

Quality for You

# Trade Services Utility (TSU) Bank Payment Obligation (BPO)

Case Study – First Forfaiting on TSU/BPO in the world



VALE

**Vale International S.A.**



MUFG

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**



**SWIFT**



MUFG

Mitsubishi UFJ Financial Group





## Company Profile

- 2012 Revenues of USD 46.5 billion
- Main product Iron ore (68.2%)
- Approximately 100 clients worldwide (Iron Ore)
- Main market is China (34%)

## Challenges

- Competitive commodities market requires a secure and cheaper alternative to L/Cs
- L/Cs at sight for USD 18 billion with Chinese clients
- DSO (Days Sales Outstanding) is between 25 and 30 days

## Key Benefits

- Reduce the DSO by approx. 10 days (including internal processes efficiency gains) with a financial gain over USD 37 million/year
- Freeing up Working Capital – USD 600 million
- Reduce costs for customers
- Reduce document delivery costs
- Reduce the risk of discrepancies
- Improve access to Trade Financing products to our customers
- Reduced environmental impact - reducing paper usage in extra copies of the shipping documents for the banks



## BTMU's Strengths

- **Largest global network of any Japanese financial group**
- **Strong credit rating**
- **Pioneer for the TSU/BPO business in Japan and across Asia**
- **Winning new clients in new markets: BTMU can offer TSU-based services as a new non-traditional trade settlement service**
- **New opportunity to provide trade & supply chain finance services**

## Challenges

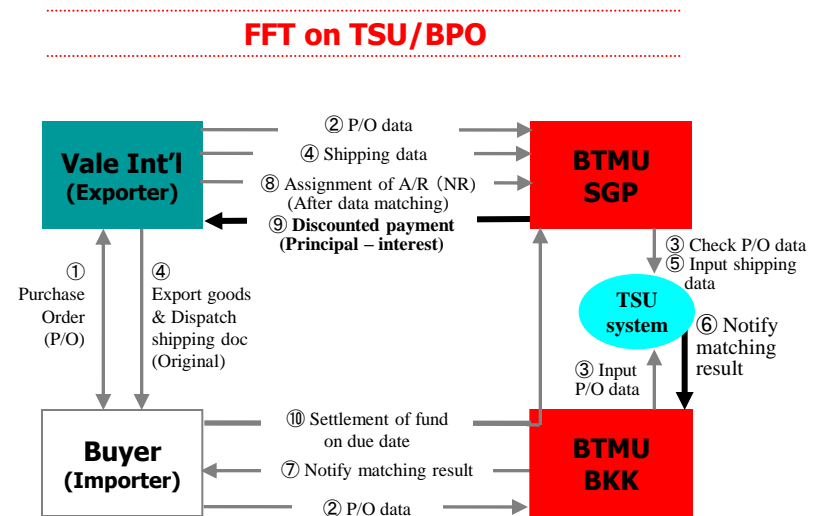
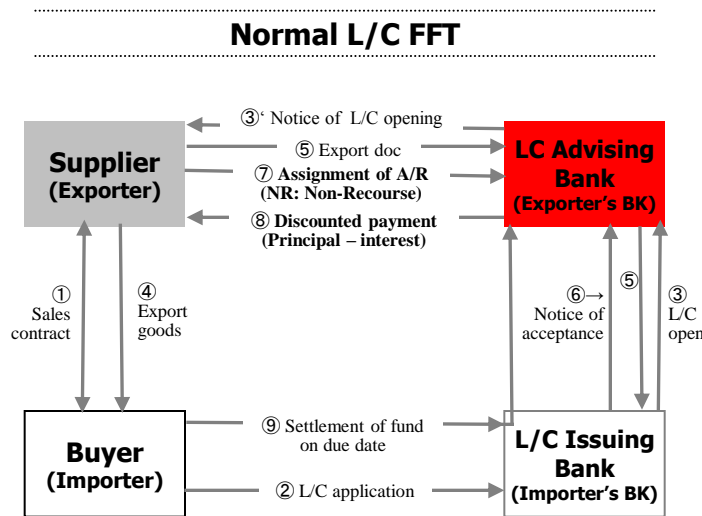
- **Maintain the trade business**
- **Provide a new range of solutions to service the open account market**
- **Provide more process efficiency, but without losing the business information**

## Key Benefits

- **Open door to new business opportunities**
- **Provide quicker Account Receivable / Payable**
- **Provide easier and faster operations**
- **Meet the market requirement for banks to collaborate more on risk and client on-boarding**
- **No original documents handling, no paper checking. Automated solutions**
- **Better efficiency in operation. Easier and faster operation for banks**
- **Reduce costs of document handling**
- **Reduce costs for skilled human resources**

# Case Study : First FFT on TSU/BPO in the world

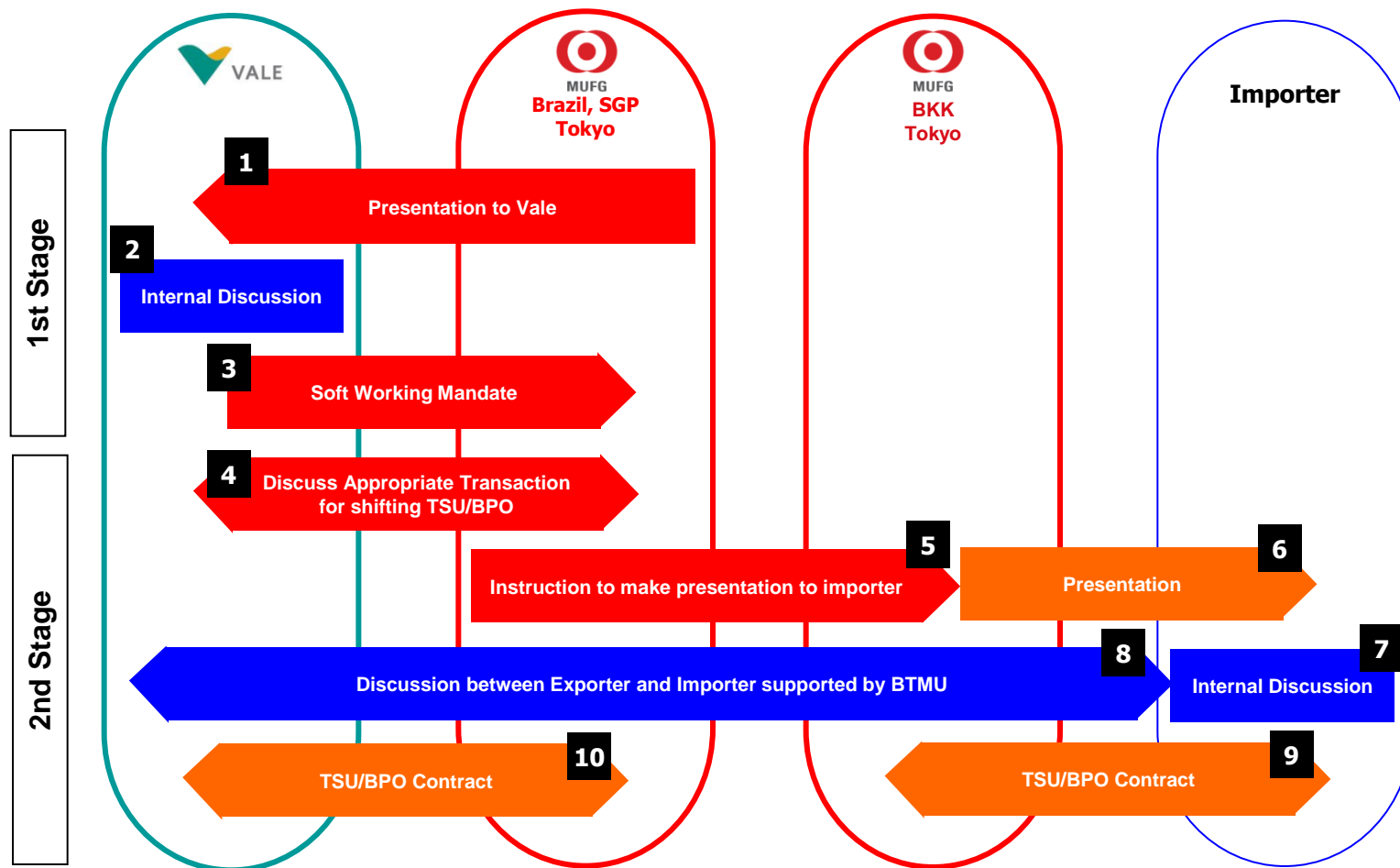
- In July 2013, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) arranged a new TSU/BPO settlement service with Vale International S.A. (Vale)
- BTMU is the first bank in the world to provide **"Forfaiting (FFT)"** on TSU/BPO: upon seller's request, the bank purchases an export receivable (Open Account) with BPO at a discount with no recourse to the seller
- BTMU Singapore branch executed FFT on the same day of TSU/BPO data matching with BTMU Bangkok branch through TSU system, which was all completed on the same day Vale presented the dataset information
- Vale saved approx. 10 days and gained from increased safety, operational streamlining & cost reduction



Subject	Description
Main function	<ul style="list-style-type: none"> <li>■ Importer's Bank guarantees the payment of the importer</li> <li>■ Exporter's Bank purchases export receivable (Open Account) with BPO at discount, non-recourse to the seller (exporter) , upon seller's request</li> </ul>
FFT Trigger	<ul style="list-style-type: none"> <li>■ Successful data matching on SWIFT TSU system according to the baseline agreed between all the parties</li> </ul>
Type of risk to mitigate	<ul style="list-style-type: none"> <li>■ Buyer's credit risk and insufficient fund risk, payment delay risk</li> </ul>
Type of BPO Obligation	<ul style="list-style-type: none"> <li>■ Primary Obligation</li> </ul>
Documents	<ul style="list-style-type: none"> <li>■ Originals are exchanged between importer and exporter</li> </ul>
Rules	<ul style="list-style-type: none"> <li>■ ICC URBPO (Uniform Rules for Bank Payment Obligation)</li> </ul>
Fees	<ul style="list-style-type: none"> <li>■ Similar as L/C FFT</li> </ul>
Remarks	<ul style="list-style-type: none"> <li>■ Wording of "BPO" is mentioned in P/O as the payment method for settlement safety</li> </ul>

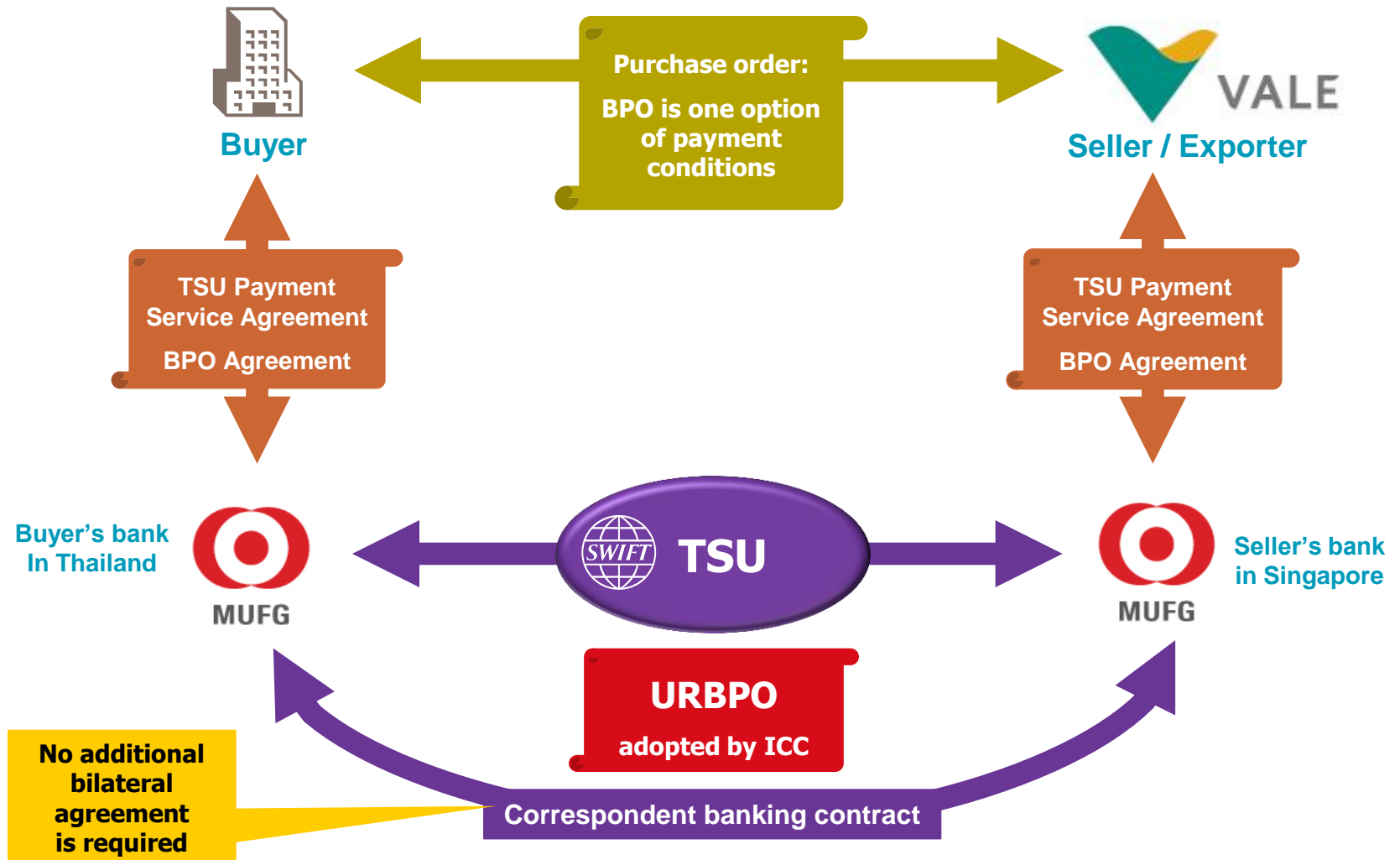
# BTMU's Set-up for Live Usage

- **1<sup>st</sup> Stage:** BTMU makes presentation to Vale and Vale expresses interest
- **2<sup>nd</sup> Stage:** BTMU and Vale co-work to ask importers to introduce TSU/BPO



# Contracts and URBPO

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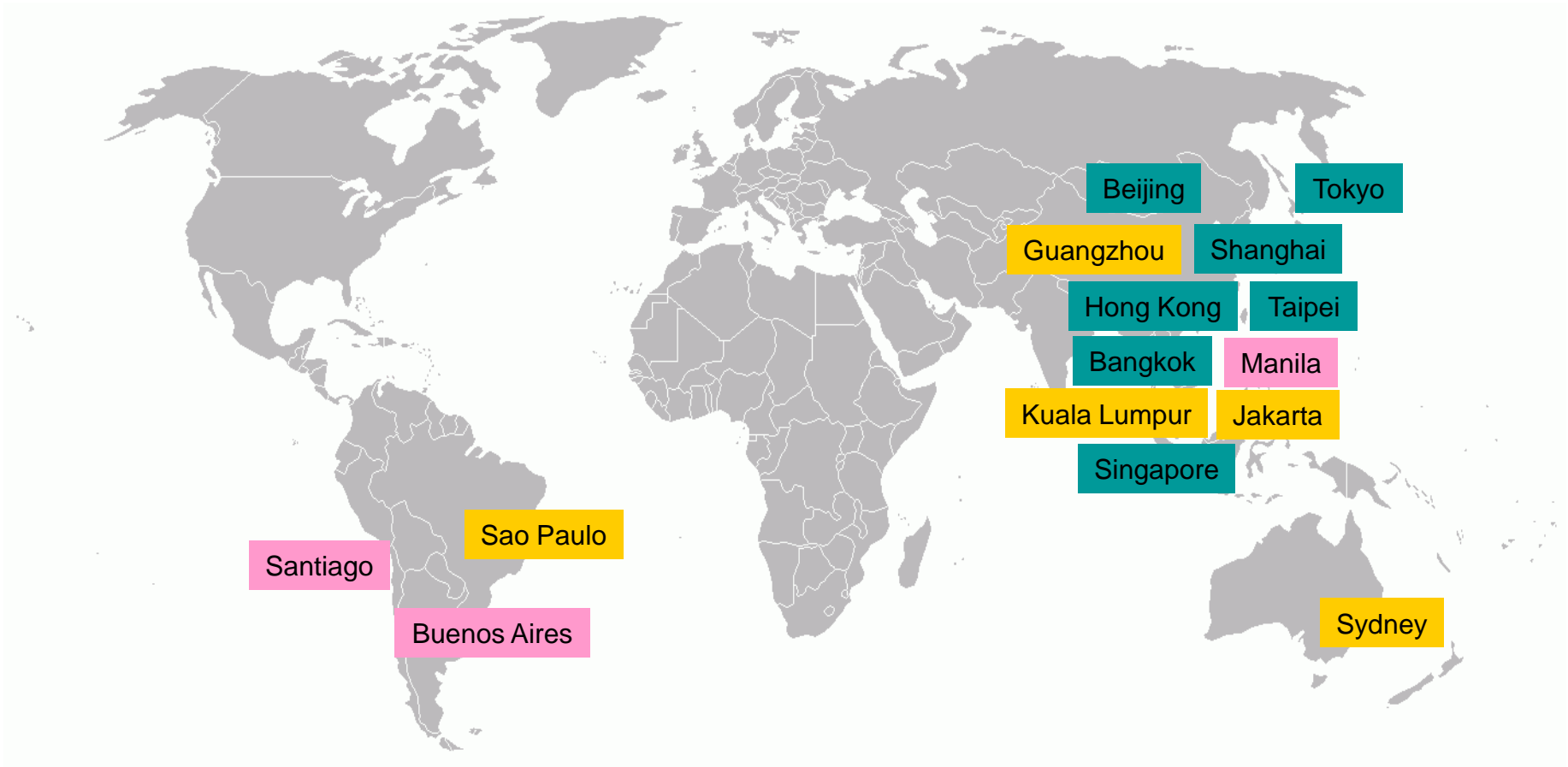


## BTMU Locations Offering TSU/BPO (As of July 2013)

Live

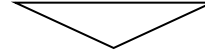
Ready

Testing

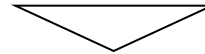




**Increasing & diversifying trade with emerging countries**



**Increasing trade risk & workload of trade operation**



**Sophistication of trade control demands**  
(Operational streamlining, Safety and early settlement, Cost reduction )

## Importer Demands

- Reduce number of L/C transactions
- Accelerate A/R reconciliation
- Reduce settlement period to support suppliers' working capital needs
- Use a trade portal with end-to-end service
- To improve visibility and traceability on trade control

## Exporter Demands

- Reduce number of L/C transactions
- Reduce costs related to L/C (e.f. discrepancy fees)
- Reduce document handling operations for D/A and for export bills for collection
- Use a trade portal with end-to-end service
- To improve visibility and traceability on trade control

## #1 : Operational Streamlining

### Importers' Benefit

- Easy procedure for BPO issuing
- Reduce operational burden of treating complicated L/C and trade documents
- Smooth reconciliation of payment & A/P (Account Payable) through prompt import data receipt
- Increase possibility of earlier taking import goods
- Increase chance of enhancing better relationship with exporter by diversifying settlement method

### Exporters' Benefit

- Decrease shipping documents presented to banks in traditional documentary settlement
- Reduce operational burden of creating draft and shipping documents
- Reduce discrepancy workload
- The bank bears responsibility for any oversights
- Reduce workload and operation time for documents checking
- Mitigate risk of importer cancelling order or changing order

## #2 : Safety and Early Settlement

### Importers' Benefit

- Safer than open account payment
- Improve traceability (Importer could make payment after confirming import goods data)
- Decrease discrepancies arose from importers' operation for early L/C issuing
  - Early Settlement (Importer could issue BPO just after having P/O with exporter on TSU settlement)

### Exporters' Benefit

- Increase possibility of early fund collection
- Improve traceability (Exporter could ask importer clearly to execute payment after confirming data matching or acceptance of data mismatching by importer)
- Speedy settlement by decreasing discrepancies (Data matching point is limited on TSU in compare with traditional documents checking)
- In case of BPO, the credit risk is transferred from importer to the obligor bank

## #3 : Cost Reduction

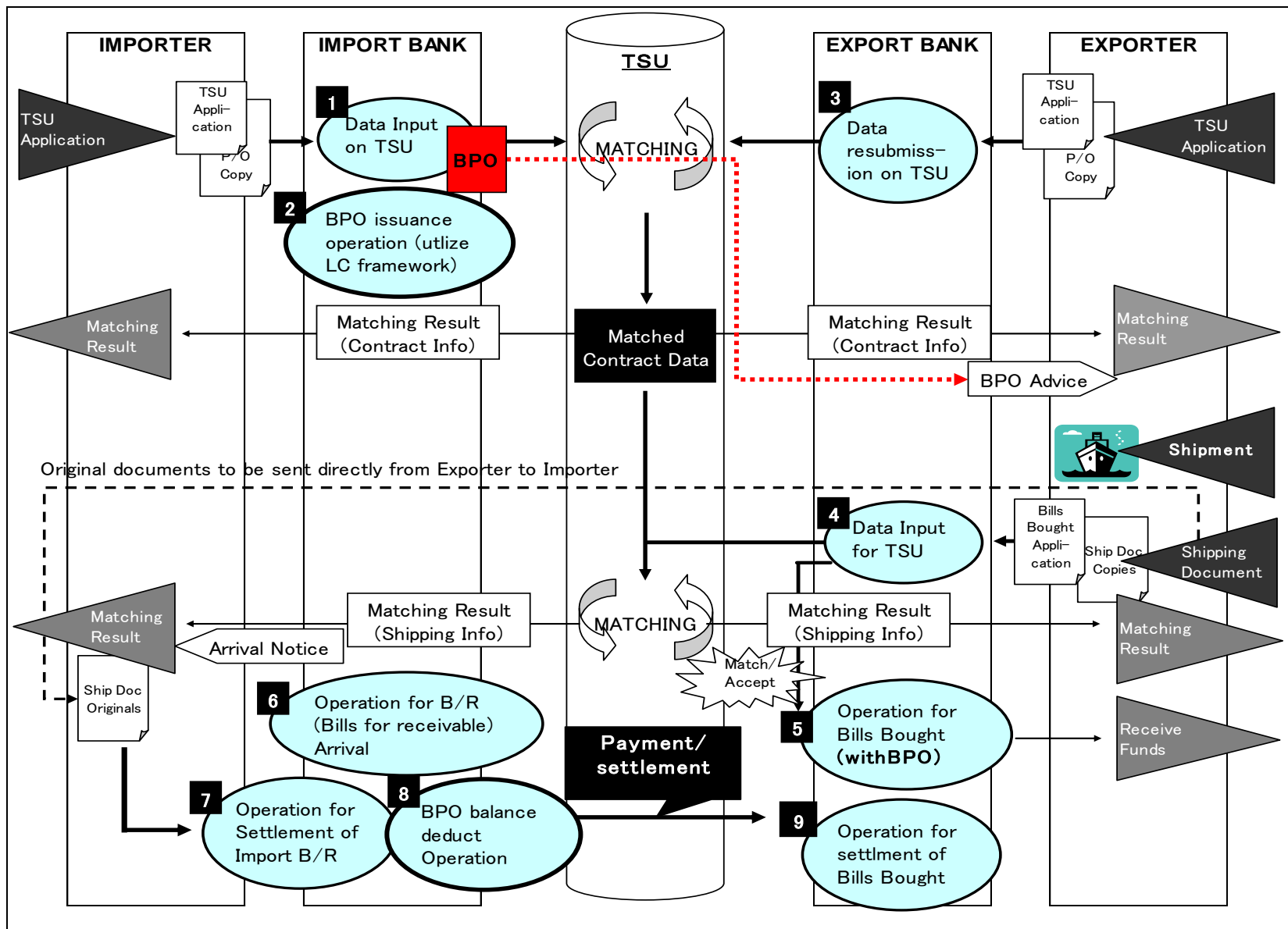
### Importers' Benefit

- Decrease inter-office cost through import operational streamlining
- Increase possibility to decrease banking charge (e.f. L/G, T/R) to receive import goods
- Importer could have chance to negotiate better terms and conditions through early settlement
- Decrease import financing cost by effective usage of import credit facility

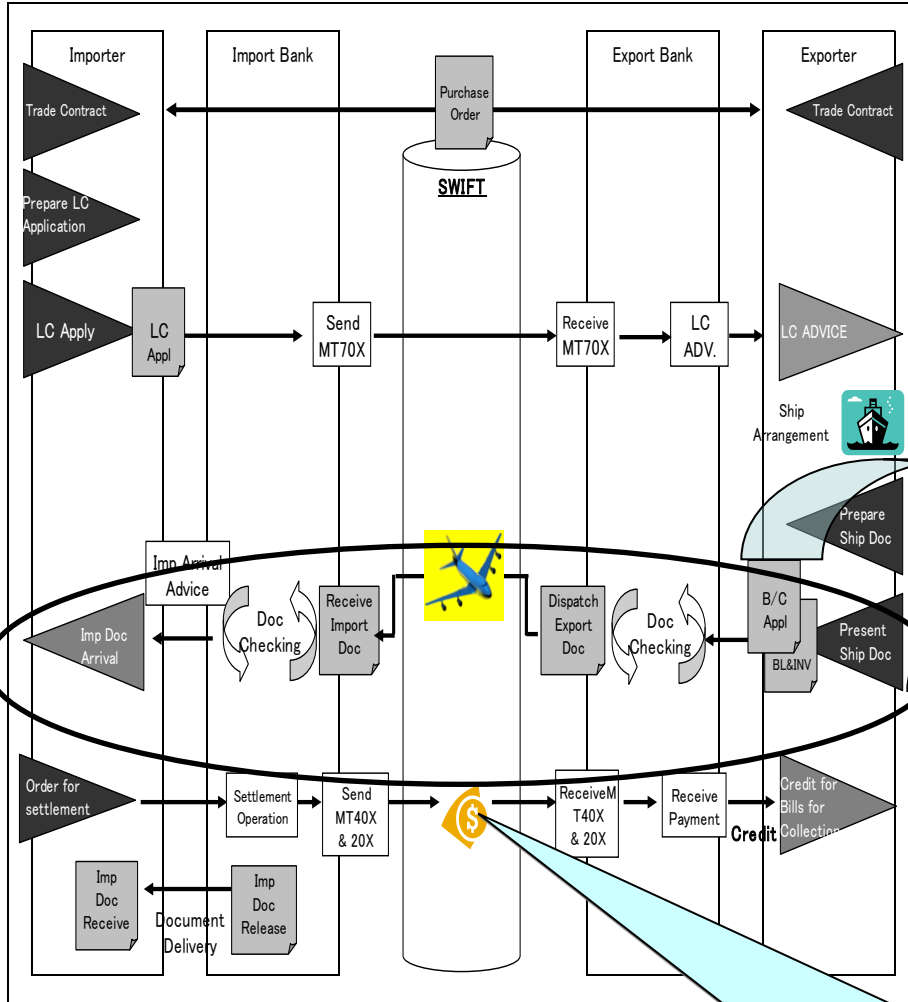
### Exporters' Benefit

- Decrease inter-office cost through export operational streamlining
- Reducing the DSO (Days Sales Outstanding) and freeing up working capital through early fund collection
- Chance to decrease various banking charge like discrepancy fee, L/C advising charge, postage etc
- Reduce finance cost by using BPO related trade financing

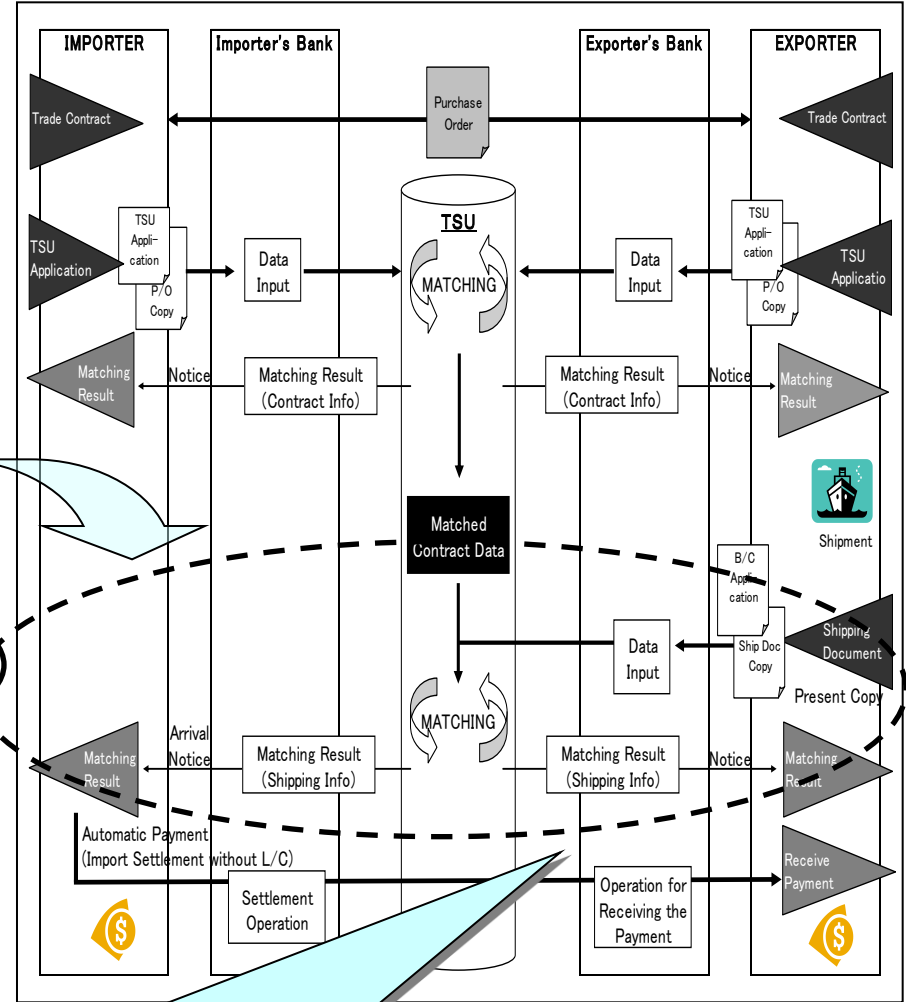
# BTMU operational flows for the TSU/BPO



## Flow chart of A/S L/C



## Flow chart of TSU



**Vale saved approx. 10 days and gained from increased safety, operational streamlining & cost reduction**

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