Bank Payment Obligation (BPO)
Frequently Asked Questions for Banks
Prepared by the ICC Banking Commission

Summary and highlights

- As the Bank Payment Obligation (BPO) has been adapted by the ICC Banking Commission this discussion paper has been developed to answer questions from Banks who are becoming experienced in respect of the BPO.

- This guide can be used in conjunction with the Uniform Rules for Bank Payment Obligations (URBPO), ICC Publication No.750E.
Section 1

About The Concept

Concept and Value Proposition:

What is meant by "ICC adoption of BPO"?

The BPO adoption process has resulted in the publication by the ICC of a set of rules governing the usage of the BPO called the Uniform Rules for Bank Payment Obligation (URBPO). URBPO supports market adoption of the BPO regardless of the underlying technology.

The use of the word “trade” in Article 1 of the rules seems to exclude “services” but in later articles it seems to include services.

The BPO can be applied to both goods as well as services, as long as the underlying trade transaction satisfies the commercial invoice data requirements as mentioned on Article 7.

Why is the bank the beneficiary of the BPO?

The BPO is an inter-bank instrument, and the relation between Banks is subject to the same rules and standard practices. That’s why the URBPO have been restricted to the bank-to-bank space, hence why the beneficiary of the BPO is the Recipient Bank.

Can the BPO be transferred from an agent to a producer?

The BPO is a bank-to-bank instrument and is thus not transferable. However, as part of each bank’s individual value proposition, they could potentially enter into an agreement transferring the proceeds to a third party not engaged in the transaction. So there is a possibility for assignment but no concept of a true transfer.

Section 2

Roles and Definitions:

Buyer’s Bank: The bank of the buyer.
Obligor Bank: The bank that issues a BPO.

Seller’s Bank/Recipient Bank: The bank that submits data to a TMA and becomes the beneficiary of a BPO when a Baseline is established.

Submitting Bank: The bank whose only role is to submit one or more Data Sets under an Established Baseline.

Involved Bank: General description to describe a bank that participates in a BPO.

An Obligor Bank may be a bank other than the Buyer’s Bank but the Recipient Bank is always the Seller’s Bank.

**Agreement Between Banks**

**Is it necessary to have an agreement between banks?**

All banks participating in a BPO transaction must subscribe to a common Transaction Matching Application and in so doing accept the terms set out by that TMA. The establishment of a baseline represents the agreement between banks for any given transaction. There is no need for bilateral agreements to be signed separately between banks.

Under the URBPO banks who subscribe to the rules are governed by them as is the case under UCP or other ICC publications.

**Section 3**

**Standardization**

**Is there an internationally accepted standard for the BPO?**

The ICC has published rules governing the BPO, the Uniform Rules for the Bank Payment Obligation, ICC Publication No.750 (URBPO) which are expected to have the same effect as UCP 600 have for L/Cs.

URBPO supports the market adoption of the BPO regardless of the underlying technology.

**What standard message types are used in BPO transactions?**

The message infrastructure supporting the BPO is different to the traditional SWIFT messages used in the Trade Finance (e.g. MT4xx and MT7xx series). Messages sent and received by any involved banks through any TMA (Transaction Matching Application) must comply with International Standard format. Nevertheless, in the corporate-to-bank space any channel can be used to transfer the data (depending on the arrangement with the respective bank) reducing the demands on the commercial parties.

Prior efforts to provide settlement via data exchange require all participants, banks and commercial parties, to subject themselves to the same rules and to
use standard formats. Gaining conformance among all parties proved problematic. Hence the decision to enforce standardization among the banks by means of the mandatory use of ISO 20022 standards for Trade Services Management (ISO 20022 TSMT)

**What are ISO 20022 TSMT standards?**

The International Organization for Standardization (known as ISO) is the largest developer and publisher of International standards. ISO 20022 is a set of standards developed by ISO for use in the financial industry.

ISO organizes the different messages by business area, each one of which identified by a four-character business area code, TSMT is the area code for Trade Services Management area.

NB: The relevant ISO 20022 TSMT messaging standards and related documentation are not proprietary to any technology provider or financial institution publicly and are available on the iso20022 web site (www.iso20022.org), page "Catalogue of ISO 20022 messages" tsmt.001-052.

**Does the Customer - to - Bank channel require the use of a Transaction Matching Application (TMA) or ISO 20022 TSMT messages?**

No. The customer-to-bank channel is not regulated by the URBPO. The relationship between banks and customers is an open competitive space in which any channel, any formats, any solution can be used to pass the data.

The mandatory ISO 20022 TSMT messaging standards and the URBPO are only applicable to the bank-to-bank space, for the customer-to-bank space there are no standards or mandatory channels or technical solutions. Therefore, data can be passed from a corporate on to its bank in a paper-based, fax, mail or XML message format.

In the contrary, the bank-to-bank channel requires the use of ISO 20022 TSMT messaging standards and a TMA application as platform for the exchange of messages between banks.

**Baseline and Data Set Requirements**

**How is a baseline established?**

The buyer and seller need to agree on the use of the BPO, the payment terms and conditions, the banks involved and what data elements of the trade transaction are necessary in order to effect payment. They then instruct their banks to create the appropriate baselines.

A baseline can only be established between banks by means of exchanging structured data messages in ISO 20022 TMST format through a TMA.
Who decides the data to be matched?

The data set to be matched is determined by mutual agreement between the buyer and the seller, who instruct their respective banks given that a data set can only be submitted by the bank.

Is there a minimum of data set required?

The baseline will normally include information extracted from the purchase order, details of the BPO (if any), payment terms and any other processing requirements.

Data elements which form part of the BPO transaction represent the following document types: purchase order, commercial invoice, transport and insurance documents and certificates.

Purchasing details and invoice data fields are mandatory while other commercial additional data, transport, insurance and certificates are optional fields.

The minimum data fields required to be submitted (*if elected) are as follows:

Baseline:

- Transaction reference
- Purchase Order reference
- Buyer name and country
- Buyer’s Bank identifier code (BIC8)
- Seller’s name and country
- Seller’s Bank identifier code (BIC8)
- Goods: quantity and amount per line item
- Payment terms
- Commercial Data Set submitting bank identifier code (Seller’s Bank or Submitting Bank)
- BPO (optional)
  - Obligor Bank
  - Recipient Bank
  - Amount
  - Expiry Date
- Contact Person (either Buyer’s Bank or Seller’s Bank)

Commercial Data Set:

- Transaction reference
- Commercial Data Set Identifier
- Invoice number and issue date
- Purchase Order reference
- Buyer name and country
- Buyer’s Bank identifier code (BIC8)
- Seller’s name and country
• Seller’s Bank identifier code (BIC8)
• Payment terms
• Goods: quantity and amount per line item
• Settlement terms: Identification of Creditor Account

Transport Data Set*:
• Transport Data Set Identifier
• Consignor: name and country
• Transport document reference and date of issue
• Proposed or Actual Shipment Date
• Transport: at least one Port of Origin and one Destination
• Purchase Order reference

Insurance Data Set*:
• Insurance Data Set Identifier
• Issuer of insurance policy: name and country
• Issue date
• Insurance document reference
• Insured amount
• Assured party: bank identifier code (BIC8) or name and address
• Where claims payable

Certificate Data Set*:
• Certificate Data Set Identifier
• Certificate identification
• Certificate type
• Certified characteristics
• Issuer of certificate: name and country
• Issue date

Other (Certificate) Data Set*:
• Certificate Data Set Identifier
• Certificate identification
• Certificate type
• Issuer of certificate: name and country
• Issue date

Data Match and Enforceability

How will the established baseline become enforceable?

The enforceability of a BPO ultimately depends upon the matching of data.

The established baseline will determine exactly what data elements need to be matched in order for the BPO to become due.
Who has the final say for resolving a mismatch, the Buyer or the Bank?

In most cases the Buyer will have the final say to resolve a mismatch though they may delegate resolution of some mismatches to the bank. In any case, the Obligor bank has no obligation to waive a mismatch.

Section 4

Workflow

To establish a baseline, either the Buyer’s Bank or Seller’s Bank submits an Initial Baseline Submission to a Transaction Matching Application. A Baseline may or may not include a requirement for a BPO and that a BPO can be incorporated at any time after a Baseline has been Established.

Before data can be submitted to a TMA a number of items such as below must be pre-agreed between the Buyer and the Seller and their respective banks:

- The applicable data elements of the underlying trade transaction against which a match of data sets will be made.
- The conditions that will apply to the Bank Payment Obligation which will include the name of the Obligor Bank, the currency and amount, expiry date.
- The method of delivery of the Baseline and shipment data from the Buyer and Seller to their respective banks.

The Buyer’s Bank and Seller’s Bank may impose additional data requirements either for internal policy or regulatory reasons. Such as the name of the vessel, the routing of the shipment e.g. port / place of loading and port/place of discharge, origin of goods or services, the names of the entities involved in providing some of the required data such as, carrier, agent of the carrier, an insurance company or inspection company.

How is the BPO workflow?

From the bank perspective, the process is as follows:

1. The buyer’s bank submits a baseline based on the purchase order data, and the seller bank uses the purchase order data to resubmit the baseline. This enables the transaction i.e. baseline to become established.
2. Both, the buyer’s bank and the seller’s bank, receive a baseline match report to confirm that the two baselines match.
3. Once the goods have been shipped, the seller’s bank submits the data received from the seller to the TMA.
4. The data set match report confirms that the invoice and the transport data match the baseline and the BPO is due.
Is it correct that no documents will be sent to the banks?

Correct. No physical or electronic documents are required to be routed through the banking system when using the BPO. With a BPO, the banks deal in data, not documents.

Can the payment terms be added after the establishment of a baseline?

Yes. The part of a baseline that incorporates the terms on which payment is to be made is designated as “Payment Obligation segment” or “payment obligation”. A baseline can be established just with the purchase order data while the payment obligation can be added later but before shipment.

Section 5

Relation with Other Products

BPO versus L/Cs:

What is the difference between a L/C and a BPO?

A BPO is an irrevocable undertaking given by an Obligor Bank (typically the Buyer’s Bank) to a Recipient Bank (always the Seller’s Bank) to pay a specified amount under the condition of a successful electronic matching of data or acceptance mismatches.

A BPO is bank-to-bank scope, the interaction between a bank and their corporate client is what we describe as competitive space.

A BPO is conditional and subject to a successful electronic matching of data or acceptance of mismatches, using a TMA (centralized data matching and workflow application). This not only helps optimize processing times but also facilitates in reducing operational risks.

Contrary to the above, A L/C requires physical presentation of documents through the banking system. Under a BPO the physical documents are sent from the seller to the buyer as with an open account trade.

However, either bank may request the physical presentation of documents as with LC’s but this process is outside of the scope of the BPO and URBPO. The following are a few plausible situations where this may occur:

- The Recipient bank is providing data entry services
- Local regulations require parties to do so
- The bank’s internal policies request this, be it as a form of collateral or to perform the necessary sanction controls.
What is the risk differential between BPO & LC?

The BPO is an inter-bank instrument to which the corporate are not a party and is designed to mitigate the risk for the Recipient Bank. Any risk mitigation by the Recipient Bank in favour of the seller is separate from the BPO. The BPO thus enables a bank (Obligor Bank or Recipient Bank) to provide risk mitigation in the context of an open account and supply chain financing solution. Both the L/C and the BPO can therefore act as a) a means of mitigating risk; b) providing the exporter assurance of payment; c) a form of collateral for financing. As the BPO is focused on open account transactions, it is conducive to support a broader range of financing options including pre-export and supply chain finance.

The Obligor bank cannot use documents as collateral as is the case with an L/C, other than outside of the BPO process.

What is the difference between a BPO and a L/C using eUCP? How can transport documents like a bill of lading be handled under BPO?

The letter of credit and the BPO represent two alternative methods of payment. Where a letter of credit allows the presentation of electronic records the related terms of payment will be governed by eUCP as a supplement to UCP. If a BPO is used, the related terms of payment will be governed by the URBPO. In this case, the proposition is enhanced by the automated matching of data. Transport documents like bills of lading will provide a source of such data to populate the fields that are included in the transport data set. The information in the transport data set is matched against information in the baseline and other data sets. In this case, the transport (routing) information in the transport data set is matched against the corresponding transport (routing) information in the baseline. Physical documents will move between seller and buyer outside of the banking channels unless otherwise agreed by the parties.

Similar to the L/C, is it possible to have a BPO “confirmed”?  

The BPO is a bank-to-bank obligation. As such a BPO Recipient Bank may be taking on the risk that the BPO Obligor Bank does not pay. Since the BPO is bank-to-bank only the BPO cannot be “confirmed” in the same way as an L/C can be confirmed. However, the exact terms of payment would normally be covered in the Bank/Customer Agreement. This means in effect that in all cases the seller’s own bank (which is always the BPO Recipient Bank) will be the bank that “confirms” payment to the seller if agreed separately.

BPO versus Guarantees:

The assurance of payment under an established BPO is similar to a guarantee or a Standby L/Cs?

No. The BPO is a primary payment obligation independent of the underlying trade transaction between buyer and seller. Once established, the BPO
becomes an irrevocable obligation to pay subject to a previous data match of delivery data and in this respect, as payment assurance, it is similar in nature to letters of credit and not to the commercial guarantees or standby L/Cs which are secondary obligations triggered by the occurrence of a previous default from the buyer.

**BPO versus Documentary Collections:**

Will the BPO be a good alternative for documentary collections as well? If yes, what about physical documents?

A documentary collection may be regarded as a more secure alternative for the seller compared to trading on open account, but less secure than a L/C. The BPO is more secure than a documentary collection since there would be an obligation to pay. This obligation is based upon the presentation of data through the banking system rather than physical documents. The documents would be sent directly to the buyer.

**Section 6**

**Obligations And Responsibilities**

If the buyer does not pay, who is responsible to pay the seller, Obligor Bank or Recipient Bank?

The only obligation arising from a BPO is that of the BPO issuing Obligor Bank to pay the BPO Recipient Bank. The obligation of the BPO Recipient Bank to pay the seller as ultimate beneficiary will be covered in the underlying agreement between bank and customer.

If the Buyer’s Bank does not perform in a timely manner, is there an obligation on the part of the Seller’s Bank to pay the seller?

No. The URBPO relates only to the obligation of the Obligor Bank (often but not always the Buyers Bank) to pay the BPO Recipient Bank (always the Sellers Bank). However, under the service agreement between the Seller’s Bank (BPO Recipient Bank) and the seller, the former may have taken on certain commitments which go beyond URBPO.

If the Obligor’s Bank goes bankrupt, who’s responsible for paying?

This depends entirely on the agreement the exporter has with the BPO Recipient Bank. If the seller has received an additional payment undertaking from the Recipient Bank, then the latter would still have to pay in case the Obligor Bank goes bankrupt.
How would a BPO prevent a fraudulent shipment?

The BPO does not by itself prevent fraud. Of course, banks will be required to carry out their standard KYC & due diligence checks for their customers before engaging in any transactions. However, banks submitting data are not required to validate the data they submit to the TMA but are only expected to ensure that the data received from their customer is the same as the data submitted.

Who in the chain of the BPO banks guarantees the correctness of the shipment of the goods as is the case in an export L/C where the exporter’s bank verifies the truth and validity of the shipping docs?

According to the URBPO, an involved bank assumes no liability or responsibility for the accuracy of the data. However, a financial institution must ensure that the data it submits to the Transaction Matching Application accurately reflects the data and information it received.” In the case of an L/C, the bank does not verify the “truth” of the documents. It checks that the documents are compliant “on their face”. Under a BPO, the bank’s responsibilities are much the same as they rely on the data.

It is suggested that bank’s undertake the necessary due diligence when offering the BPO to their clients as it is recommended to only offer the product to those with a long standing relationship.

Section 7

Benefits to Banks

The benefits to a Bank include:

- New revenue opportunities in the Open Account space.
- New financing opportunities throughout the entire supply chain.
- Scope for improved customer offerings by the development of more flexible options and solutions
- Automated solution
- Lower operating costs
- Possibility to spread the credit risk with multiple Obligor Banks
- Reduced cost for customers due to no vetting and limited paper document presentation.
- Clearer visibility over the process
- Reduced operating risk

Finance Opportunities

Pre-Shipment Finance:

The issuance of a BPO can allow banks to offer the same type of pre-shipment financing that they offer for documentary credit and documentary collection transactions.
An example of Pre-Shipment Finance is:
- The Buyer sends a Purchase Order to the Seller
- The Seller requests a BPO based on the Purchase Order data
- The Buyer agrees to a BPO based on the Purchase Order data
- When the BPO is in place the Seller’s Bank can offer pre-shipment financing to the Seller.

Pre-shipment financing can be offered at any point in the supply chain and may be conditioned on the issuance of a BPO or the expectation of a BPO being issued before shipment.

The Buyer’s risk of non-payment has been replaced by the BPO. The Seller’s Bank risk is that of the performance of the seller in shipping the required goods or providing the required services or performance.

**Post-Shipment Finance:**

The issuance of a BPO can allow banks to offer the same type of post-shipment financing that they offer for documentary credit and documentary collection transactions.

An example of Post-Shipment Finance is:
- On shipment of the goods the Seller provides the transport and invoice data to the Recipient Bank.
- The Seller also forwards the original documents to the Buyer.
- Upon the successful matching of the data, the Recipient Bank can now offer post-shipment financing to the Seller based on the undertaking given by one or more Obligor Banks.
- The Obligor Bank makes payment on maturity to the Recipient Bank.

**Section 8**

**Charges**

**Under the BPO, are the banks expected to charge fees to their customers?**

Yes. The banks will set their own tariffs when charging the corporate customer. Those charges will vary from bank to bank. Fees paid to the Obligor Bank will typically reflect the transaction processing costs of managing data input/exchange with the Transaction Matching Application (TMA) as well as a risk premium for the buyer based upon their credit worthiness. The Recipient Bank will charge fees for transaction processing costs of managing data input/exchange with the TMA on behalf of the seller and possibly, a risk premium associated with the credit worthiness of the Obligor Bank if the Recipient Bank
is offering some form of risk mitigation to the exporter.

**BPO fees versus those of L/C**

Each bank will set its own tariff and charges will thus vary from bank to bank. It is expected that the use of a Transaction Matching Application will reduce the transaction processing costs compared to LC fees. Risk fees are expected to be at the same rate as for an LC but may be charged for a shorter period as a BPO can be added at any point in the trade cycle, so exposure duration is likely to be shorter than with an LC.

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**Section 9**

**Capital Treatment of BPO**

A BPO should not be treated as a (performance related) Guarantee or Standby Letter of Credit. A BPO is a payment instrument with self-liquidating characteristics and is part of the trade cycle (one party delivers, the other pays). The execution is triggered by a shipment of goods or a rendering of services, evidenced by a successful data matching process. A BPO is contingent, and initially unfunded. Capital treatment is similar for the Obligor Bank and the Recipient Bank in cases where the Obligor bank issues an L/C.

Additional information can be found in another ICC publication:


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**Section 10**

**Law and Jurisdiction**

**Does the legal enforceability of the concept need to be checked in each jurisdiction?**

Unless otherwise specified in the BPO the governing law and jurisdiction will be that of the Obligor Bank.

**Is the BPO enforceable in all jurisdictions?**

The BPO is a new instrument and will have to be tested in law. Historically, we found that local jurisdictions are willing to comply with rules that are published by a global governing organization such as the International Chamber of Commerce (i.e. the UCP 600 for Documentary Credits) – there is no reason why we would not expect the same treatment for URBPO.
The International Chamber of Commerce (ICC)

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote open international trade and investment and help business meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization’s origins early in the 20th century. The small group of far-sighted business leaders who founded ICC called themselves “the merchants of peace”.

ICC has three main activities: rule setting, dispute resolution, and policy advocacy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world’s leading arbitral institution. Another service is the World Chambers Federation, ICC’s worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice. ICC also offers specialized training and seminars and is an industry-leading publisher of practical and educational reference tools for international business, banking and arbitration.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on relevant technical subjects. These include anti-corruption, banking, the digital economy, marketing ethics, environment and energy, competition policy and intellectual property, among others.

ICC works closely with the United Nations, the World Trade Organization and intergovernmental forums including the G20.

ICC was founded in 1919. Today its global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries. National committees work with ICC members in their countries to address their concerns and convey to their governments the business views formulated by ICC.