30–90 days <i>Industry-dependent; shows the liquidity impact of payment and assignment provisions</i>
Proportion of contracts with a documented assignment clause	close to 100 % <i>Target figure in contract management for risk minimisation</i>

Practical example

A medium-sized mechanical engineering company blanket-prohibited any assignment of receivables in its general terms and conditions of purchase. Several strategic suppliers used factoring and signalled price surcharges because they were unable to pledge their receivables. Procurement responded with a structured revision of the contractual position.

- Revision of the T&C clause: general prohibition with defined exceptions for a reverse factoring programme
- Documentation of all exceptions and consents in the negotiation minutes and in the contract register
- Four-eyes control for changes to bank details, including BIC/SWIFT verification

- Introduction of a KPI dashboard featuring Payment Term Adherence and capital commitment period

Conclusion

The assignment prohibition is a seemingly small clause with a major practical impact on liquidity, price negotiations and process reliability in procurement. It governs who may sell receivables arising from a supply contract and how flexibly suppliers can finance themselves. Buyers are well advised to design the clause deliberately rather than prohibit blanket-wise, to define exceptions clearly and to keep payment routes under control. Clean documentation via negotiation minutes and the contract register prevents disputes. Those wishing to use reverse factoring and modern receivables financing need a clause structure that unites both – control and financing flexibility.

Frequently asked questions

? What does an assignment prohibition in a supply contract mean?

An assignment prohibition prohibits the contracting party from assigning claims arising from the contract to third parties. This allows the buyer to retain control over whom they make payments to. In practice, such clauses serve to minimise risk and to manage receivables financing. Whether a prohibition is fully effective in a given case depends on the legal position and the wording and should be reviewed by legal counsel.

? Is an assignment prohibition effective in the B2B sector?

As a rule, an effective prohibition can render assignment of the affected claim inadmissible. However, there are important exceptions, for example claims arising from tort, price adjustment claims, or claims under mutual commercial transactions pursuant to Section 354a of the German Commercial Code (HGB). The precise effect depends on the wording, the legal system and the circumstances of the case. For binding statements in individual cases, legal advice should be sought.

? How does the assignment prohibition relate to reverse factoring?

Reverse factoring requires that the supplier is able to assign its receivable to a financing institution. A blanket assignment prohibition blocks this model. For this reason, many buyers deliberately permit exceptions for defined programmes, usually subject to a notification requirement and a reservation of consent. This keeps control over the payment route compatible with the supplier's financing flexibility.

? What happens if I pay a third party despite an assignment prohibition?

If the debtor knowingly or negligently pays an unauthorised third party, it may in certain circumstances remain obliged to pay again. For this reason, verified payment approvals and controlled changes to bank details are crucial. If there are indications of an assignment, the buyer should obtain proof and release payment only against documented authorisation. Fraud schemes involving alleged assignments are common – call-back verification is standard practice.

? How do I negotiate an assignment prohibition with strategic suppliers?

Do not negotiate the clause in isolation, but in the context of payment terms, early payment discount models and financing programmes. Proven in practice are tiered arrangements: a general prohibition with defined exceptions, a notification requirement and a reservation of consent. Document the outcome in the negotiation minutes and embed it in the MSA or framework agreement. This avoids later interpretation conflicts and secures implementation in day-to-day business.

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