INVOICE VERIFICATION
"IV"

A PRACTICAL GUIDE

March 2014

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Disclaimer

This guide is designed to give a description of FCI's Invoice Verification Service. The Invoice Verification procedure described in this guide is a guideline for the members and does not mean to be exhaustive and entirely applicable to every legal and operational environment. Before signing the supplemental agreement both the Export Factor and the Import Factor should examine carefully, and agree, their specific legal and administrative requirements for Invoice Verification.

Note on terminology	A few words about some of the terms and expressions used in the Guide: where possible, the Guide uses a consistent terminology and only one word or abbreviation is used as equivalent to other words or terms. Please refer to the Glossary at the end of the Guide for an explanation of the terms used.

- ✓ EF = Export Factor
- ✓ IF = Import Factor
- ✓ A/R = Accounts Receivable, receivables, invoice, debt, credit.
- ✓ Buyer = debtor, customer of the seller, importer.
- ✓ Seller = client, supplier, customer of the EF, exporter.

Invoice Verification Service

Table of Contents

1. Purpose and Basic Principles of Invoice Verification

2. Benefits of Invoice Verification to Parties Involved

3. Pricing

4. How does Invoice Verification work?

5. Operational Process for Invoice Verification – EF and IF

6. Legal Considerations

Appendix 1: Invoice Verification Supplemental Agreement (version December 2013)

Appendix 2: Edifactoring User Guide for Invoice Verification (version January 2014)

Appendix 3: Sample Invoice Verification check list

Appendix 4: Sample Invoice Verification scripts for the IF
           Sample Invoice Verification letter for the IF

Appendix 5: Frequently Asked Questions

Glossary of Terms

1. Purpose and Basic Principles of Invoice Verification

1.1 Introduction

Following FCI members' various requests and suggestions FCI has developed Invoice Verification (IV) to reinforce this important aspect of our existing correspondent factoring service provided by Import Factors (IFs) to Export Factors (EFs). This is an initiative which makes the best practices of many existing IFs consistently and widely available.

Invoice Verification is not offered on a stand-alone basis. It can be requested; for individually assigned invoices, whole buyer accounts and portfolios of buyers on a random basis or with a frequency agreed between the EF and the IF in the supplemental agreement.

Invoice Verification will serve Export Factors (EFs) with a higher level of comfort prior to their providing finance to Exporters and reduce the risk of fraud and disputes resulting from the assigned receivables. For IFs, it is a tool to reduce buyer risks and generate additional service income through greater confidence in a two-factor system.

The Import Factor confirms in the Import Factor Information Sheet (IFIS) their preparedness to perform Invoice Verification. Any requirements should be specified as well as the basis of pricing.

1.2 Implementation

The target audience for the Invoice Verification service are export clients receiving pre-payment or financing from EFs and factors who provide funding to their clients.

Verification of debts by IFs to help EFs in their funding decisions is an established benefit of FCI two-factor international factoring. It can help identify fraud and product failure as well as help the IF with collection and early identification of buyer risk and disputes. The Invoice Verification Guide brings more formality, structure and training to the process in order to drive up standards to be implemented within FCI members.

IFs contact the buyers in order to verify that the invoice is valid and assignment is acknowledged. The buyer is asked to confirm key details. This information is reported to EFs who can use it to form part of their funding judgment. Communication takes place through new standardised edifactoring messages. Training materials are available to demonstrate what is expected of IFs and EFs. This Guide makes clear the mutual responsibilities and the steps to follow for a seamless implementation of the Invoice Verification service among FCI member factors.

2. Benefits of Invoice Verification to Parties Involved – Export and Import Factors and Clients

2.1 Benefits to EFs

The main benefit to EFs is prevention of fraud and the early detection of disputes so that the EF can build up appropriate reserves and clarify the matter with its client.

Although not very frequent, fraud is experienced in FCI two-factor international factoring. Invoice verification can help detect fraud early and may act as a deterrent. It also helps to identify weaknesses in the order/invoice cycle which will help to prevent disputes or resolve disputes faster when they are identified.

If potential problems are observed during invoice verification, the EF may refrain from financing the exporter or may impose certain additional conditions on the exporter.

Verification can not protect against collusion (fraud or financial crime) by the importer and exporter . The best practice shared in this guide will maximise the opportunity for the correspondent factors to identify it.

2.2 Benefits to IFs

The early contact to the buyer helps IFs reduce their risk and long term costs. This arises from securing prompt collection from the importer but also it helps the IF to identify any data affecting the buyer credit decision at an early stage.

IFs can consider offering more frequent and detailed verification to EFs and thus strengthen their business. The charging structure introduced enables IFs to secure a revenue stream to compensate for any extra investment in staff and training.

2.3 Benefits to Clients

i) Benefits to Exporters

Invoice verification gives comfort to the exporter that the invoice has been received by the importer and is being processed in his accounts. However, verification does not guarantee anything. The importer can still raise dispute and delay payment. Early contact with buyer may give clues of a possible fraud, misconduct or intentional payment delay. These early warning signals shall prompt the IF, the EF and the exporter to take the necessary measures to avoid any further losses and facilitate collection amicably and swiftly.

Verification can build the trust of exporters in the FCI two-factor international factoring system because of its ability to uncover potential problems.

ii) Benefits to Importers

Early contact with Importers gives an opportunity to establish the relationship with the Import Factor which can aid mutual understanding.

3. Pricing

Occasional verification is already a part of FCI services and can be provided within the normal service charge as long as it is mutually agreed by the IF and EF. Where verification is frequent or intensive, the IF shall be entitled to charge a special commission for this add-on service which has to be negotiated bilaterally between the IF and EF.

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Research conducted by the marketing committee and FCI Ambassadors among member factors has shown that occasionally requested verification should not attract an additional charge.

In principal the standardised commission structure of FCI can be applied to the Invoice Verification service.

The EF may quote a uniform commission to his export sellers.

i) A flat rate, shown as a percentage (%) of the gross turnover verified,

ii) A handling charge per invoice verified,

The options for the IF to charge for this service are:

i) A separate flat verification rate as a percentage (%) calculated on (monthly/yearly) verified balance/portfolio, or

ii) A flat verification rate as a percentage (%) included in the overall factoring commission charged over the gross turnover verified, or

 iii) A handling charge per invoice verified.

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IFs are recommended to track the amount of time devoted to verification so that they can ensure they make an informed assessment on the resources needed and any pricing decisions for their import business.

4. How Does Invoice Verification work ?

"Trust, but verify" is a signature phrase. Factors have also adopted this phrase ingraining it into their process. Verification of invoices is a key piece in how a factoring company confirms the acceptance of invoices and that those invoices will in fact be paid to the factor.

Let us examine the process of FCI's Invoice Verification service.
At the request of the EF, the IF will contact the buyer in order to verify that the invoice is accepted and will get the key details on a best efforts basis by using the professional skills required. Related information will be reported to the Export Factor who can use it to determine their funding judgement.

4.1 Types and Frequency of Invoice Verification

Verification can be done for all or randomly selected;

> ➢ individual assigned invoices
> ➢ whole buyer accounts
> ➢ portfolios of buyers

Verification can be done at any time after the assignment of the invoices. It can be agreed bilaterally to verify the invoices on demand or at an agreed frequency.

General Verification: The EF and IF agree that all invoices for specific seller(s)/buyer(s) will be included in the verification service.

Random Verification: The EF and IF agree that several invoices for specific seller(s)/buyer(s) will be verified. The IF can choose the invoices to verify randomly.

Periodic Verification: The EF and IF agree that the total outstanding balance on seller/buyer basis will be verified on an agreed frequency.

Individual (Requested) Invoice Verification: The EF requests verification for specific individual invoices.

4.2 Levels of Invoice Verification

There are 3 major levels of verification that the IF is expected to conduct depending on the preference of the EF;

> ➢ Verbal verification – by phone calls to the buyers
> ➢ Verification by e-mail or fax
> ➢ Verification in writing

5. Operational Process for Invoice Verification

In order to facilitate Invoice Verification service, 2 new edifactoring messages have been created. (The use of these messages will be described in this section.)

70	Invoice Verification Request
74	Invoice Verification Response

In order to use Invoice Verification service the EF and the IF are required to follow a specific sequence of events which is detailed here below.

1-The IF will have to be prepared to give verification service, thus will confirm in the IFIS a willingness to verify and the related cost structure.

2-The EF will approach the IF to seek verification.

3-The IF and the EF will agree bilaterally and will sign a Supplemental Agreement for Invoice Verification. (Appendix 1)

4-The EF will specify the buyers to be verified and will identify the verification types, levels and frequencies for those buyers and will agree any pricing, if required, with the IF in the Supplemental Agreement or will agree separately that can take place by e-mail or by MSG21 Free Text Message.

5-The EF is expected to inform the IF about the verification requirement in MSG01 Seller's Information – in the message text field - and **should allow** the IF to have direct contact with the buyer in MSG02 Preliminary Credit Assessment Request and/or MSG05 Request for Credit Cover. In case of active business where MSG01 and MSG05 were already sent, the IF should assume that buyer contact is allowed if the EF asks for verification service at a later date.

6-The EF will need to supply the IF with the sufficient details of the buyer's contact person, with the consent and cooperation of the seller in case the IF is not able to reach or receive cooperation from the buyer.

7-The EF will assign the invoices to the IF. (MSG09 Invoices & Credit Notes)

8-For requesting individual invoice verification (**Requested Verification**) the EF will send MSG70 Invoice Verification – Request to the IF. If **General Verification, Random Verification** or **Periodic Verification** for specific seller(s)/buyer(s) is required then it shall be agreed by exchange of MSG21 Free Text Message with the result that the EF does not have to send a MSG70 Invoice Verification – Request, for each invoice to be verified.

9-The IF is expected to use all their professional skills to contact the buyer within a reasonable time and to verify the receivables the EF asked for. The IF's responsibility for completion of this verification is that it is undertaken with its professional skills but without responsibility except for the IF"s gross negligence or willful misconduct.

10-Verification shall be performed by the IF either in writing or by electronic communication including fax/e-mail or by phone calls at the request of the EF. Any other specific requirement of the EF in invoice verification such as visits to the buyer shall be bilaterally agreed between the EF and the IF.

11-The minimum expectation of the EF for the invoice verification shall be three attempts to contact the buyer on at least three consecutive business days. In case the IF encounters a problem in contacting the buyer then the IF must attempt to identify an alternative contact person. Continued problems with the given contacts will be referred to the EF who can judge whether to involve the seller.

12-The IF will notify the EF of the verification outcome in MSG74 Invoice Verification-Response. In case of non- payment or any dispute reason received from the buyer MSG14 Dispute will automatically be created by the system and will be sent to the EF at the same time with message MSG74.

13-In MSG74 if verification status is 1 (Pending), the IF shall use reason 23 (Other reason- see message text) to explain why the verification has not been done yet. If verification status is 2 (Done) and the reason code from 1 to 23, MSG74 will automatically create a MSG14. This message will follow the existing dispute process. If verification status is 2 (Done) and the reason code 100, then be sure to indicate in "amount to be disputed" "0 (zero)" if the invoice is verified in full.

14-The IF shall be obliged to keep proper records of the contacts with the buyer, making them available at the request of the Export Factor. Records shall be retained by Import Factors for at least the minimum period of record keeping required under local laws or regulations affecting the IF or longer if specifically requested by the EF, as long as it is mutually agreed between the EF and IF. In such circumstances the EF should notify the IF with MSG70 Invoice Verification Request or with MSG21 Free Text Message accordingly. The IF will note on the account all phone calls, emails, faxes and any other correspondence. This is also to ensure that all the related staff members of the IF reviewing the account are fully aware of all actions already taken.

The IF needs to arrange his IT system enhancing to record, follow up and store all the requested verifications data, the proceeding and the outcome.

5.1 The basic questions the IF needs to verify

The Verification shall at least include attempts to obtain the following confirmation:

- if a first transaction with the seller, the introductory letter, has been received,
- the invoice evidencing the goods has been received with the appropriate notice of assignment,
- the goods/services have been ordered and delivered,
- assurances that the buyer accepts the assignment and that the invoice will be paid to the Import Factor or the reason it will be paid to some other party,
- the exact name of the buyer and the related seller,
- invoice numbers, due date, invoice amount, invoice currency.

The following information may be sought at the discretion of the IF depending upon the buyer's reaction:

- Incoterms,
- the existence of any counterclaims, conflicts, counter trade, set-off,
- any defence or reasons for non-payment,

In performing the verification, IF should be alert to collusion between the buyer and the seller. The IF should use staff members who have received special instructions in proper verification inquiries.

Related edifactoring messages are described in detail in Appendix 2.

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5.2 Best Practice Tips for Invoice Verification

The following items are very important in the Verification process.

- Financial stress of the seller
- Complexity of the transaction
- Dilution
- Concentration

For verification by phone;

➤ Confirm the telephone numbers given by the seller from the public independent sources,
➤ Avoid using mobiles,
➤ Go through a switch board rather than direct line at least once,
➤ Ask the buyer to tell you what is on the ledger. Avoid stating the balance you want to verify,
➤ Introduce at least one detail which is wrong so that if the buyer confirms the error then you can have a clear warning,
➤ Reach a conclusion on the degree of reliability,
➤ Be sure that you are contacting the right department or person in charge,
➤ When verifying an individual invoice with the buyer try to verify the total of outstanding A/R balance as well,
➤ Ensure that all the correspondence is recorded or noted on the account,
➤ If you are unable to reach the buyer in your first attempt avoid leaving a message for a return call,

For verification by e-mail / fax in addition to the tips above;
➤ Establish that the e-mail address /fax number is genuine. Avoid "Hot Mail" and "Google Mail" addresses and look for company domains,
➤ Check e-mail addresses /fax numbers against company websites,
➤ Do not rely exclusively on e-mails,

For written verification;
➤ Look for clear wording on headed paper
➤ Look for the letter to have a signature and name and title of the person. Investigate the authority of the signature.

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IFs are recommended that the Invoice Verification service is conducted in the operation or collection departments.

In practice many larger buyers will not be able to verify the invoice without a "buyers own reference number" or an "order number". The EF may have to provide this further detail to the IF for the success of the verification service. This information can be given by MSG21 Free Text or by email.

6. Legal Considerations

Invoice Verification is distinct from "confirmation" under which a buyer gives an irrevocable payment acknowledgement and has potential legal consequences for the IF. Verification is provided by the IF to the EF at a professional standard and on the best efforts basis as is normal in all FCI two-factor international factoring transactions but without responsibility and liability for decisions the EF makes as a result of the verification. The IF tries to obtain, based on its best efforts, accurate and complete information from the buyer. Invoice Verification mitigates the risk of fraud and dispute, but it cannot completely eliminate it. Verification seeks to confirm the existence of the receivable and notice of the assignment.

The mutual responsibilities are to be covered by the Supplemental Agreement for Invoice Verification and all disagrements arising between an EF and an IF in connection with Invoice Verification service shall be settled under the Rules of Arbitration provided that both are members of FCI at the time of the inception of the transaction. In all other aspects all the provisions as set out in the GRIF shall apply.

6.1 Financial Crime

Anti-Money Laundering and Prevention of Terrorist Financing, collectively known as "Financial Crime" is a key aspect of FCI's governance and a focus of all FCI members.

In every national and international legal system some obligations have been established for financial instutions to combat money laundering and prevent terrorist financing. Obligations like customer identification, suspicious transaction reporting, assignment of compliance officer, training, submitting information and documents, establishing systems of internal audit, control and risk management are preventive measures. Verification like any credit control activity can identify suspicious activity.

The obliged parties including factoring companies are authorised to implement the provisions of Anti-Money Laundering and Terrorist Financing Regulation of their own country.

As an FCI service, Invoice Verification also emphasises this topic and processes designed for Invoice Verification include best practises to uncover any financial crimes that may be embedded in a trading transaction.

Complying with these obligations the IF and EF may learn more about the buyer and seller and it is normally expected that an IF will report any suspicious activity to EF and there is a high degree of mutual responsibility in such cases. If any suspicious activity is identified then reporting will be made to the authority involved in such matters and if there are any restrictions on further sharing the information , such as to prevent "tipping – off" then they will be respected.

Invoice Verification helps to identify fraud by early contact with the buyer. It will not overcome collusion between buyer and seller but can identify pre-invoicing and "fresh air invoicing" and has scope to identify diversion of funds.

INVOICE VERIFICATION – REQUEST FOR SPECIFIC INVOICE
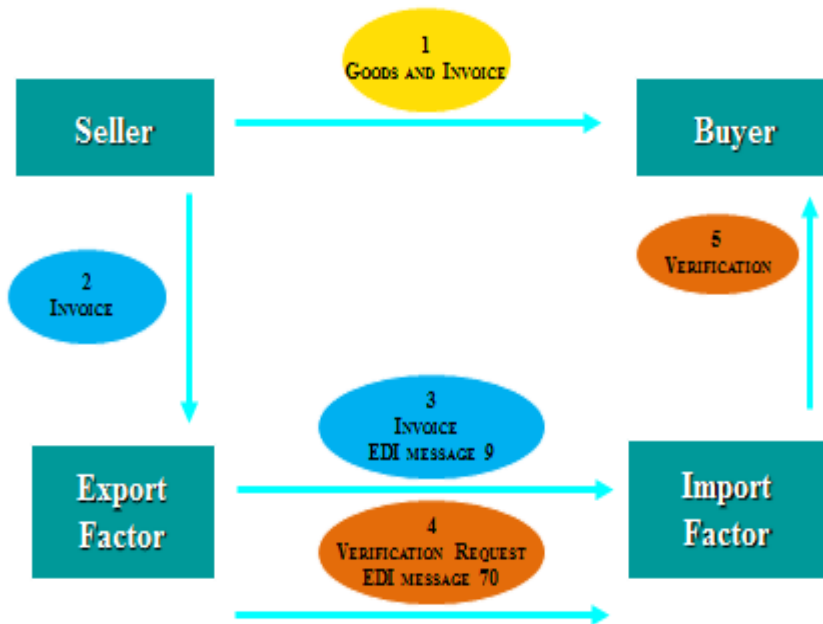
INVOICE VERIFICATION – RESPONSE FOR SPECIFIC INVOICE
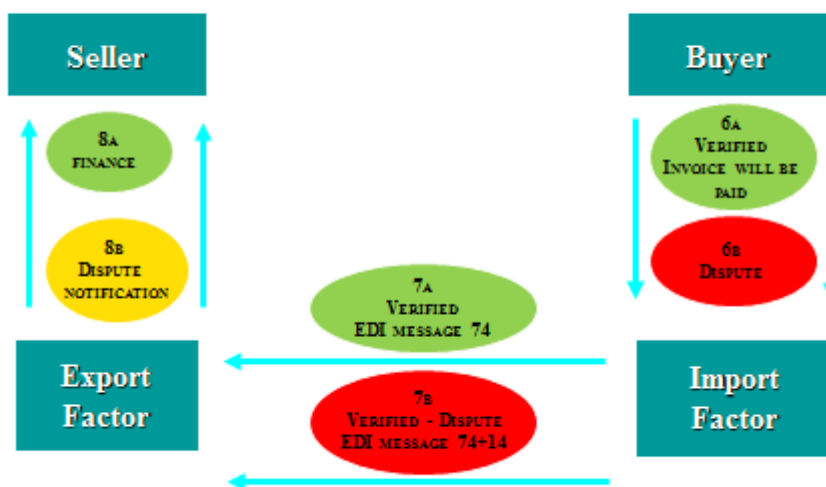
Appendix 1

SUPPLEMENTAL AGREEMENT
FOR INVOICE VERIFICATION (IV)
(Version December 2013)

IT IS AGREED BETWEEN 'XYZ'(as Export Factor) * and 'ABC' (as Import Factor) that for the sole purpose of conducting 'Invoice Verification' services (as defined in Sections 7 and 8 hereof and hereinafter referred to "Verification"), the parties have entered in this Supplemental Agreement and unless inconsistent with the provisions herein, the terms and provisions of the General Rules for International Factoring ('GRIF') are to be incorporated herein.

1.This Agreement shall take effect as of the date set out below and shall continue indefinitely, subject to termination on the expiry of 60 days' prior written notice given by either party to the other but such termination shall not apply to, modify or otherwise affect the obligations of the parties hereunder or under the GRIF, the edifactoring.com Rules and the Rules of Arbitration with respect to transactions occurring, receivables transferred or indebtedness incurred prior to the effective date of such termination.

2. At the request of the Export Factor, and confirmed in edifactoring message 70, the Import Factor will provide Verification services to validate the existence of the receivables and their assignment via edifactoring message 74, for the seller(s) where the parties have agreed that this service should be performed.

3. The parties agree that this service will be provided by the Import Factor on a best efforts basis using its normal standards of care as a correspondent factor but without responsibility or liability for decisions the Export Factor makes as a result of the information provided by the Import Factor in connection with the verification initiative, except for the Import Factor's gross negligence or willful misconduct. The Import Factor shall be obliged to keep proper records of the contacts with the buyer, making them available at the request of the Export Factor. Records shall be retained by Import Factors for at least the minimum period of record keeping required under local laws or regulations affecting the Import Factor or longer if specifically requested by the Export Factor, as long as it is mutually agreed between the Export Factor and the Import Factor. The Import Factor shall use staff members who have received special instructions in proper verification inquiries.

4. Verification can be provided within the normal service charge. The parties agree that the Import Factor is entitled to charge a supplementary commission as agreed bi-laterally. The standard fee structure of FCI will be used. The Import Factor may use edifactoring message 4 to quote the pricing for this service.

Verification can be requested by the EF at any time after the assignment of the invoices. The edifactoring message 70 specifies the invoice to be verified. Thus, if Random Verification or Periodic Verification of a balance is required then it shall be agreed by exchange of edifactoring message 21.

5. Verification shall be performed by the Import Factor either in writing or by electronic communication including fax/e-mail or by phone calls at the request of the Export Factor in edifactoring message74. Any other specific requirement of the Export Factor in Verification such as visits to the buyer shall be bilaterally agreed to between the parties.

6. The minimum expectation of the Export Factor for the invoice verification shall be three attempts to contact the buyer on at least three consecutive business days. If the Import Factor encounters a problem in contacting a specific representative of the buyer then he must attempt to identify an alternative contact person. Continued problems with the given contacts shall be referred to the Export Factor who can judge whether to involve the seller.

7. Verification shall at least include attempts to obtain the following confirmations:- :

- if a first transaction with the seller, the introductory letter has been received
- the invoice evidencing the goods has been received with the appropriate notice of assignment
- the goods /services have been ordered and delivered,
- assurances that the buyer accepts the assignment and that the invoice will be paid to the Import Factor or the reason it will be paid to some other party,
- the exact name of the buyer and the related seller,
- invoice numbers, due date, invoice amount, invoice currency.

8. The following information may be sought at the discretion of the IF depending upon the buyer's reaction:

- Incoterms,
- the existence of any counterclaims, conflicts, counter trade, set-off,
- any defence or reasons for non-payment,

This agreement is supplemental to the Interfactor Agreement made between (XYZ) and (ABC), dated (day-month-year).

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their respective corporate officers thereunto duly authorised as of the day and year first written below.

Dated (day-month-year)

Name: Factor "XYZ"

By   _____

Title   _____

Name: Factor "ABC"

By   _____

Title   _____

Appendix 2

Invoice Verification Request

Business Rules of Message 70

Business Function:
To request verification of outstanding invoice (s)

Communication Flow: (Seller) - EF - IF - (Buyer).

Frequency:
Each time a new verification is required or to solicit a reply to a request.

Sequence Restrictions:
This message must follow one or more messages 9 to which the verification request is related.

Business Rules:

❑   The section "Verification request details" is a loop and can be repeated maximum 999 times. It can be used to indicate several items to which the verification request is related. In the loops a "look up button" is present and when used, it will show the outstanding invoices on the specific FSBC relation to avoid having to retype the invoice details.

❑   Document number and amount must be indicated if known.

❑   "Verification request amount" should, by default, be the amount of the related document

❑   "Latest verification date" is a conditional field which may be used where the EF has the need of verification within a certain date.

❑   The action expected to be taken by the counter party is a mandatory field.

Valid Factoring Codes: Document type:
1   Invoice (default)

Verification request status
1 Request
2 Reminder

Action (to be) taken:
10   Please verify *(default)*
11   Please verify by phone
12   Please verify by email/Fax
13   Please verify in writing

Invoice Verification Response

Business Rules of Message 74

Business Function:

❑   To correspond on an outstanding Verification request

❑   To notify a performed verification

❑   To notify a dispute arising upon verification

Communication Flow: (Buyer) - IF - EF - (Seller) or

Frequency:

As needed to correspond on a Verification.

Sequence Restrictions:

This message must follow the pertaining message(s) 9.

Business Rules:

❑   The section "Verification details" is a loop and can be repeated. It can be used to indicate several items to which the message is related.

❑   Each item must be referred to by code in the field "document type":

❑   Use code 1 for factored invoice,

❑   Document number and amount must be indicated.

❑   If Verification status is 1, then use reason 23 to explain why the verification has not been done yet.

❑   If verification status is 2, then be sure to indicate in "amount to be disputed" "0" if the invoice is verified in full.

Valid Factoring Codes:
                              Document type:
                              1   Invoice

                              Verification status:
                              1 Pending
                              2 Done

Verification reason:

1	Settlement agreed with seller
2	Direct payment to Export Factor
3	Direct payment to seller
4	Direct payment to seller's agent
5	Invoice not received
6	Duplicate invoice
7	Wrong invoice details
8	Credit note to buyer, not to us
9	Debit note to seller
10	Offset against credit balances or other invoices
11	Discount beyond terms
12	Trade discount deducted
13	Counter claim
14	Deduction for other costs
15	Wrong delivery
16	Proof of delivery required
17	Wrong goods
18	Damaged goods
19	Goods on consignment
20	Goods returned to seller
21	Goods returned to agent
22	Buyer refuses delivery
23	Other reasons - see message text
100	Verification made

NOTE:

If reason is

- 100: flag changes from IVRQ to IVOK

If verification status is 2 and reason code 1 to 23: The Message 74 will automatically create a Message 14. The Message 14 will follow the existing dispute process and tag the invoice as DISP, overwriting the IVaa code. If a dispute is raised at a different time, both IVaa code and DISPnn codes will be shown.

* * * * *

IMPORTANT NOTICE:

When using the Turnaround option to reply to a message 70, do not forget to remove from the message 74 any invoice you would not have mentioned in a manual message 74: suppose the message 70 included two or more invoices and the verification results in one invoice pending whilst for the others it is done; a week later verification is possible also for the "pending" invoice. You may use again the turnaround feature, but you should remove from the new message 74 the invoices already verified in the first instance and modify the "Verification number" in order to avoid creating a duplicate message (in the message 14 created automatically).

Appendix 3

Sample Invoice Verification Check List for the IF

Invoice Verification Check List:			
Seller Details	Seller Name		
	Seller Number		
Buyer Details	Buyer Name		
	Buyer Number		
	Buyer Contact Name Buyer Contact Number		
Invoice Details	Invoice number		
	Invoice date		
	Invoice amount		
	Invoice currency		
	Invoice due date		
	Terms of payment		
	Assignment label		
	Incoterms		
	Nature of business		
			This Invoice:
Verification	Buyer confirms Introductory Letter received (if it is the first transaction)		
	Buyer confirms invoice received		
	Buyer confirms acceptance of the assignment		
	Buyer confirms invoice number		
	Buyer confirms exact name of the seller		
	Buyer confirm exact name of the buyer		
	Buyer confirms invoice date		
	Buyer confirms invoice amount		
	Buyer confirms invoice currency		
	Buyer confirms due date		
	Buyer confirms Incoterms		
	Buyer confirms nature of business		
	Buyer confirms to pay the IF		
	Buyer confirms goods delivered		
	Buyer declares goods ordered but not delivered		
	Buyer declares any defence or reason for non-payment (partly)		
	Buyer declares any defence or reason for non-payment (fully)		
Comments:			

<u>**Appendix 4**</u>

Sample Invoice Verification Script for the IF

This script has been drafted for the verification by phone.

1.Verification Call (straight forward)

Import Factor: Hello Mr. Buyer, my name is XXX from Company XXX, we are the factoring partner for your Seller XXX.

Buyer: Good day Ms. Import Factor

Import Factor: For our mutual security I just want to confirm who I am talking with.

Buyer: I am John Smith responsible for bought ledger.

Import Factor: We are calling with respect to an invoice assigned to us by your Seller xxx and as the owner of the receivable we would like to verify a few details of this invoice with you.

Buyer: Certainly, what details would you like to know?

Import Factor: Firstly, can you confirm that you have a trade relationship with Seller xxx and have you ordered goods from them recently?

Buyer: Yes, our relationship with Seller xxx is very new and we can confirm that we placed our first order a few weeks ago.

Import Factor: Have you received written notification from your Seller that we are the owner of the receivables?

Buyer: Yes, we received notification from our Seller last week.

Import Factor: Please let me be sure I have the correct full company name and address for invoicing and writen communication?

Buyer: We are XXX Importers Pvt Ltd, at 21 World Trade Way, xxxx.

Import Factor: OK, thank you. May we now ask, have you received invoice number 123, does this invoice show the assignment clause details and do you generally accept this assignment to pay XXX Import Factor by bank transfer?

Buyer: Yes, we can confirm receipt of the invoice, the invoice is showing the assignment details of your company and we can also confirm our acceptance to this assignment. We normally pay by cheque.

Import Factor: Can you please also kindly confirm the date, value & currency of the invoice and the payment due date of this invoice

Buyer: Certainly, the date of the invoice is 1st xxx in the value of Eur 25,000.-, the payment date shown on the invoice is 1st xxx.

Import Factor: Do you agree with the payment terms 60 days and the due date as shown on the invoice? Did you receive the delivery in the meantime?

Buyer: I have 60 day terms from shipment and thus we will pay agree on assuming that the goods arrive as expected next week.

Import Factor: Thank you very much for your time and answers Mr. Buyer. Let me check with you next week that everything arrived as expected and thank you for your commitment to pay us on XXX date. If you do have any questions or concerns do not hesitate to contact me, I will leave you my direct line and email.

2. Follow up Call (dispute raised by the buyer)

Import Factor: Hello Mr. Buyer. It's good to speak with you again. I wanted to follow up our call last week. Have you received the goods as expected?

Buyer: Hello Ms. Import Factor. Yes, we received the delivery.

Import Factor: That's very good. Will you pay the invoice as promised on the due date to us?

Buyer: We are sorry but we have an issue with the quality of the goods received. Some of the goods on invoice 123 are not of good quality and are not as ordered. We have been in contact with our Seller today who has agreed to issue us with a partial credit note.

Import Factor: Thank you Mr. Buyer but help me with some extra detail please. Can you please share your estimate of the value of the credit due and who you are discussing this with at your seller. It will help to have a copy of your correspondence setoutout exactly why you think the quality is not as specified. We may be able to help expeditae matters. In the meantime can you pay the balance net of the credit to show good will?

Buyer: We are awaiting a credit note in the value of Eur 1,500.- to offset against invoice 123. Invoice 123 will not be paid until the credit note has been received.

Import Factor: We noted your comments and we will inform our Export Factor that you have contacted your Seller and you expect to receive a partial credit note for invoice 123.

(Conversation can go on but the point is made.)

Another phrasing to introduce during verification according to your personal style:

Import Factor: I would like to confirm the balance showing on your purchase ledger to ensure we are in agreement on what is due and when. Could you tell me which invoices you have , the value and due date?

Import Factor: Let me check that we are in agreement about what is due and when. If I say the invoice number can you please confirm the value and due date according to your purchase ledger?

Import Factor: We are verifying that our ledgers are in agreement so that we can work together effectively. It is nothing to be concerned about. Our role is to help you enjoy the benefits of open account credit terms and give you a local contact in case there are any payment queries.

BEST

In every verification call please ensure the achievement of the following points:

- Have you verified the receipt and acceptance of the Introductory Letter (if it is a first transaction

- Have you obtained the full details of the invoice (invoice no., date, due date, amount, invoice currency, assignment clause, Incoterms)?

- Has the buyer received the delivery of the goods?

- Have you questioned any discrepancies?

- Have you obtained full payment details?

- Have you achieved a successful verification?

- If the verification is completed on the first phone call, have you updated the system entry properly?

- Message left with the customer for a return call should be a last resort.

Sample Invoice Verification Receipt for the IF – by fax

The Import Factor
Address
Name/IF Contact Person:
Phone:
E-mail:

To: XXXX, Inc.
   Accounts Payable Department
   Attention: _____

Fax: (_____) _ _ _ **-** _ _ _ _

From: _____

Re: Invoice No./date/amount/due date _____ from XXXXX, Ltd.

We are performing a standard accounts receivable verification and would like to confirm the following with respect to the invoice attached hereto from XXXX, Inc.   Please confirm the following:

Verification Questions	Yes	No	Comment
1. Invoice received?	_____	_____	
2. Invoice is payable to ……….. (Name and address of the IF) Do you accept the assignment? 	_____	_____	
3. Goods/services received?	_____	_____	
4. Goods/services received in good order?	_____	_____	
5. Any problems with goods/services, Invoice, Incoterms, shipping, terms, etc.?	_____	_____	
6. Will invoice be paid in full? 	_____	_____	
7. Will invoice be paid on due date specified in reference?			

You may reply by fax (   ) _ _ _ - _ _ _ _. **Thank you for your help and your time!**
_____

XXXXX, Inc.

By:_____
Name:_____
Title:_____

Appendix 5

Frequently Asked Questions

1- What is the purpose of the Verification? To avoid fraudulent invoices or to avoid disputes?

Invoice Verification will serve EFs with a higher level of comfort prior to their providing finance to Exporters and reduce the risk of fraud and disputes.

Of course, the IF will not be responsible if a dispute arises once the shipment has arrived and inspection identifies a problem with the merchandise, or any other dispute issue that may arise between the buyer and seller.

2- Do we have to verify every invoice?

Invoice Verification service can be requested; for individual invoices, for the whole buyer accounts and for the portfolios of buyers on a random basis or with a frequency agreed between the EF and the IF in the supplemental agreement.

Verification can be requested by the EF at any time after the assignment of the invoices.

3- How will the verification be communicated to the EF?

The IF will send edifactoring message 74 to the EF to correspond on an outstanding Verification request. Message 74 will include either the notification of a performed Verification or a pending Verification or the notification of a dispute arising upon the Verification.

4- How soon after shipment will Verification be required?

That is up to the EF. The day after assignment it is likely the seller will ask for funding. Thus verification requests are actually to be expected.

5- In how many days will the IF complete the Verification service?

The IF is expected to start the Verification process in a reasonable time after he received message 9 and message 74 or message 21. The minimum expectation of the EF for the invoice verification shall be three attempts to contact the buyer on at least three consecutive business days. In case the IF encounters a problem in contacting a specific representative of the buyer then he must attempt to identify an alternative contact person. Continued problems with the given contacts shall be referred to the EF.

6- What is the responsibility of the IF for verified invoices?

The IF has no responsibility or liability for decisions the EF makes as a result of the information provided by the IF in conncetion with the verification initiative, except for the IF's gross negligence or willful misconduct.

7- What happens if Verification was not mentioned at the start of a new business relationship and then IV service is required at a later date? It could be that buyer contact was not allowed at the time the MSG01, MSG02 and MSG05 were originally sent.

In case of active business where MSG01, MSG02 and MSG05 were already sent, the IF should assume that buyer contact is allowed if the EF asks for verification service at a later date.

8 Why MSG74 must follow the pertaining MSG09? Should this not follow MSG70?

While designing edifactoring messages, the Communication Committee had several discussions with EFs and IFs who are already involved in invoice verification. This sequence restriction allows the EF, who decided for a specific seller that all invoices should be verified by the IF as default, not to send MSG70 for every invoice. The system allows MSG74 without a prior MSG70.

 9- How can the IF perform Invoice Verification long before the delivery?

For goods with longer shipment period Verification close to the invoice date can best achieve the confirmation that the goods were ordered. The IF could continue to contact the buyer as part of normal credit control. There will be a point when the goods do arrive and the buyer can then give more assurance that they will pay.

10- Can IF decline the IV request of the EF? IF should have the right to decline the Invoice Verification request of the EF for any specific buyer.

This point will be considered in the Post Implementation Review (PIR). The IF will know that some buyers will not respond to verification requests and will advise the EF. Common sense shall then apply.

Glossary

## Disclaimer	The purpose of the Glossary and factoring terms is to help you understand the meaning of the terms used in this guide.

Whilst utmost care has been taken in the preparation of this Glossary, the explanation of the terms listed below is not meant to be exhaustive and entirely correct under all circumstances. The explanation of the "legal" terms in particular may not be applicable under certain circumstances.

When in doubt, therefore, you must refer to the GRIF and/or to the Legal Manual.

Accounts receivable (A/R)	An amount of indebtedness represented by an invoice not yet paid by the buyer.
Advance (payment)	See *prepayment*.
Approval	See *credit cover*. FCI uses *credit cover* or *cover* in all its inter-factor communications.
Assignment	See *notice of assignment*.
At Sight	Payable on demand.
Average Days Outstanding (ADO)	A method of calculating in which period of time invoices are paid.
Bill of Lading	A document, which is also a deed of title, given by a ship owner or agent for goods received on board a vessel for carriage to a stated destination.
Buyer	The seller's customer. He is liable to pay the A/R arising from the supply of goods or the provision of a service. See also *debtor*.
Client	See *seller*.
Commission	Also known as administration charge or service charge (normally as a percentage from turnover or fee per invoice). The price the seller pays to the EF for the service elements of the factoring contract.

Cost Insurance and Freight (CIF)	One of the Incoterms. The seller pays the cost and freight to transport the goods to the contracted destination and he is also responsible for the insurance of the goods as far as the named port of destination.
Contra Account (Contra Trading)	Also known as *two-way trading*. The seller and buyer provide each other with goods or services and offset the amounts owed to each other.
Credit approval	See *credit cover*. FCI uses *credit cover* or *cover* in all its inter factor communications.
Credit cover	The cover the IF grants to the EF and the EF provides to the seller for shipments or services from the seller (who needs to be covered for the credit risk) to a specific buyer. A credit cover can be for a line or for an individual order.
Customer	See *buyer*. FCI uses *buyer* in all its interfactor communications.
Debtor	Term used by the GRIF. See *buyer*. FCI uses *buyer* in all its interfactor communications.
Delivery	When the goods shipped by the seller are received by the buyer.
Dilution	Any amount that buyers may legally deduct from their payment.
Direct payment	Payment by the buyer to the IF of an assigned invoice.
Dispute	A defence, counter-claim or set-off raised by the buyer. As a result of a dispute, the buyer may withhold payment of A/R.
Due date	The date on which a payment is due to be made.
edifactoring.com	The FCI communication system. Its use is mandatory for all inter-factor business messages.
edifactoring.com Rules	These govern the duties, responsibilities and working practices for using the edifactoring.com system.
Export Factor (EF)	The factor, usually located in the seller's (or exporter's) country, with whom the seller has a factoring agreement or contract.
Export Factoring Contract	The contract between the seller and the EF for the provision of an export factoring service.

Ex-Works (EXW)	One of the Incoterms. The seller fulfils his obligation to deliver when he has made the goods available at his premises to the buyer. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination.
Factorable A/R	A/R that are free from lien and are assignable and collectible.
Fictitious Invoice	An invoice which has no goods or services backing it and which is falsely raised by a seller just to obtain finance.
Free on Board (FOB)	One of the Incoterms. The seller fulfils his obligation to deliver when the goods have passed over to the ship's rail at the named port of shipment. The buyer bears all costs and risks from that point.
Fresh-air Invoice	See *Fictitious Invoice.*
General Verification	The EF and IF agree that all invoices for specific seller(s)/buyer(s) will be included in the verification service.
GRIF	The General Rules for International Factoring. These are rules, promulgated by FCI, which govern international factoring between EF and IF.
Import Factor (IF)	The factor, usually located in the buyer's (or importer's) country, whose services the EF engages. He carries out collection of A/R and assumes the credit risk.
Incoterms	Incoterms is a set of international rules for the most commonly used terms in international trade. A revision of these terms was made in 1990 in order to facilitate their use within EDI messaging. Copies of a full set of the terms can be obtained from the International Chamber of Commerce.
Indirect payment	Payment of an assigned invoice from the buyer to the EF, seller, seller's insolvent estate or seller's agent instead of to the IF who is legally entitled to the payment.
Interfactor Agreement	A bilateral agreement in which two FCI members declare that they will be bound by the GRIF, the Rules of Arbitration and the edifactoring.com Rules.
Introductory Letter	The letter sent to the buyer to advise the buyer that the seller has entered into an Export Factoring Agreement.

Invoice	A document the seller issues to the buyer that gives details of the goods or services provided, the price of such goods or services and the terms of payment.
Import Factor Information Sheet (IFIS)	A document (normally published on the FCI website) which describes how a Factoring correspondent is conducting its Import business and indicates e.g. pricing structures, internal procedures, bank account details, legal requirements.
Notice of assignment	A written instruction to a buyer that the A/R have been assigned and are payable to the IF. It normally appears on the invoice.
Payment terms	The specific terms which determine when payment of an invoice is due (for example, 30 days from date of invoice). Usually it is stated on each invoice. The terms may also include the circumstances when the buyer may take a discount.
Payment under approval (PUA)	A payment of an approved and undisputed A/R by the IF to the EF 90 days after the due date of the invoice.
Periodic Verification	The EF and IF agree that the total outstanding balance on seller/buyer basis will be verified on an agreed frequency.
Pre-Invoice	This is where a seller assigns an invoice to the EF prior to the goods or services being delivered to the buyer, in an effort to obtain finance earlier than they would be entitled to do so.
Random Verification	The EF and IF agree that several invoices for specific seller(s)/buyer(s) will be verified. The IF can choose the invoices to verify randomly.
Reassignment	The IF transfers ownership of an A/R back to the EF.
Requested Verification	The EF requests verification for specific invoices.
Seller	The EF's client who provides goods or services, invoices the buyer for them and whose A/R are factored by the EF. See also *supplier*.
Shipment	The sending of the goods ordered. Defined in the GRIF as: "*goods placed in transit to or to the order of the buyer, whether by common carrier or seller's own transport.*"

Supplier   Term used by the GRIF for seller. See *seller*. FCI uses *seller* in
                                   all its interfactor communications.

Two Factor System   A factor, usually located in seller's country, (EF) works with a
                                   correspondent factor, usually located in the buyer's country, (IF)
                                   to provide an efficient factoring service to the seller.

Value date   The date, after the invoice date, from which payment terms are
                                   calculated. The use of a value date results in an additional credit
                                   period for the buyer.

Verification of A/R   A seller risk control measure. The factor checks with the buyers
                                   that they have the same A/R on their books as he does and that
                                   the A/R are not disputed.