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SWIFT TSU Adds Efficiency, Financing, Risk Mitigation to Open Account Trade

A new SWIFT resource aims to help banks improve working capital management, risk mitigation and efficiency for their corporate clients conducting international trade on open account terms.

Corporations can expect the services that banks offer in support of open account transactions to expand as more banks embrace this new resource, the SWIFT Trade Services Utility (TSU). In particular, the TSU is helping banks offer more supply chain financing services to their corporate clients.

Furthermore, a new risk instrument introduced as part of the TSU offering — the Bank Payment Obligation (BPO) — aims to protect open account transactions similar to the way letters of credit or collections mitigate risk in traditional trade.

Open Account Data Standards

Brussels-based SWIFT is best known as the global provider of secure, standardized financial messaging services. Through the TSU, SWIFT has introduced standards for bank-to-bank exchange of open account transaction data.

SWIFT developed the TSU in response to the corporate world's shift from traditional trade instruments, namely letters of credit and documentary collections, to a greater reliance on open account terms. According to SWIFT estimates, more than 80% of global trade is now conducted on open account.

First introduced by SWIFT in 2007, the TSU is a data matching and workflow engine. Banks registering with the TSU are able to share buyer and seller data sets in a standard format. The TSU allows banks to share data from purchase orders, invoices, bills of lading, insurance certificates and other documents, without the traditional exchange of paper.

How Bank Clients Benefit

Corporations working with a TSU-member bank are able to exchange documents and data related to open account trade, and match and reconcile that data, in a more automated, efficient fashion. What's more, they're able to improve working capital management by increasing visibility into the status of trade transactions, which facilitates collections and enables them to better manage their trade terms.

Additionally, because the TSU creates transparency in open account transactions — for example, allowing trading partners and their banks to see when an order or an invoice has been accepted and approved — banks will be able to provide more services around those transactions. Once there is transparency, banks can offer credit risk mitigation tools, pre- and post-shipment financing, as well as inventory receivables financing.

Bank Payment Obligation

The SWIFT TSU initiative has been garnering more interest following the introduction last year of the Bank Payment Obligation. The BPO represents an irrevocable undertaking given on the part of one bank (the obligor bank) to pay another bank (the seller's bank) provided a number of predetermined conditions have been fully satisfied by the electronic matching of data within the TSU.

The instrument will provide companies trading on open account with a risk mitigation tool that serves much the same purpose as a letter of credit.

A group of TSU banks is currently working to formulate a common legal framework and take other steps to commercialize the BPO. Completion of this project offers the opportunity to usher new risk management tools into the open account trade market.

The TSU brings value without the BPO, but the new instrument is seen as a very important risk-mitigation component of the overall offering.

Deutsche Bank Pilots a Solution

Deutsche Bank, one of more than 100 TSU member banks in 32 countries, has embarked on a strategic initiative to bring TSU benefits to its corporate clients. As a first step, the bank earlier this year completed an integrated, automated platform that allows it to communicate with SWIFT. Deutsche Bank has been testing the platform with other banks and is on the verge of piloting a TSU-supported trade solution with two corporations in the pharmaceuticals industry.

The companies will be exchanging open account trade data over Deutsche Bank's platform. They are looking to reduce the extensive staff time currently being spent on trade data reconciliation and to speed up the collection process to facilitate payments and financing opportunities.

To learn more about how your company can leverage the SWIFT TSU through Deutsche Bank, contact your Global Transaction Banking representative. You can also [visit the SWIFT Web site](#) to learn more about the Trade Services Utility.