Uniform Rules for Bank Payment Obligations

INTERNATIONAL CHAMBER OF COMMERCE

Version 1.0

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Foreword

We are pleased to present the first-ever *Uniform Rules for Bank Payment Obligations* (URBPO), a 21st century set of rules for the rapidly developing field of supply chain finance. The rules were developed by the Banking Commission of the International Chamber of Commerce (ICC) in partnership with the leading financial messaging provider, SWIFT, to take into account the legitimate expectations of all relevant sectors.

The supply chain finance (SCF) market — the term used by banks to refer to approved payables financing or early payment services — has grown significantly over the last five years. These services have demonstrated their relevance and value to large buyers and their suppliers. The now widely available SCF offerings offered by banks and non-bank technology providers have been built on the fact that buyers and sellers wish to work in a win-win spirit as large buyers aim to support their suppliers' working capital needs.

The market has demanded new solutions to deal with the growing use of open account in international trade and to move from paper-based to electronic processes that reduce cost pressures and react to changing risk dynamics. The URBPO are a solution provided by ICC to respond to these new market demands.

This drafting of the rules was meticulously prepared over a period of eighteen months, and is the result of a collective effort by a number of ICC constituent groups. A number of ICC national committees also contributed substantially to the drafting process by providing valuable comment and suggestions on the three drafts that were distributed for comment. A large number of these were incorporated into successive drafts, including the final text. The ICC URBPO Consultative Group also reviewed the draft texts and offered their own suggestions and their support for a number of national committee comments. The URBPO Drafting Group, ably chaired by Gary Collyer, ICC Banking Commission Senior

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Technical Advisor, met on a number of occasions, carefully reviewed all comments submitted by national committees and the Consultative Group and produced the final draft.

This collective effort has borne fruit; it has produced rules that reflect a broad consensus among bankers, users and all members of the supply chain finance community. The rules were unanimously adopted during the April 2013 meeting of the ICC Banking Commission in Lisbon.

The URBPO are destined to become the standard text for supply chain finance practice worldwide.

Jean-Guy Carrier
Secretary General
International Chamber of Commerce

Foreword

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As a cooperative that is owned by our members, SWIFT is committed to help our community reduce risk, increase automation and lower costs. I therefore welcome the opportunity to apprise you of one of SWIFT's key initiatives for 2013 in the area of transaction banking: the Bank Payment Obligation (BPO). The BPO, a new innovative payment term allowing buyers and suppliers to secure and finance international trade transactions, enables banks to offer advanced risk mitigation and enhanced financing services to their corporate customers.

The new legal and technology standards released by ICC and SWIFT allow banks to provide their corporate clients with Supply Chain Finance services as from the very start of trade transactions, i.e. when the sale contract is signed. This innovation extends the scope of supply chain finance to risk mitigation and to pre-shipment finance services. It also offers local banks and development banks an opportunity to increase their role in supporting a vital segment of the economy: the SME market.

SWIFT messaging standards provide major interoperability benefits to all parties involved in financial transactions. SWIFT's standards are used by close to 10,000 financial institutions and thousands of corporate institutions, in more than 210 countries.

ICC and SWIFT signed a cooperation agreement in September 2011 to leverage our respective positions in the trade finance community. Using electronic transaction data as required by the new rules, banks can better respond to the desire of their corporate clients to accelerate financial processes and optimise working capital.

In less than 18 months, ICC and SWIFT have been able to release the Uniform Rules for Bank Payment Obligations (URBPO) which combine a set of legally binding rules and electronic messaging standards. The adoption of these new rules is a significant milestone for the trade market and the unanimous vote on URBPO at the ICC Banking Commission meeting in Lisbon April 2013, clearly illustrates the industry's support for this market transformation. The BPO is shaping the future of the trade industry and now banks have a clear opportunity to innovate in the services they offer to their corporate customers.

We look forward to supporting the adoption of this new payment term in the market.

Gottfried Leibbrandt
CEO, SWIFT

Introduction

The scope of the Uniform Rules for Bank Payment Obligations (URBPO) lies solely in the bank-to-bank space. This is the scope agreed in the memorandum of understanding signed between ICC and SWIFT in September 2011 and the terms of reference provided to the Drafting Group. URBPO are designed to operate in what is known as the 'collaborative' space as will any Transaction Matching Application (TMA) chosen by financial institutions (known in URBPO as Involved Banks) for a given transaction.

URBPO do not cover the interaction between a bank and their corporate client. It is for each bank, in what can be described as the 'competitive' space to offer their clients financing or other services and products based on the strength of agreeing to incur a Bank Payment Obligation (BPO) or through the receiving of one. URBPO indicate the separateness and independent nature of the BPO from the underlying sale or other contract. This follows the wording and principles expressed in UCP 600 article 4 as adapted to suit the context of these rules.

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 under the condition of a successful electronic matching of data or acceptance of mismatches. It is an alternative instrument for trade settlement, designed to complement existing solutions and not to replace them.

A BPO is established through the use of a TMA, a centralised data matching and workflow application. It should be noted that a TMA does not of itself create a BPO; rather it notifies each Involved Bank of the BPO's existence, reflecting the agreement of each Involved Bank to participate in a transaction that includes a BPO. Once established, a BPO constitutes a legally binding, valid and enforceable payment obligation of the Obligor Bank to the Recipient Bank under applicable law. Similar to a letter of credit under UCP, a collection under URC and a guarantee under URDG, settlement of a BPO is outside the scope of URBPO.

A TMA provides a mechanism for presentation of data to the Obligor Bank through processing of messages received from Involved Banks, the automatic comparison of the data contained in such messages against agreed requirements (specified in an established baseline), and the subsequent notification of a Data Match or Data Mismatch to each Involved Bank. URBPO are predicated on the fact that messages sent and received by Involved Banks will comply with ISO 20022 standards. ISO is the International Organisation for Standardisation and is the world's largest developer and publisher of international standards with a membership of more than 160 national standards bodies.

ISO 20022 organises financial message definitions by business area, each one of which is uniquely identified by a four-character business area code. In the case of Trade Services Management, the business area code is TSMT. ISO 20022 TSMT standards specify the format for commercial, transport, insurance, certificate or other certificate sets to be submitted by an Involved Bank in respect of an underlying trade transaction, and for the related TSMT messages to be exchanged between Involved Banks and the TMA. Definitions for TSMT messages that specifically relate to a BPO are included in Article 4 'Message Definitions'. Any TMA used in connection with these rules must be able to implement the ISO 20022 TSMT messages as defined in Article 4.

Message standards are essential in order to achieve inter-operability and effective multi-banking communication and understanding. Standards ensure consistency and uniformity of format and terminology through use of a common data dictionary. As is the case with other ISO standards in the area of financial services, ISO 20022 standards for TSMT messages are publically available and are not proprietary to any technology provider or financial institution.

Two articles of the early drafting process that attracted national committee comments were "Charges" and "Branches of Banks in Different Countries".

Charges — As originally drafted, this article followed the concept in UCP that if an agent is not able to recover its costs, the instructing party remains liable. Over the course of drafts two and three, various comments were received, first to make the Obligor Bank liable and then to assign liability for charges to the Recipient Bank. The current charges field within the Payment Obligation Segment of a Baseline is not conducive to any specific rule being applicable. The decision was therefore taken to remove the article from URBPO and for the banks to decide on the payment of charges through a bi-lateral agreement pending implementation of ISO message enhancements being requested.

Branches of Banks in Different Countries - The Drafting Group were aware of the issues surrounding the concept that two different legal entities are generally required to establish a contract, and consider this to have been addressed in sub-article 15 (b).

URBPO are issued with version numbers, similar to eUCP, in order to allow for individual articles to be updated or added, reflecting changes in any industry practice, and without the need for a full revision. This is URBPO version 1.0.

It has been recognized during the drafting process that the current ISO TSMT messages will require some amendments to be made, including in the context of providing mandatory fields for data that will be necessary to comply with the requirements of global, regional and country regulators and applicable sanctions requirements. ICC is in the process of registering with ISO to enable them to submit amendment requests and to be part of the decision process for any changes to the TSMT messages. Any requests for changes must be made to ISO no later than 1 June of each year and requests that are approved are usually made available for the commencement of the following year.

The Drafting Group would like to place on record its appreciation for the comments that have been received to each of the three drafts and, in many cases, the level of detail that was provided.

Our appreciation also extends to the support and input provided by the URBPO Consulting Group that operated under the guidance of Michelle Knowles (South Africa) and Sanjay Tandon (Hong Kong).

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Similarly, our appreciation extends to the URBPO Education Group, under the guidance of Michael Quinn (USA), that facilitated the creation of material to accompany the second draft of the URBPO and thereby further aid the learning process. This group also ran an invaluable proof of concept exercise at the end of 2012 to ensure that the content of the URBPO matched the message flows and definitions explained in the rules.

The Drafting Group that brought this important text to fruition deserves special mention. Their names are listed below:

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