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Simple, Transparent and Effective Processes For Global Commerce

BUSINESS REQUIREMENTS SPECIFICATION (BRS)

Business Domain: Supply Chain PDA – Finance and Payment

Business Process: Purchase Order Financing

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UN/CEFACT Buy/Pay PDA: Finance and Payment Domain

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41**Document Summary**

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45**Log of Changes**

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0.00.03	06 February 2017		Feedback from team members and stakeholders

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62 1. Preamble

63 This document describes the Purchase Order Financing request process being a part of the
64 payment process for financing the trading parties that lack the funds to pay their suppliers such as
65 the customer and the supplier in the supply chain process.

66

67 2. References

68

69 • UN/CEFACT. Techniques and Methodologies Group (TMG). CEFACT's Modelling Methodology
70 (UMM): UMM Meta Model – Foundation Module. (Candidate for 2.0). 2009-01-30

71

72 • Common Supply Chain Requirements (BRS)

73

74 • Business Requirements Specification (BRS) Documentation Template, version 2.0

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77 3. Objective

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79 This document aims to define the Business Processes and the Business Transaction of the
Purchase Order Financing in the supply chain finance.

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81 The Business Process is the detailed description of the way trading partners intend to play their
82 respective roles, establish business relations and share responsibilities to interact efficiently with the
support of their respective information systems.

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84 Each Business Transaction is realized by an exchange of Business Documents (also called
85 messages). The sequence in which these messages are used, composes a particular instance of a
scenario and are presented as use cases in the document.

86

87 The business documents are composed of Business Information Entities (BIE), which are preferably
88 taken from libraries of reusable business information entities. **The BIEs are out of scope of this
document.**

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90 The purpose of the project is to develop a UN/CEFACT business standard guidelines for Purchase
Order Financing (also known as pre-shipment finance) request.

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92 Purchase Order Financing (POF) is a financing option provided by a finance provider for trading
93 parties that lack the funds to pay their suppliers (e.g. manufacturers), or Sellers that need cash in
94 advance and on this basis can also offer extended payment terms to their Buyers. A purchase order
95 from an acceptable buyer is a key ingredient in motivating the finance in addition to the ability of the
96 seller to perform under contract with the buyer. Once payment is collected from the buyers who
97 signed the purchase orders, the purchase order financing company will be reimbursed for its outlays
98 and collect its fee. Purchase order financing is a variation on factoring, which is typically based on
invoices.

4. Scope

Purchase order financing covers the working-capital needs for the seller, including procurement of raw materials, labour, packing costs, and other pre-shipment expenses in order to allow the seller to fulfil delivery to its buyer(s). Financing can be provided against purchase orders (confirmed by buyer or unconfirmed), demand forecasts or underlying commercial contracts. It can be **covered by a banking credit line** or by **other financial agent**, which **caters for direct payment to the supplier** (Bank and non bank finance providers are active in this type of financing particularly in Asia¹).

POF is normally used on the basis of competitive service levels (e.g.: rate, duration) and it is similar to invoice financing, but with a different risk management standing.

The parties involved in the exchange of data are the customer (buyer or payer), the supplier (seller or payee) and his financial institution (or financial agent).

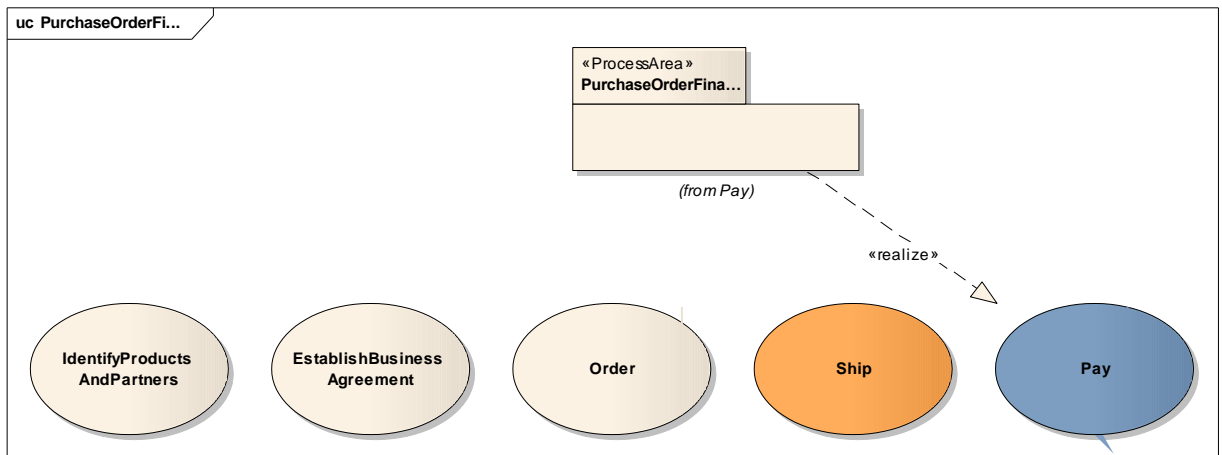


Figure 4-1 Positioning Purchase Order Financing Request within BUY-SHIP-PAY Process Model

Categories	Description and Values
Business Process	BUY-SHIP-PAY/Procurement&Sales/Pay/PurchaseOrderFinancing
Product Classification	All
Industry Classification	All
Geopolitical	Global
Official Constraint	None
Business Process Role	Customer, Supplier
Supporting Role	Customer's Bank, Supplier's Bank
System Capabilities	No limitations

In the payment cycle the transfer of funds takes place between the customer and the supplier in settlement of the amounts that are due for the supply of goods and services.

¹ Standard Definitions for Techniques of Supply Chain Finance, GLOBAL SUPPLY CHAIN FINANCE FORUM

Purchase order financing is a short-term commercial finance option that provides capital to pay suppliers upfront for verified purchase orders.

The following functions comprise the request cycle (phase#3 of the figure 4.2):

- The generation of the Purchase order financing request based on orders that have to be executed between the supplier (requestor) and the customer;
- The communication of the Purchase order financing data between the supplier and the financing agent;
- The communication of the Purchase order financing approval between the financing agent and the supplier.
- The reconciliation by the supplier of the purchase order financing.

To simplify the description the parties involved are limited to customer, supplier and his bank. In the total trade process, each of the parties can play more than one role. For the payment cycle, the customer can act also as consignee, invoicee and payer. The supplier covers the roles of seller, consignor, sales agent or sales company.

In order to provide an overview of the Purchase Order Financing Service model, a business scenario has been identified, where the Financing Requestor submits Purchase Order Financing Request to the First Agent; these two are the only actors involved in the message flows within this scenario (phase #3 of the figure 4.2).

According to the service level agreed, the First Agent may use Financing Request Status messages to give the Financing Requestor information about the requests status.

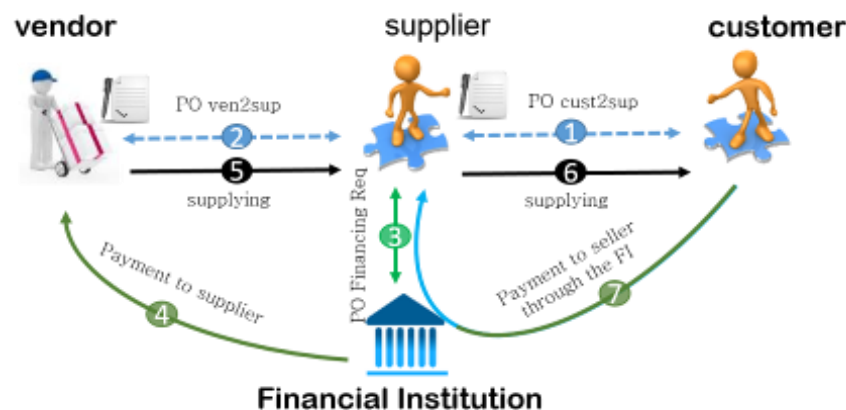


Figure 4.2 - Typical scenario workflow

In particular, the Financing Requestor (i.e. the account owner) sends the purchase order financing request to his bank (Financing Agent). After presentation of the purchase order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor.

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Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).

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5. Business Requirements View

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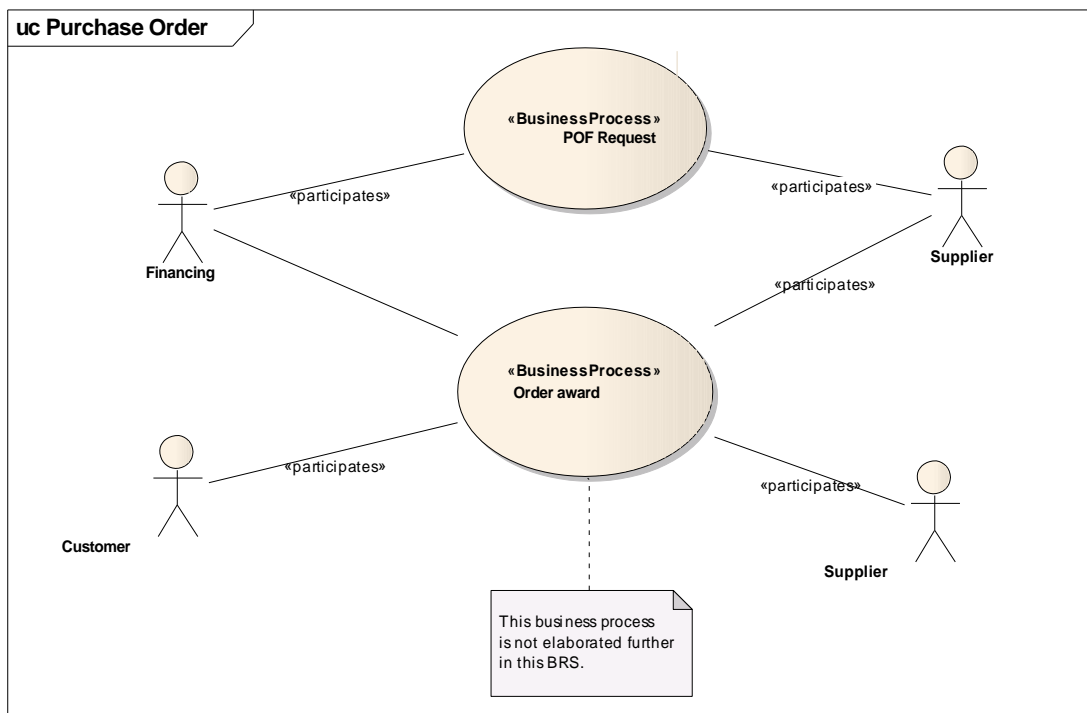
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5.1. Business Process Elaboration

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Figure 5-1 Business Domain Use Case Diagram

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5.1.1. Purchase Order Financing Process

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This process supports the generation and communication of the Purchase Order Financing request by the supplier to the financing agent. The Order is related to a payment, or other form of financial settlement, in respect of the provision of goods, services provided by the supplier, or other transaction involving a payment.

5.1.1.1. Scope

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The Purchase Order Financing (POF) will be used to allow the supplier to inform the financing agent of detailed information relative to an order.

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The POF will give an overview of the information that are taken in account in the financing process by supplier bank. It also specifies the identification and the requested execution date of the Payment Order.

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5.1.1.2. Definition

The POF process is the mechanism by which the supplier informs his financing agent about the order details to be financed. This process should be related to the process of transfer of funds between the parties (customer and supplier) and the respective banks specified in the payment order process.

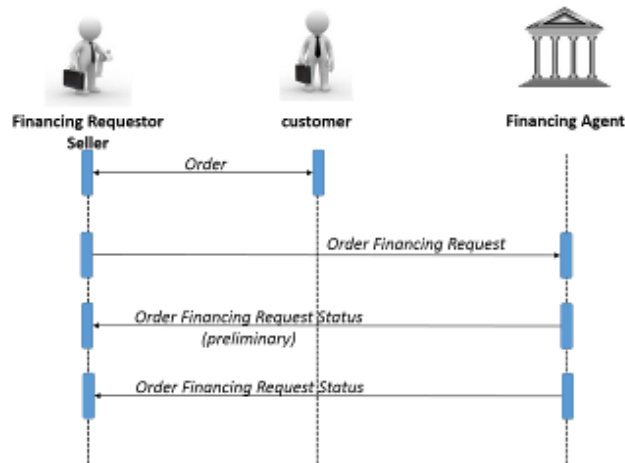


Figure 5-2 Business Process Use Case Diagram

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5.1.1.3. Principles

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According to the service level agreed, the First Agent may use Financing Request Status messages to give the Financing Requestor information about the requests status.

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In particular, the Financing Requestor (ie the account owner) sends the purchase order financing request to his bank (First Agent). After presentation of the purchase order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor.

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Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).

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Assumption of this scenario is that the Buyer has already sent an order to the Seller, related to a trade transaction.

5.1.1.4. Use case description

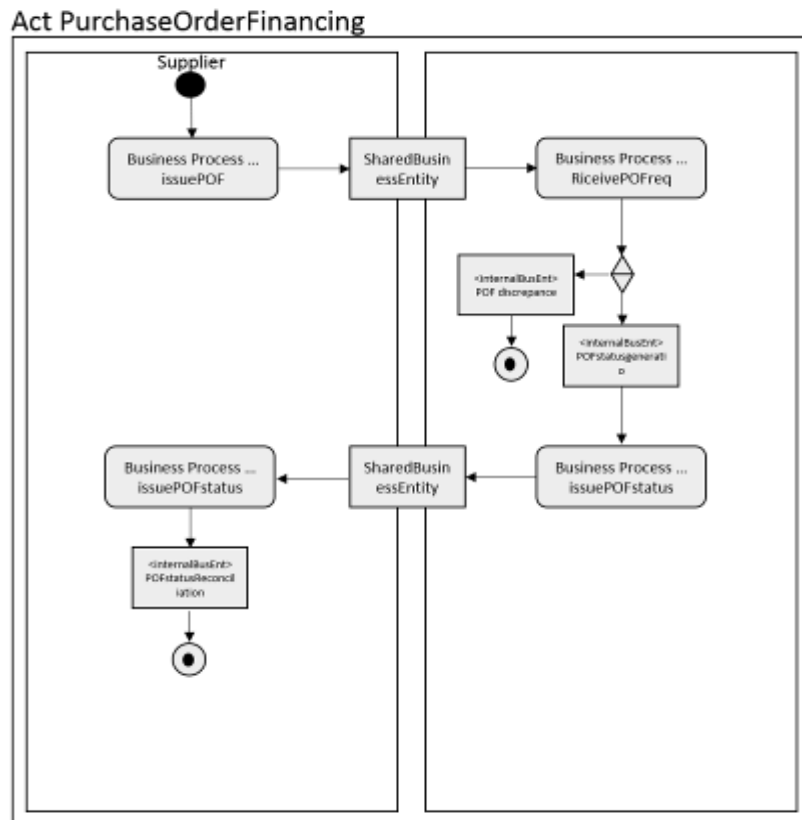
Business process name	PurchaseOrderFinancing
Identifier	Purchase Order Financing Request
Actors	Customer, Supplier, Financing Agent
Description	<p>a buyer awards a seller a large purchase order. From a business standpoint, the purchase order is one that the seller can't afford not to accept, but from a cash flow standpoint, it is one that the seller can't afford to produce. For that the seller contacts a PO finance company and supply them with financial information about the company, the supplier and the buyer (customer).</p> <p>Next, the finance company pays the supplier(s) directly by posting a letter of credit that guarantees payment once they deliver to the buyer. Once the order is delivered the buyer remits payment directly to the finance company.</p> <p>From that payment, the finance company recovers its capital, deducts its fee and sends to the seller the balance, the seller's profit.</p> <p>In most cases, purchase order financing could be combined with invoice factoring.</p>
Pre-condition	Assumption of this scenario is that the Supplier and the Buyer have already signed an order, related to a trade transaction.
Post-conditions	The supplier is adequately informed about the order being settled by the payment being made.
Scenario	<p>Based on the agreed payment conditions between the parties, there is one actor playing the role of Financing Requestor and one agent playing the role of First Agent (Financial Agent).</p> <p>The Financing Requestor can act on behalf of a Supplier or can be the supplier.</p> <p>In particular, the Financing Requestor (ie the account owner) sends the order financing request to his bank (Financial Agent).</p> <p>After presentation of the order financing request, the First Agent completes preliminary checks and sends a first "status report" message to the Financing Requestor. Subsequently, the First Agent completes all necessary checks in order to allow financing and communicates to the Financing Requestor the final result of the financing request (eg financed, not financed).</p>
Remarks	

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5.1.1.5. Business Process Activity diagram

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This shows the activities carried out by the Supplier and First Agent in the exchange of purchase order information and the state of the financing.



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Figure 5-2 POF - Business Process Activity Diagram

5.2. Information Flow Definition

5.2.1. Issue Purchase Order Financing request (Business Transaction)

5.2.1.1. Business Transaction - Use Case Diagram

The POF Process consists of a single Business Transaction. Figure 5.3, below shows the Business Transaction Use Case and the links between the Supplier and his bank and the authorized roles of financing requestor and First Agent.

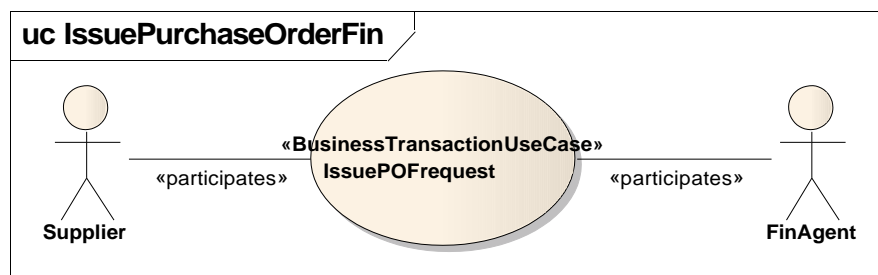


Figure 5-3 IssuePurchaseOrderFinancingRequest - Business Transaction Use Case

5.2.1.2. Business Transaction - Use Case Description

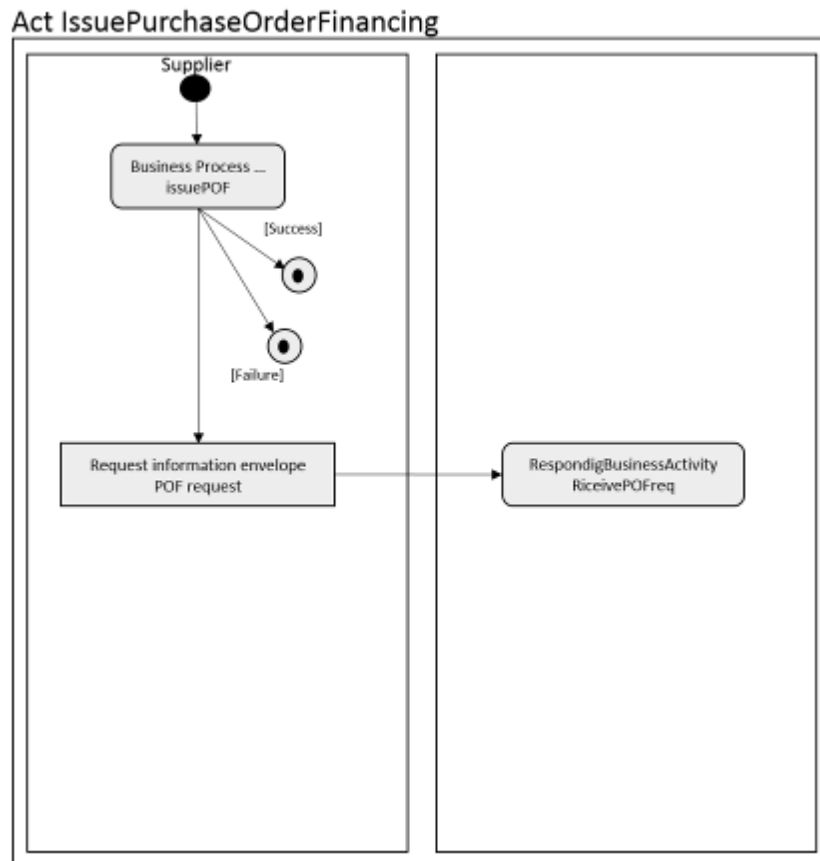
Business Transaction	
Identifier	IssuePurchaseOrderFinancingRequest
Description	The Purchase Order Financing Request message is issued by the Financing Requestor (Supplier) and represents a financing request related to an order signd between the supplier and the customer. For every order it is always possible to identify a supplier and a buyer (customer)
Authorized Roles	<ul style="list-style-type: none"> - Supplier - Financing Agent
Legal Steps/Requirements	None
Economic Consequences	None
Initial/Terminal Events	<ul style="list-style-type: none"> • Initial: the supplier sends the Purchase Order Financing Request • Terminal: the Financing Agent receives the Purchase Order Financing Request.
Scope	The POF request message is used to exchange general information related to the order and to the financing request
Boundary	Not defined yet
Constraints	Failing this technical acknowledgement, the supplier shall re-issue his request message

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5.2.1.3. Business Transaction - Interaction View

This activity diagram shows the POF request “Information Envelope” that is provided by the supplier to the financing agent.

The data content of the “Information Envelope” should be specified in the Information Model (partially provided in this BRS).



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Figure 5-6 Issue POF request Transaction-Activity diagram

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5.2.2. Issue Purchase Order Financing status (Business Transaction)

5.2.2.1. Business Transaction - Use Case Diagram

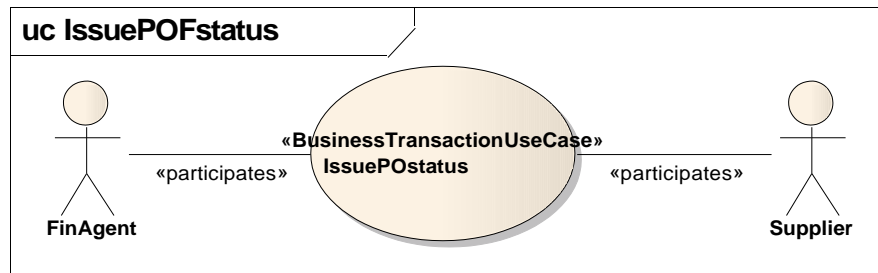


Figure 5-5 IssuePOFstatus - Business Transaction Use Case

5.2.2.2. Business Transaction - Use Case Description

Business Transaction	
Identifier	IssuePurchaseOrderFinancingStatus
Description	The PurchaseOrderFinancingStatus message flows from the Financing Agent to the Financing Requestor to provide information about a request previously sent. Its usage will always be governed by a bilateral agreement between the Financing Agent and Requestor.
Authorized Roles	Fin Agent Supplier
Legal Steps/Requirements	None
Economic Consequences	None
Initial/Terminal Events	<ul style="list-style-type: none"> Initial: the Financing Agent sends the Purchase Order Financing Status Terminal: the Supplier receives the Purchase Order Financing Status.
Scope	The POF status message can be use two fold: <ul style="list-style-type: none"> - To provide information about the reception status (rejection, acceptance) of a request message (technical validation) - preliminary. - To inform the Requestor about the business status of the request (granted, pending, allowed or denied)
Boundary	Not defined yet
Constraints	Failing this technical acknowledgement, the Financing Agent shall re-issue his POF message

5.2.2.3. Business Transaction - Interaction View

This activity diagram shows the POF status “Information Envelope” that is provided by the financing agent to the supplier.

The data content of the “Information Envelope” should be specified in the Information Model (Not provided at this stage of the BRS).

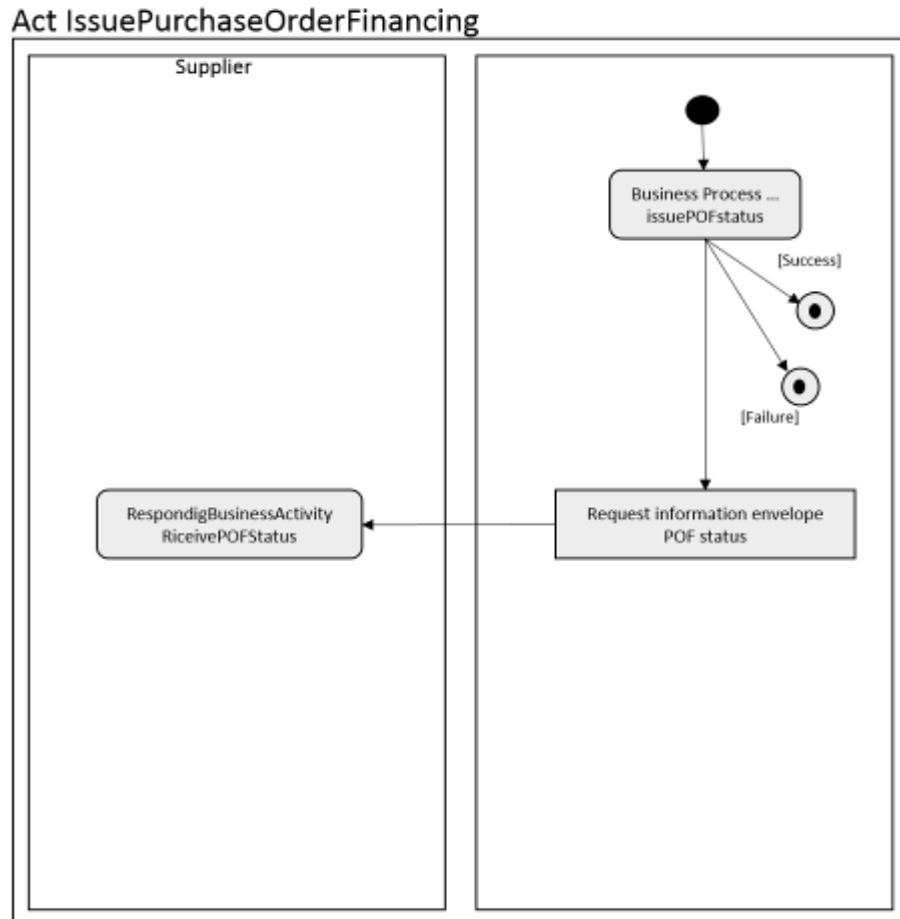


Figure 5-6 Issue POF Status Transaction-Activity diagram

5.3. Information Model Definition

5.3.1. Business Entity Model

The Figure 5-7 shows the Business Entity Class Diagram, useful for the further development (messages) for the POF Request.

Further developments should be agreed with other standard organizations, in order to ensure a constant alignment in the cross-border standardization activities of the Finance and Payments domain, considering the already standardized ISO activities (e.g. Invoice Financing Request).

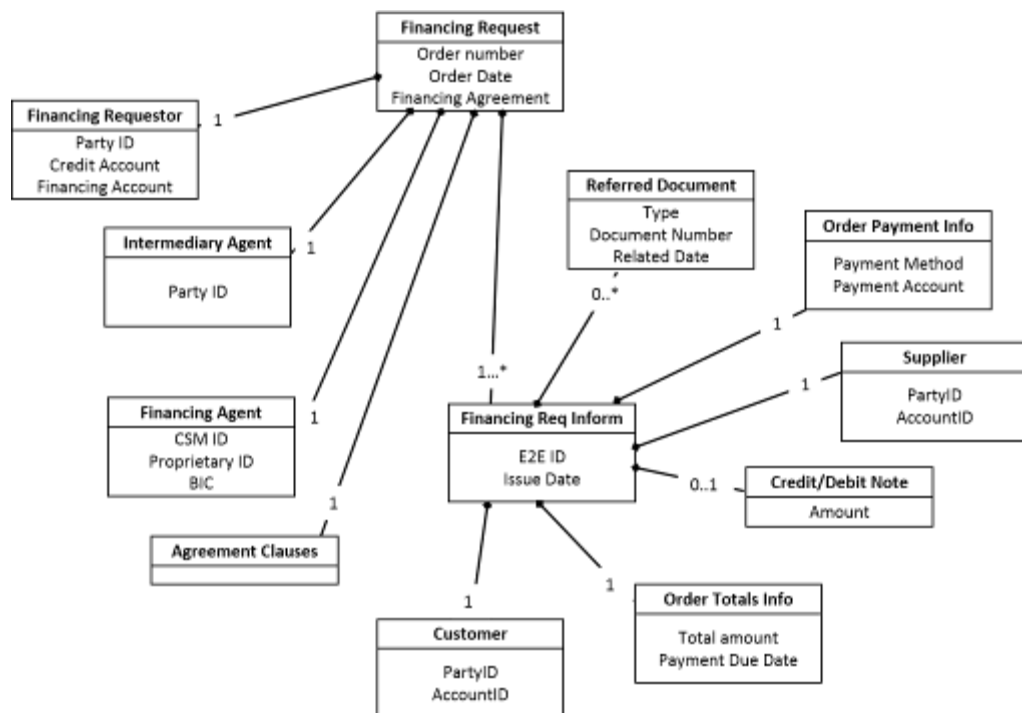


Figure 5-7 Business Entity Class Diagram