A Banking Commission Supply Chain Finance project

SWIFT and ICC collaborate on enhanced rules and tools for trade finance

Bank Payment Obligation

- **A new solution in supply chain finance to shape trade in the 21st Century**
- **An alternative means of settlement in international trade**
- **Providing the benefits of a letter of credit in an automated and secured environment**

ICC
International Chamber of Commerce
The world business organization

We are aiming at developing a set of rules called "BPO". The BPO is an irrevocable undertaking given by a bank to another bank that payment will be made on a specified date after successful electronic matching of data according to an industry-wide set of ICC rules.

An ICC-SWIFT endeavour

SWIFT, the financial messaging provider for more than 10,100 financial institutions and corporations in 210 countries, and the Banking Commission of the International Chamber of Commerce (ICC) have joined forces to develop and adopt an industry-wide standard: The Bank Payment Obligation (BPO).

Trade finance is a critical banking service supporting the world economy. It is vital that the industry aligns on enhanced rules and tools in support of trading counterparties whether large or small. The ICC Banking Commission views the development of the BPO rules and the related ISO 20022 messaging standards as strong foundations for banks to provide modern risk and financing services aligned with today's technology evolution.

Kah Chye Tan
Global Head of Trade and Working Capital, Barclays, and Chair of the ICC Banking Commission

The BPO will offer an alternative means of settlement in international trade.

The BPO will provide the benefits of a letter of credit in an automated environment, without the drawbacks of manual processing associated with traditional trade finance. It will also enable banks to offer flexible risk mitigation and financing services across the supply chain to their corporate customers.

A BPO is an irrevocable undertaking given by one bank to another bank that payment will be made on a specified date after a specified event has taken place. This ‘specified event’ is evidenced by a ‘match’ report that has been generated by SWIFT’s Trade Services Utility (TSU) or any equivalent transaction matching application.

BPOs enable banks to mitigate the risks associated with international trade to the benefit of both buyers and sellers. They enable flexible financing propositions across the supply chain, from pre-shipment to post-shipment. They provide an assurance of payment to the seller similar to that obtained under a confirmed letter of credit.

BPO benefits will include:

- Mitigating risks in international trade for buyers and sellers alike
- Speed, reliability, convenience
- Reduced costs and improved accuracy
- Enhanced risk management
- Assurance of payment
- Access to flexible financing (options)
- Securing the supply chain

New challenges have emerged as a result of the crisis of confidence in credit markets, forcing the implementation of a more restrictive regulatory regime. This has intensified corporate demand not only to apply rigorous measures to the management of risk but also to identify ways of optimising the management of working capital and enhancing process efficiency.

The changing landscape

The landscape of world trade has changed dramatically during the past decade. Borders and barriers have been broken down through widespread liberalisation in emerging markets. The combined pressures of globalisation and the internet have accelerated consolidation and specialisation, at the same time encouraging a wave of new entrants among service providers.

“Industry forecasts indicate that world trade will grow by 73% in the next 15 years, with merchandise trade volumes in 2025 hitting $48.5trillion, compared to today’s $27.2trillion. ICC and SWIFT are best positioned to help the banking industry facilitate further growth of trade using innovative solutions. SWIFT is committed to helping its member banks deliver innovation in trade finance to the corporate world”, indicated Gottfried Leibbrandt, Head of Marketing, SWIFT.

As the volume and value of international trade has grown, there has been a significant shift away from the use of traditional trade instruments such as letters of credit, in favour of trading on open account. Driven by advances in new technology, the market has demanded new solutions to help deal with increasing cost pressures and changing risk dynamics.




The BPO in detail

The BPO delivers equivalent business benefits to those previously obtained through a commercial letter of credit, while eliminating the drawbacks of manual processing associated with traditional trade finance.

One of the key features of the BPO is that it supports interoperability between participating banks, because it makes use of a standard set of ISO 20022 messages. This interoperability enables banks to collaborate with one another to extend reach across global markets, in order to provide a comprehensive range of supply chain services to corporate customers.

The matching of data using ISO 20022 messages reflects events that have taken place in the physical supply chain, which create trigger points for the provision of financial supply chain services – for example, a proposition for pre-shipment finance based upon a confirmed purchase order, or a proposition of post-shipment finance based upon an approved invoice. The BPO may be used as collateral in each case.

The industry has also collaborated with corporate users on the extension of the ISO 20022 messages exchanged between financial service providers, so that those same messages can be adapted for communications between corporates and their banks. These messages will, for example, enable end-to-end straight through processing with corporate ERP systems.

Additional clarity and transparency

Open account often fails to provide banks with access to underlying transaction data – impeding their ability to follow relevant events in the physical supply chain. The BPO and related ISO 20022 messaging standards provide access to relevant data, records and reporting – giving banks the ability to provide risk mitigation, finance and payment services while introducing additional automation and efficiency into the supply chain management process.

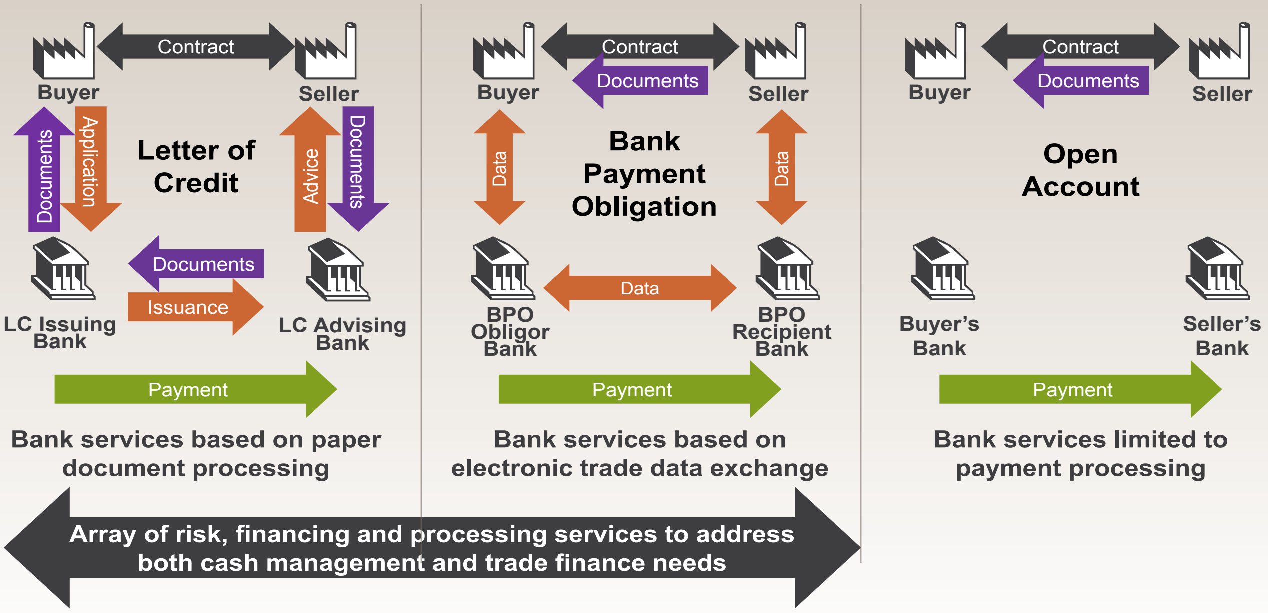
By matching data via the ISO 20022 messaging standards, banks can track events in the physical supply chain which help to trigger the availability of value-added services in the financial supply chain. Unlike the manual checking of documents, there is no subjectivity attached to data matching – it either matches, or it doesn't.

Adoption by the industry

For decades now the Documentary Credit has become established as an universal market practice, thanks largely to the publication and maintenance by the ICC of a set of rules, the Uniform Customs & Practice (UCP). The universal acceptance of the UCP by practitioners in countries with widely divergent economic and judicial systems is testament to its success.

The BPO goes a step further. Both ICC and SWIFT believe that by working together and leveraging their respective positions across the trade finance community, they can ensure that the BPO will have an important role to play in supporting the development of international trade in the 21st century, addressing cost pressures in the face of increased automation and changes in the regulatory environment.

BPO will combine the best of both worlds (Documentary Credit and Open Account)



Global banks and corporates are already investing into the BPO project

Benefits for importers	Benefits for exporters	Benefits for banks
Safer than prepayment. The buyer does not have to pay up front before receiving the documents of title to the goods purchased	Assurance of payment	Low risk business
Facilitates financing for the buyer eg extended payables	Access to flexible pre-shipment or post-shipment finance	Prudent use of capital
BPO strengthens buyer/seller relationships. Secures the supply chain	The credit risk is transferred from the buyer to the Obligor bank	Steady source of commission and fee income
BPO helps to expand business opportunities. May increase competitiveness in foreign markets.	Reduces risk of buyer cancelling or changing the order	Opens door to new business opportunities
The buyer can confirm that the goods are shipped on or before the due date to the required specification	The buyer cannot refuse to pay due to a complaint about the goods	Strengthens core relationships
	Foreign exchange risk can be eliminated with a BPO issued in the currency of the seller's country	Automated solution
The buyer can structure payment according to the buyer's interests	The seller can structure the delivery schedule according to the seller's interests, determining when payment will be made and shipping the goods accordingly	Lower operating costs
	The bank bears responsibility for any oversights	Meets the market requirement for banks to collaborate more on risk and client on-boarding.
The buyer can negotiate better terms and conditions. By issuing a BPO, the buyer demonstrates the ability to pay and can negotiate improved terms in the future	Automated data matching reduces complexity and increases reliability	
The BPO protects the buyer since the bank only pays when the seller complies with the specific terms and conditions and produces the data required	By removing subjectivity of physical document-checking the risk of discrepancy, dispute and delay is reduced.	
The buyer can build safeguards into the BPO, including inspection of the goods and quality control, and set production and delivery times	BPO can be introduced at any stage of the transaction. Mismatches can be accepted	
BPO increases convenience; reduces cost	Automated processing accelerates settlement and financing	

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ICC Banking Commission

The ICC Banking Commission is a leading global rule-making body for the banking industry, producing universally accepted rules and guidelines for international banking practice, notably letters of credit, demand guarantees and bank-to-bank reimbursement. ICC rules on documentary credits, UCP 600, are the most successful privately drafted rules for trade ever developed and are estimated to be the basis of trade transactions involving more than one trillion dollars a year. The Banking Commission is equally a worldwide forum of trade finance experts whose common aim is to facilitate international trade finance across the world. With over 500 members in 85 countries, many of them emerging, the Banking Commission is one of the largest ICC Commissions. ICC voluntary market-based approaches developed by the Banking Commission have often been praised for leveling the playing field in trade finance practices.

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