

# **BILLS FOR COLLECTION**

## **5.1 INTRODUCTION**

This chapter deals with the receipt, processing, and control of Bills of Exchange, Cheques, Drafts, and other related items received for collection.

- I. The ICC Uniform Rules for Collection URC522, defines Collection as the handling by the bank, of documents, in accordance with instructions received, to obtain payment and/or acceptance, or to deliver documents against acceptance.
- II. The bank acts as an agent that collects payment from the importer on behalf of the exporter.
- III. This involves the remittance of funds to a beneficiary on behalf of the Bank's customer upon receipt of valid shipping Documents from the Beneficiary and acceptance of Bill of exchange by the customer.

The documents may be:

- I. **Financial Documents** - Bills of exchange, promissory notes, cheques, or other similar instruments used for obtaining the payment of money
- II. **Commercial Documents** - transport documents, documents of title or other similar documents.

### **Parties to a Bill for Collection transaction include:**

- ❖ The Drawer (i.e., the Seller/Beneficiary)
- ❖ The Drawee (i.e., the Buyer/Applicant)
- ❖ The Remitting Bank (Usually the Drawer's Bank)
- ❖ The Collecting Bank (Usually the Drawee's Bank)
- ❖ The Correspondent Banks (for the Drawee's Bank and or for the Drawer's Bank)

## **5.2 PRESENTATION / DISPOSITION**

1. Collection items received will be advised or presented (or remitted for collection) without delay or, in the case of collection items with fixed maturity date, in a manner to ensure presentation on or before the stated maturity date. Advice of payment or acceptance, non-payment or non-acceptance, status advice, etc. will be immediately mailed (or sent by telecommunications, if required) to the remitter after first presentation.
2. The remitter's handling instructions (protest, telecommunications advice, waive charges, etc.) will be carefully followed and the remitter will be advised on all developments. The remitter's instructions regarding the collection of the item will not be changed without prior approval from the remitter or his authorized agent. When local regulations or customs or the bank's policy do not permit adherence to certain instructions, the remitter will be advised accordingly.
3. When a local agent or "case of need" is named by the remitter, the extent of the authority will be limited to that conferred by the remitter. An appropriate record of any general authorizations or instructions received from remitters will be maintained.
4. If collection items are to be presented "on arrival of goods", the arrival of the relative carrier will be followed up to ensure prompt presentation.
5. If merchandise covering a collection item is consigned to the bank, or may become the responsibility of the bank, specific instructions must be received as to what action the bank should take in case of non-payment or non-acceptance of the collection.
6. If no such instructions are in hand, they will be obtained (by telecommunications if necessary). However, consignment of collection documents to Premium Trust Bank as against consignment to drawee is not encouraged given the preferred handling of collection as Supplier's credit.
7. Inquiries regarding the fate of items received for collection will be directed to a designated desk officer who is on collection processing. He/she will also be responsible for investigating all other inquiries to satisfy that the relative collection items are handled properly.
8. A proper follow-up system will be established to monitor the receipt of proceeds on due date or shortly thereafter.

### **5.3 INITIATING A BILLS FOR COLLECTION TRANSACTION**

An Importer who wishes to effect payment on a Bills for Collection basis would have indicated this payment mode on the underlying e form 'M'. Processing of form M only confers a moral obligation on the bank to provide FX for Bills Settlement on best effort basis and subject to adequacy of documentation and funding in customer's account.

The Bills for Collection process begins with the customer completing an electronic form M accompanied with relevant supporting documents depending on the item of import.

- I. The responsible International Trade Services Officer validates the form M online and moves it electronically to Nigeria Customs Service for acceptance.
- II. Upon receipt of notification of Customs Acceptance, the approved form M and other supporting documents is moved to the Bills for Collection Desk.
- III. The Bills officer reviews the documents against accompanying checklist for completeness. Any exception is notified to the Counter Services desk for rectification. The reviewed document is filed off in a chronological order pending receipt of shipping documents from the supplier's bank.

### **5.5 RECEIPT OF SHIPPING DOCUMENTS FOR BILLS FOR COLLECTION**

- I. The Foreign Exchange Regulation in Nigeria provides that shipping documents on Bills for Collection transactions must come to the Importer's Bank directly from the Supplier's bank or through the offshore correspondent of the importers bank.
- II. Documents that do not comply with the prescribed routing method will not be eligible for collection purpose.

On receipt of the Collection documents, the Bills for Collection Desk Officer will do the following:

- ❖ Verify the correctness of the documents received against the documents listed on the collection order
- ❖ Retrieve the underlying form M to which the collection relates
- ❖ Review the collection documents to ensure they include the following:
  - Tenor Draft / Bill of Exchange drawn on the importer
  - Original Bill of Lading / Airway bill
  - Certificate of Origin

- Packing List
  - Final Invoice
  - Manufacturer's Certificate of Production/ Certificate of Chemical Analysis
  - Bill History / Collection Order from the Remitting Bank
  - Other relevant documents depending on item of import and prevailing regulation
- ❖ Review the Collection order and payment terms to ensure they are consistent with what is allowed by local regulations. Currently only tenured bills with maturity date not exceeding 180 days from Bill of Lading date in the first instance are allowed.
  - ❖ Review Collection terms to ensure there are no hidden clauses / avalisation requirement that may create unwanted credit exposure to bank.
  - ❖ Communicate observed discrepancy (if any) to the Remitting Bank via SWIFT or any other acceptable communication channel for necessary corrections with notice to the drawee to facilitate the correction process.
  - ❖ Where documents are okay; notify customer / relationship team of receipt of shipping documents to enable customer pick up bill of exchange for acceptance.
  - ❖ Allocate an internal reference number for the transaction or maintain the same reference / file number with previous shipments in case of partial shipment on the same form M.
  - ❖ Make and forward copies of the documents to the PAAR Desk for processing.
  - ❖ Upon acceptance of Bill of Exchange and compliance with the Collection terms, the shipping document is released to the customer or their authorized agent to facilitate the clearing process. The shipping documents release officer ensures that an acknowledged copy of the endorsed shipping documents is retained in the file for record purpose.
  - ❖ The Desk Officer also generates a SWIFT message to communicate acceptance of the Bill of Exchange to the Remitting Bank and passes the following SWIFT charges
    - Dr: Customer
    - Cr: SWIFT Recovery
  - ❖ The Online Register is updated to capture Bills maturity date.

## 5.6 A CASE OF DUPLICATE DOCUMENTS

- a. Duplicate sets of documents received after the originals have been received and processed will be assigned the same collection number as the corresponding originals.
- b. Disposition of duplicate documents depends on whether the original has been received.
- c. If the originals are held awaiting disposition, duplicates will be attached and held with the originals.
- d. If duplicates arrive before the originals, a collection number will be assigned, and the duplicates will be processed as originals.
- e. However, the remitter will be informed by cable of the non-receipt of the originals.
- f. A system will be established to avoid the processing of the originals as separate items when subsequently received.

KEY RISK	KEY CONTROL
Payment may be made on an expired Bill	The Team Lead will ensure that periodic spooling of Expiring Bills Report is done and advise customers accordingly.
Payment may be made against incomplete documentation	The responsible officer will review the documents for accuracy, validity and completeness before processing the bill payment.
Transfers may be made using the wrong account number on collection order	The Trade officer will ensure that the remittance is made by strict adherence to the collection order
Instructions may be wrongly remitted using the instructions provided by the customer rather than using the collection order	The Trade officer will ensure that first level call over is done for the previous day transactions.

Possibility of violating URC522	The Trade officer should confirm that checklists are duly ticked and signed to ensure all necessary documents are sent from the offshore bank
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## 5.7 TRANSFER OF COLLECTION DOCUMENTS TO ANOTHER BANK

- I. A request for the transfer of collection documents to another collecting bank at the instance of the Drawee will be actioned where the collection order expressly permits such transfer without further reference to the Remitting Bank.
- II. Transfer with notice to the Remitting Bank may also be done where it is discovered that the collection documents had been routed in error.
- III. The approval of the Central Bank of Nigeria is required where the transfer is from a distressed bank to a non-distressed bank.

Subject to availability of the required approvals, the collection documents in original and duplicate (if any) is transferred to the designated bank with a covering letter listing details of transferred documents which must be duly acknowledged by the designated bank. The acknowledged letter and photocopies of all transferred documents are maintained in the bank's records.

The Remitting bank is notified as soon as the transfer is done, and the following entries passed in respect of cost of the transfer:

- DR. Customer's Account (VAT and Commission)
- CR. Commission Account
- CR. VAT

**\*\*The books are subsequently closed.**

## 5.8 SETTLEMENT OF BILLS FOR COLLECTION OBLIGATION

Submission of Final Exchange Control Documents is a pre-requisite for assessing official window for foreign exchange for settlement of bills for collection obligation at maturity.

Upon clearing the consignment, the drawee is required to forward the following exchange control documents to the Collecting Bank in readiness for foreign exchange purchase for settlement at maturity:

- ❖ Original Custom's Payment Schedule
  - ❖ Original Single Goods Declaration Form (SGD Form)
  - ❖ Original Terminal Delivery Order (TDO)
  - ❖ Copy of the PAAR
  - ❖ Copy of the on-line Duty Payment Receipt
  - ❖ NMDPRA Product Certification Report for Petroleum Products only.
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- I. The desk officer must review the exchange control documents to ensure that they relate to the underlying shipment / shipping documents before filing them off in the respective transaction file.
  - II. A mechanism for following up on outstanding collections will be established and the remitting bank advised on collection status.
  - III. At bills maturity the drawee will either instruct the purchase of FX from the official window for Bills settlement or instruct a direct debit to their foreign currency domiciliary account for settlement.
  - IV. A customer may also opt to use the bank's refinancing facility (confirmation line) for settlement of bills for collection obligation to the supplier while repayment of the facility amounts, and associated fees is deferred to a new future maturity date.
  - V. SWIFT messages are generated for the settlement of the bills for collection obligation and the bills records updated appropriately.

#### **5.8.1 REMITTING PROCEEDS ON BILLS FOR COLLECTION TRANSACTION**

On receipt of Customer's request for payment on Bills for collection transaction the Desk Officer is expected to adhere to the following:

- ❖ Retrieve transaction file and reviews to confirm that
  - Bill is within its expiration date of 180 days from Bill of lading date (expired bill must be revalidated prior to settlement)
  - All relevant exchange control documents are in file
  - A set of shipping documents is in file

- ❖ Confirms the total amount to be remitted. In case of interest payment, this will be calculated based on the prevailing regulatory conditions.
- ❖ Confirms availability of requisite funds for payment (payment may be made using customer's own funds – naira or foreign currency)
- ❖ Where FX purchase is required for settlement, customer's request is scheduled for FX allocation and upon successful allocation the officer generates SWIFT messages MT103 or MT202 and MT999 to remit funds and notify the remitting bank of bills settlement.

The following entries will be passed for the remittance:

- **FX Sales Entries:**
  - DR Customer Naira equivalent of Remittance Amount
  - CR: Customer FCY Fem Suspense
- **Payment Entries:**
  - DR Customer FCY Fem Suspense with Remittance Amount
  - Cr: Offshore Nostro
- **Commission and Fees Entries:**
  - Dr Customer A/c – Commission amount
  - Cr: P and L
  - Dr Customer A/C
  - Cr: VAT
  - Dr Customer A/C
  - Cr: SWIFT Recovery
- ❖ Where customer wishes to use own domiciliary funds for settlement, relevant SWIFT messages will be generated, and the following entries passed:
  - **Payment Entries:**
    - DR Customer Dom Account – Remittance Amount
    - Cr: Offshore Nostro
  - **Commission and Fees Entries:**
    - Dr Customer A/c
    - Cr: Commission
    - Dr Customer A/C
    - Cr: VAT



- Dr Customer A/C
- Cr: SWIFT Recovery

### **5.8.2 BILLS SETTLEMENT WITH OFFSHORE CONFIRMATION LINE**

A customer may wish to use the offshore confirmation line for the settlement of their bills for collection and repay the facility later.

For Bills settlement using the offshore confirmation line with correspondent banks, the Desk Officer must:

- ❖ Ensure that customer's request meets documentation / regulatory requirements already spelt out.
- ❖ Ensure that the customer has met the following additional conditions:
  - Approval to use the line as evidenced by approved Booking memo and or Executed Term Sheet.
  - Evidence of compliance with the conditions specified on the Booking memo and or executed term sheet.
- ❖ Liaise with the Correspondent Banking Desk to determine the correspondent bank to use for the transaction.
- ❖ Scan copy of the underlying trade documents to correspondent banks and prepares relevant SWIFT messages in pre-agreed format to authorize the correspondent to effect payment on the collection and book loan
- ❖ Send a SWIFT notification to the remitting bank to inform them of bills settlement through the offshore correspondent
- ❖ **Passes the following contingent entries to recognize the transaction**
  - Dr Customer Refinanced Bills
  - Cr Bank's Refinanced Bills
- ❖ **Passes the following entries to recognize income:**
  - Dr Customer Commission + VAT+ SWIFT
  - Cr Bank PL - Commission
  - Cr VAT
  - Cr: SWIFT

**Commission is subject to customer's approved concessions**

At maturity of the refinancing period, FX is purchased for the settlement of the principal loan amount and facility fee. An MT 202 and MT799 is prepared to move funds to the correspondent bank and notify them of loan settlement and the following entries passed:

- Dr Customer's account with NGN equiv. of loan amount and facility fee + Margin
  - Credit Trade Suspense account
  
  - Dr Trade Suspense A/C with NGN equiv. of principal facility amount + Correspondent interest
  - Cr: Customer Fem Suspense A/c
  
  - Dr Trade Suspense a/c
  - Cr: Income A/c with margin due to bank
  
  - Dr: Customer Fem Suspense A/C
  - Cr: Offshore Nostro with FCY Principal + Interest
  
  - Dr: Bank's Refinanced Bills
  - CR: Customer's Refinanced Bills
- ❖ Updates relevant registers.

#### **CUSTOMER AND TRANSACTION DUE DILIGENCE FOR FORMS M/LC/BILLS/GUARANTEES.**

##### **KEY RISKS:**

- Change in value of goods leading to settlement/price risk.
- Processing form M with details different from what is stated on the proforma invoice.
- Form M is processed for country/beneficiary on sanction list.
- Fictitious value leading to over/under invoicing.
- Processing of transactions for goods prohibited from importation /restricted from sourcing FX from the official window.

- LC/Bills/Guarantee transactions are processed without complete documentation as stated in the import guideline and FX manual.

### **Key Controls**

- Trade officer ensures proforma invoice date is not older than 3 months before the form M is processed.
- The lead ensures form M reflects the same details of buyer and seller as stated on the proforma invoice before the form M is validated.
- Check list is for sanctioned entity.
- Trade officer performs independent price verification,
- Supervisor checks Prohibited Import List as well as list of 43 items restricted from accessing FX from the official window.
- Trade officer ensures all documents required are in place before transaction is processed.
- Team leads or officer's reviews all required documents for a transaction in line with regulatory guideline