

## Global Trade Advisor — Spring 2010

### SWIFT's Trade Services Utility expected to broaden supply chain financing

Corporations conducting international trade on open account terms can expect the services that banks offer in support of these transactions to expand when a relatively new SWIFT initiative — the Trade Services Utility (TSU) — gains more registered bank users across the globe.

Operating behind the scenes as a bank-to-bank application, the TSU holds promise for reducing the number of proprietary banking systems corporations use to transact trade on open account. Additionally, the TSU should help banks offer more supply chain financing services to their corporate clients.

Furthermore, a new debt instrument introduced as part of the TSU's second release in 2009 — the Bank Payment Obligation — aims to protect open account transactions similar to the way letters of credit 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 can share buyer and seller data sets in a standard format," says Deborah Seliski, global head, traditional trade channels and supply chain services at RBS, and chairperson of SWIFT's North America TSU Regional User Group. "The TSU lets banks share data from purchase orders, invoices, bills of lading, insurance certificates and other documents.

"There is no exchange of paper, so this is very different from how banks have traditionally operated," Seliski notes.

#### **How companies may benefit**

Because the TSU creates transparency in open account transactions, banks will be able to provide more services around those transactions, including financing, Seliski says. "Once there is transparency, banks can offer credit risk mitigation tools, pre- and post-shipment financing, as well as

inventory receivables financing," she says. "With the data flowing in a standardized format, banks will also be able to offer data mapping to a client's back-office system."

Some larger banks, such as RBS, have already built proprietary systems for supply chain finance and data mapping services. But corporate clients of these banks can still benefit from the TSU.

"Let's say you are a supplier in Asia with many U.S. customers that all use different banks," Seliski explains. "If you're selling on open account, you could be forced into using multiple proprietary banking systems. But if your bank is a registered TSU user, you can just work with that bank while your buyers work with their banks, with the TSU acting as a connection point."

The TSU's ability to capture detailed information on each transaction also should help companies manage their customs compliance programs, Seliski adds.

### **Bank Payment Obligation**

Last fall, SWIFT announced that more than 100 banks had registered as TSU users, but in general banks have been slow to embrace the service, Seliski says. Its second release last year is garnering more interest, however, due to its introduction of the Bank Payment Obligation (BPO).

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. "For those companies that want to continue to do business on an open account basis, the BPO can provide an extra level of protection that they don't have today," Seliski says.

Banks and regulators around the world are still in the process of approving the BPO for use, she says.

### **RBS and the TSU**

RBS has participated in TSU's development from the beginning, Seliski says. "Even though we have built our own proprietary platform and already offer clients supply chain finance services, we appreciate how the TSU will facilitate the exchange of information between our customers and their counterparties, who won't have to use multiple banking systems," she says.

To learn more about the SWIFT TSU or the BPO, contact your RBS Global Trade Finance advisor or [visit the SWIFT Web site](#).