Trade Services Utility (TSU)  
Bank Payment Obligation (BPO)  
Case Study – First Forfaiting on TSU/BPO in the world

Vale International S.A.  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
SWIFT
Vale’s Challenges and Benefits

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 Challenges and Benefits

**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


- 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.
### Key Features of FFT on TSU/BPO

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| **Main function**         | - Importer’s Bank guarantees the payment of the importer  
- Exporter’s Bank purchases export receivable (Open Account) with BPO at discount, non-recourse to the seller (exporter), upon seller’s request |
| **FFT Trigger**           | - Successful data matching on SWIFT TSU system according to the baseline agreed between all the parties                                    |
| **Type of risk to mitigate** | - Buyer’s credit risk and insufficient fund risk, payment delay risk                                                                       |
| **Type of BPO Obligation** | - Primary Obligation                                                                                                                        |
| **Documents**             | - Originals are exchanged between importer and exporter                                                                                    |
| **Rules**                 | - ICC URBPO (Uniform Rules for Bank Payment Obligation)                                                                                     |
| **Fees**                  | - Similar as L/C FFT                                                                                                                        |
| **Remarks**               | - Wording of “BPO” is mentioned in P/O as the payment method for settlement safety                                                           |
1. **1st Stage**: BTMU makes presentation to Vale and Vale expresses interest

2. **2nd Stage**: BTMU and Vale co-work to ask importers to introduce TSU/BPO
Contracts and URBPO

Buyer

TSU Payment Service Agreement
BPO Agreement

Buyer's bank in Thailand
MUFG

Purchase order:
BPO is one option of payment conditions

TSU

URBPO
adopted by ICC

Correspondent banking contract

Seller / Exporter

TSU Payment Service Agreement
BPO Agreement

Seller's bank in Singapore
MUFG

No additional bilateral agreement is required
Why TSU/BPO now?

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.g. 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
Customers’ Benefit #1

#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
Customers’ Benefit #2

#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.g. 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

1. Data Input on TSU
2. BPO issuance operation (utilize LC framework)
3. Data resubmission on TSU
4. Data Input for TSU
5. Operation for Bills Bought (with BPO)
6. Operation for B/R (Bills for receivable) Arrival
7. Operation for Settlement of Import B/R
8. BPO balance deduct Operation
9. Operation for settlement of Bills Bought

Original documents to be sent directly from Exporter to Importer
Comparing the Flows

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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