

CREDIT RISK

Culture Clash: What You Need To Know About Foreign Credit Reports

► *Taking on a new offshore customer or supplier? Understand regional and country accounting practices first.*

You're American, but the guy on the other end of the phone isn't. He wants to do a deal with your company so you hang up and begin the due diligence process of checking out his business credentials. Simple enough in the United States, but here's how you can get the ball rolling with an overseas company.

"The most important thing to understand is that you must evaluate financial data of offshore businesses in the context of the region and country and not in terms of U.S. norms," advises **Kate Porter**, market strategist at **SkyMinder**, an international aggregator of business and credit information from the Bologna, Italy firm **CRIF**.

Ask For The Real Set Of Books

Be aware that some accounting practices that may be unethical or even illegal in the U.S. are commonplace in other parts of the world.

Example: When working with businesses in South and Central America, never take credit information at face value. "It's the usual practice for South American companies to keep several sets of books," says **Robert Schmitt**, director at CRIF's US subsidiary, **CRIBIS**, in Tampa. "The kind of information that a company makes available depends on who is asking for it. Venezuela is a case in point — a company will compile one set of books for creditors, another for potential clients, and yet another for the tax man."

Red flag: Official financial data available on a South American company as a result of an audit or investigation could signal problems in the company.

Anticipate having to dig deeper for credible financial information on Asian companies, as well. "Some businesses in China and Japan will conceal problems so as not to lose face by admitting to the market they are performing poorly," cautions Porter. "Insist that credit reports from this region are based on properly audited data."

Don't Let A Company's European Pedigree Fool You

Lack of transparency in business operations is an issue not just for Third World countries. Even developed

Western countries with strong international business reputations can pose tricky problems.

In both Germany and Austria, for example, credit information is not at all easy to obtain, says Porter. The law requires all AG (publicly traded) and GmbH (limited liability) companies to file their balance sheets locally. "The difficulty for U.S. companies seeking credit risk assessments is that German law does not require the balance of businesses — the majority of companies — to deposit their data. Across the border in France, although there are legal sanctions for not filing, many French companies would rather pay a rather modest monetary penalty for noncompliance than publicly reveal financial data."

In Switzerland the law requires only banks, insurance companies and publicly traded companies to make financial information available. Limited and smaller companies are exempt.

Only certain types of companies must file public financial reports in Italy, as well, although you should be wary of a limited liability or joint stock company's credit report that does not reference its balance sheet, says Porter. Banking information in that country is another matter, however. "It's difficult to collect banking data in Italy due to stringent privacy laws, so you should treat any banking information appearing on Italian credit reports with caution."

Understand Local Customs for Credit Terms

You must be knowledgeable of the differences between U.S. and foreign payment terms to properly understand offshore credit reports because normal terms vary greatly between countries and don't always conform to U.S. norms.

Illustrations: Terms in Germany are usually between 10 and 30 days compared to 60 to 90 days in Spain, Porter notes. Italy has the longest payment terms in Western Europe, averaging 65 days, but delays are common and actual payments average 120 days. In Egypt, local custom considers a business paying five months after the transaction to be in good standing.

In the United Kingdom there is no official commercial repository for payment information, so U.K. credit reporting

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agencies usually do not provide credit opinions of small, private companies, even if they appear financially sound.

Work With What You've Got

If credit data is not available for a business you want to work with, can you still obtain a financial assessment?

Yes, answers Schmitt. "One way is for local credit reporting agencies to analyze consumption of materials over a period of time, relative to that of other companies in the same sector. The next step is to determine a sales price per unit for the material, then extrapolate information to develop a pro forma income statement and balance sheet using industry norms." ■