New Payment Method in International Trade; Bank Payment Obligation

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Abstract

International trade is one of the fundamental dynamics of globalization and it includes leading activities that provide countries with new opportunities for economic growth and development. But international trade emerges as a constantly changing in dynamic structure. These fast and dynamic activities, which play a crucial role in the economic life of the states, trying to adapt to changing technology at the same pace, have also become one of the most effective ways of developing countries and increasing prosperity. According to World Trade Organization figures, the volume of international trade, which was only about 120 billion dollars in 1948, jumped almost 300 times in 2017 to 35.7 trillion dollars.

The problem of payments, which is one of the biggest obstacles to international trade, has gradually begun to disappear with the development of banking, the time-keeping of foreign exchange legislation, the establishment and operation of foreign exchange markets, the use of more technological opportunities and the reduction of impediments to international capital movements. With the increase of international trade volume, countries have developed some payment methods by utilizing technological developments in foreign trade and financial innovations. Because each method of payment is created in a necessary manner, each has both advantages and disadvantages.

In response to the disadvantages of the existing payment methods, SWIFT and the International Chamber of Commerce (ICC) have established a new form of payment, under the commitment of paying the commodity price on condition that certain conditions, called as the Bank Payment Obligations (BPO), are irrevocably matched. This method of payment provides advantages in terms of reducing the risk by reducing the risk of not paying to both the buyer and the seller to the bank, reducing the costs and accelerating the operation. In the following periods, it is expected that the usage of the Bank Payment System will be widespread and that the costs will be reduced, mistakes will decrease and usage will be widespread. These Uniform Rules for Bank Payment Obligation which has been drafted and published in April 2013 by ICC introduce a new payment method in international trade law. In this study, we aims to investigate functions, the parties and general qualifications of the Bank Payment Obligation which is shortly known as BPO will be examined under the ICC URBPO Rules.

Key Words: International Trade, Method of Payments
Jel Codes: F10, F19

Özet

Günümüzde uluslararası ticaret küreselleşmenin temel dinamiklerinden biridir ve ülkelerin ekonomik büyüme ve kalkınma yolunda onlara yeni fırsatlar sunan faaliyetlerin başında gelmektedir. Fakat uluslararası ticaret sürekli değişen dinamik bir yapı olarak karşımıza çıkmaktadır. Değişen teknolojiye aynı hızla uyum sağlamaya çalışan ve devletlerin ekonomik hayatında son derece önemli bir rol oynayan bu hızlı ve dinamik faaliyetler bütünü, ülkelerin kalkınmasında ve refahın artmasında da en etkili yollardan biri olmuştur. Dünya Ticaret Örgütü rakamlarına göre 1948 yılında sadece 120 milyar dolar olan uluslararası ticaret hacmi, 2017 yılında neredeyse 300 kat artışla 35,7 trilyon dolara çıkmıştır.

Bankacılığın gelişimi, kambiyo mevzuatının zamanla oturması, döviz piyasalarının kurulması ve işler hale gelmesi, teknolojik imkanlardan daha fazla yararlanılması ve uluslararası sermaye hareketlerinin önündeki engellerin azalması ile uluslararası ticaretin önündeki en büyük engellerden biri olan ödemeler sorunu yavaş yavaş kaybolmaya başlamıştır. Uluslararası ticaret hacminin artması ile birlikte ülkeler, dış ticarette teknolojik gelişmelerden ve finansal yeniliklerden yararlanarak bazı ödeme yöntemleri geliştirmişlerdir. Çünkü her ödeme yöntemi bir ihtiyaca binaen oluşturulmuştur ve her birinin hem avantajları hem de dezavantajları vardır.

Mevcut ödeme yöntemlerinin dezavantajlarına karşı SWIFT şirketi ile Uluslararası Ticaret Odası (ICC) Banka Ödeme Yükümlülüğü (BPO) olarak adlandırdığı, bir tarafın diğer tarafa dönülemez biçimde belirli koşulların yerine getirilmesi şartı ile emtia bedelini ödeme taahhüdü altına girerek yeni bir ödeme şekli oluşturmuşlardır. Söz konusu ödeme yöntemi hem alıcıya hem de satıcıya ödememe riskini bankaya devrederek riski azaltması, maliyetlerin düşürülmesi ve işleyişin hızlandırılması gibi konularda avantaj sağlamaktadır. İlerleyen dönemlerde Banka Ödeme Yükümlülüğü sisteminin kullanımının yaygınlaşması ile işleyişteki hataların düzelerek maliyetlerin düşmesi, hataların azalması ve buna bağlı larak kullanımının yaygınlaşması beklenmektedir. Bu kapsamda ICC tarafından hazırlanan ve Nisan 2013 tarihinde yayımlanan Banka Ödeme Yükümlülüklerine İlişkin Birörnek Kurallar ile uluslararası ticarete yeni bir ödeme yükümlülüğü getirilmiştir. Çalışmamızda, İngilizce adının ilk harflerinin kısaltmasıyla BPO olarak anılan Bank Payment Order'ın ICC URBPO Kurallarına göre tarafları, işleyişi ve genel özellikleri incelenecektir.

Anahtar Kelimeler: Uluslararası Ticaret, Ödeme Yöntemleri

Jel Kodları: F10, F19

1.Introduction

As the globalism makes the world smaller in terms of economic activity, international trade is becoming more easily accessible for every outward oriented country. From the doctrine of mercantilism to today's world, various economic thought and practices dominated the trade policies. The first theories of international trade originated from the liberal reaction to the mercantilist domination from the 16th to the 18th century. After classical trade thought gained increasing influence and helped to ignite a trend towards more liberalized trade, a trend that would be led by Great Britain.[1] Until Second World War international trade has grown in fluctuating course. But after that economic superpowers United States of America and United Kingdom put into practice a plan for a more cooperative and open international system. The International Monetary Fund (IMF), World Bank, and International Trade Organization (ITO) arose out of the 1944 Bretton Woods Agreement. While the IMF and World Bank would play pivotal roles in the new international framework, the ITO failed to materialize, and its plan to oversee the development of a non-preferential multilateral trading order would be taken up by the GATT, established in 1947 to encourage the reduction of tariffs amongst member nations and thereby provide a foundation for the expansion of multilateral trade, the period that followed saw increasing waves of more regional trade agreements. With the help of collaborative process on elimination of barriers (tariffs, quotas, and nontariff barriers) against international trade, multilateral trade liberalization, economic integration, international trade achieved a great number both in size and monetary terms.[2] On the other hand stable growth of international trade is due to financial and technical innovations. It means they

[1] Carmen Elena Dorobăț, A Brief History Of International Trade Thought: From Pre-Doctrinal Contributions To The 21st Century Heterodox International Economic, The Journal Of Philosophical Economics: Reflections On Economic And Social Issues, Volume VIII, Issue 2, Spring 2015, ISSN 1843-2298, pp.106-114

[2] Economic Report of the President, The History And Future Of International Trade, Chapter: 7, The Annual Report Of The Council Of Economic Advisers Transmitted To The Congress, February 2006, United States Government Printing Office Washington ISBN 0-16-075418-6, pp.151-153

have played a pivotal role by facilitating or speeding transactions, decrease transactional uncertainty and offer new opportunities and new ways to operate.[3]

By the help of various payment methods, importers make their payments in safely and reduce money transfer cost. Secondly by choosing appropriate methods, exporter win sales against foreign competitors. So it is very important to select one of them. According to importers many circumstances and priorities will influence their choice of payment method. Factors to consider in choosing a method of payment by importers could be summarises as follows;

- ✓ *Cash flow availability and needs of importers,*
- ✓ *Relationship with their supplier,*
- ✓ *The economic conditions in the country to which you are importing,*
- ✓ *Interest rates and currency adjustment factors,*
- ✓ *Type of product,*
- ✓ *Cost of payment*
- ✓ *Supplier's creditworthiness*
- ✓ *The terms importer's competitors are offering*
- ✓ *Supplier's demands*
- ✓ *The urgency of the transaction*[4]

On the other side exporters must offer their customers attractive sales terms supported by the appropriate payment methods. Because getting paid in full and on time is the ultimate goal for each export sale, an appropriate payment method must be chosen carefully to minimize the payment risk while also accommodating the needs of the buyer. So exporters need to consider;

- ✓ *Commercial risk,*
- ✓ *Political risk,*
- ✓ *Transfers risk,*
- ✓ *Ease of use*
- ✓ *Cost of method*

When choosing the payment methods the above criteria must be taken into account by exporters. To meet various needs of the buyer and seller a number of payment methods are available.[5] In international trade generally four payment methods are used; (i) open account (cash against goods), (ii) advance payment (prepayment), (iii) bills for collection (documentary collection), and (iv) letters of credit (documentary credit). These payment methods attempt to unite the conflicting economic interests of the buyer&sellers involved in contract. The exporters would want fairly to obtain the payment as soon as possible, however, if the transport documents are documents of title to the goods, the exporter will not wish to part with these before having received payment, or at least confirmation that his draft has been accepted by opening bank. On the other hand, exporters would wish to postpone payment of the purchase price until the documents are no longer in the disposition of the exporter.[6] In the practice of international trade, there is different types of risks may occur. In this regard, various languages, cultures, trade procedures, exchange systems, political and economical systems and statutory law systems must

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[3]Daniele Giovannucci, Basic Trade Finance Tools: Payment Methods in International Trade A Guide to Developing Agricultural Markets and Agro-enterprises, World Bank, 2002, p.1

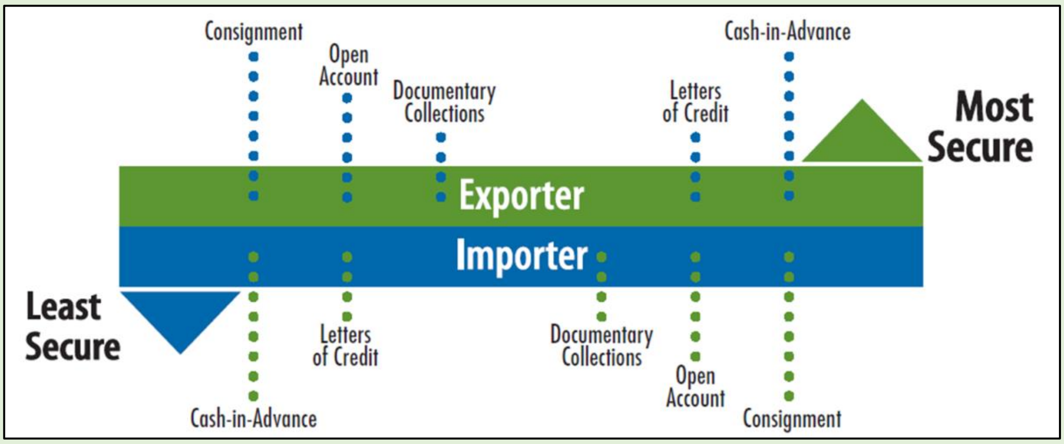
[4]Laurel Delaney, Factors to Consider When Choosing an Import Payment Method, https://www.thebalancesmb.com/how-to-choose-an-import-payment-method-195339, April 26, 2018.

[5]Trade Logistics, International Payment Methods, https://tradelogistics.co.za/wp-content/uploads/2016/09/International-Payment-Methods.pdf

[6] Hakan Tüfekçi, Canan Ünal, International Payment Methods, Marmara University Faculty of Law, Journal of Law Research, Year: 2010, Volume:16, Number:3-4 (327-351), pp.327-327.

be taken into consideration. As per the payment methods the risk ladder that exporter and importer are facing shown in figure 1. There are five primary methods of payment for international transactions. During or before contract negotiations, you should consider which method in the figure is mutually desirable for you and your customer.

Figure 1 Type of Payment and Risk Diagram



Source: https://2016.export.gov/tradefinanceguide/eg_main_043221.asp

International trade presents a spectrum of risk, which causes uncertainty over the timing of payments between the seller and buyer. For exporters, any sale is a gift until payment is received. Therefore, exporters want to receive payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer. For importers, any payment is a donation until the goods are received. Therefore, importers want to receive the goods as soon as possible but to delay payment as long as possible, preferably until after the goods are resold to generate enough income to pay the exporter.[7] In spite of the payment risk scale various payment methods are preferred more in some trade ares of the world. For instance in the Middle East, South America and Asia the letter of credit is preferred more while open account is used in Europe and North America; open account and bills of collection are favoured in the South Africa and Australia; and advance payment and letter of credit is mostly used in Africa and Russia.[8]

Over the years international trade has established various methods and payment mechanisms that are accepted globally by all financial institutions and other related parties. Today's business conditions are in high transformation by new technological advancement and innovations. With the spread of international trade in time, countries have developed some payment methods by using technology and financial innovations in international trade. These payment methods have brought mutual risk factors for buyer and seller.

In response to the disadvantages of the existing payment methods, SWIFT and the International Chamber of Commerce (ICC) have established a new form of payment, under the commitment of paying the commodity price on condition that certain conditions, called as the Bank Payment Obligations (BPO), are irrevocably matched. On April 17th, the ICC Banking Commission approved the URBPO contractual rules, which will be brought into effect from July 1st 2013. The Bank Payment Obligation (BPO) is a standardised, irrevocable payment instruction which uses ISO 20022 data structures. The

[7]Trade Finance Guide, Methods of Payment in International Trade, Chapter 1: November 2012, https://2016.export.gov/tradefinanceguide/eg_main_043221.asp, p.3

[8] SITPRO, Report on the Use of Export Letters of Credit 2001/2002, 11 April 2003, , http://www.sitpro.org.uk/reports/lettcredr/lettcredr.pdf, p.8.

BPO offers buyers and sellers a way to secure and finance their trade transactions, regardless of size, geography or industry. The BPO sits alongside payment terms such as letters of credit, advanced payment or open account. Unlike traditional instruments, however, the BPO combines legally binding rules with electronic messaging and matching capabilities.[9]

2. What is Bank Payment Obligation (BPO)

Bank Payment Obligation is an entirely new payment system designed to complement the shortcomings of today's payment methods. It is an alternative that brings solutions to the problems faced by companies that use goods payment and mutual payment methods in international trade. This is an irrevocable undertaking given by one bank to another bank that payment will be made on a specified date after successful electronic matching of data, generated by SWIFT's Trade Services Utility (TSU) or any equivalent Transaction Matching Application, based on Uniform Rules for BPO (URBPO) issued by ICC. The payment will be made on a specified date after a specified event has taken place. This 'specified event' is evidenced by a 'match' report that has been generated by SWIFT's Trade Services Utility (TSU) or any equivalent transaction matching application.[10]

Essentially, BPO is an alternate payment instrument to settle international trade with automated processing and reduced risk (paying to the seller). So it provides advantages in terms of reducing the risk of not paying to both the buyer and the seller to the bank for receiver, reducing the costs and accelerating the operation. In the following periods, the widespread use of the Bank Payment Obligations will reduce costs and improve operational errors. A key driver in developing the BPO was the opportunity for banks to tap into the huge proportion of payment transactions settled on an open account basis. It is hoped that trading counterparties, looking for a way to lower the risks of open account trading, but for whom letters of credit are not appropriate (perhaps due to cost, timing or the level of sophistication involved in making complying presentations), will turn to BPOs as a cheaper, perhaps simpler, alternative.[11]

BPO in nature differs really from traditional trade finance instruments. In case of traditional trade finance instruments like Letter of Credit (LC), the undertaking on irrevocable payment is between the banks and their corporate clients, whereas a BPO is an irrevocable payment undertaking between the buyer's bank and the seller's bank. A BPO exists between two banks: the obligor bank and the recipient bank. The seller has no direct claim against the obligor bank if the recipient bank fails to perform. Further, the relationship between the recipient bank and the seller is outside of the scope of URBPO. The terms on which the proceeds of a BPO are paid to the seller must be agreed separately between the recipient bank and the seller. By contrast, a letter of credit is issued in favour of the seller, meaning that the seller (as beneficiary) has a direct claim against the issuing bank (the buyer's bank) for payment.

Legacy trade finance processing and matching are paper based, manual, time consuming and expensive; whereas BPO processing is automated (electronic processing and matching) with the global standard ISO 20022 messages.

While a LC guarantees exchange of goods for payment based on physical presentation of compliant documentation, a BPO guarantees exchange of goods for payment based on electronic presentation of compliant data. Its established and managed by using TMAs. The entirely electronic nature of BPOs is

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[9] SWIFT, The Bank Payment Obligation (BPO), https://www.swift.com/our-solutions/corporates/drive-trade-digitisation/bank-payment-obligation, November 2013

[10] Kah Chye Tan, Bank Payment Obligation, A Banking Commission Supply Chain Finance project, International Chamber of Commerce. http://icc.tobb.org.tr/docs/Bank%20Payment%20Obligation.pdf, p.2.

[11] Geoffrey L. Wynne and Hannah Fearn, The Bank Payment Obligation: Will It Replace The Traditional Letter of Credit Now or Ever? Butterworths Journal of International Banking and Financial Law, February 2014, p.102.

reflected in URBPO, which defines the ISO 20022 trade services management messages (TSMT messages) used to communicate the existence and terms of BPOs between banks. However a letter of credit requires presentation of documents.

Thirdly the bank that receives a presentation under a letter of credit must examine those documents and actively decide whether to accept the presentation as complying or to reject it. UCP 600 contains a number of articles on how the bank should conduct this examination and the conditions On the other hand the automation of the data set comparison process in the mechanics of URBPO removes this element of subjectivity. The seller will provide shipping and invoice data to the recipient bank, who will submit this to the TMA. The TMA will automatically perform a comparison with the BPO's baseline, and generate a message confirming a data match or data mismatch. If there is a data mismatch the obligor bank makes no payment.[12]

Traditional trade finance instruments are characterized by high cost due to manual processing, frequent discrepancy handling and liquidity pressures. On the other hand, a BPO's automated processing and matching reduces the processing cost and enables banks to offer competitive rate to corporate for the BPO transaction. Timely delivery of matching reports on POs and invoices enables corporates to have quicker access to liquid resources.[13]

3. The Objectives of Bank Payment Obligation (BPO)

This new method of payment has offered different things than ever before. Firstly it provide an electronic payment assurance tool to facilitate open account operations and supply chain finance. It means BPO has merged both of these methods. Secondly it save time and papers in trading procedures. So make reducing cost of stationery expenses possible. Thirdly BPO is aimed to target at small and medium sized enterprise (SME) that forms about 80% of the incorporations in each developed or underdeveloped country. Fourthly BPO offers standardize product definitions in supply chain finance. Also BPO is linked up banks representing and chosen by the manufacturer, the supplier, the middleman, and the ultimate buyer to reduce Know Your Customers (KYC) costs. Lastly it provide end-to-end automation to limit processing time and costs by eliminating propriety formats.[14]

4. Benefits of Bank Payment Obligation (BPO)

A The BPO will provide the benefits of a letter of credit in an automated environment, without the drawbacks of manual processing connected with traditional way. It will also enable banks to offer risk mitigation and financing services across the whole supply chain to their customers. BPO is also enable banks to mitigate the risks related with international trade to the benefit of both buyers and sellers. In addition banks found flexible financing propositions across the supply chain, from pre-shipment to post-shipment. They provide an assurance of payment to the seller similar to that obtained under a confirmed letter of credit. So we can itemized benefits of BPO as mitigating risks in international trade for buyers and sellers, higher speed, more reliability, convenience for parties, reduced costs and improved accuracy, enhanced risk management, assurance of payment for exporters, access to flexible financing (options) for buyers and more securing the supply chain[15]

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[12]Geoffrey L. Wynne and Hannah Fearn, **a.g.e.**, pp.103-104

[13] ORACLE, Bank Payment Obligation: The New Global Standard for International Trade from SWIFT & ICC, The Financial Service Blog, May 22, 2013, https://blogs.oracle.com/financialservices/bank-payment-obligation:-the-new-global-standard-for-international-trade-from-swift-icc

[14] Introduction to and Comments on Bank Payment Obligation (BPO), T. O. Lee Consultants Ltd, 2013, Canada https://www.felaban.net/archivos_memorias/archivo20141107010042AM.pdf.

[15] Kah Chye Tan, **a.g.e.,** p.3.

Table 2 Benefits of BPO

For Impoters	For Exporters	For Banks
Safer than prepayment. The buyer does not have to pay up front before receiving the documents of title to the goods purchased	Assurance of payment	Low risk business
Facilitates financing for the buyer eg extended payables	Access to flexible pre-shipment or post-shipment finance	Prudent use of capital
BPO strengthens buyer/seller relationships. Secures the supply chain	The credit risk is transferred from the buyer to the Obligor bank	Steady source of commission and fee income
The buyer can confirm that the goods are shipped on or before the due date to the required specification	The buyer cannot refuse to pay due to a complaint about the goods	Strengthens core relationships
	Foreign exchange risk can be eliminated with a BPO issued in the currency of the seller’s country	Automated solution
The buyer can structure payment according to the buyer’s interests	The seller can structure the delivery schedule according to the seller’s interests, determining when payment will be made and shipping the goods accordingly	Lower operating costs
	The bank bears responsibility for any oversights	Meets the market requirement for banks to collaborate more on risk and client on-boarding
The buyer can negotiate better terms and conditions. By issuing a BPO, the buyer demonstrates the ability to pay and can negotiate improved terms in the future	Automated data matching reduces complexity and increases reliability	
The BPO protects the buyer since the bank only pays when the seller complies with the specific terms and conditions and produces the data required	By removing subjectivity of physical document - checking the risk of discrepancy, dispute and delay is reduced.	
The buyer can build safeguards into the BPO, including inspection of the goods and quality control, and set production and delivery times	BPO can be introduced at any stage of the transaction. Mismatches can be accepted	
BPO increases convenience; reduces cost	Automated processing accelerates settlement and financing	

Source: Kah Chye Tan, Bank Payment Obligation, p.7

The BPO offers buyers and sellers a way to secure and finance their trade transactions, regardless of size, geography or industry by using ISO 20022 data structures. This secure and fast electronic nature has gave many advantages to users. The advantages of Bank Payment Obligation in terms of buyers, sellers and banks can be summarized as follows:

Buyer's Advantages:

• In the Bank Paymant Obligation payment system, the buyer does not pay the money without buying the goods.

• Financing facilities are quite extensive.

• Timely execution of payment is provided.

• Documents, as there is no physical inspection costs.

Advantages of the seller:

• Payment is provided by a bank guarantee.

• Things like tracking and filing are reduced.

• Payments and financing are accelerated as transactions are made automatically.

• Credit usage is minimized.

• Payment plans can be configured by time.

• The dispute is reduced because the undertaking is between banks.

Bank's Advantages:

• Since it is an automation system, it provides quick solutions.

• There is the possibility of financing.

• It allows the bank to participate in all the actual processing.

• Since the data is recorded automatically, there is no confusion and productivity increases.

5. BPO Functioning and Parties (Mechanism and sides)

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. A BPO is established through the use of a Trans Matching Application (TMA), a centralised data matching and workflow application. 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. Transaction in BPO based on two main assumptions or expectations,

- ✓ *The use of minimum fields, the buyer, the seller and respective banks agree on the payment terms and conditions and on the minimum trade information required to assess the credit risk;*
- ✓ *The dispatch of documents, such as the bill of lading, certificate of origin and certificate of quality, from the seller directly to the buyer.*

There are some important parties in BPO process. By all means main actors in BPO are buyer (importer) and seller (exporter). Second one is buyer's bank. It can be an obligor bank. Third one is seller's bank. It can be defined as recipient bank. It's the drawee of obligor bank and makes payment. Obligor bank send it's message to this bank. Fourth one is involved bank. It refers seller's or buyer's bank in BPO process or it's a general description to describe a bank that participates in a BPO. Another party is submitting bank. Its duty is only presenting data according to established baseline.[16] In BPO process "Obligor bank" means buyer's bank under Bank Payment Obligations. Obligor bank issues the legally binding, valid, irrevocable but conditional and enforceable payment undertaking to Recipient Bank. Obligor bank is an equivalent term of issuing bank under letters of credit definitions. Second one is "Recipient Bank". It means seller's bank under Bank Payment Obligations. And lastly buyer (exporter) who received payment and seller (importer) who is responsible for paying for imported goods.[17] Another

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[16] Abdurrahman Özalp, Using BPO, New Method in Foreign Trade, Türkmen Publishing, 2014, p.38-39

[17] ICC Uniform Rules for Bank Payment Obligations (URBPO) - ICC Publication No.750, http://www.letterofcredit.biz/URBPO_750_ICC_Uniform_Rules_for_Bank_Payment_Obligations.html.

important item in BPO process is "Trade Services Utility" (TSU) which play a critical role. It is a centralised matching and workflow engine providing timely and accurate comparison of data taken from underlying corporate purchase agreements and related documents, such as commercial invoices, transport and insurance. The BPO process is mainly based on Transaction Matching Application (TMA). 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.[18]

Before using BPO, a company would first execute a BPO agreement with their bank, consistent with the process to initiate any other bank provided service. The buyer's bank would then communicate their obligation to pay the seller's bank – establishing the bank-to bank payment obligation. The bank that issues a BPO (obligor bank) is usually the buyer's bank and the beneficiary of a BPO (recipient bank) is usually the seller's bank. The criteria required for a successful data match is set up within the TSU or other data matching engine using purchase order data. This is referred to as the "baseline". Like an LC, a BPO can be set up for "payment due" on a sight or time basis. For example, payment due "on match" or payment due "30 days from match". The data elements required for matching are extracted from relevant open account documents such as purchase orders, commercial invoices, bills of lading and insurance /certificate documents.

In the BPO process the first phase is setting up an established baseline. Buyer submits purchase order data to its bank in order to setup a baseline. Secondly the baseline is submitted to the seller's bank via the pre-agreed matching engine (e.g. TSU). Thirdly the seller's bank accepts the submission, typically after obtaining agreement from the seller. This establishes the baseline. Fourthly a BPO may be included on the original baseline submission or may be added as an amendment to an established baseline. In the second phase of BPO payment is completed by effecting the obligation. The seller submits the required data to their bank (recipient bank), or presents actual documents that the bank can use to create the dataset(s). The bank then submits the datasets to the TSU. The TSU performs the data matching and provides results to the involved banks. In the case of a mismatch, the obligor bank may choose to either accept or reject the discrepancies. Lastly a successful match, or acceptance of a mismatch, binds the obligor bank to pay the recipient bank in accordance with the payment terms of the BPO.[19]

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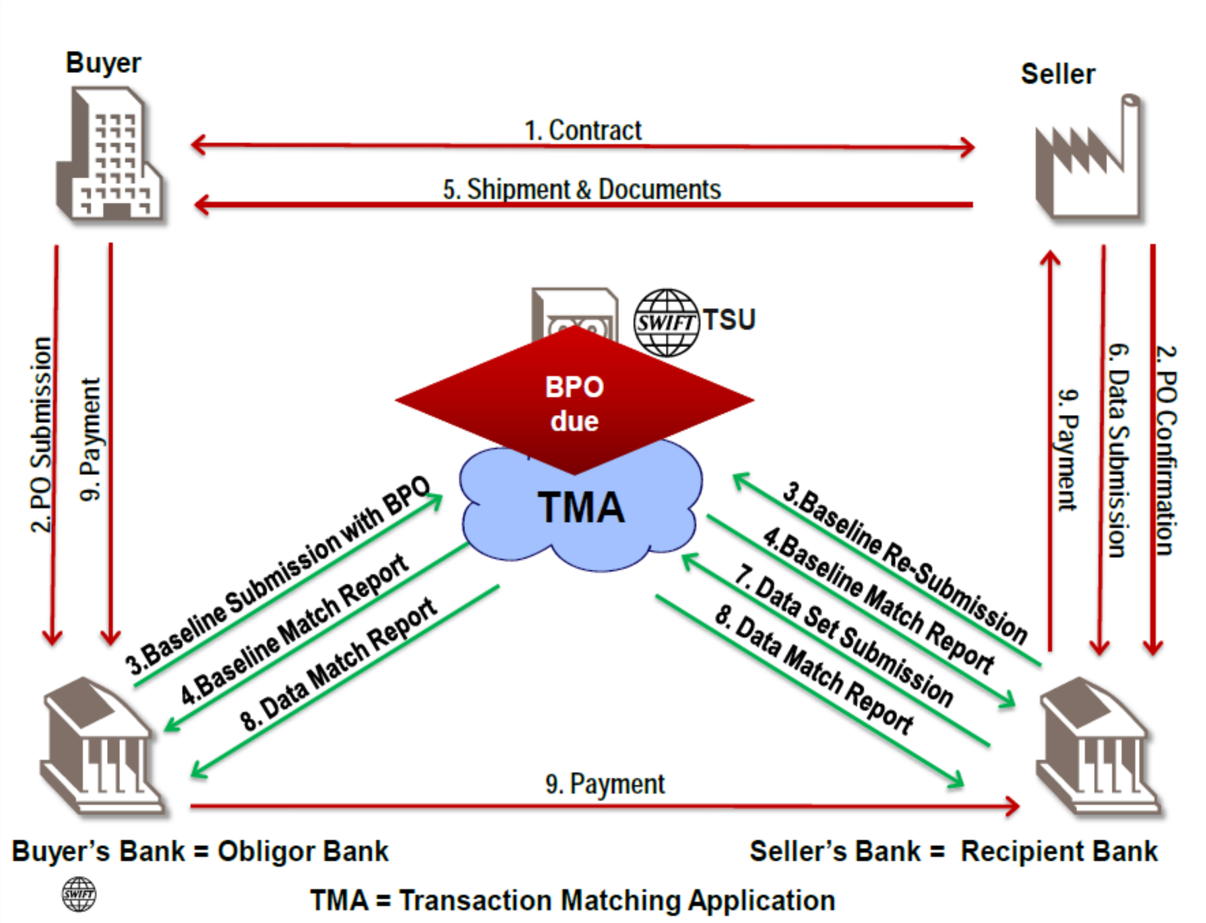
[18] International Chamber of Commerce (ICC), Uniform Rules for Bank Payment Obligations, Version 1.0, 2013, ICC Services Publications Department 33-43 Avenue du Président Wilson 75116 Paris, France, ICC Publication No. 750E, ISBN: 978-92-842-0196-9, p.7.

[19] JP Morgan Treasury Service, Bank Payment Obligation, https://www.jpmorgan.com/cm/BlobServer?blobkey=id&blobnocache=true&blobwhere=1320615847712&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs&blobheadername1=Content-disposition&blobheadervalue1=attachment;filename=SWIFT_BankPaymentObligation%20-%202013-07.pdf 2013, p.1.

Figure 2 Establishment of a BPO in a TMA



Source: http://docplayer.net/22239591-Bank-payment-obligation.html[20]

According to Figure 1, seller and buyer firstly contract an agreement between them. Secondly the buyer's bank submits a baseline based on the purchase order (PO) data, and the seller bank uses the purchase order data to resubmit the baseline. This enables the transaction i.e. baseline to become established and seller submit PO confirmation to seller's bank. In the third step receipent bank submit baseline re-submission to TMA process and then get baseline match report from it. This report is also sent to buyer's bank. In the fifth step goods are shipped and documents are sent by courier. Once the goods have been shipped, the seller's bank submits the data received from the seller to the TMA. Afterwards seller's bank submits data set to TMA to match. In the last step the data set match report confirms that the invoice and the transport data match the baseline and the BPO is due.

6. Conclusion

Bank Payment Obligation (BPO) is a new financial instrument governed by legally binding rules in the market and believed by many to become the preferred payment method of the future. We are living in an information age. Globalisation has removed trade barrier and shortened distance between countries. Besides global trade is challenged by fraudulent activity, market dynamics, and liquidity within many companies. Also in the context of digitisation we need creative solutions. These factors have given rise to innovative development in international business world. If we look at back the most notable development had occurred at payment and delivery terms. One of them is Bank Payment

[20] David Dobbing, Bank Payment Obligation, IBLP - 2012 Singapore Annual LC Survey Conferencehttp://docplayer.net/22239591-Bank-payment-obligation.html

Obligation (BPO). It is an e-commerce (paperless) solution which offers a form of risk mitigation between suppliers and buyers via a bank. It has been suggested to importers and exporters which host speed latest technology and trust factors inside. One of the most critical issues in foreign trade is payment. For both of exporter and importer they have paid high attention about how and when payment will be done. Thus far with effect of competition traditional payment terms such as cash, cash against documents and letter of credit remained inadequate, unreliable and expensive. To meet these needs developing new payment method BPO has taken place in foreign trade since 2013. With all its parts BPO is different and distinct from traditional methods. The safety of business activity is entirely related to the payment terms. So companies must closely follow these developments for assurance of payment, reduce risk, get speed and use as collateral for finance and apply suitable solutions to their commercial activities.

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