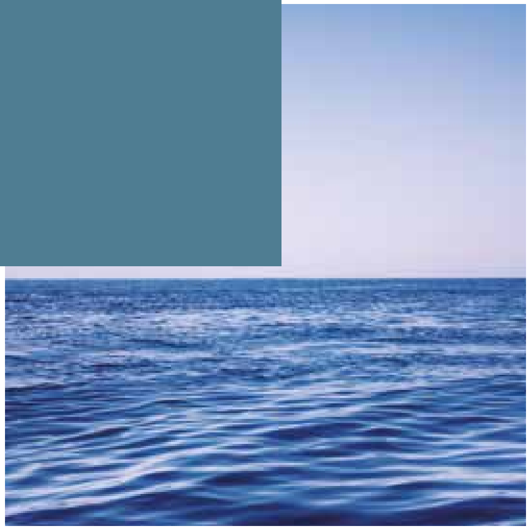
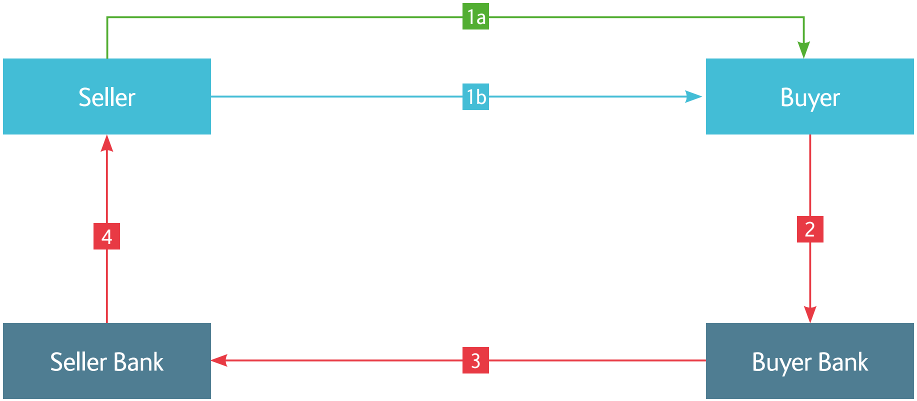
Simmons & Simmons

Trade Finance



Open Account



Mechanics

1a Goods shipped from Seller to Buyer pursuant to a Contract of Sale.

1b Invoice sent upon delivery to Buyer.

2 Invoice payment made to the Buyer's bank, normally in local currency.

3 Bank transfer monies to and notifies Seller's bank through the SWIFT system.

4 Payment made to Seller, or credited to Seller's account in local or foreign currency according to invoice and/or Seller's instructions.

Open Account

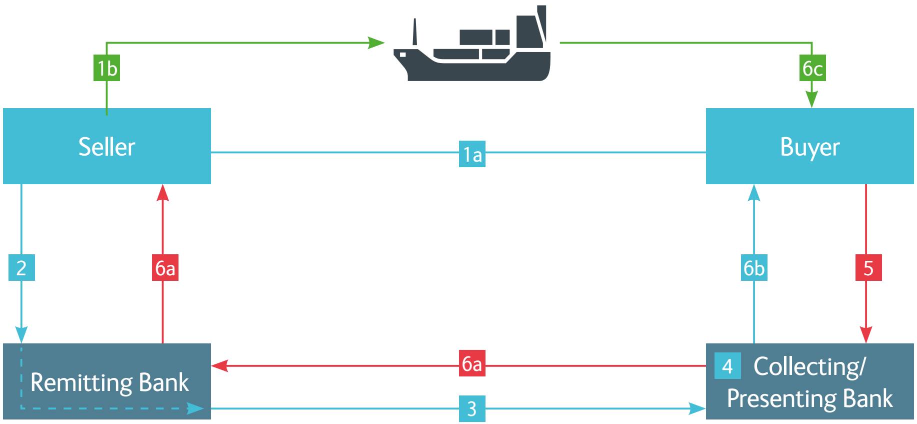
What is it?

1. Trade transactions between a Seller and a Buyer where transactions are not supported by any banking or documentary trade instrument issued on behalf of the Buyer or Seller.
2. The goods are shipped from the Seller to the Buyer before the payment is due and payment is made through the banking system.

Core features

1. Beneficial for an importer and involves fewer parties but contains high-risks for exporters. Open Account carries lower costs because the number of parties are fewer and procedures are less complex.
2. Goods and invoice are delivered directly from Seller to the Buyer who will pay the invoice on the maturity date. The goods are shipped from the Seller to the Buyer before the payment is due.
3. Exporters need to have a good understanding of, confidence in, the risks associated with the importer and the importing country. Open Account tends to be used in mature trading relationships and developed markets. Alternatively if the Seller has concern on Buyer on country risk then alternative default mitigating products such as trade credit insurance can be obtained.
4. Open Account can be more responsive to sudden unexpected changes in contractual arrangements. It can be relatively simple as it concentrates on the contractual terms agreed between the parties. For example, dealing with discrepancies in the Shipping Documents is straight forwarded between Buyer and Seller only.
5. There are relatively fewer structural financing opportunities in Open Account. However, it is likely the bank will be able to offer Open Account as part of its general banking services associated with a Trade Finance Facility (see Trade Finance Facility).

Documentary Collections



Mechanics

- 1a Seller enters into Contract of Sale with the Buyer.
- 1b Seller initiates shipment of goods and loads/ships goods via Shipper or Carrier to the Buyer.
- 2 Seller submits Collection Order, Bill of Exchange and Shipping Documents to Remitting Bank.
- 3 Remitting Bank forwards documents to Collecting Bank also known as Presenting Bank.
- 4 Collecting Bank must act in accordance with Remitting Bank's instruction. Collecting Bank can arrange for Buyer to inspect the documents. If Buyer considers documents are in order, the Collecting Bank releases them against payment or acceptance.
- 5 In a Clean Collection, Buyer pays Seller via banks or accepts Draft (in which a Term Bill of Exchange will remain with the Collecting Bank until Maturity).
- 6a Money sent to Remitting Bank and credit Seller's account.
- 6b Documents released to the Buyer
- 6c Buyer now has Shipping Documents to enable collection of goods from the Carrier.

Documentary Collections

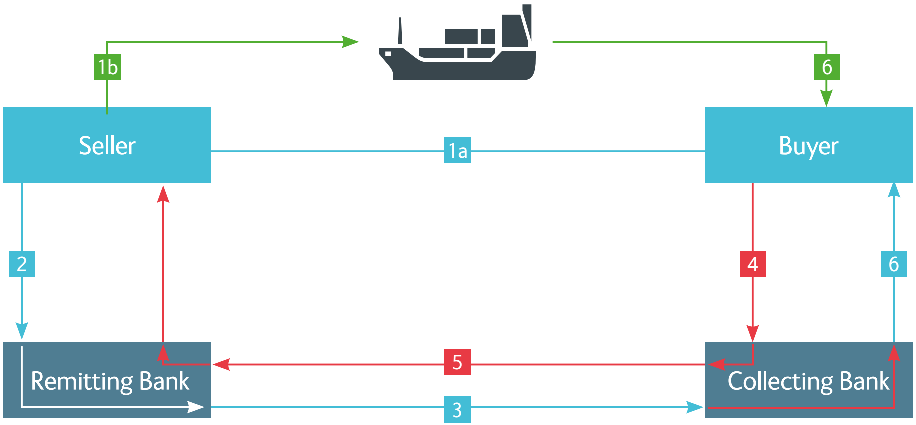
What is it?

Documentary Collections is an inter bank document handling system. A collection service provided by a bank under which the Shipping Documents relating to a cargo are sent to a Buyer but only released once the Seller has the comfort that goods will be paid for by the Buyer. It is a means whereby the Seller in one country can obtain payment from the Buyer in another and the Buyer can obtain the Shipping Documents and, therefore title to the goods, through the banking system in his own country.

Core features

1. Documents are released to the Buyer on payment (Documents Against Payment: D/P) or released to the Buyer on acceptance of a Bill of Exchange (Documents Against Acceptance: D/A).
2. Standard international ICC rules URC 522 govern the roles and responsibilities of the various banks involved.
3. Banks will arrange collections of the financial documents – such as a Bill of Exchange or Promissory Note – and the Shipping Documents such as Bills of Lading and the Commercial Invoices.
4. Outward Collections is where a bank obtains payment from the Buyer on behalf of Seller.
5. Inward Collections is where the bank assists a correspondent bank to obtain payment of a Draft or Promissory Notes or cheque from the Buyer on behalf of Seller.
6. Bank's instruction from the Seller to its Remitting Bank is called a Collection Order.

Documents against Payments (D/P)



Mechanics

- **1a** Under a Contract of Sale, the Seller agrees to ship goods and send documents via Documentary Collections method.
- **1b** Seller initiates shipping goods to Buyer and hands over goods to Shipper or Carrier.
- **2** Seller sends documents to Remitting Bank together with payment instructions.
- **3** Seller's bank checks the Seller's instructions and that they conform with the documents. Then send to the Buyer's bank, known as the Collecting Bank.
- **4** Buyer is advised about Collection by the Collecting Bank. Before payment, Buyer has the right to inspect documents and that they all conform to what is required as specified in the Contract of Sale. If Buyer is satisfied then the Buyer instructs his bank to pay the Seller.
- **5** Payment is transferred to Remittance Bank according to payment instructions and credited to Seller's account.
- **6** Documents are then simultaneously released to the Buyer and the Buyer can collect the goods from the Shipper or Carrier.

Documents against Payments (D/P)

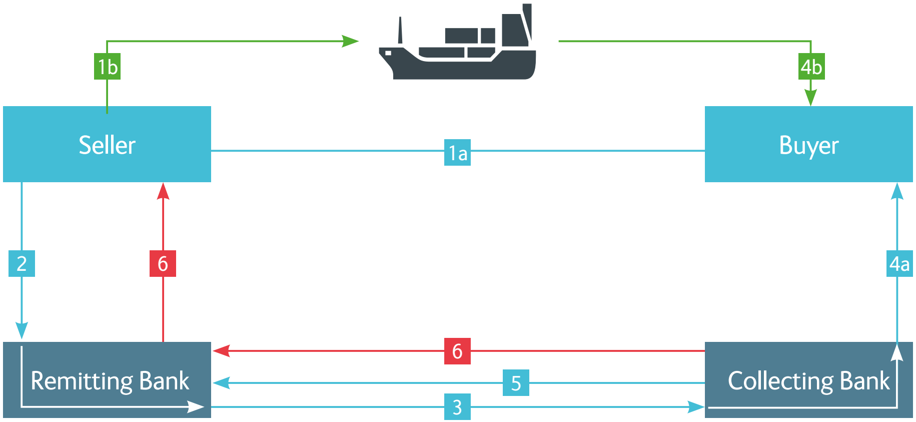
What is it?

The Seller entrusts the goods and title documents to the Seller's bank, also giving it payment instructions as agreed between the Seller and the Buyer in the Contract of Sale. Once the Buyer has made a payment to the Seller's bank, the Buyer can then receive the Shipping Documents and thus access to the goods while paying following the payment instructions.

Core features

1. A key advantage over Open Account is that if the Collection documents include a full set of Bills of Lading then the goods remain in control of the Seller (or at least within the Collection system) until actual payment.
2. Shipping Documents often used include:
   - Draft/Bill of Exchange issued at sight or as a term bill (Usance bill)
   - Commercial invoice
   - Specifications and packing or weight lists
   - Transport documents, such as Bills of Lading, Waybill or Multimodal Transport Documents
   - Certificate of origin
   - Inspection certificates – verifying quality or quality of the goods
   - Insurance documents
3. What if the Commercial Documents are not a Bill of Lading (e.g. a Waybill)? If this is the case, then the Seller, in the Collection Order, can specify to consign the goods to the Collecting Banks order who will only release them when the Buyer makes the payment.

Documents against Acceptance (D/A)



Mechanics

1a Under a Contract of Sale, the Seller agrees to ship goods and send documents via Documentary Collections method.

1b Seller initiates shipping goods to the Buyer and hands over goods to Shipper or Carrier.

2 Seller sends documents via Documentary Collections to Seller's bank together with payment instructions and a Bill of Exchange. A Bill of Exchange is payable (i) on sight or (ii) at the maturity date stated (this is known as a Term Bill or Time Bill).

3 Seller's bank checks the Seller's instructions and that they conform with the documents. Then those documents are sent to Buyer's bank otherwise known as the Collecting Bank.

4a The Buyer is advised about collection by his bank. After satisfactory inspection, the Buyer will Accept the enclosed Bill of Exchange (an Accepted Draft) and receives the documents attached to the Bill of Exchange. Most commonly referred to as the Shipping Documents. This will include the title documents relating to the goods.

4b The Buyer can then present the Shipping Documents to the Carrier and collect the goods.

5 The Bill of Exchange (the Accepted Draft) is given to Seller's bank and the Accepted Draft is kept at Seller's bank until the maturity date.

6 On the maturity, the Accepted Draft is presented for payment to Collecting Bank as a 'Clean Collection' (that is without other shipping documents) and the Buyer's bank makes payment to Seller's bank as per Seller's payment instructions.

Documents against Acceptance (D/A)

What is it?

The documents transferring title of goods are delivered to the Buyer via the banking and Collection system. Only upon the Buyer's Acceptance of the Seller's Bill of Exchange guaranteeing payment at a later date will the documents relating to the goods be released to the Buyer.

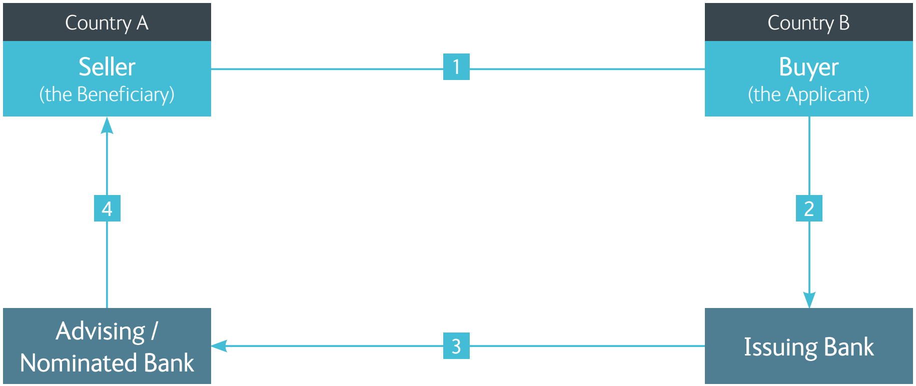
Core features

1. Seller is granting commercial credit terms to the Buyer. The period of credit is the term of the Bill of Exchange.
2. When the Buyer accepts the Draft he can be released with the Shipping Documents and claim the goods. Therefore, D/A collections offer less protection because the Buyer takes title to the goods before he has to pay. However, the Buyer is acknowledging his debt by Acceptance of the Draft. If the Seller is concerned with the credit of the Buyer he may insist on the Draft being 'avalised' by the Issuing Bank, thereby adding an additional payment guarantee.
3. The Bill of Exchange will be held with the Collecting Bank until maturity at which time it will be presented for payment, or alternatively the Seller might be prepared to seek earlier financing based on the Buyer's Acceptance.

Financial Structures

1. The Seller can obtain early payment from the Remitting Bank via an advance or prepayment against the Collection. Advances are usually full recourse to the Seller.
2. Or the Seller can obtain non-recourse financing where the Bills of Exchange are avalised or Bills are accepted by a high credit of the Buyer.
3. An aval is a guarantee added to the Acceptance of the Bill by the Collecting Bank by giving an unconditional undertaking to pay on maturity of the Bill. This then allows the Seller's bank of advance against the Bill without recourse to the Seller.

Opening a Letter of Credit



Mechanics

1. Contract of Sale stipulating payment methods for goods by way of Letter of Credit.
2. Buyer – known as the Applicant – instructs his bank (the Issuing Bank) to issue a Letter of Credit in favour of the Seller as Beneficiary. Issuing Bank will either open or utilise certain pre-arranged (and/or collateralised) credit lines and facilities that the Buyer can draw on for such trade products (see Trade Finance Facility).
3. Issuing Bank arranges with a bank in the Seller's country to advise (usually via SWIFT) the Seller when the Letter of Credit has been opened and to pay against delivery of specified satisfactory Shipping Documents. If the Nominated Bank confirms the credit it will be known as the Confirming Bank that adds its own independent undertaking to pay the L/C – eliminating any country risk associated with the Issuing Bank's country of jurisdiction and credit standing.
4. The Advising Bank informs the Seller when the Letter of Credit has been issued and which documents should be presented to obtain settlement.

Opening a Letter of Credit

What is it?

1. By passing the obligation to pay the Seller onto the Issuing Bank, the Buyer creates greater assurance and certainty that the payment will be made to the Seller once they ship their goods. The Issuing Bank is giving an irrevocable payment undertaking to the Seller that it will make payment upon presentation of certain documents independent and autonomous of the underlying Contract of Sale.
2. Also known as L/C, Documentary Credit, Documentary Letter of Credit, DLC or credit.

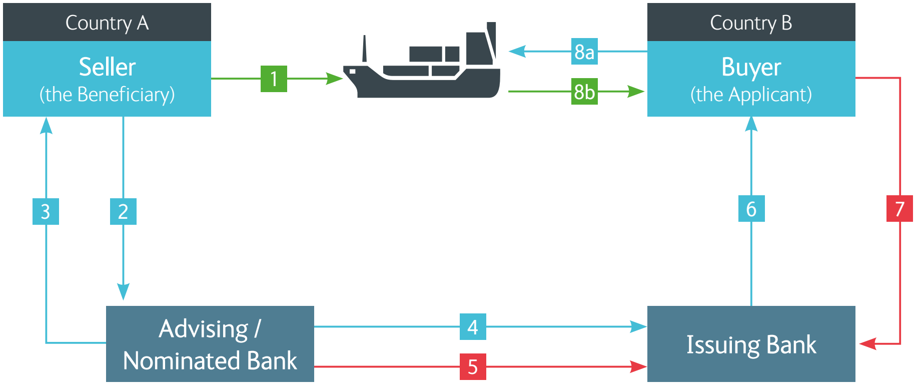
Core features

1. The Letter of Credit is irrevocable and cannot be cancelled or amended without the Seller's agreement. Therefore, the Buyer has committed to the Seller to perform his side of the Contract of Sale, namely payment.
2. The Buyer might be a new customer, a customer with no payment track record or in a jurisdiction the Seller is unfamiliar with. The Letter of Credit is therefore a better payment guarantee and security then relying on the Buyer's own covenant to pay and the ability of the Seller to enforce that promise in the country in which the Buyer is located.
3. Documentary Credits have an internationally recognised set of regulations governing letter of credit activity. This is referred to a UCP 600 and stands for Uniform Customs and Practice for Documentary Credits 600.
4. The Issuing Bank is only concerned with documents and not goods. Payment will be made notwithstanding any damage to goods in transit. Banks need not look behind the transaction under the principle of Autonomy of the Letter of Credit and the principle of Strict Compliance.
5. Banks notify and communicate the forms and contents of Letters of Credit through the SWIFT system.

Financing opportunities using a Letter of Credit

1. Obtaining bank financing for trade finance transactions is essential to give both Buyer and Seller the best working capital position available.
2. Financing can be raised against the security represented by the structure of the transaction, the goods and mechanics of the instruments involved. The Seller may provide commercial credit to the Buyer as part of their negotiated terms and this can often be as long as 180 days for example.
3. Without financing, the Seller may have to wait 180 days to be paid, putting pressure on working capital and reducing operating cash flow. Therefore, the advantages of being paid early by a bank, using finance secured by the structure of letters of credit, can benefit both Buyer, in the Seller offering longer payment terms in the Contract of Sale, and the Seller, in being paid prior to the actual due date.
4. Letters of Credit provides a secure form of payment to the Beneficiary, but also can be structured to offer short term funding. Two structures commonly used are:
   - Discounting Bills of Exchange on the Seller's bank under an Acceptance L/C. In this, the Buyer obtains a period of credit before having to pay for the goods.
   - Negotiating Bills of Exchange. Here, the Seller receives early payment of the amount due to him rather than wait until the end of the period of credit extended to the Buyer under the Contract of Sale.

Operating a Letter of Credit



Mechanics

1. Seller having received confirmation from the Advising Bank that a Letter of Credit has been issued on behalf of the Buyer, then initiates the shipment of goods and places in hands of the Shipper or Carrier.
2. Shipping Documents evidencing shipment and Bills of Lading representing title to the goods are sent to the Advising Bank.
3. The Nominated Bank checks the Shipping Documents against requirements of the Letter of Credit and, if they are in order, advises the Seller that it is authorised (if merely a Nominated Bank) or obliged (if also a Confirming Bank) to pay the Seller in accordance with the terms of the Letter of Credit.
4. Nominated bank sends the documents to the Issuing Bank.
5. After checking and being satisfied that the documents meet the requirements of the Letter of Credit the Issuing Bank reimburses (if paid at sight) or transfers monies to the Nominated Bank.
6. The Issuing Bank delivers the documents to the Buyer.
7. The Issuing Bank is reimbursed by the Buyer or the credit line marked by a utilisation of an existing facility.

8a By virtue of its possession of the documents the Buyer can claim the goods at port from Shipper or Carrier.

8b Buyer now has title and can on sell or process the goods.

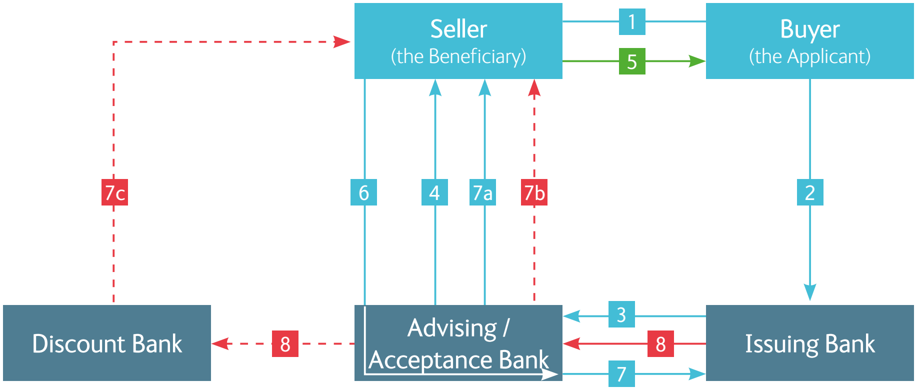
Operating a Letter of Credit

What is it?

A financial document issued by an Issuing Bank at the request of a Buyer (Applicant) to a Seller (Beneficiary), which guarantees payment to the seller if the terms and conditions specified in the Letter of Credit are fulfilled. It usually contains a brief description of the goods, the documents required, shipping date and an expiry date after which payment will no longer be made. There are different types of Letter of Credit, according to the level of security they grant the Beneficiary.

1. Irrevocable Letter of Credit: All Letter of Credit issued under UCP600 are irrevocable. This can neither be modified nor cancelled without the agreement of all the parties concerned. The payment by the Issuing Bank is guaranteed provided that the Beneficiary (Seller/Exporter) satisfies all the terms and conditions of the Letter of Credit.
2. Revocable Letter of Credit: Not often used in the modern era. This may be modified or cancelled by the Issuing Bank at any time and without notice to the Beneficiary. However, payments or drafts negotiated within the terms of the credit before receipt of the revocation or amendment notice from the Issuing Bank remain validly binding for all parties. Negotiability is restricted to the Advising Bank and Confirmation is usually not available.
3. Confirmed Letter of Credit: Letter of Credit in which the responsibility of another bank (the Confirming Bank, which is usually the same as the Advising Bank) has been added to that of the Issuing Bank, upon authorisation or request of the latter. The confirmation represents a definite undertaking by the Confirming Bank, which obligates itself in the same manner as the Issuing Bank. It is used to back up the credit standing of the Issuing Bank and to mitigate risk by replacing a foreign bank risk with a domestic bank risk.
4. Unconfirmed Letter of Credit: Letter of Credit which has been advised through an Advising Bank, acting as an agent of the Issuing Bank, without however assuming any responsibility towards the Beneficiary except for taking reasonable care to check the apparent authenticity of the Documentary Credit which it advises.
5. Revolving Letter of Credit: A type of Letter of Credit issued only once and through which the money made available to the Seller, after being drawn within a stated period of time, will again become available in the future, usually under the same terms and without another Letter of Credit being issued. This type of credit is used in connection with regular and ongoing purchases from a foreign supplier. The revolving element may be linked to time and/or value.
6. Documentary Letter of Credit: Letter of Credit where the Issuing Bank stipulates that certain documents should accompany the Draft. These documents assure the Applicant that the merchandise has been shipped, is in good condition and that title to the goods has been transferred to the importer.
7. Negotiable Letter of Credit: Letter of Credit issued in such form that it allows any bank to Negotiate the documents.
8. Acceptance Letter of Credit: Letter of Credit which provides that it will be honoured by Acceptance by the bank with which the Letter of Credit is available at a time defined in the Letter of Credit (rather than by presentation of complying documents). The seller can therefore obtain earlier payment if discounted.

Discounting Acceptances



Mechanics

1 Seller and Buyer enter into Contract of Sale.

2 Buyer, as Applicant, requests a Letter of Credit from its Issuing Bank.

3 Issuing Bank raises a Letter of Credit and sends to Advising Bank.

4 Advising Bank notifies Seller that the Letter of Credit has been opened.

5 Goods then shipped to the Buyer.

6 Documents forwarded from Seller to Advising Bank and on to Issuing Bank.

7 Banks accept documents as fully compliant with terms of the Letter of Credit. As part of the documents the Seller may have drawn a Term Bill of Exchange which by Acceptance represents the bank's independent undertaking to pay the Accepted Draft on maturity. Seller can either:

7a – hold the accepted bill until maturity if working capital is healthy;

7b – if finance is required, ask Acceptance Bank to discount the bill; or

7c – Seller could ask another bank – i.e. the Discount Bank – to discount the bill drawn on and accepted by the Acceptance Bank. If discounted, the Discounting Bank will pay proceeds to the Seller net of charges and interest for the period of credit until maturity.

8 At maturity of the bill, Acceptance Bank will receive the reimbursement from the Issuing Bank of the original amount either for its own account if it discounted the bill or for the Discount Bank.

Discounting Acceptances

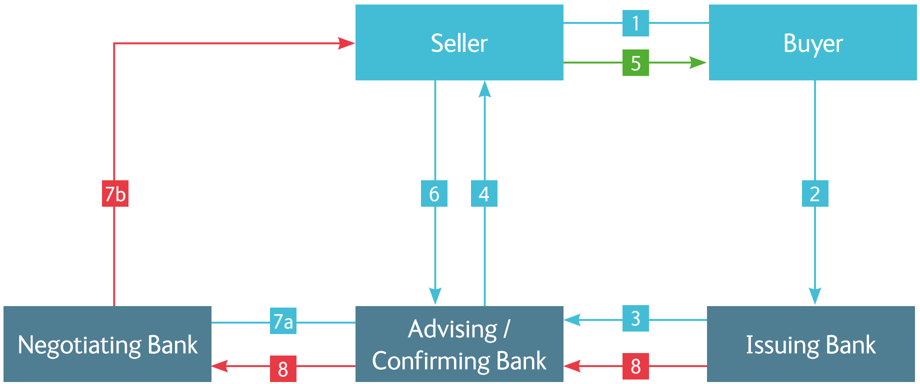
What is it?

Also known as Acceptance Documentary Credit. A Letter of Credit available by Acceptance provides a period of credit for the Buyer. It also allows the Seller to obtain post-shipment financing, which is without recourse, by discounting a Bill of Exchange drawn on a bank.

Core features

1. The Discounting Bank is providing a short term loan known as an Acceptance Facility.
2. Acceptance credits are used to provide the Buyer with extended commercial credit by the Seller. This might encourage and give the Seller a competitive advantage over other similar suppliers when the Buyer is deciding with whom to purchase from.

Negotiating Export L/C



Mechanics

1. Seller and Buyer enter into Contract of Sale and requires the Letter of Credit in its favour that is available by negotiation. The Seller can request a specific Negotiating Bank or freely negotiable
2. Buyer requests the required Letter of Credit.
3. Issuing Bank raises a Letter of Credit and sends to Advising Bank.
4. Advising bank notifies Seller.
5. Goods shipped to Buyer.
6. Documents presented from Seller to Advising Bank for checking in accordance with the Letter of Credit and then Banks accept documents as fully compliant with terms of the Letter of Credit.

7a On the reliance that the Bill of Exchange has been Accepted, the Negotiating Bank purchases the Bill of Exchange or L/C by "Negotiation".

7b The nominated Negotiating Bank then makes a non-recourse advance of discounted funds to Seller.

8 At maturity of the Bill of Exchange, Advising Bank will receive reimbursement from the Issuing Bank, in turn being used to repay the advance by the Negotiating Bank.

Negotiating Export L/C

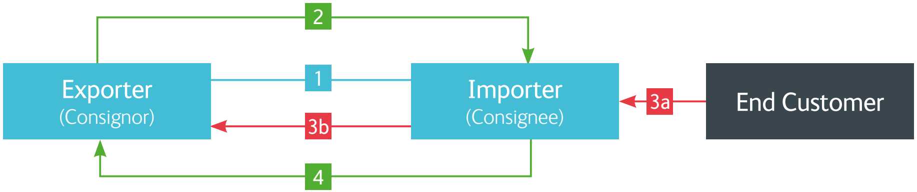
What is it?

A Letter of Credit available by Negotiation provides for immediate payment to the Seller by way of the Negotiating Bank purchases the Letter of Credit and advance funds to the Seller on presentation of the documents stipulated under the Letter of Credit.

Core features

1. The Letter of Credit available by Negotiation will either specifically nominate a Negotiating Bank or indicate that the Letter of Credit is freely negotiable by any bank.
2. The Issuing Bank authorises the Negotiating Bank to negotiate the documents presented to it under the Letter of Credit and that it will reimburse the Negotiating Bank on satisfaction of the terms of the Letter of Credit.
3. The Seller will be paid immediately without needing to wait until the end of the trade credit period.

Consignment



Mechanics

1. Consignment agreement in which the Importer – termed as Consignee – receives, manages and sells goods for the Exporter who retains title until the goods are on sold to an End Customer.
2. Goods shipped by the Exporter and delivered to the Consignee. Consignee hold the goods for Consignor on trust.

3a. Payment is sent to Exporter only after goods have been sold by the Importer to an End Customer.

3b. Only sold items by the Importer to the End Customer are paid onto Exporter.

4. Goods not sold after an agreed period may be returned to the Exporter.

Consignment

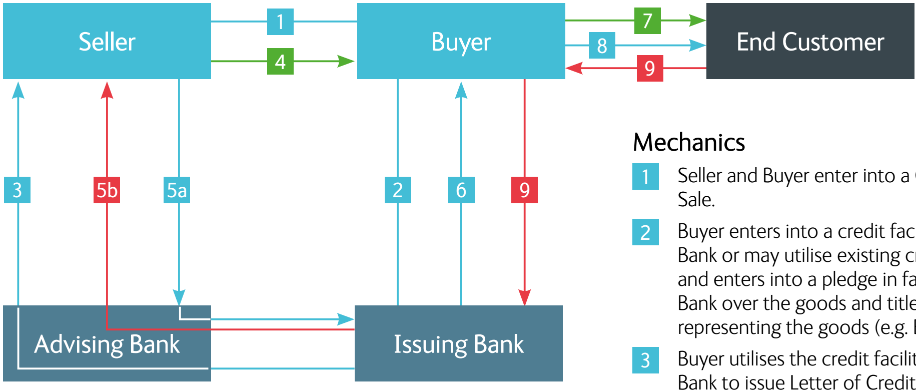
What is it?

An arrangement where the Exporter delivers the goods to the Importer, who then resells the goods and, only when the goods have been sold, pays the purchase price to the Seller. If goods go unsold then they are returned to the Exporter.

Core features

1. The inevitable risk with a Consignment structure is that the Exporter is handing over product (and inventory management) to a party it doesn't control with no guarantee of payment.
2. The advantages are that it can help Exporters compete in a local market it is unfamiliar in with the goods being in the location of the End Customer.
3. Also, the structure reduces the cost to the Exporter of storing and inventory therefore the Exporter can pass on this reduction to the End Customer in an attempt to be more competitive in that local market.
4. The obvious key risk is that the Exporter must have full confidence in and trust its Consignee – given that the Consignee will be a foreign distributor or third-party logistics provider.

Trust Receipt Financing



Mechanics

1. Seller and Buyer enter into a Contract of Sale.

2. Buyer enters into a credit facility with its Bank or may utilise existing credit lines and enters into a pledge in favour of the Bank over the goods and title documents representing the goods (e.g. Bills of Lading).

3. Buyer utilises the credit facility and requests Bank to issue Letter of Credit in favour of Seller as beneficiary for the cost of the goods. Bank issues the requested Letter of Credit and Advising Bank notifies Seller (see also Opening a Letter of Credit).

4. Goods shipped to Buyer on Seller confidence it will receive payment from Issuing Bank on presentation of Shipping Documents at such time as in accordance with the terms of the Letter of Credit.

5a. Seller presents Shipping Documents to Advising bank, these are in turn sent onto Issuing Bank. Whilst goods are in transit, Seller has released title to goods and in hands of the Bank pursuant to the pledge representing collateral for making the original Letter of Credit available.

5b. Issuing Bank pays in accordance with Letter of Credit either at sight or Term.

6. Upon the request of the Buyer and in advance of when the Buyer might usually receive the title documents in a typical L/C structure, the Bank releases the title documents to the Buyer conditionally on receipt from the Buyer of a trust receipt for the limited purpose of on-selling those goods to the End Customer.

7. Buyer on-sells to End Customer and can pass good title to the End Customer having been released with the title goods from the Bank.

8. Invoice issued to End Customer.

9. Money paid pursuant to invoice and monies held on trust for Bank in order to repay the original utilisation under the L/C financing arrangement between the Buyer and the Bank.

Trust Receipt Financing

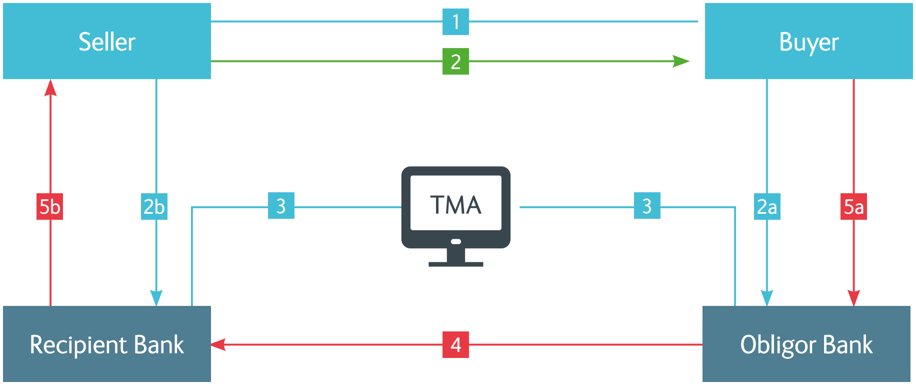
What is it?

An import credit facility structure and related security in the form of a pledge over the goods purchased with the proceeds of the facility between Buyer / Pledgor and its Bank whereby the Bank issues L/C to purchase goods from Seller but where the Bank allows the goods to be released from the pledge in order for the Buyer to on sell the goods to an End Customer. The release is conditional that the Pledgor, i.e. the Buyer, acknowledges that it holds the goods and proceeds of sale from the End Customer on trust for the Bank. Therefore, in the event of an insolvency of the Buyer those goods and proceeds remain outside the general bankruptcy estate of the Buyer and can be claimed by the Bank to settle the original facility or credit line.

Core features

1. Advantages for the Buyer is that they will not be required to effect payment of goods purchased immediately when documents are presented under a Sight L/C for example and this is a form of import finance where the mechanism allows the Bank to maintain security over the goods and proceeds.
2. Warehousing of goods may be involved if Buyer has not scheduled delivery of goods to the End Customer immediately upon arrival of goods (see also Warehouse and Inventory financing)
3. Risks for the Bank is that notwithstanding the pledge over goods and undertaking to keep goods separate in warehouse, for certain types of goods and commodities (e.g. oil) it may be the case that the commodity is co-mingled in storage or while shipping. Therefore, on an insolvency of the Buyer, notwithstanding the commodity is held on trust for the Bank, tracing will be difficult. However, some commodities like oil is fungible and the law has developed methods to account for goods of an exact equivalent provided it is still held on trust for the Bank.
4. The test, of whether a Buyer holds those commodities or goods and monies as trustee, is whether the Buyer is, on the facts, entitled to use the property or its proceeds permanently as his own. If the Buyer does have control then a Bank ceases to be a super-priority creditor. Therefore, it is often recommended that monies from the receivables of the End Customer are deposited into a trust account or at least an account with the Bank.

BPO (Bank Payment Obligation)



Mechanics

1. Buyer and Seller enter into a Contract of Sale and agree to use a BPO arrangement to effect payment rather than a L/C.
   – Data in respect of the underlying trade transaction otherwise known as a Baseline is established via banks from data in purchase order ("PO").

2. Seller ships goods pursuant to PO from the Buyer and also sends Shipping documents.

2a. Buyer provides PO data to Obligor Bank.

2b. Seller provides shipping data to Recipient Bank (such as commercial, transport or insurance data equivalent to Information found in Shipping Documents).

3. Trade Matching Application (TMA) which is utilised between Obligor Bank and Recipient Bank is used to match data according to Baseline.

4. BPO becomes operative upon data match through the TMA and Obligor Bank must pay Recipient Bank on maturity in the form of an irrevocable and independent payment undertaking or Bank Payment Obligation (BPO).

5a. Buyer makes repayment to Obligor Bank on maturity.

5b. Seller receives money from Recipient Bank.

BPO (Bank Payment Obligation)

What is it?

1. Separate and independent of the underlying trade or Contract of Sale, the BPO is an independent irrevocable payment undertaking from an Obligor Bank to pay the beneficiary via the Recipient Bank on the conditional matching of purchase order and shipping data.
2. The BPO is an instrument that provides risk mitigation, and the basis for financing a transaction between buyers and sellers who chose not to use documentary instruments but wish to rely on the exchange and validation of electronic data rather than physical documents to effect payment.
3. It is an enabling framework to avoid the use of physical document presentation in Documentary Credits.
4. A Letter of Credit requires physical presentation of documents through Collections. Under a BPO those physical documents are sent direct to Buyer as per an Open Account transaction. However, the independent obligation to pay upon certain conditions is still maintained.

Core features

1. No documents are needed under the BPO payment framework, as such there is a reduction in expenses related to document examination and also a focus on efficiency given only data flow framework.
2. The banks deal in data and not documents meaning a reduction of discrepancies.
3. Obligor and Recipient Banks must be participant members with the SWIFT Trade Services Utility (TSU) and the TSU Rulebook.
4. BPOs are issued in favour of the Recipient Bank and not the Seller.
5. Under a BPO framework, the Seller is paid by the Recipient Bank, and the Recipient Bank is paid by the Obligor Bank. The Obligor bank is not directly indebted to the Seller.
6. The ICC Uniform Rules for Bank Payment Obligation (URBPO 750) govern the BPO framework and are similar usage of UCP 600 for Letters of Credit.
7. Unless otherwise specified, the governing law and jurisdiction will be that of the Obligor Bank.