



Is het nieuwe, digitale betalingsinstrument, The Bank Payment Obligation (BPO), de toekomst in de internationale handel?

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NTHR-Symposium Elektronisch Contracteren  
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# Agenda

1. Trends in het DK en e-Letters of credit
2. Uitleg van de werking van de BPO
3. The Uniform Rules for Bank Payment Obligations

# Trends in het DK en e-Letters of credit (1)

- Afname L/C's in Noord-Noordhandel
- Gedeeltelijke vervanging door open-account
- Toename L/C-volume in Zuid-Zuidhandel

# Trends in het DK en e-Letters of credit (2)

- Complexiteit L/C door vele regels:
  - UCP600
  - ISBP (2007 Revision)
  - ICC-opinies
  - DOCDEX-beslissingen
  - Rechterlijke uitspraken
- Geen afname van aantal 'discrepancies' bij L/C-presentaties
- Ondermijning systeem van L/C-financiering

# Trends in het DK en e-Letters of credit (3)

- Digitaliseringswensen bedrijfsleven maar geen omarming van de e-L/C
- Ondanks BOLERO is gebruik van e-B/L beperkt
- Amerikaanse L/C-specialist James Byrne:  
*"The e-UCP is only one of a long line of failures in the efforts of market leaders to entice L/C users into using electronic data in lieu of paper documents."*



# The Bank Payment Obligation

## *The New Kid on the Block*

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NTHR-Symposium 2014  
Amsterdam



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# Introduction

# Introduction

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- The Bank Payment Obligation is “the new kid on the block”
- A new instrument in the world of Supply Chain Finance, Open Account trading and Trade Finance
- Based on SWIFT’s Trade Service Utility (TSU)
- Will ...
  - Banks offer the BPO to its customers?
  - The BPO be a success in the market?
- To be seen...
- But let’s first see how it works, what it is and what it does...



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TSU  
(Trade Service Utility)

# The Trade Service Utility (TSU)

- Platform developed by SWIFT
- Matches data from Purchase Order with data of the shipped goods
- In case of match, buyer receives a message that the goods ordered have been shipped
  - = invitation to pay
- Access only for banks under ISO20022 standard
- Corporates have access to TSU through their banks (preferably by IT platforms)
- The TSU is a **Transaction Matching Application** and is the basis for the BPO

Buyer

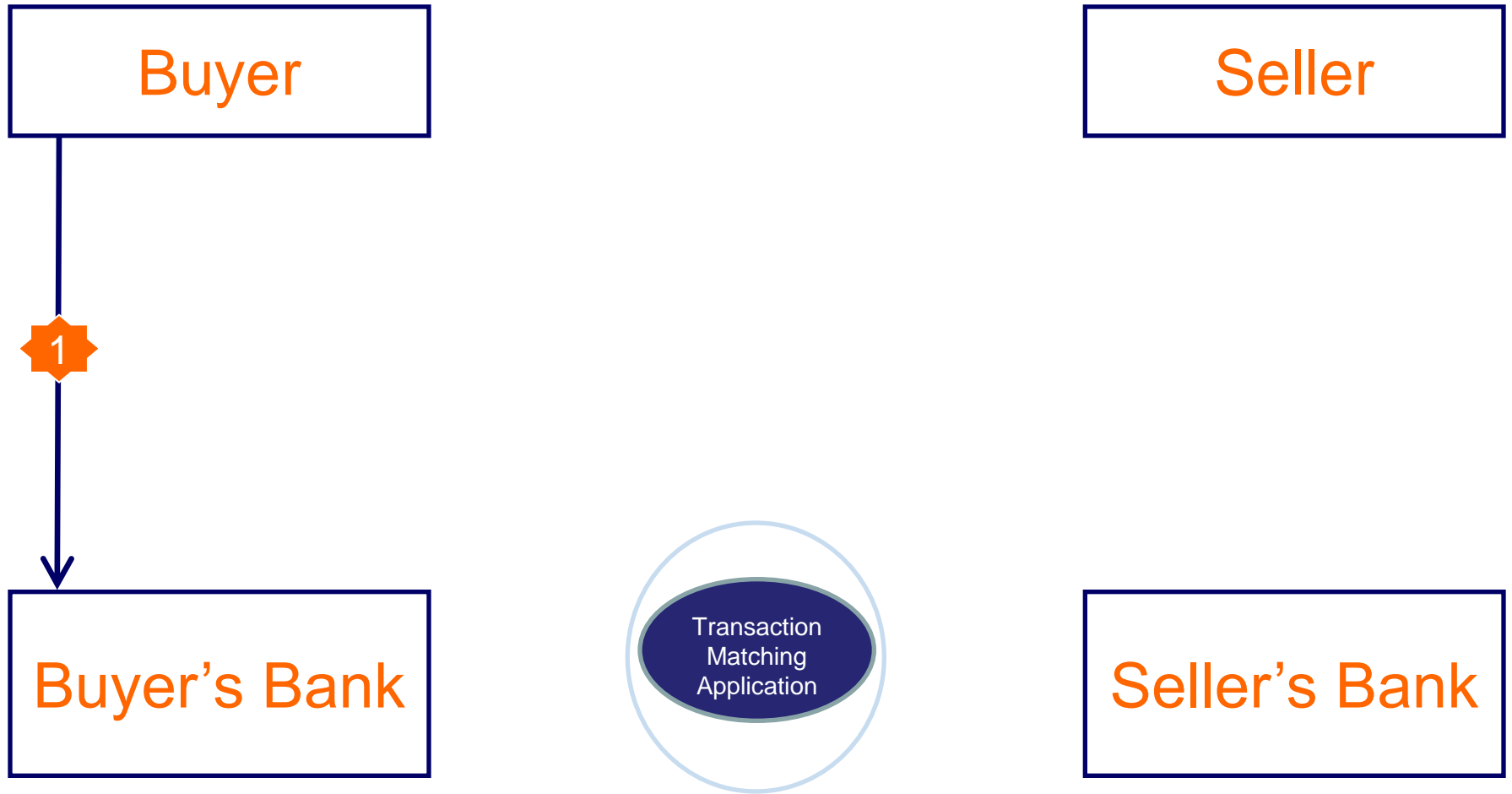
Seller

Buyer's Bank

Transaction  
Matching  
Application

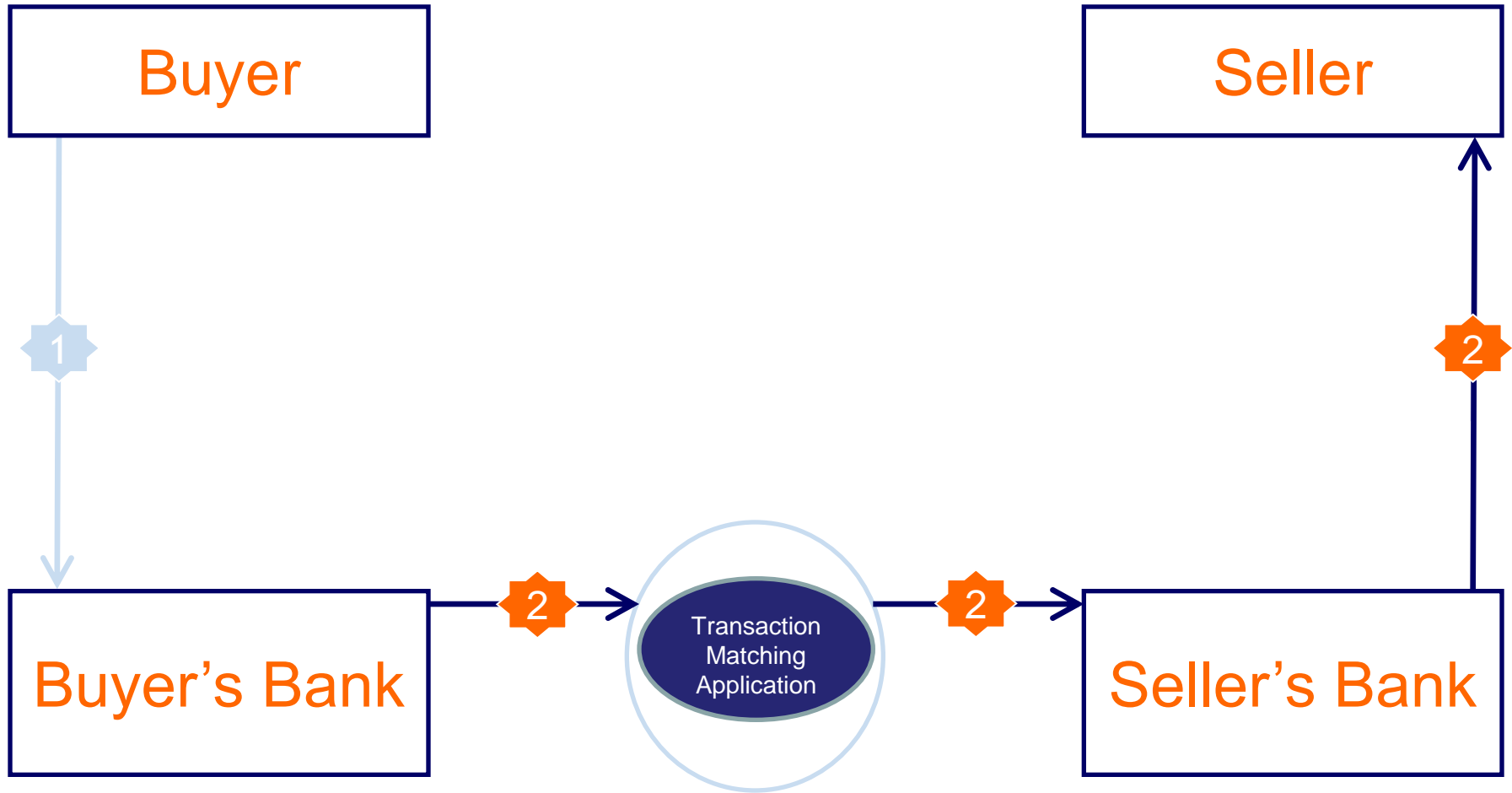
Seller's Bank

# TSU



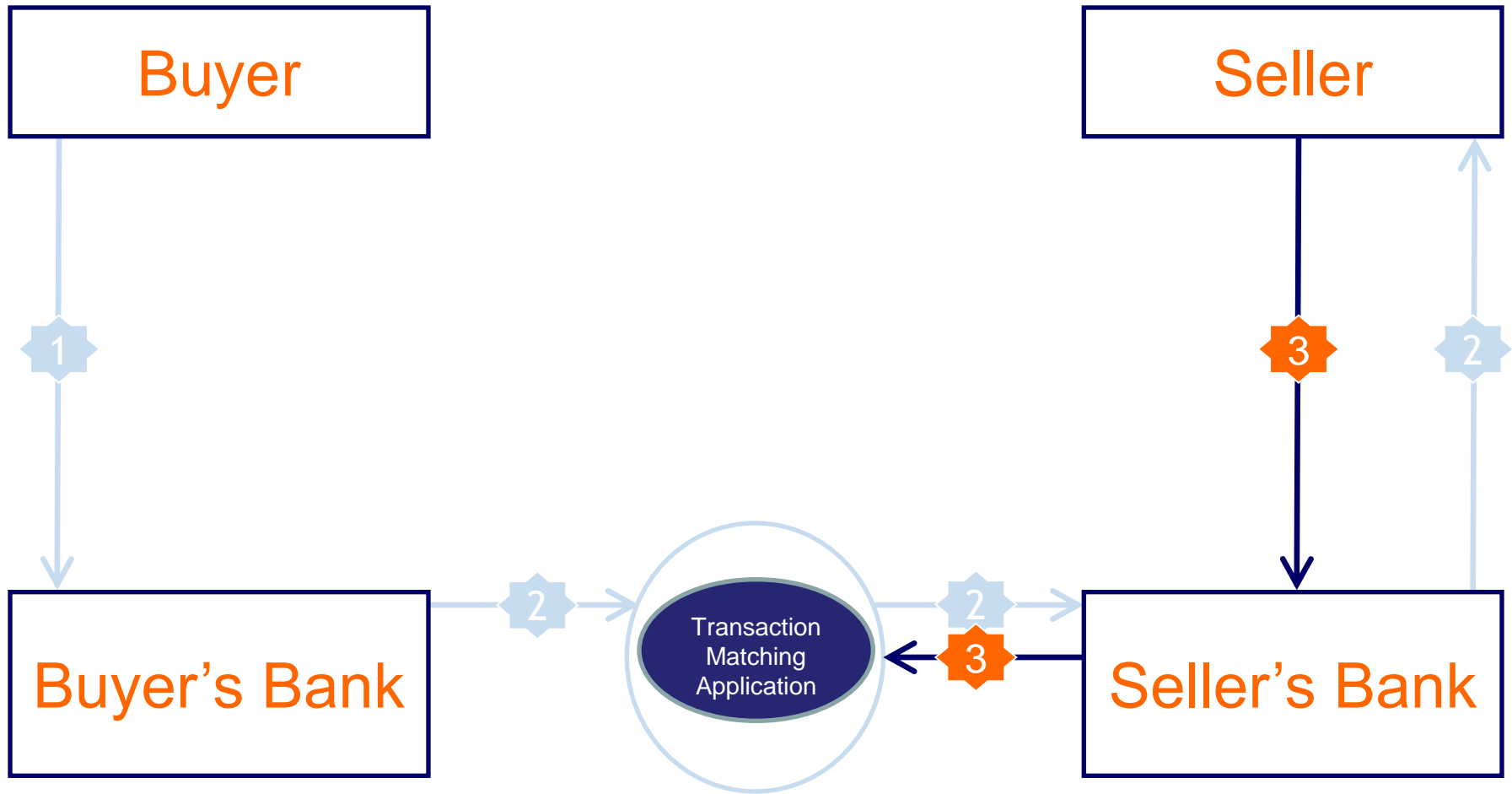
Purchase Order data

# TSU



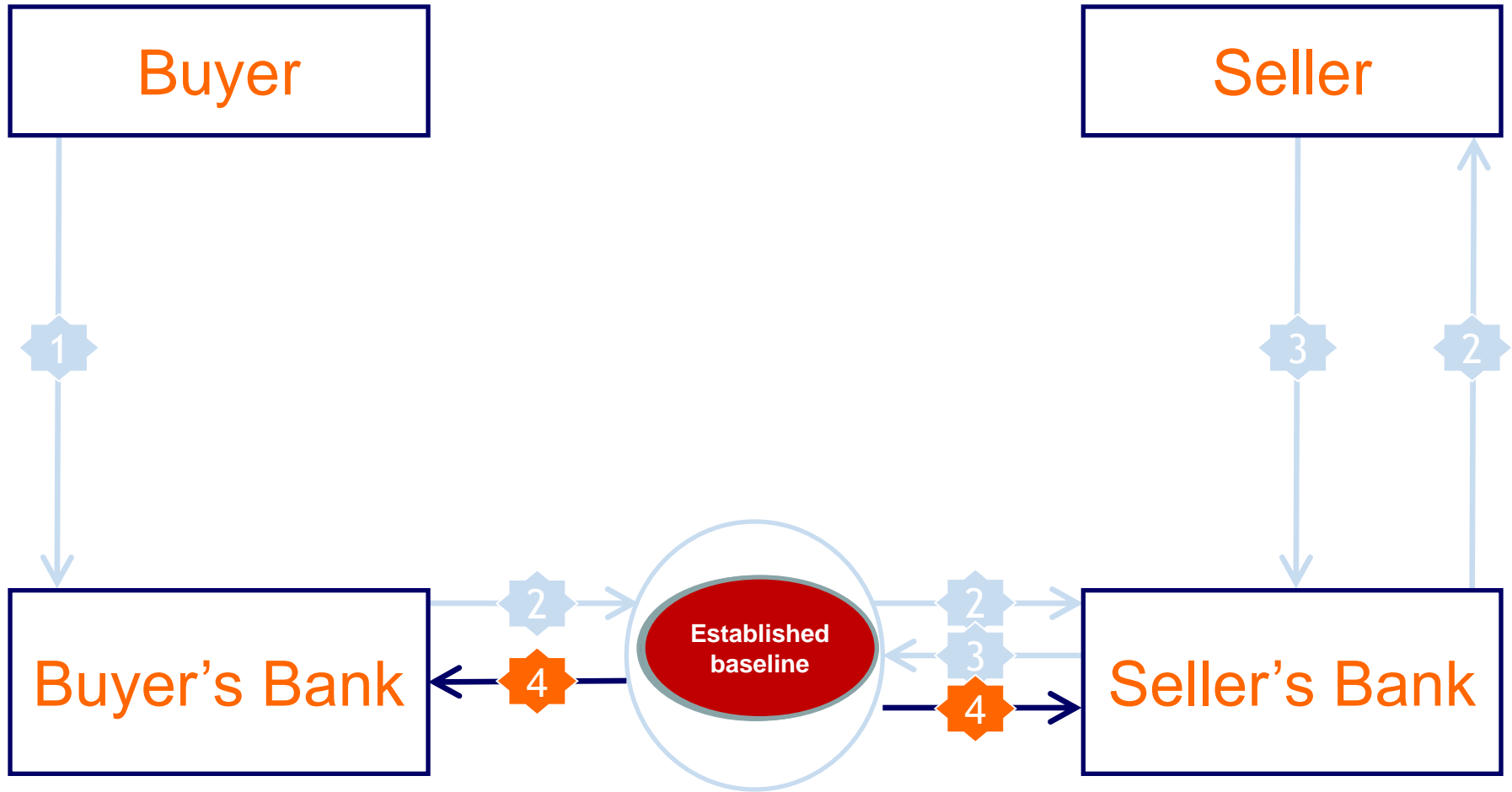
**2** Purchase Order advice

# TSU



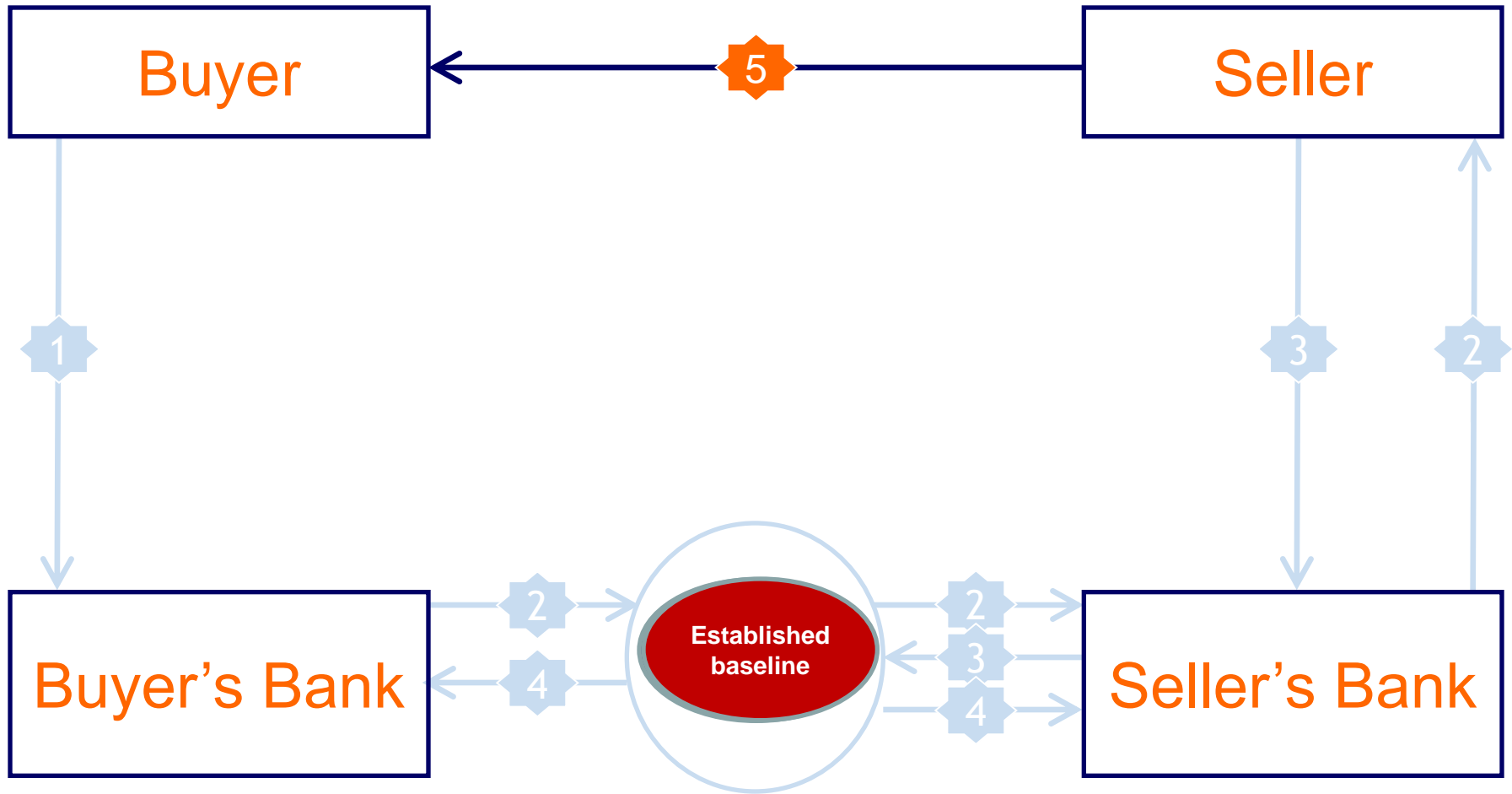
**3** Accept PO data

# TSU



**4** Match results

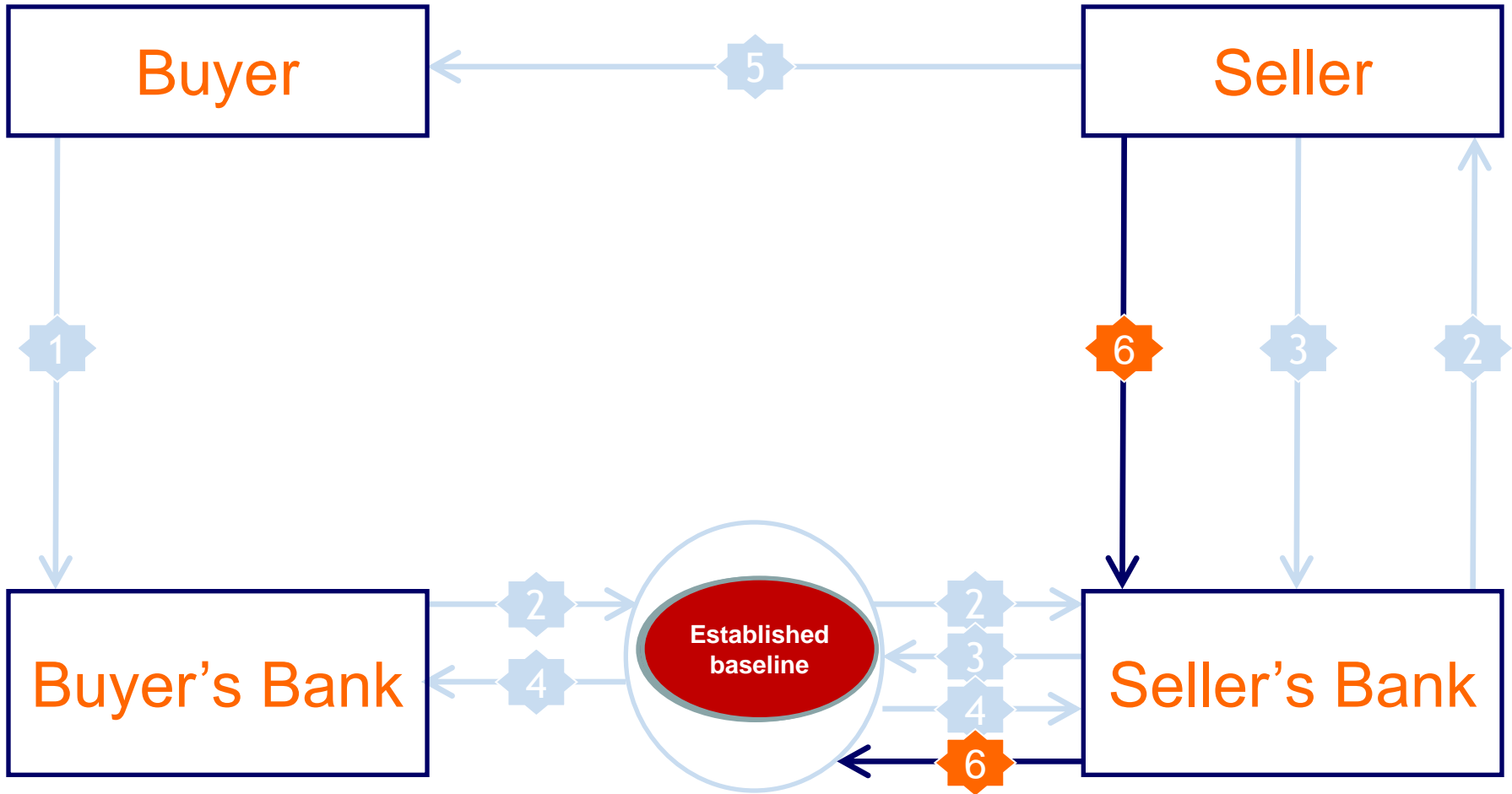
# TSU



Shipment of goods  
Documents (if any) to buyer

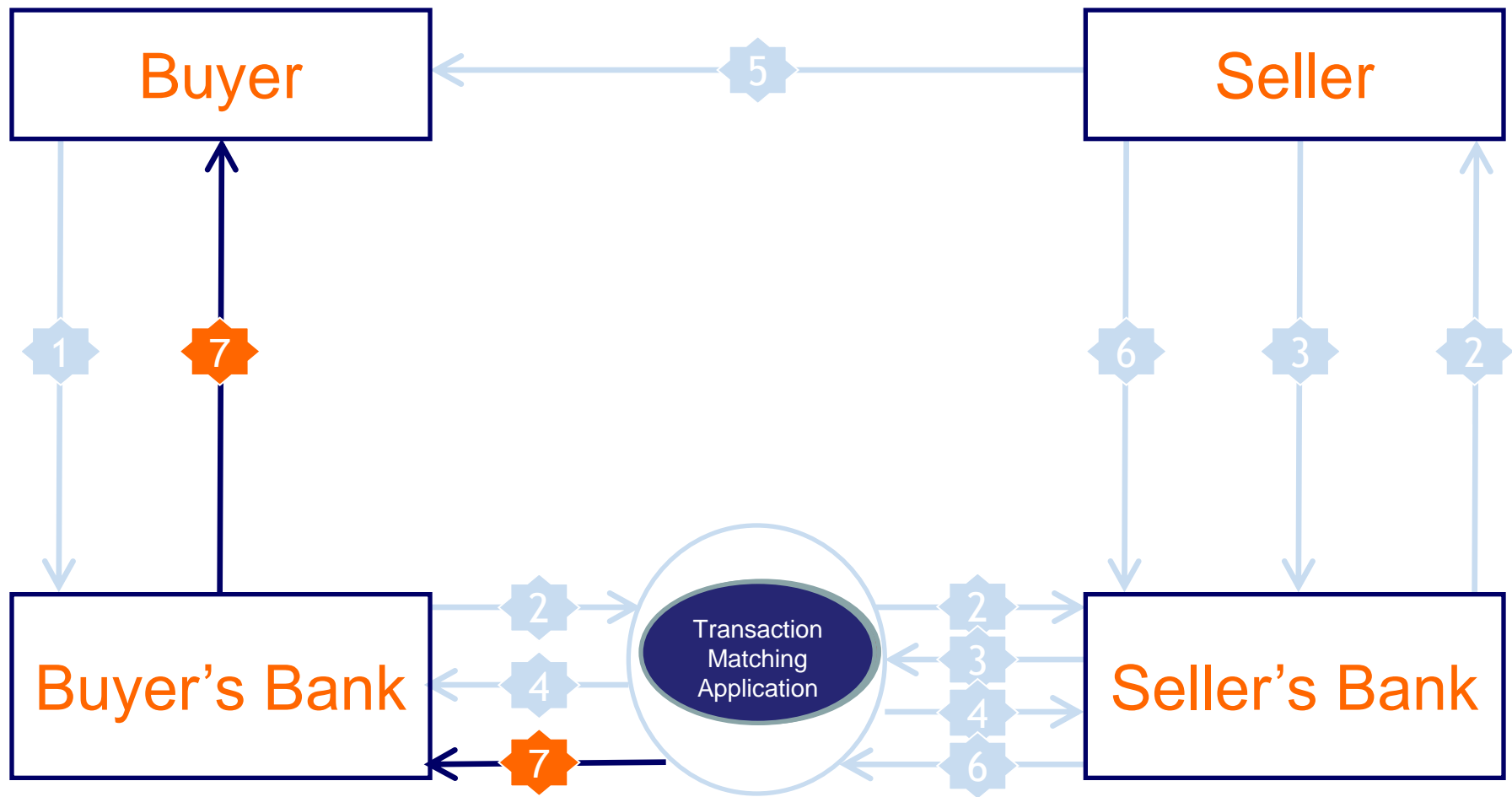


# TSU



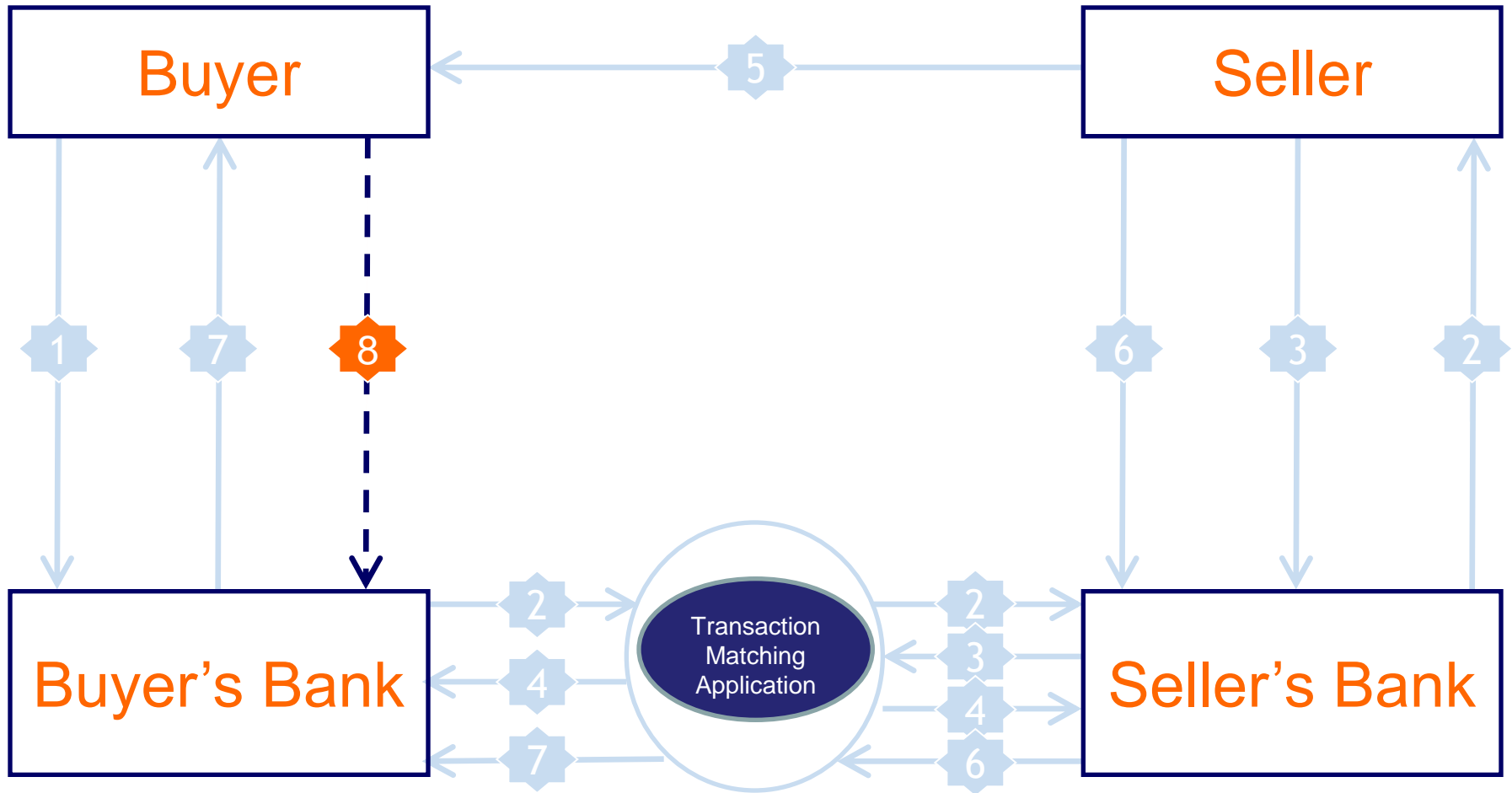
6 Invoice and shipping data

# TSU



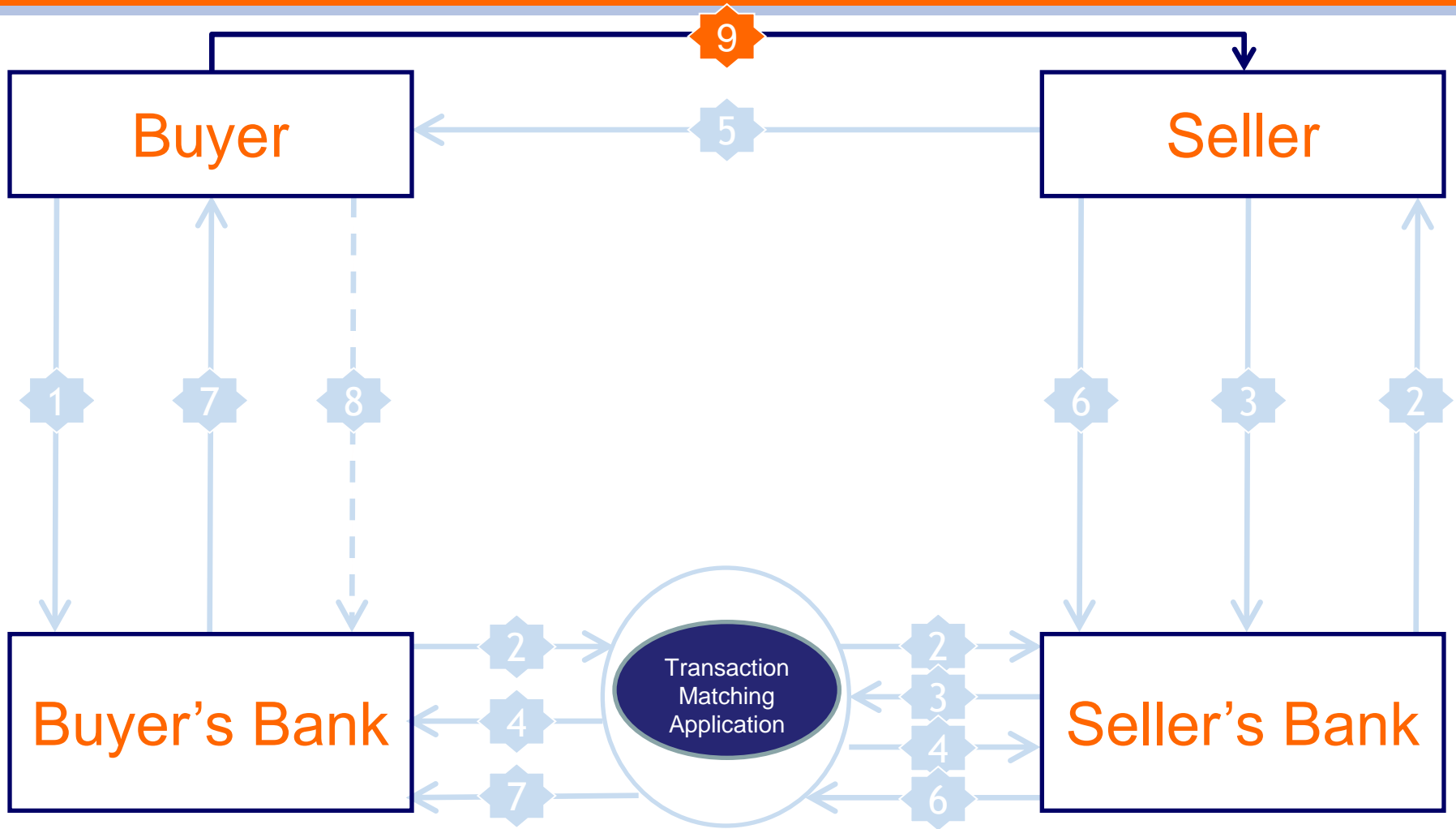
**7** Match results

# TSU



*Accept or reject mismatches, if any*

# TSU



Payment (outside of TSU)

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**BPO**  
**(Bank Payment Obligation)**

# Bank Payment Obligation (BPO)

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- Irrevocable undertaking issued by an Obligor Bank in favour of a Recipient Bank to pay or incur a deferred payment undertaking against a successful data matching with an Established Baseline
- Obligor Bank = Buyer's Bank
- Recipient Bank = Beneficiary = Seller's Bank

# Bank Payment Obligation (BPO)

Buyer

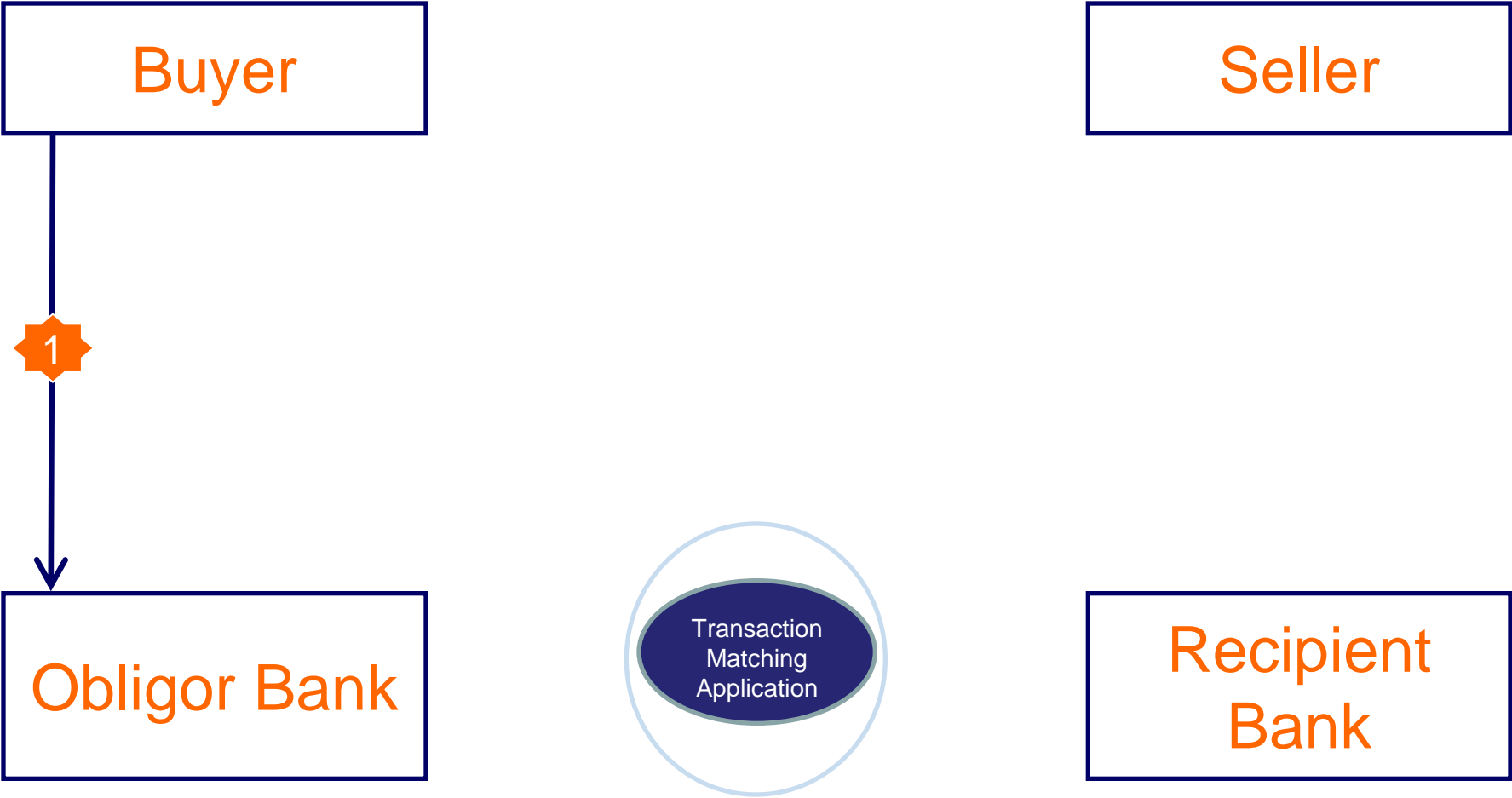
Seller

Obligor Bank

Transaction  
Matching  
Application

Recipient  
Bank

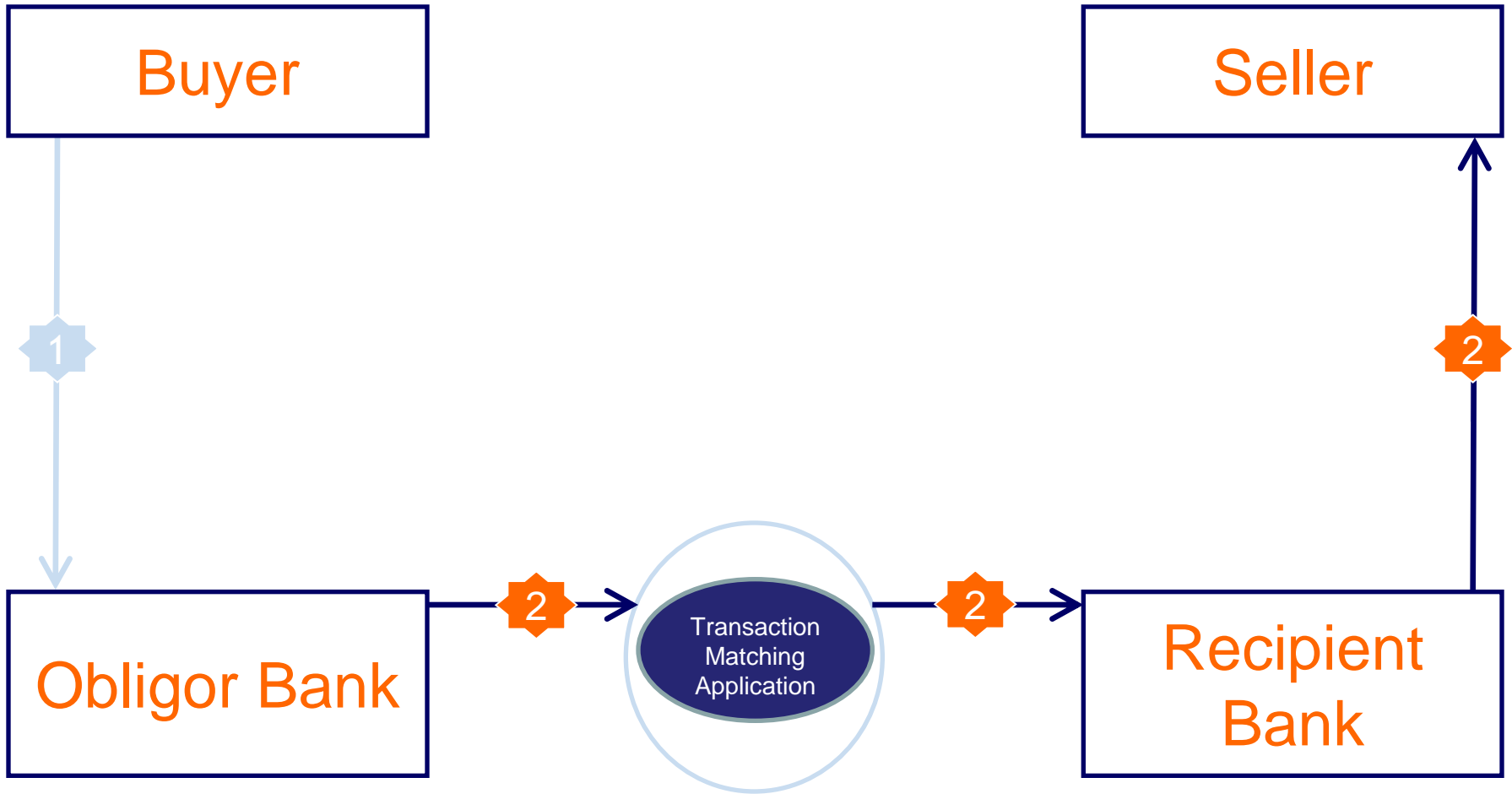
# Bank Payment Obligation (BPO)



**1** Purchase Order data + Request to issue BPO

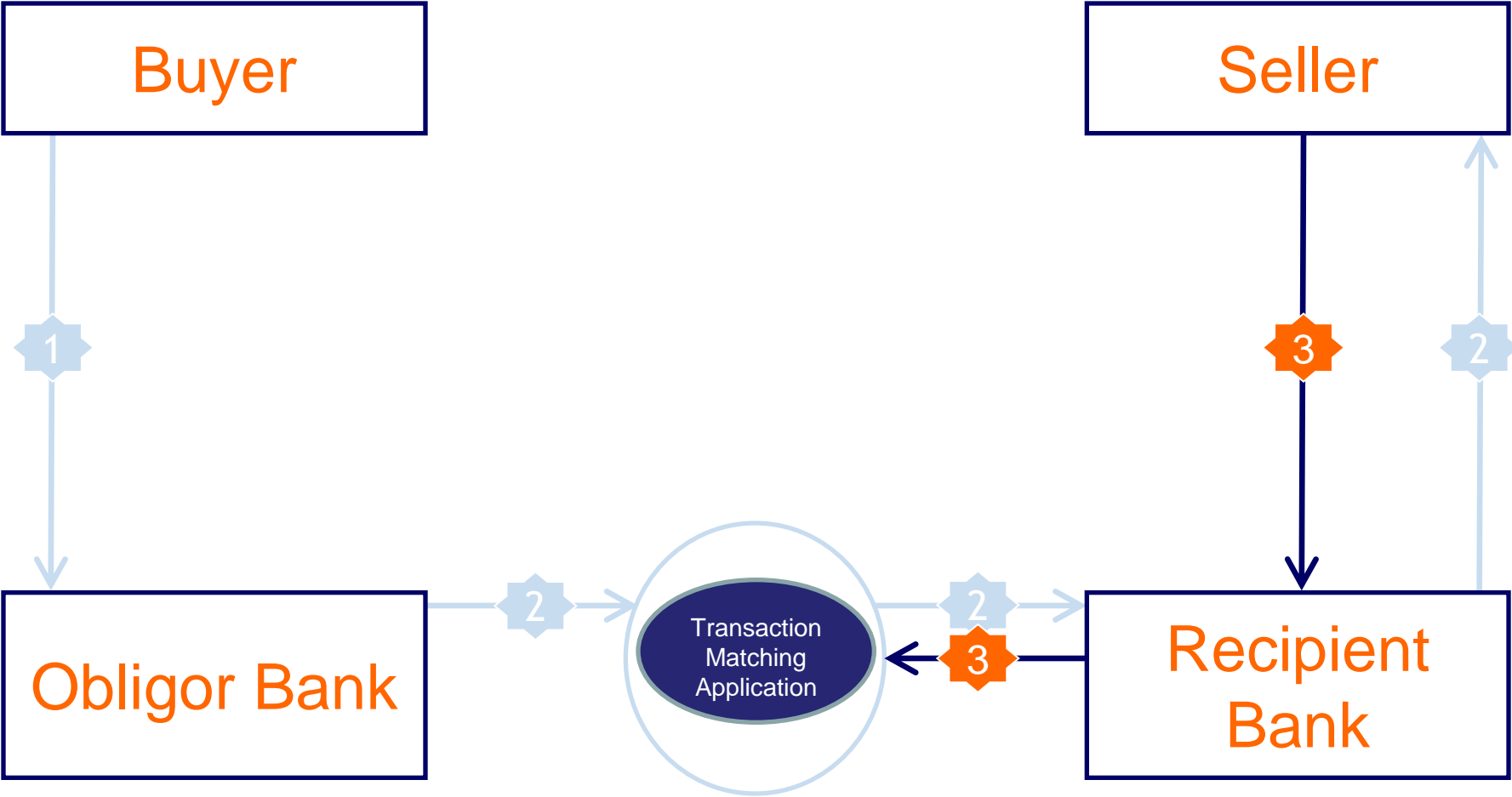


# Bank Payment Obligation (BPO)



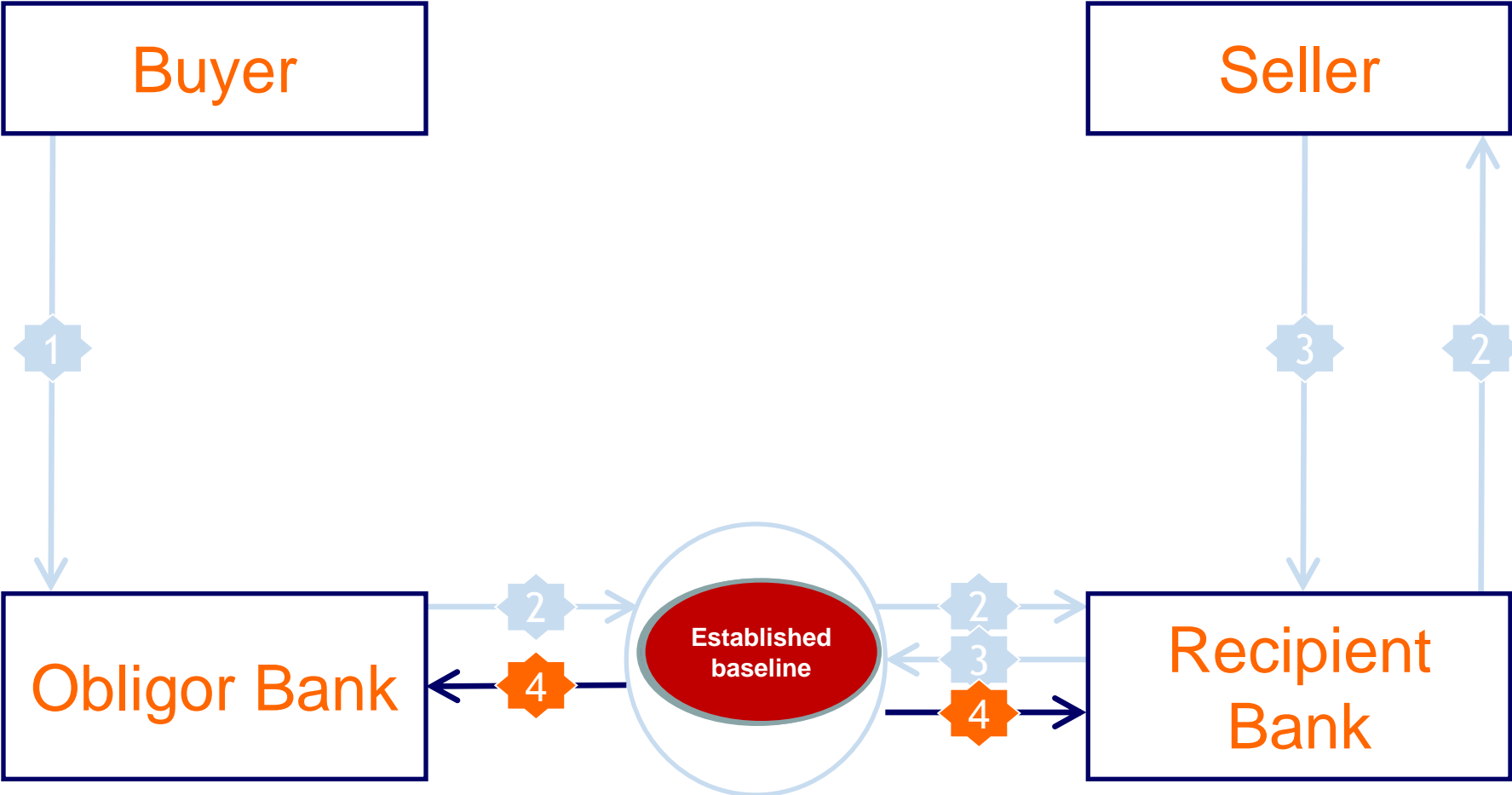
Purchase Order advice with BPO option

# Bank Payment Obligation (BPO)



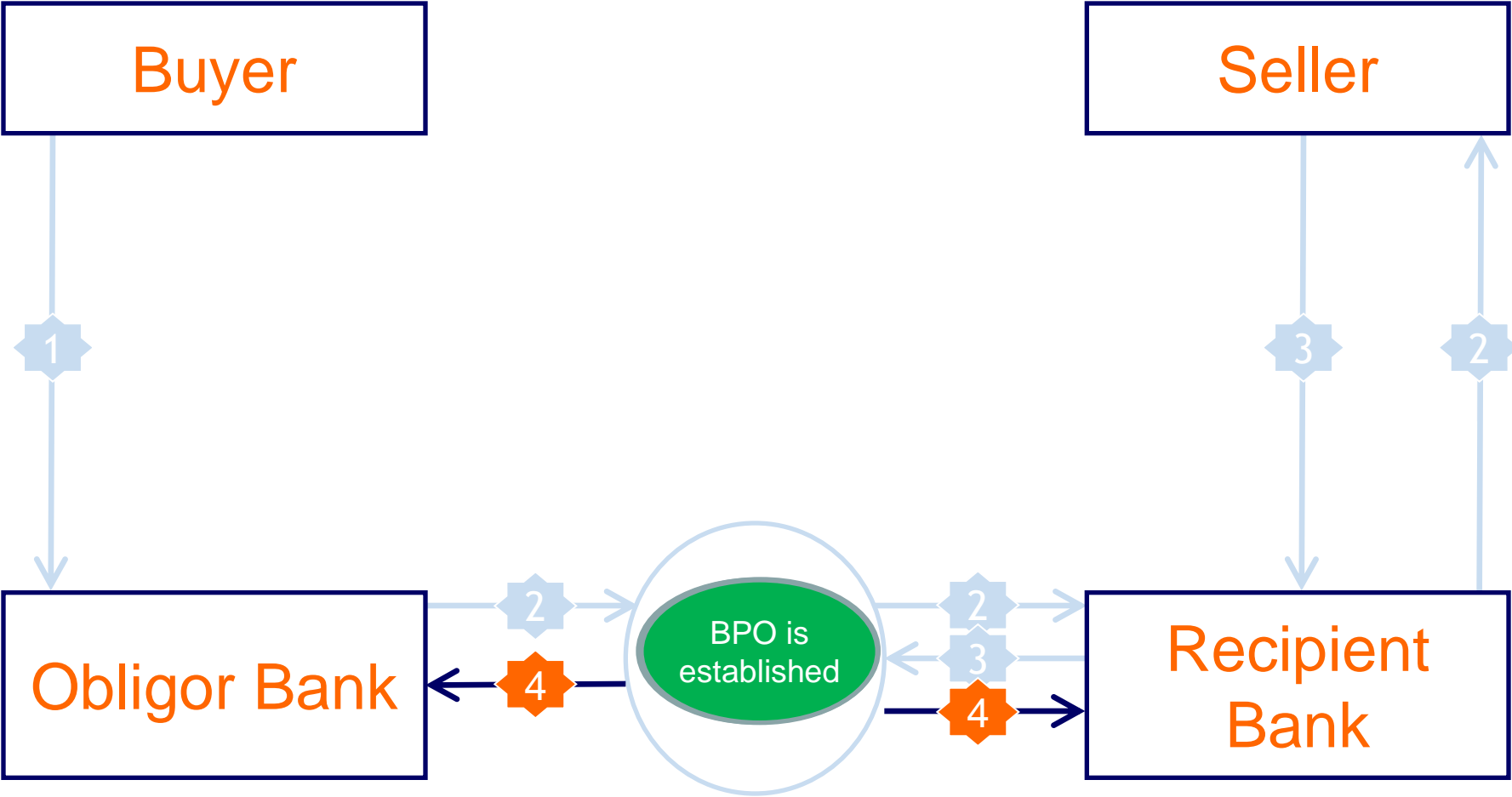
**3** Accept PO data

# Bank Payment Obligation (BPO)



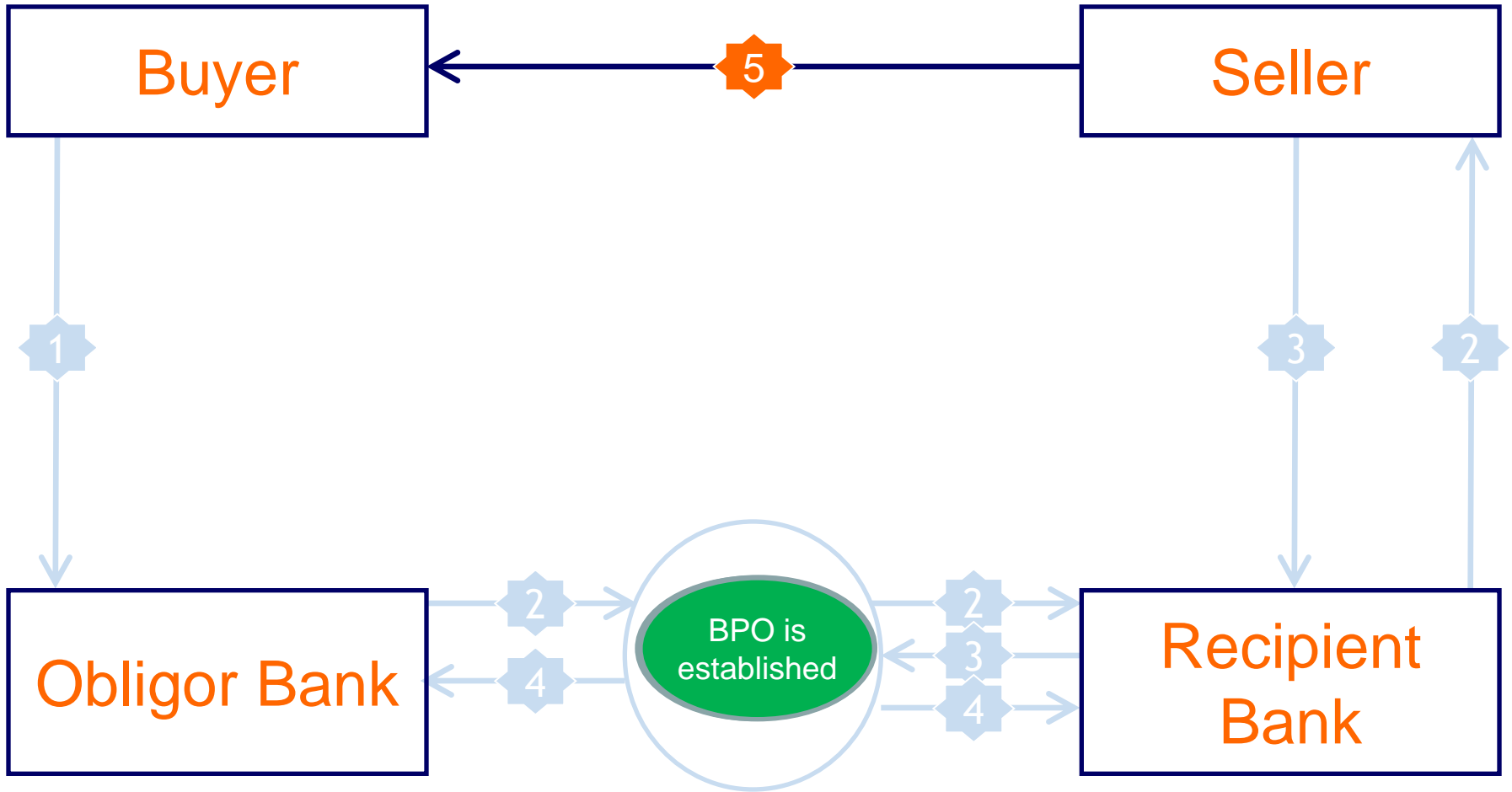
**4** Match results

# Bank Payment Obligation (BPO)



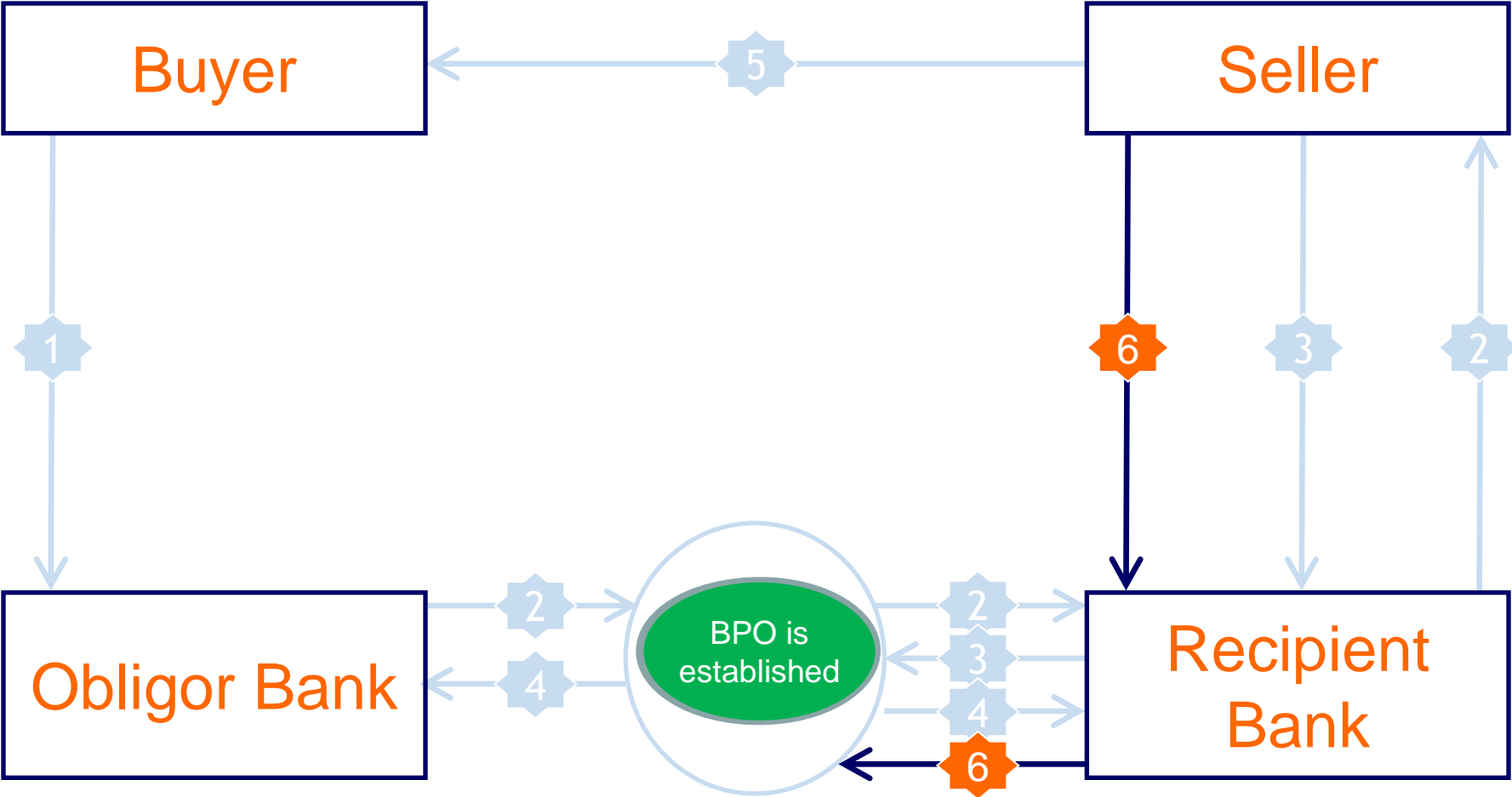
4 Match results

# Bank Payment Obligation (BPO)



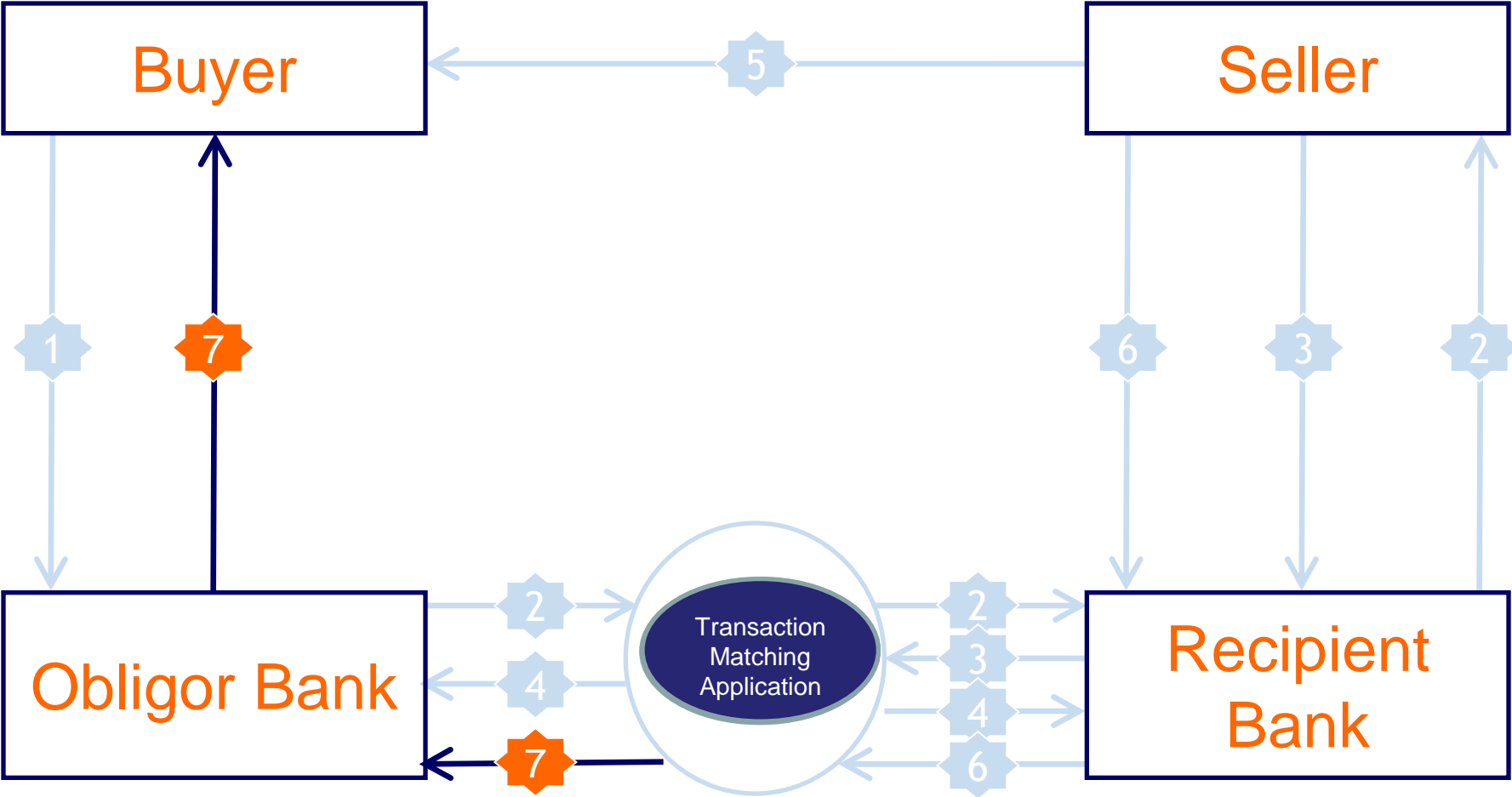
Shipment of goods  
Documents (if any) to buyer

# Bank Payment Obligation (BPO)



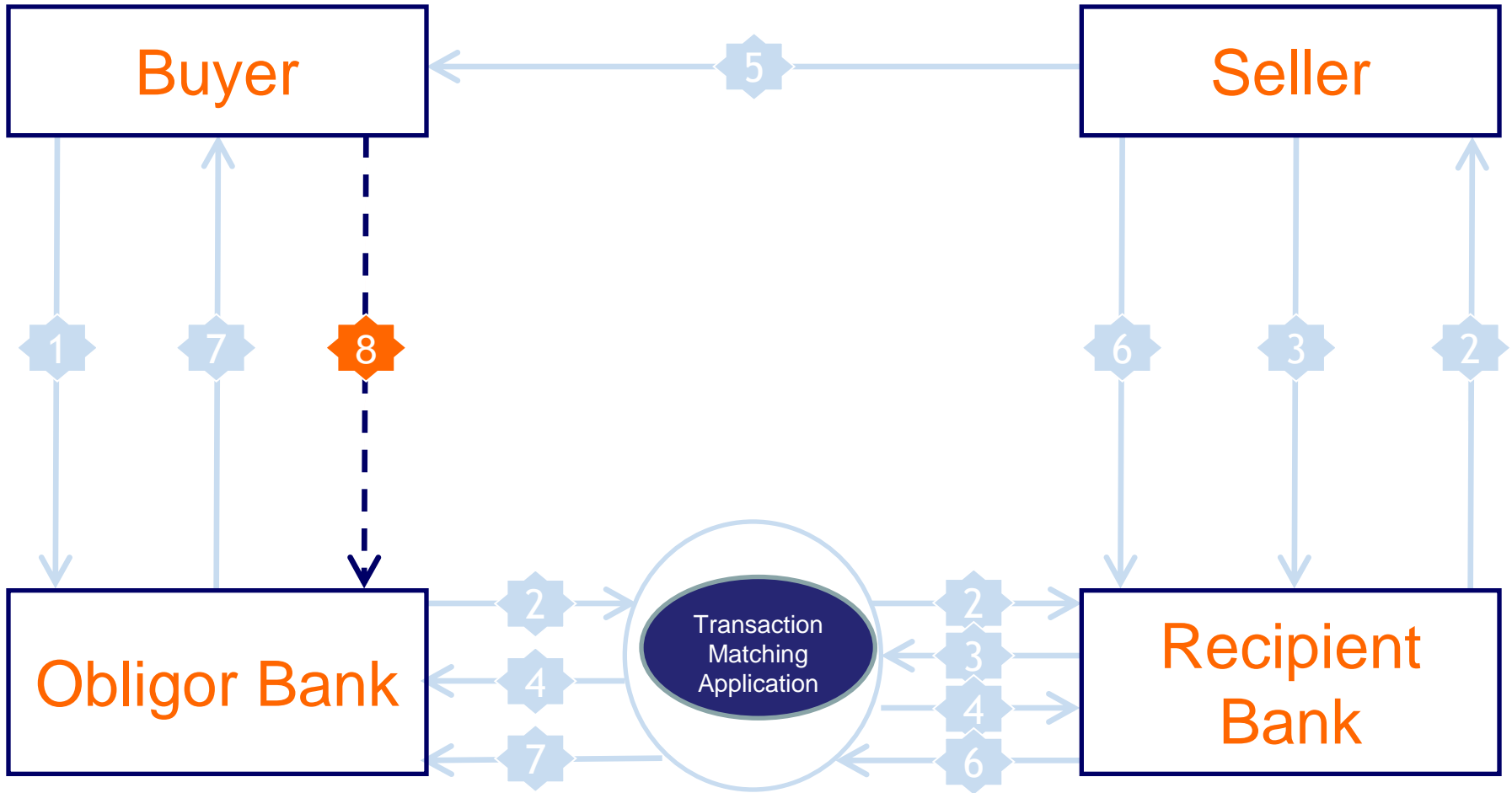
**6** Invoice and shipping data

# Bank Payment Obligation (BPO)



**7** Match results

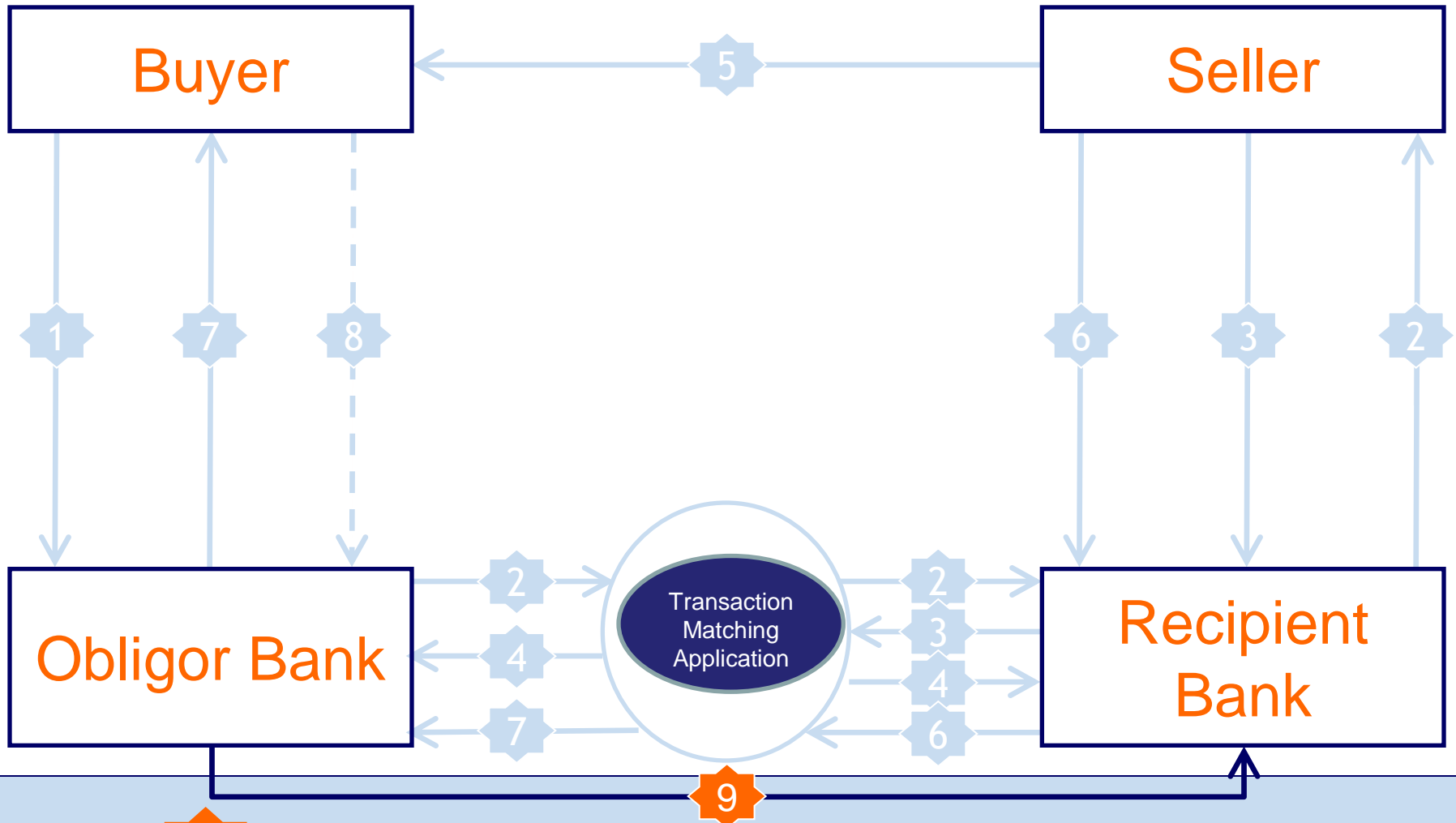
# Bank Payment Obligation (BPO)



*8 Accept or reject mismatches, if any*



# Bank Payment Obligation (BPO)



9

Settlement BPO: Payment at sight or deferred payment undertaking with payment at maturity

# Bank Payment Obligation (BPO)

- What is it?
  - A BPO is an irrevocable undertaking given by an Obligor bank (typically the buyer's bank) to a Recipient bank (the seller's bank) to pay a specified amount on an agreed date under the condition of a successful electronic matching of data according to an industry-wide set of rules adopted by the ICC.
  - BPO constitutes a legally binding, valid and enforceable payment obligation of the Obligor Bank to the Recipient Bank under the appropriate standard of law, enforceable in accordance with its terms.
  - BPO is a technology independent instrument based on ISO 20022 XML that can be used on any open Transaction Matching Application (TMA) such as the SWIFT Trade Service Utility platform (TSU).
  - BPO is neither a light letter of credit nor an electronic letter of credit nor a guarantee.

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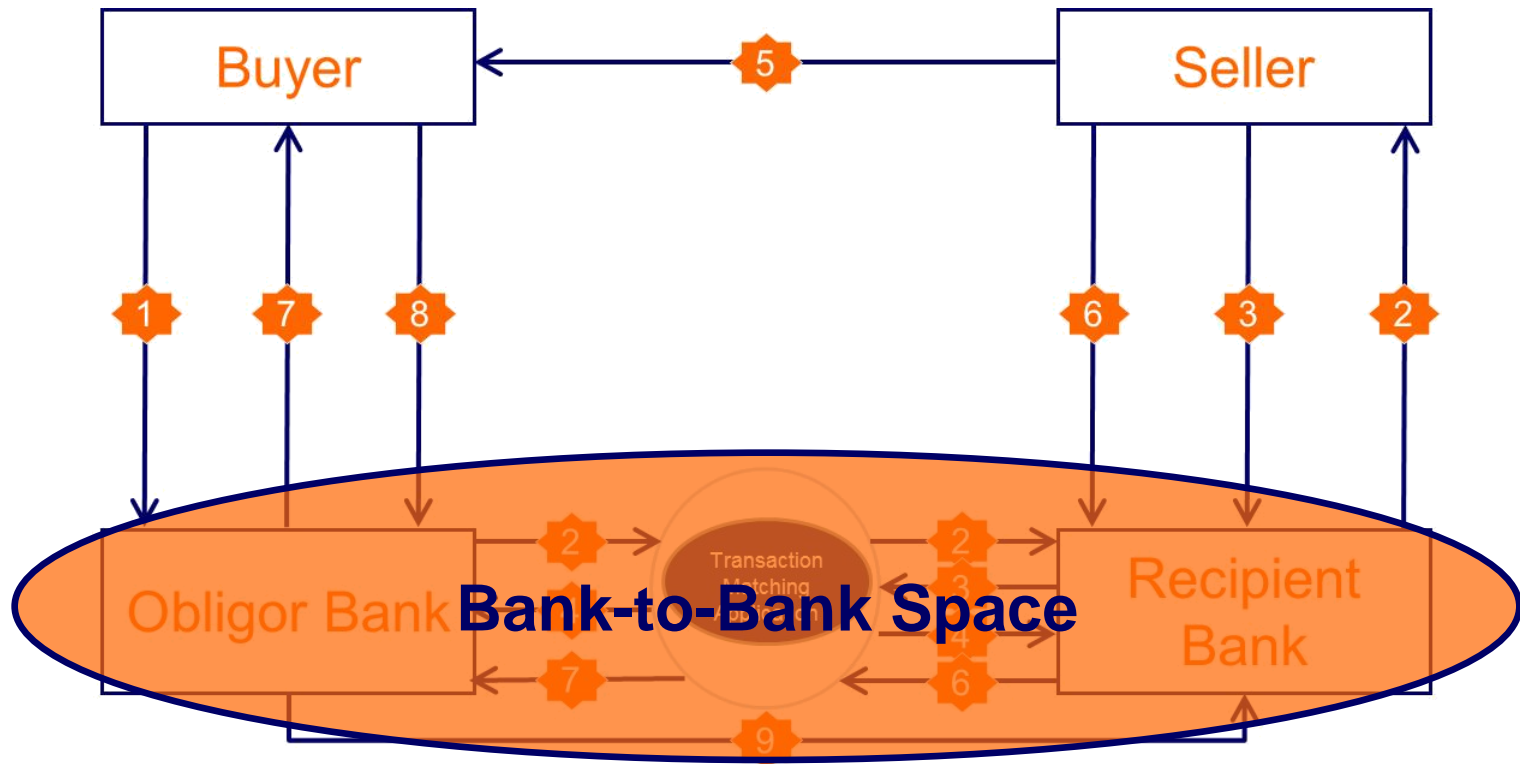
# Contracts and Legal Framework

# Relationship between parties in a BPO

- BPO is a **bank-to-bank** obligation
  - Issuer = Obligor Bank
  - Beneficiary = Recipient Bank
- Relationships between banks and their clients (buyer or seller):
  - “Blue Ocean” concept

# Relationship between Obligor and Recipient Bank

- Communication through TSU (or other TMA) as per ISO 20022 standard
- Ruled by UR BPO and TSU (or other TMA) rulebook and bilateral agreements

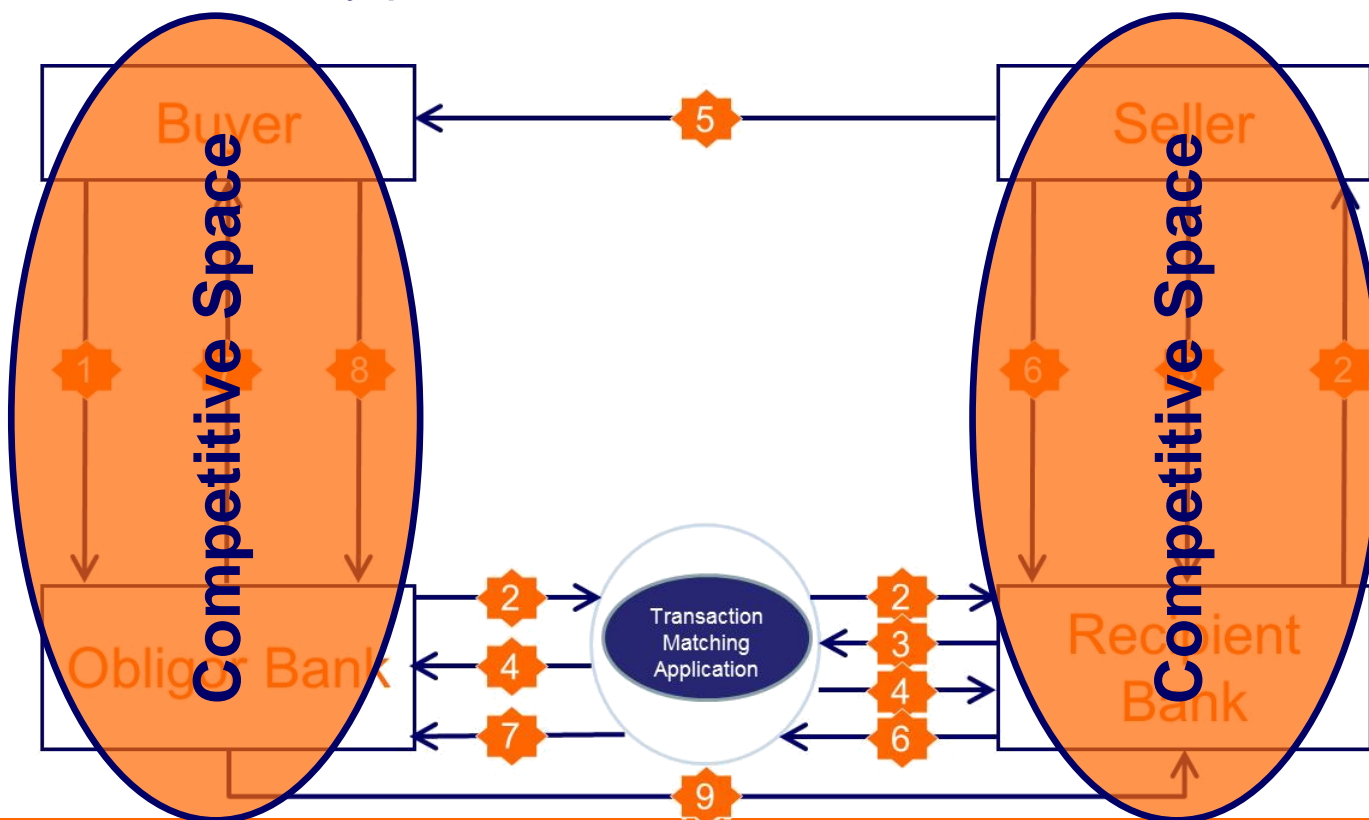


# Relationship between banks and their clients: “Blue Ocean” concept

- Obligor Bank ↔ Buyer
  - Legal framework
  - Arrangement to pay the amount due under the BPO
  - Possible finance arrangements
  - Under separate contract between Obligor Bank and Buyer
  - Competitive Space: Banks will have to develop their own agreements and legal framework
- Recipient Bank ↔ Seller
  - Legal framework
  - Arrangement how Recipient Bank (Beneficiary of BPO) will treat a BPO in its favour in the frame of a transaction of the seller to be developed separately
    - “Silent Confirmation/Obligation”?
    - Financing of deferred payment undertaking?
    - Responsibility about genuineness of submitted data?
  - Under separate contract between Recipient Bank and Seller
  - Competitive Space

# Competitive Space

- Banks will have to develop their own legal frameworks and agreements that rule the relationship between themselves and their customers
- Communication: by preference automated front and back end systems

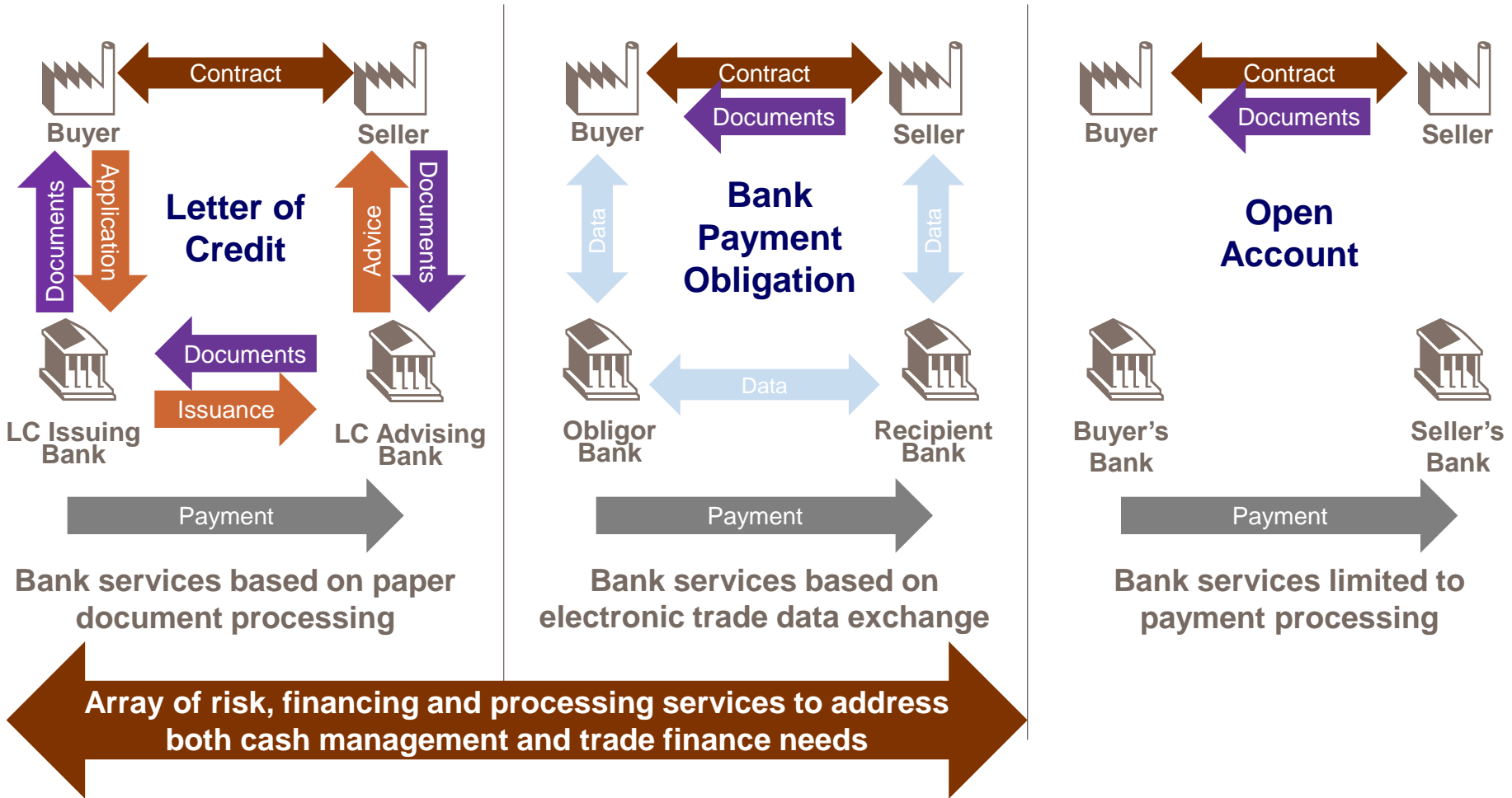


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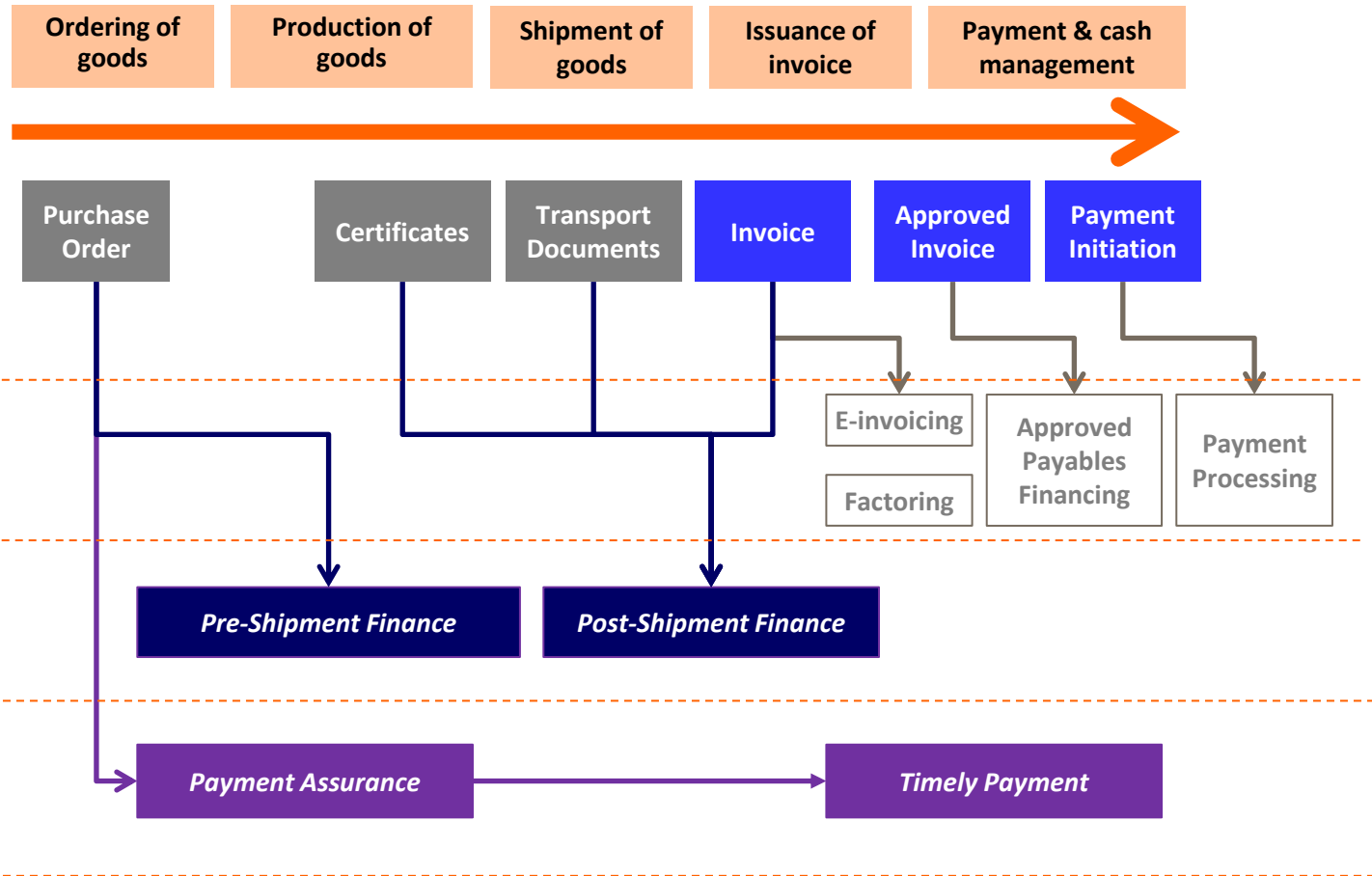
# The BPO in the world of Trade



# BPO combines elements of both worlds



# Risk Mitigation & Financing in the Supply Chain



# Key benefits for the seller

## Supply Chain Finance Finance (optional)

Pre-/post shipment finance  
Alternative to factoring, reverse  
factoring etc  
Reduced interest costs

## Cash flow optimization

Get paid on time  
Improve DSO and DIO  
Collect receivables earlier  
Mitigate payment default risk of OA  
Optimise risk-reward transactions  
Improve liquidity forecasts  
Improve discrepancy management  
Easy integration with e-invoices  
Reduce processing effort  
Syndicate payment risk

# Key benefits for the buyer

## Supply Chain Finance (optional)

- Extend payment terms (DPO)
- Negotiate commercial terms
- Reduce supply default risk

## Cash flow optimization

- Control payment time execution
- Optimize credit utilization
- Pay key suppliers on time
- Reduce administrative costs
- Reduce investigations & disputes
- Outsource payables processing

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BPO  
Present and Future

# Live BPO banks

*Banks with live transactions + 1 corporate case study*

Live Banks	Region	Intra / Inter-bank transactions	Locations of live corporate supply chains	Corporate case study
Bank of China	APAC	Intra in China Inter	CN	Ito Yokado's Chinese suppliers
Bank of Tokyo Mitsubishi UFJ	APAC	Intra Inter	CN, HK, JP, SG, TH, TW	Ito Yokado Mitsubishi-Shindoh Co.,Ltd. MSM (Thailand) Vale
Korea Exchange Bank	APAC	Inter	KR	OMRON Automotive Electronics Korea Co.Ltd.
Standard Chartered Bank	APAC EMEA	Intra	BE, OM, TH, AE	BP Chemicals Octal PTT Polymer Marketing Co in Thailand Polymer Marketing DMCC in Dubai
Siam Commercial Bank	APAC	Inter	TH	PTT Polymer Marketing Co
Hua Nan Bank	APAC	Inter	TW	Importer in TW
Bangkok Bank	APAC	Inter	TH	Exporter in TH

# Banks ready for live use of BPO

*Banks ready to go live but with no live BPO transactions yet*

- ANZ
- Bank al Etihad (Jordan)
- Barclays
- Commercial Bank of Dubai
- Commerzbank
- Deutsche Bank
- J.P. Morgan
- Kasikornbank (Thailand)
- Maybank
- NLB (Nova Ljubljanska Banka)
- RBS
- RHB Bank
- Standard Bank of South Africa
- Sumitomo Mitsui Banking Corporation (SMBC)
- Turkiye Is Bankasi
- UniCredit

# 55 Banks adopting BPO *(update as at January 10<sup>th</sup> 2014)*

Including 15 from the Top20 Trade banks





# The URBPO (1)

- April 2013 goedkeuring ICC van de Uniform Rules for Bank Payment Obligations
- URBPO regelen rechtsverhouding tussen banken en de werking van de BPO
- URBPO moeten door partijen (banken) van toepassing worden verklaard

# The URBPO (2)

- BPO-Clausule in handelscontract
- Art. 15 URBPO rechtskeuze voor vestigingsplaats Obligor Bank
- Art. 15 (c) – geen nakoming door banken in geval van schending van “Regulatory Requirements”

## The URBPO (3)

- BPO opereert in een “Bank-to-Bank space”
- Begunstigde van een BPO is Recipient Bank, niet onbetaalde verkoper
- URBPO regelen slechts verhoudingen tussen banken
- Verhouding tussen bank en opdrachtgever is lastgeving ex art. 7:414 BW

## The URBPO (4)

- Artt. 6 en 7 leggen autonomie-beginsel vast:  
*"Banks deal with data and not with documents or the goods."*
- Voor betalingsverplichting bank is slechts beslissend of sprake is van een Data Match
- Enige uitzondering op autonomie-beginsel is fraude

# The BPO (slot)

- Toekomst BPO:  
*"The future is unwritten"*