

## **Bank Payment Obligations (BPOs) – Basics for Corporates**

What you need to know in order to start replacing Standby Letters of Credit and/or Documentary Letters of Credit (LCs) with the BPO or BPO-Plus process respectively.

### **Why bother to make the change?**

Companies that adopt the BPO and/or BPO-Plus processes are able to capture a number of benefits from the BPO system; for example:

- Improved cash flow management based on certainty as to when invoice payments will be credited.
- Reduced document handling – whether paper or electronic – since purchase orders and invoices are keyed into the system and communicated automatically; via one or two banks in nanoseconds. The SWIFT system is exceptionally secure and reliable, and covers more than 10,000 financial institutions and corporations in 210 countries
- Reduced information discrepancies and/or reduced time involved in identifying and correcting mismatched data. The BPO system automatically matches buyer and seller data against the Purchase Order/Contract baseline and provides various reports
- Better payment protection (for the seller) compared to a Standby or Documentary Letter of Credit; with reduced costs and handling required on both sides of a transaction
- Access to financing options is improved for both buyer and seller

The Bank Payment Obligation (BPO) product is governed by a set of rules approved by the International Chamber of Commerce (ICC) and SWIFT (the Society for Worldwide Interbank Financial Telecommunication). The rules are called the Uniform Rules for Bank Payment Obligations (URBPO) and are associated with the International Standards Organisation standards for trade related data sets called ISO 20022 ([www.iso20022.org](http://www.iso20022.org)).

The URBPO only applies to interbank relationships so you need not study the rules unless they are incorporated into the separate agreement you have with a bank that provides the service of Obligor Bank (if you are acting as Buyer) or Recipient Bank (if you are a Seller). A copy of the rules can be purchased via:  
<http://store.iccwbo.org/e-books>.

A standard bank-client agreement for the issue or receipt of BPOs has not yet been agreed so, for the time being, you will have to sign a bank specific document. It is reasonable to assume that a bank-client BPO agreement will be similar to the equivalent Letter of Credit Issuance and Processing Agreement. Important from your point of view will be the bank liability disclaimer clause, which will probably mirror the following clause contained in the URBPO:

## Article 12: Disclaimer on Effectiveness of Data

An Involved Bank does not assume any liability or responsibility for:

- (i) the source, accuracy, genuineness, falsification or legal effect of any data received from the buyer or seller:
- (ii) the documents, or the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance, to which such data relates: or
- (iii) the good faith or acts or omissions, solvency, performance or standing of the consignor, carrier, forwarder, consignee or insurer of the goods or any other person referred to in any data.

**Note:** This URBPO Article 12 is almost a word for word copy of the Letter of Credit related UCP 600 Article 34: Disclaimer on Effectiveness of Documents.

To learn more general BPO information refer to the article titled “The BPO & Friends have a Stranglehold on the LC and will soon finally lay it to rest...” a copy of which can be found using this link:

<http://www.barrettwells.com/BPOfinallykillsLCAug2014.pdf>

**In order to effect the change from LC to BPO and/or BPO-Plus and enjoy the resulting benefits, Sellers and Buyers will have to take the following steps:**

### SELLER ACTION STEPS – REPLACING STANDBY LCS WITH BPO

1. Conclude a BPO Recipient Bank agreement with a bank; if none of your house banks are BPO ready approach one of the 13 Bank Groups reported to be live as of August 2014, namely:

Bank of Tokyo-Mitsubishi UFJ	Türkiye İs Bankasi ( Isbank )
Bank of China	BNP Paribas
Standard Chartered Bank ( SCB )	ANZ - Australia & New Zealand Banking Group
Korea Exchange Bank ( KEB )	CIMB - Commerce International Merchant Bankers Berhad
Siam Commercial Bank ( SCB Thailand )	China CITIC Bank
Hua Nan Bank (Head Office: Taipei )	Maybank - Malayan Banking Berhad
Bangkok Bank	

2. Work with your contracts department or outside legal consultant to revise your sales contract by amending payment terms to require payment by BPO #x days after despatch / Bill of Lading date / invoice date, or whatever other credit term you normally offer.
3. Revise the list of documents you normally provide to evidence shipment and comply with export/import requirements by adding details of the data sets you will supply to the Buyer’s BPO Obligor Bank (via your BPO Bank) to prove shipment has been initiated in conformity with the sale/purchase contract. Data

sets are required to be produced in accordance with ISO 20022 standards; for example:

- a. Buyer and Seller details, Buyer's Bank and Seller's bank details.
- b. Purchase Order reference number, date of issue.
- c. Commercial Invoice data set; seller's details, buyer's details, reference number, date issued, goods, price, total value, INCOTERMS, payment terms, and settlement terms.
- d. Transport Document data set; reference number of Bill of Lading or Airway Bill or other transport document, name of carrier, place of loading/despatch and discharge/destination and other relevant information.
- e. **Note:** Each discrete piece of data (such as a name, date or reference number) is used to create a baseline (fixed/agreed reference data) against which performance of your side of the contract will be measured prior to issue of a 'matched' or 'not-matched report'. Issue of a 'matched' or 'buyer's acceptance of a not-matched' report triggers the Buyer's Bank's obligation to pay your bank. Therefore careful consideration should be given to the elements you agree to provide within the required data sets, as agreed within the sale/purchase contract.

See: [http://www.iso20022.org/trade\\_services\\_dashboard.page](http://www.iso20022.org/trade_services_dashboard.page)

## **SELLER ACTION STEPS – REPLACING DOCUMENTARY LCS WITH BPO-PLUS**

- I. Conclude a BPO Recipient Bank agreement with a bank, if none of your house banks are BPO ready approach one of the 13 Bank Groups listed above.
- II. Conclude an agreement with an electronic document management company, such as essDoCS, which supports BPO and related ISO 20022 messages, enabling shippers, banks and buyers to create baseline data as well as control the release of electronic bills of lading until a BPO match is achieved; see: [www.essdocs.com](http://www.essdocs.com)
- III. Work with your contracts department or outside legal consultant to revise your sales contract by amending payment terms to require payment by BPO #x days after despatch / Bill of Lading date / invoice date, or whatever other credit term you normally offer.
- IV. In consultation with your operations management colleagues and your electronic document management company, revise the list of documents you normally provide to evidence shipment and comply with export/import requirements. Add details of the data sets you will supply to the Buyer's BPO Obligor Bank to prove shipment has been initiated in conformity with the sale/purchase contract, and explain how the electronic documents will be 'delivered' after a BPO 'matched' or 'accepted not-matched' report is received by your BPO Recipient Bank. Refer to 3 above for more detail.

## BUYER ACTION STEPS – REPLACING STANDBY LCS WITH BPO

- A. Conclude a BPO Obligor Bank agreement with a bank, if none of your house banks are BPO ready approach one of the 13 Bank Groups listed above.
- B. Work with your contracts department or outside legal consultant to revise the terms and conditions you are prepared to accept in any purchase contract. Pay particular attention to payment terms, which should require payment by BPO #x days after despatch / Bill of Lading date / invoice date, or whatever other credit term you normally request.
- C. Revise the list of documents you normally require to evidence shipment and comply with export/import requirements by adding details of the data sets the seller must supply to your BPO Obligor Bank to prove shipment has been initiated in conformity with the sale/purchase contract. Data sets are required to be produced in accordance with ISO 20022 standards, refer to the examples in 3 above.
- D. **Note:** Each discrete piece of data (such as a name, date or reference number) is used to create a baseline (fixed/agreed reference data) against which performance by your supplier (seller) of its contract obligations will be measured prior to issue of a 'matched' or 'not-matched report'. A 'matched' or 'buyer's acceptance of a not-matched report' triggers your bank's irrevocable obligation to pay the seller's bank. Therefore careful consideration should be given to the elements you agree to accept within the required data sets.

The stand-alone BPO process is only suitable for well established relationships; that is cases where the buyer does not consider it necessary to 'insure' the risk that the expected goods will be paid for but not delivered. This exactly mirrors the situation when a buyer agrees to provide a Standby LC, rather than a Documentary LC, to cover its purchase of goods.

## BUYER ACTION STEPS – REPLACING DOCUMENTARY LCS WITH BPO-PLUS

- i. Conclude a BPO Obligor Bank agreement with a bank, if none of your house banks are BPO ready approach one of the 13 Bank Groups listed above.
- ii. Conclude an agreement with an electronic document management company, such as essDoCS, which supports BPO and related ISO 20022 messages, enabling shippers, banks and buyers to create baseline data as well as control the release of electronic bills of lading until a BPO match is achieved; see: [www.essdocs.com](http://www.essdocs.com).
- iii. Work with your contracts department or outside legal consultant to revise the terms and conditions you are prepared to accept in any purchase contract. Pay particular attention to payment terms, which should require payment by BPO #x days after despatch / Bill of Lading date / invoice date, or whatever other credit term you normally request.

- iv. In consultation with your operations management colleagues and your electronic document management company, revise the list of documents you normally require to evidence shipment and comply with export/import requirements. Add details of the data sets the seller must supply to its BPO Recipient Bank, to prove shipment has been initiated in conformity with the sale/purchase contract. Data sets are required to be produced in accordance with ISO 20022 standards, refer to the examples in 3 above.
- v. **Note:** Each discrete piece of data (such as a name, date or reference number) is used to create a baseline (fixed/agreed reference data) against which performance by your seller of its contract obligations will be measured prior to issue of a 'matched' or 'not-matched report'. A 'matched' or 'buyer's acceptance of a not-matched report' triggers your bank's irrevocable obligation to pay the seller's bank. Therefore careful consideration should be given to the elements you agree to accept within the required data sets.

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Director

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