UN/CEFACT

Simple, Transparent and Effective Processes
For Global Commerce

Purchase Order Financing Request

Requirements Gathering

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1. Objectives

This document aims to engage domain experts and stakeholders in gathering project requirements.

If major changes occur during the requirements gathering stage that result, or would result, in a significant departure from the original project proposal, the Leader must alert the Bureau who will inform the sponsors and the supporting HoDs, and invite them to submit a revised project proposal.

1.1. Project purpose

The purpose of the project is to develop a UN/CEFACT business standard for Purchase Order Financing.

Purchase Order (PO) financing (POF) is a financing option for trading parties that lack the funds to pay their suppliers (e.g. manufacturers), or Sellers that need cash in advance and on this basis can also offer extended payment terms to their Buyers. Once payment is collected from the buyers who signed the purchase orders, the purchase order financing company will be reimbursed for its outlays and collect its fee. Purchase order financing is a variation on factoring, which is tipically based on invoices.

In a competitive market it is vital that company's businesses have access to on-going working capital as and when they need it, without the need for constant re-negotiation. Purchase Order Financing service supports optimization of company treasury and cash management, avoiding a debilitating shortage of cash which can eventually lead to the breakdown of profitable trading. From a wider point of view, this service can support the automation and improve the efficiency of the internal companies processes.

The purchase order financing service gives companies the opportunity to transform orders into working capital. In fact, it allows companies to get the money needed, for example, to pay their suppliers.

The project will include creation of required descriptions; Business Requirement Specifications (BRS) and Requirement Specification Mapping (RSM). The purchase order financing process is to be described together with the included business messages and transactions. The output will be used to obtain XML guidelines to support the business transactions for trading parties.

The project's deliverables will benefit corporate customers, banks and other financial institutions and vendors.

1.2. Project scope

Purchase order financing gives companies a short-term solution for funding orders tied to inventory required to complete sales transactions. It can be both addressed to "receivable" (similar but different to factoring) or "payable" (financing of commercial debits) items. It can be based on purchase orders released/received or contracts already signed between customer and supplier. It can be covered by a banking credit line or by other financial agent, which caters for direct payment to the supplier.

It is normally used for cross-border trade transactions, on the basis of competitive service levels (e.g.: rate, duration).

The project purchase order goes within the Supply Chain Finance UN/CEFACT stream. It is similar to invoice financing, but with a different risk management standing. Orders can be linked to contracts or follow the contract on a periodic basis.
In order to foster support for stakeholders and avoid duplication of effort, the Project Team will encourage liaison and cooperation on related developments in the standards community, e.g., ISO Technical Committee 68 (Financial Services) and the ISO International Standard 20022.

Moreover, to ensure no standard overlapping, the POF project was presented during the latest ISO meetings in London – May 2014, through the official report given by the formal UN/CEFACT Liaison to ISO TC68.

1.3. Project details

Every business faces the challenge of managing cash flow. One tool to make it easier is purchase order financing. Companies use purchase order funding to support an expansion, handle a large order or surge in business, and even occasionally for operating expenses. Here are some applications:

- Lack of working capital
- Profit opportunity
- Desire to avoid credit risk (PO financing is not considered debt)
- Immediate sales

Purchase order financing is a short-term commercial finance option that provides capital to pay suppliers upfront for verified purchase orders. It is designed for growing businesses that want to fulfill large orders. The types of businesses that usually qualify include:

- Manufacturer;
- Distributor;
- Wholesaler/reseller;
- Importer/exporter.

When those business receive a large PO from a new or existing customer, the supplier needs upfront payment, but the customer invoice won't be paid for 60-90 days after shipment is received. This creates a classic working capital gap. PO financing provides the capital needed so supplies can be bought, product produced, and finished goods shipped.

The intermediary could pay the suppliers directly via a letter of credit or cash and the business fulfills the order

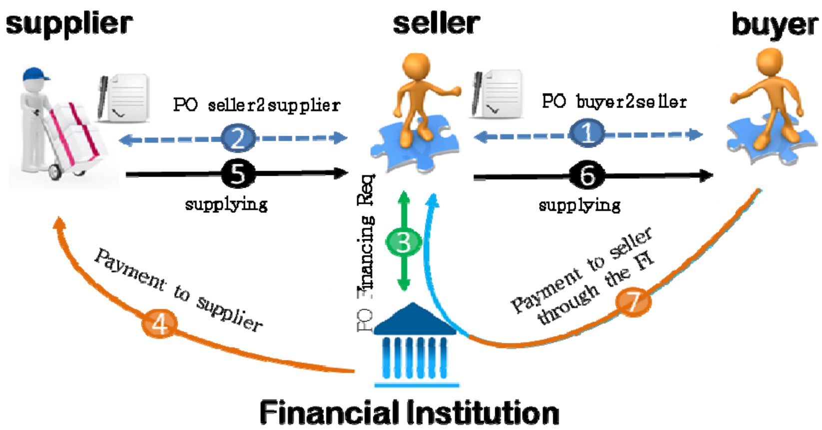

Figure 1 - overall PO Financing workflow

1.3.1. Project Initial References

Purchase Order:

Official document or form prepared by a buyer for the purpose to purchase goods or services

Purchase Order Financing

Short term financing method to allow a corporation to purchase raw materials or finished goods quickly

Financing Requestor:

Person or organization that requests purchase order financing services to a Financial Institution. The Financing Requestor can act on behalf of one or more suppliers.

First Agent:

Financial Institution offering Purchase Order Financing services. The First Agent can be requested by the Financing Requestor to initiate financing process or to cancel a financing process previously activated.

Intermediary Agent:

Financial Institution that acts as an intermediate agent. The Intermediary Agent receives the financing request (or financing cancellation request) from the Financing Requestor and forwards it to the First Agent.

Supplier:

Person or organization that represents the creditor for the Purchase Order to be financed.

Buyer:

Person or organization that represents the debtor for the Purchase Order to be financed.

Credit Account:

Account held by Financing Requestor to First Agent.

Financing Account:

Internal bank account used by First Agent to manage the line of credit granted to Financing Requestor.

Supplier Account:

Account held by Supplier to his bank and used as additional information to identify the supplier itself.

Letter of Credit:

A bank commitment on behalf of a client, to pay a beneficiary a stated amount of money under specified conditions

1.3.2. Request for purchase order financing

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.

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.

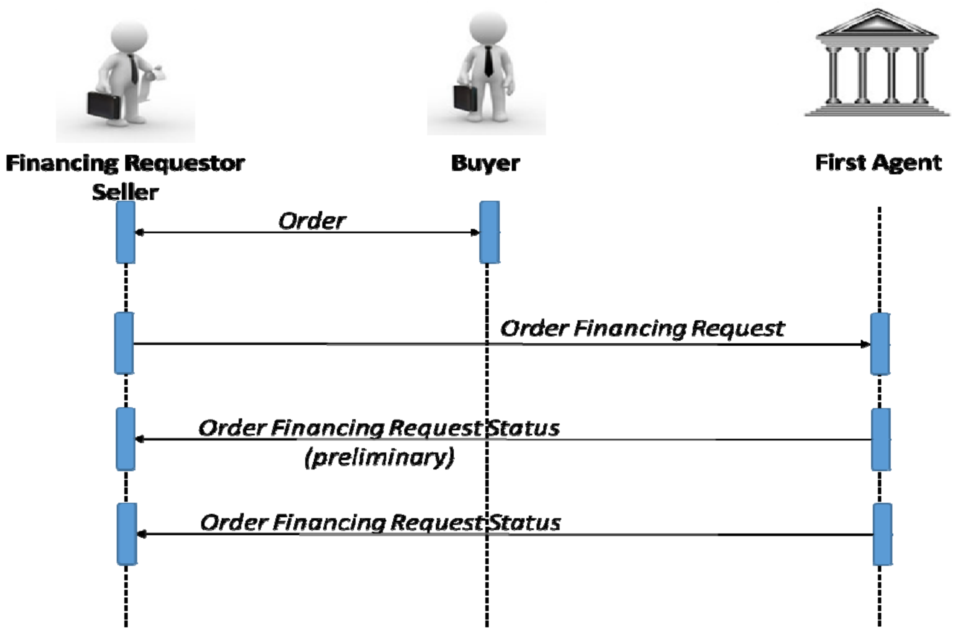

Figure 2 - Typical scenario worflow

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.

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).

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

2. Requirements List

Comment from Liaison Officer UN/CEFACT to ISO TC68:

in order to ensure a constant alignment between UN/CEFACT and ISO in the cross-border standardization activities of the Finance and Payments domain, seen the already standardized ISO activities (e.g. Invoice Financing Request), the new POF project should focus on business model and at most analyze a common semantic and data element.

Number	Category	Name	Description	Comment	Contributor