PURCHASE ORDER MANAGEMENT "POM"

A PRACTICAL GUIDE

Purchase Order Management Service

This guide is designed to give a description of FCI's Purchase Order Management Service. It is intended to help members understand the product when embarking on system testing and development of their in-house risk and operational procedures. The POM procedure described in this manual is a guideline for the members and doesn't mean to be exhaustive and entirely applicable to every legal and operational environment. Before signing the supplemental agreement both the EF and IF should examine carefully, and agree, their specific legal and administrative requirements for Purchase Order Management.

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PURCHASE ORDER MANAGEMENT

1. Glossary

Export Factor: a service provider to the seller, to include protection and financing.

Import Factor: a provider of credit protection to the export factor and verification and collection from the buyer.

Seller: an exporter and client of the export factor

Buyer: an importer and customer of the seller

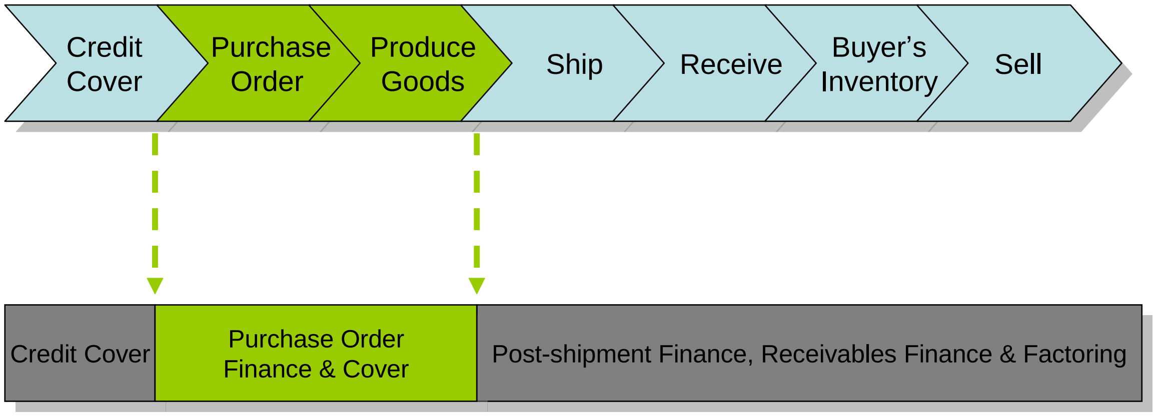
Purchase Order Approval Amount: a credit approval for Purchase Orders; the approved amount is a Sub-Limit to the total Buyer Credit Limit.

Sub-Limit: the Import Factor provides a credit limit on the Buyer which is the maximum liability. That limit can be partially or wholly allocated to cover purchase order liabilities. The sub-limit is not additional to the Credit Limit.

2. What is Purchase Order Management?

Purchase Order Management, (POM) offers credit risk cover against both protracted default and insolvency of buyers in the pre shipment period where an Export Factor is providing Pre-shipment (purchase order) finance. It has been created to allow FCI members to compete against trade finance products already on offer in the market place by banks and trade credit insurers.

POM enables factors to provide Finance and Credit Protection during the period between an order being agreed between the buyer and the seller and subsequent shipment to the buyer. The post shipment period, being that already familiar as the International Factoring products.



3. Why is it needed?

Sellers often have the need for pre-shipment (purchase order) finance. Costs and liabilities are incurred as soon as the seller begins the manufacturing process and will build up by the time the goods are ready for dispatch. In meeting the sellers' needs the Export Factor has an opportunity to increase client business revenues, manage risk more successfully and ease the burden of cash flow shortfalls incurred during the production period.

POM = Increased revenues & reduced risk

4. Checklist of issues for a factoring company considering POM.

Export Factor: Commercial issues

- Check history of client and customer relationships for a successful track record.
- Assess the suitability of product. Is it going to have a resale value? Is it identifiable?
- Assess the suitability of the seller's records. Are they going to be able to substantiate their costs and margins?
- If finance is part of the proposition what evidence will be needed to release finance and at what levels will finance be provided.

Export Factor: Legal Issues

- Are there any conflicts over ownership of stock and work in progress with other creditors and banks?
- As export factor can you establish a legal basis to finance? There is no "debt" at the pre-shipment (purchase order) stage so what is the legal foundation.
- As export factor do you have regulatory permission?

Export Factor: Other Issues

- What are the Exposures at Default and Loss Given Default likely to be?
- What is the price policy?
- How does this align with any credit insurance policy?

Import Factor: Commercial Issues

- What details about the seller are needed?
- What is the maximum credit period you are going to agree?
- How do you intend to structure pricing?

Import Factor: Legal issues

- On what basis are you providing for this liability? Is it a guarantee, a receivable broadly defined, or an insurance liability?
- How is to be recorded in the company records?
- Do you have regulatory permission?
- What is the capital requirement, Exposure at Default (EAD) and Loss Given Default (LGD)?
- What rights can you acquire from the EF?

POM requires additional monitoring and control by both the Export and Import Factor and should only be included in the factor's product offering when he are fully confident that his business understands the product and relevant training has been undertaken by staff.

Import Factors who work with trade credit insurers must ensure that their policy allows them to offer, or can be amended to offer, "Pre-shipment (purchase order) risk" and that the insurer acknowledges the use of this service in accordance with operational features described within these guidelines.

Independent legal advice required by both EF and IF.

Both the Export and the Import Factor are recommended to seek their own independent legal advice before engaging in the product. This should include a review of the local legal basis for providing POM and any regulatory implications. This should be done before entering into a supplement agreement (*Appendix 1).

What to do if changes are required to the supplemental agreement.

If as a result of any review, either Import or Export Factor needs to change the supplemental agreement, please confirm this not only to the correspondent factor but also to the FCI Legal Committee. The Legal Committee will retain these changes on file and use the information to help FCI gain a better understanding of POM in the various trading markets.

5. What is the purchase order credit risk cover?

The Import factor shall establish or will already have established an overall credit limit on the buyer, based on the needs of the seller or maximum credit limit cover possible. The POM liability for the Import factor is the maximum Purchase Order Credit Cover which can never exceed the overall credit limit.

Purchase order credit approvals are revolving lines created to work on a revolving basis to cover either one or a succession of purchase orders providing that, if there is more than one, each individual order can be uniquely recognised.

POM allows for the risk sharing between Export and Import Factor on the basis that the Import Factor will cover a percentage of the risk, not 100% of the risk. A first loss value on each and every POM claim can also be included by the Import Factor.

Credit risk cover is provided against the *insolvency* of the buyer in the pre- shipment period (insolvency as defined in the Supplement agreement to the GRIF). Insolvency includes formal "bankruptcy" in common parlance.

Protracted Default

Protracted default is included under the following circumstances:

- If an invoice(s) becomes very overdue (max.90 days) during the period that a purchase order(s) is in production stage and the credit limit is cancelled, the Import Factor remains on risk for;
    - Those invoices under standard GRIF rules plus those purchase orders notified at the time of the cancellation to the extent that they were covered by the Purchase Order Approval Amount immediately prior to cancellation, i.e. the approved purchase order value within the, "POM" or "Sub" limit. To clarify further, the Import Factor remains responsible for the risk cover associated with the costs incurred during the remaining period of fulfilment of the purchase order ***and*** for those invoices which arise from the approved purchase orders.
    - The Import Factor can also insist that work on unfulfilled orders cease and meet the liability at that point in accordance with Articles 8 and 9 of the Supplemental Agreement (* Appendix 1).

- Cancellation of the order by the buyer or, refusal to accept shipments relating to such purchase order, is not included.

Insolvency of the Buyer

In the event that the buyer become insolvent and approved purchase orders are under production the Import Factor must then make one of two choices:

- Seek to ensure that the production cycle is completed and arrange, (either with help from the seller or directly), to sell the completed goods elsewhere, or;
- Require that the production stops and sell any goods or materials for salvage.

The Import factor will chose the option which best mitigates any loss.

Fulfilment of the order may be influenced by the relationship with the insolvency practitioner of the buyer or, the market for goods e.g. bespoke goods made to the buyers specification may not eligible for sale to a third party.

In the event that production is stopped and any work in progress is sold for salvage the Import Factor may wish to appoint a third party to assess and value the goods and materials. Such an assessment may be necessary before the Import Factor accepts liability for any claim. (See also under Claims Process, page 9).

Insolvency of the Seller

Whilst recovery of invoices would proceed as normal, both Export Factor and Import Factor need to decide the best way of recovering any funds and mitigating the risk. Most usually production will stop and the Export factor will need to try and exercise their rights to have the goods and/or materials sold. However getting hold of partially finished goods is often difficult. A good dialogue with the insolvency practitioner, especially if the business is to be sold on and the goods can be completed, may be the best solution for all. The Export Factor must keep the Import Factor fully informed when they are in dialogue with an insolvency practitioner.

As often happens when a seller fails, the buyer may raise a dispute. With regards to the pre shipment period the Import Factor and Export Factor shall will both have their mutual responsibilities to carry out as usual.

Additional considerations when using third party insurance cover

The policy will be described as: Pre-Shipment Cover or Pre-Credit Risk Cover or Work in Progress Cover. These arrangements can usually be added to an existing trade credit insurance policy.

Protection level is usually 85% > 90% cover with a first loss (either accumulated loss or an each and every loss). To ensure cover is not invalidated due to delays in the start in production it is recommended that the cover period starts on the effective date that work begins and this should be included within the contract between seller and buyer. Furthermore from the date of contract / order, to completion and dispatch of invoice, this will typically not exceed 90 days.

It is important that the policy holder fully understand the pre-shipment phase of his policy, how to make claims and that the service being provided is compatible with the GRIF.

6. The Operational process for POM

edifactoring.com Messages

In order to facilitate POM, 6 new Edifact messages have been created and message 1, Seller Information has been amended.

1	Seller information
55	Purchase Order Approval Amount-Request
56	Purchase Order Approval Amount-Response
59	Purchase Order
64	Purchase Order Verification Request
65	Purchase Order Verification Response
66	Change Purchase Order Amount

In order to use POM the Export Factor is required to follow a specific sequence of events which is detailed herewith:

1. Establish the commercial and risk frame work to provide this service.

2. Identify the requirements in terms of the total value of orders, the timing and duration and the timing and value of invoicing that will flow. This will give the maximum liability and the requirement between pre and post shipment approval.

3. Establish that the Import Factor is willing to offer POM services. This is indicated in Edifactoring. There is a specific “yes” or “no” flag within Edifactoring and if an Import Factor has not agreed to undertake POM then Edifactoring POM messages cannot be sent to them. If an Import Factor is currently closed for POM the Export Factor can ask whether for a specific deal they would re-consider. This is best done via Phone and email initially.

4. Send message 1 prospective seller information to include the fact that POM will be needed.

5. Open Buyer account – message 5

6. Wait for Credit Cover Answer 6

7. Check that purchase order values and potential invoice values can be accommodated within the Credit Cover. If not send message 7 to request a higher credit limit and await message 8 response.

8. Send message 55 Purchase Order Approval Amount

9. Await message 56 Purchase Order Approval Amount
10. With each specific purchase order notify the Import Factor using message 59. This shows how the sub limit is being utilized and the Import Factor is on risk
11. The Export Factor has the option of asking the Import Factor to verify the existence of the order with message 64 and the answer message 65 in so long as this requirement was specified in message 55.
12. If the purchase order is changed then update the Import Factor with message 66.
13. When the purchase order has been completed and shipped then advise the Import Factor with message 66. The Export factor will want to notify the Import Factor of the resulting invoice with message 9.
14. The charges for this service will have been agreed between Export and Import Factor and should be advised to the Export Factor in message 17.

If more than one P.O. is accepted on one buyer:

1. Send message 1 to include request for POM.
2. Send message 55. Calculate value based on anticipated total orders outstanding at any time.
3. Await message 56
4. As each PO is started send message 59 and you must specify the order numbers
5. If a verification has been requested in message 55 then request verification in message 64
6. Await message 65 verification response. Provide financing if appropriate, it may be prudent to do this in stages, against evidence of cost.
7. When a purchase order has been fulfilled send message 66 to close the PO.
8. Notify the resulting invoice with message 09
9. If another PO is raised check that the overall credit limit is adequate and the sub limit is adequate. If the sub-limit is adequate no new message 55 is needed.

7. Purchase order verification

Within the scope of the POM the Export Factor can ask the Import Factor to verify the purchase order. Whilst the Import Factor can decline to do this, the Import Factor can take it upon himself to verify the Purchase orders especially in the early stages of the new POM relationship. The Import Factor should inform the Export Factor accordingly.

In order to verify the Purchase Order the Export Factor should:
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- Provide sufficient contact details to enable the Import Factor to expedite the exercise quickly and efficiently.
- Provide (if required) written consent from the seller to the buyer to ensure that the buyer will co-operate. A copy of this consent should also be sent to the Import Factor.

The Import Factor should:

- Do everything within his power to contact the buyer as quickly as possible, preferably within 24 hours.
- Verification should include:
    - Confirmation by the buyer that they have placed an order.
    - That the order number and date is correct.
    - Value of the Order.
    - Completion date of the order.

Situations to be aware of; be alert to:

- Duplicate orders
- Inflation of order values
- Collusion between buyer and seller.

The Import Factor is responsible for completing the task in a timely professional manner and employing the skills required. The Import Factor is without liability if despite the level of skill deployed, a subsequent fraud is discovered.

8. POM Payment under Guarantee

Buyer is insolvent.

The date when a claim is due for payment under the terms of the credit approval is as follows:

- ***The number of days left until the elapse of the Purchase order Period + the invoice terms of payment + 90 days.***

An example:

The PO period is approved at 90 days. The buyer is declared insolvent 45 days into the production period.

The invoice terms of payment are 60 days from invoice date
PUG is due: 45 days + 60 days + 90 days = 195 days later assuming all terms and conditions have been met.

Buyer is not insolvent but credit limit is cancelled.

The seller can continue with the order providing it is within the sub limit, the seller is protected for either;

- The total cost of the goods incurred to complete the order or;
- A percentage of the approval if that is specified under the approval, whichever is the lower value.

Example

In this example imagine the Import factor agrees to pay costs up to 75% of the purchase order credit cover amount. Imagine too that the seller has a 20% profit margin. This example has a production period of 65 days and the costs build up from 20% at start of manufacture to 80% of invoice value by completion.

	Order	Start manufacture	+30 days	+60 days	Completion 65 days from start	Invoice value	PO Value approved
Costs incurred	0	20	40	60	80	100	100
Liability on cost basis	0	20	40	60	80	100	100
Liability on 75% basis	0	20	40	60	75	100	100

Note that if the buyer is still solvent when the goods are dispatched and invoiced the approval continues to the invoice.

Buyer becomes insolvent before the goods are dispatched.

If the buyer becomes insolvent before the goods are dispatched, the Import Factor would be required to pay under the terms of the P.O. cover.

- There can be no succession of P.O.s’ which are above the value of the sub-limit after cancellation.

Example

In this example imagine the Import factor agrees to pay costs up to 75% of the purchase order credit cover amount. Imagine too that the seller has a 20% profit margin. This example has a production period of 65 days and the costs build up from 20% at start of manufacture to 80% of invoice value by completion.

	Order	Start manufacture	+30 days	+60 days	Completion 65 days from start	Invoice value	PO Value approved
Costs incurred	0	20	40	60	80		100
Liability on cost basis	0	20	40	60	80		100
Liability on 75% basis	0	20	40	60	75		100

The Import Factor has the option of supporting continued production to complete the goods but they are never dispatched or invoiced unless the IF comes to any agreement with the buyer in insolvency and the IF’s liability is always a maximum of the costs incurred or asset % of the PO value whichever is the lower.

If the goods are shipped before the buyer becomes insolvent then the P.O. approval continues into an approved invoice.

Evidence / Documentation required for supporting a successful claim under POM

In order that the Import Factor can expedite payment the following information will be required:

- Evidence of costs incurred under the approval. Copies to be supplied but originals should be available on request.
- Copy of the order
- Copy of last financial statements showing gross and net profit margins, if requested
- Evidence of the use of best endeavors by the Export Factor and seller. Specifically to include efforts to secure and sell any goods for best value if directed by the Import Factor and after deducting any reasonable costs to fulfill that obligation. Prices for salvage can be agreed with one reputable purchaser or after receipt of at least two competing bids from unknown and unconnected parties.
- Evidence that the buyer is insolvent in the local formal definition or
- Evidence of protracted default of outstanding invoices. All outstanding invoices must be at least 90 days overdue to qualify (so it is calculated from the last invoice due not the first).
- The elapse of the whole purchase order period plus the invoice period plus 90 days.

9. Legal considerations

The Legal Committee and the Executive Committee are aware that as with any newly developed product, some "grey" areas may unexpectedly arise, so it will be necessary that FCI members choose their partners carefully so that in cases of unexpected situations common sense and mutual cooperation will prevail.

Members are advised to investigate their own legal and regulatory environment, in particular when acting as Import Factors. There may be challenges in certain jurisdictions as to whether the POM credit risk service coverage is in fact an insurance policy and thus there are license and competition laws to consider.

Appendix 1

SUPPLEMENTAL AGREEMENT
FOR PURCHASE ORDER MANAGEMENT (POM)
(Version June 2013)

IT IS AGREED BETWEEN *"XYZ" (as Export Factor)** **and** *"ABC" (as Import Factor)** **that for the sole purpose of conducting Purchase Order Management services between the parties, and unless inconsistent with the provisions herein, the various terms and provisions of the of the General Rules for International Factoring ("GRIF") are to be incorporated into this Supplemental Agreement:**

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, the Rules of Arbitration and the Interfactor Agreement to which this Agreement is supplemental 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 56, the Import Factor will provide services relating to that transaction including credit coverage, for the period prior to the shipment of goods to that buyer which period shall not exceed that specified in that message. ("Purchase Order Approval Amount").

3. The Purchase Order Approval Amount will apply to any written purchase orders ("Purchase Order") that are subsequently notified to the Import Factor via edifactoring message 59, which should specify the purchase order number in each notification. The Purchase Order Approval Amount sets the maximum balance covered for pre shipment risk. It is a component part of the credit line, takes up allowance within that credit line, and can therefore never exceed the credit line.

4. The Purchase Order Approval Amount is a revolving approval of purchase orders for a buyer with one supplier up to the maximum amount specified. Revolving means that, while the Purchase Order Approval Amount remains in force, purchase orders in excess of the line will succeed amounts within the line which convert in time into receivables and may be covered via the credit line under provisions within the GRIF. The succession of such purchase orders shall take place in the order in which they are due to be completed. Where 2 or more purchase orders are due for completion on the same date then their succession shall take place in accordance with the sequence of their respective purchase order numbers.

5. For the avoidance of doubt receivables always take precedence over purchase orders within the credit line in general and also in terms of succession under this and Article 17 of the GRIF.

6. This Purchase Order Approval Amount shall not cover any buyer cancellation of the purchase order.

7. The Import Factor shall be entitled to charge a supplementary commission as agreed and confirmed with the Export Factor.

8. For the purposes of this Agreement the definition of a receivable as stated in the GRIF is extended to include any amount payable to the supplier under any contract for the sale of goods or the provision of services whether or not performed. It is agreed between the parties that the Export Factor assigns and/or transfers to the Import Factor all rights, title and interest, but not any obligation in each purchase order approved by the Import Factor and any subsequent account receivable deriving therefrom, or if this is not legally possible the Export Factor agrees to assign and/or transfer such rights, title and interest in the account receivable to the Import Factor as soon as it comes into existence.

9. The Import Factor is entitled to receive details of and or a copy of any Purchase Order and any documentation relating to the Purchase Order assigned to him without undue delay and in any event within the following time periods:

(a) 10 days from the receipt of the request, an exact copy of the Purchase Order;
(b) 30 days from the receipt of that request any other documentation relating to that Purchase Order and reasonably required in order to assess the conditions under which the approval has been made.

10. If the Export Factor:
(a) does not provide the documents referred to in Article 9 of this Agreement ; or
(b) fails to provide a reason for that delay and a request for further time, both acceptable to the Import Factor; within the prescribed time limits, then the Import Factor shall be entitled to cancel the approval as against that specific Purchase Order and reassign and or transfer it back to the Export Factor with all rights and interests to it.
(c) The time limit for the Import Factor to be entitled to request these documents from the Export Factor shall not exceed 270 days from the date of the assumption of the risk by the Import Factor.

11. In the event that the buyer becomes insolvent prior to the shipment or provision of services the Import Factor will pay the Export Factor the lesser of:

(a) An agreed percentage of the aggregated outstanding Purchase Orders covered by the Purchase Order Approval Amount; or

(b) the suppliers' verifiable cost of production or acquisition of the goods.

In any event these payments will be less any proceeds of sale of liquidation of the goods and in no event will exceed the Purchase Order Approval Amount. The Import Factor reserves the right to appoint a third party expert to verify the nature and amount of loss and the Export Factor will ensure that this expert is provided with all the information needed to perform the task.

12. For the purposes of Article 11 insolvency is defined as the earlier of either:

(a) When the buyer fails to pay all of the undisputed outstanding receivables to the supplier within 90 days of their due dates, to the extent that there are existing invoices already assigned to the Import Factor prior to the cancellation of the credit line or of the Purchase Order Approval Amount; or

(b) Insolvent as defined by the law of the buyers' country.

13. The Export Factor agrees to cause his supplier to use his best efforts to mitigate the Import Factor's loss.

14. When a credit line is cancelled by the Import Factor, the Purchase Order Approval Amount is also cancelled as a result, however, a Purchase Order Approval Amount can be cancelled or reduced independently without affecting the overall credit line.
In the event that the Import Factor cancels either the Purchase Order Approval Amount or the overall credit line, such cancellation will limit the cover to those purchase orders notified at the time of the cancellation to the extent that they were covered by the Purchase Order Approval Amount immediately prior to cancellation. In such cases the Import Factor can either:

a) Insist that further work on the order cease including any delivery and meet the liability at that point according to Articles 11 and 12; or

b) Insist that work continue on the order until its completion, in which case the subsequent invoice on the original debtor or another debtor mutually agreed upon by the Export Factor and the Import Factor will be approved to the extent that it would have been covered under the credit line immediately prior to the cancellation.

15. Payments under Article 11 will be made on the date calculated as being the date of the agreed completion of the purchase order, plus the agreed credit period for the resultant invoice, plus 90 days.

In all cases where a payment has been made by the Import Factor before the liquidation or the total liquidation of the goods has taken place then the Export Factor is obliged to reimburse the Import Factor without undue delay any amounts deriving from the proceeds of each sale, but in any event never exceeding the payment initially made by the Import Factor.

16. It is agreed between the parties that for the sole purpose of Purchase Order Management services the various terms and provisions of the General Rules for International Factoring ("GRIF") are to be varied in the following way:

Article 1	"Protection against bad debts" is replaced by "Protection against bad debts and or the Insolvency of the Buyer"
Article 2	The parties taking part in two-factor international factoring transactions are: (i) the supplier (also commonly referred to as client or seller), the party who invoices or will invoice for the supply of goods or the rendering of services; (ii) the debtor (also commonly referred to as buyer or customer), the party who is or will become liable for payment of the receivables from the supply of goods or rendering of services; (iii) (iv) remain applicable.
Article 3	Remains applicable
Article 4	Remains applicable
Article 5	Remains applicable
Article 6	Remains applicable
Article 7	Remains applicable
Article 8	Remains applicable
Article 9	Remains applicable
Article 10	Remains applicable
Article 11	Remains applicable
Article 12	For the purposes of this agreement Article 12 (i) & (ii) is replaced entirely by Article 8 of this Agreement. Article 12 (iii) remains applicable.
Article 13	Remains applicable
Article 14	For the purposes of this Agreement 14 Article is replaced by Articles 9 & 10 of this Agreement.
Article 15	(i) Any reassignment or transfer back of a Purchase Order under Article 10 of this Agreement must be made by the Import Factor no later than the 60th day after his first request for the relevant documents, or, if later, the 30th day after the end of any extended time granted by the Import Factor under Article 10 of this Agreement. Furthermore, the Import Factor shall be relieved of all obligations in

respect of the reassigned or transferred Purchase Order and may recover from the Export Factor any amount paid by the Import Factor in respect of it.

(ii) Is not applicable.

(iii) Remains applicable.

(iv) Is not applicable.

(v)

Article 16 Article 16 is not applicable to this agreement.

Article 17 (i) Requests of the Export Factor to the Import Factor for the assumption of the credit risk**,** which may be for the approval of Purchase Orders, individual orders or of credit lines, must be in writing and must contain all the necessary information to enable the Import Factor to appraise the credit risk and the normal payments terms.

(ii) Remains applicable

(iii) Remains applicable

(iv) Is not applicable

(v) Is not applicable

(vi) Is entirely replaced by Article 4 of this agreement

(vii) Is not applicable

(viii) The approval shall be given in the same currency as the request. However, the credit line covers receivables and Purchase Orders represented by invoices and Purchase Orders expressed not only in that currency, but also in other currencies; but in all cases the risk to the Import Factor shall not at any time exceed the amount of the original approval.

(ix) There shall be only one credit line and one Purchase Order Approval Amount for each supplier on each debtor and any new credit line or Purchase Order Approval Amount shall cancel and replace all previous credit lines and Purchase Order Approval Amount for the same supplier on the same debtor in whatever currency denominated.

(x) Remains applicable

Article 18 (i) For good reason the Import Factor shall have the right to reduce or cancel the individual Purchase Order Approval Amount. Such cancellation or reduction must take place in writing or by telephone (to be confirmed in writing). Upon receipt of such notice of cancellation or reduction the Export Factor shall immediately notify the supplier and such cancellation or reduction shall be effective as to Purchase Orders not yet assigned or transferred to the Import Factor. On or after the sending of any such notice of cancellation or reduction to the Export Factor, the Import

Factor shall have the right to send such notice also direct to the supplier, but he shall inform the Export Factor of such an action. The Export Factor undertakes to give the Import Factor all assistance possible in such circumstances.

(ii) On the effective date of the termination of the contract between supplier and Export Factor all Purchase Order Approval Amounts are immediately cancelled without notice, but shall remain valid for any Purchase Orders already assigned or transferred to the Import Factor before such date of termination..

(iii) When the cancellation of the credit line is effective or the credit line has expired then:

(a) the right of succession of ceases in all cases and thereafter, except as provided in sub-paragraphs (b) and (c) of this paragraph, any payment or credit (other than a payment or credit in connection with a transaction excluded in Article 3 of the GRIF) may be applied by the Import Factor in satisfaction of approved receivables related to invoices in priority to unapproved receivables;

(b) is not applicable; and

(c) Is not applicable

Article 19

(i) Is not applicable.

(ii) Is not applicable.

(iii) When the Import Factor has approved a Purchase Order Approval Amount on a debtor and a Purchase Order coming from that Debtor has been assigned or transferred to the Import Factor, then all subsequent Purchase Orders from that debtor to that supplier must be assigned or transferred to the Import Factor, even when the Purchase Orders are only partly approved or not approved at all.

(vi) Is not applicable

Article 20 Is not applicable

Article 21 Is not applicable

Article 22 Is not applicable

Article 23 Is not applicable

Article 24 Article 24 (i) (ii)(iii) and (iv) are replaced by Articles 11, 12 and 15 of this Agreement.

(i) If an approved Purchase Order is expressed in a currency other than that of the corresponding Purchase Order Approval Amount, in order to determine the approved amount that Purchase Order shall be converted to the currency of the Purchase Order Approval Amount at the rate of exchange (mid rate) quoted by XE.com (and used in edifactoring.com) at the date on which the payment under Article 12 of this agreement is due by the Import Factor. In all cases the risk of the Import Factor shall not exceed at any time the amount of the original approval.

Article 25 Is not applicable

Article 26

(i) Remains applicable

(ii) Except as provided in paragraph (iii) of this Article, if the Import Factor does not initiate a payment to the Export Factor according to the requirements of Articles 11 ,12 and 15 of this Agreement, the Import Factor shall:

(a) be liable to pay to the Export Factor interest calculated for each day from the date on which such payment shall be due until actual payment at twice the 3-months-LIBOR as quoted on such due date in the relevant currency, provided that the accrued amount of interest exceeds EUR 50; and

(b) reimburse the Export Factor with the equivalent of any currency exchange loss suffered by him and caused by the delay in payment.

If there shall be no LIBOR quotation for the relevant currency, twice the lowest lending rate for such currency available to the Export Factor on such date shall apply.

(iii) Remains applicable

(iv) Remains applicable

Article 27 Is not applicable

Article 28

(i) The Export Factor warrants and represents for himself and on behalf of his supplier:

(a) that each Purchase Order represents an actual and bona fide Purchase Order of goods or provision of services to be made in the regular course of business and in conformity with the description of the supplier’s business and terms of payment;

(b) Is not applicable

(c) Is not applicable

(d) that each one at the time of his assignment or transfer of the Purchase Order the Export Factor has the unconditional right to assign or transfer all rights and interest in and title to each Purchase Order free from claims of third parties;

(e) that he is factoring all the Purchase Orders related to transactions as defined in Article 3 of the GRIF of any one supplier to any one debtor for which the Import Factor has given approval; and

(f) Not applicable.

(ii) The Export Factor undertakes for himself and on behalf of his supplier:

(a) Is not applicable; and

(b) Remains applicable.

(iii) Remains applicable.

Article 29 Remains applicable

Article 30 Remains applicable

Article 31 Remains applicable

Article 32 (i) A substantial breach must be asserted within 365 days after the date of the assignment or transfer of the Purchase Order to which it relates.

(ii) If the Export Factor has substantially breached any provision of these Rules, the Import Factor shall not be required to make payment under Article 11 of this Agreement to the extent that the breach has seriously affected the Import Factor to his detriment in his appraisal of the credit risk. The burden of proof lies with the Import Factor. If the Import Factor has made payment under Article 11 of this Agreement the Import Factor shall be entitled to reimbursement of the amount paid, provided the Import Factor has established his right to reimbursement, to the satisfaction of the Export Factor, within 3 years from the date of assertion of the breach.

(iii) Not applicable

(iv) The Export Factor shall promptly reimburse the Import Factor under this Article; such payment shall include interest from date of payment according to Article 11 of this Agreement to date of reimbursement as calculated in accordance with Article 26 (ii) of the GRIF

(v) Remains applicable.

17. Upon shipment of the goods in accordance with article 17 (v) of the GRIF, the full provisions of the GRIF shall apply.

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 above written.

By ____________________________
Title:

By ____________________________
Title:

APPENDIX 2

A checklist for a POM Business Plan

1- Establish the commercial product approval process and the time frame.

- Who needs to be consulted?
- Nature of financial modelling required?
- Risk and opportunities

2- Research the market opportunity.

3- Design the proposition.

- What features, criteria, pricing would make it attractive?
- What is the intended customer experience?

4- Work with credit to agree the target market and to identify risks.

5- Solicit tax specialists to check any implications of your fee structure.

6- Make use of legal department to develop documentation.

- Issues may be different betwen EF and IF role.
- Is pre-shipment period considered as an assignable debtor in your country?
- Any potential conflicts for security over stocks or work in progress?

7- Develop operational procedures for your staff.

8- Draw on marketing and promotion on launch and follow through.

9- Utilise finance department for a financial plan.

- Establish the capital requirement to determine the target return on capital.

10- Build relationship with IT.

11- Choose a pilot or develop a test client to ensure all works as anticipated.

- Undertake a post implementation review, study feedback and lessons.

Appendix 3:

Frequently asked questions?

What if the PO costs are incurred in multiple currencies or different currencies from that of the credit approval?

-Apply the same principles as in the GRIF with the liability never exceeding the original approval

Expiry dates are sometimes given for credit limits. How does this affect POM?

-The latest shipment date should not exceed the expiry date. It is the EF's responsibility to check.

Grace Periods apply to invoice terms do they apply to POM?

- In phase one at least there are no grace periods. If there is a change or difference spotted by the EF they should clarify and confirm with the IF. Do not leave matters to chance or uncertain especially as all parties are on a "learning curve".

Looking at the messages I am confused by the title of message 66-Change Purchase Order Amount.

-The primary purpose of this message is to tell the import factor that the PO has been fulfilled. It is however a multi-task message and will convey when Pos are cancelled entirely. It will also convey if there is a partial cancellation. Note however that if a PO has been part shipped with the balance to be set later the latter shipment should be subject to a specific credit request message 55. That is because the shipment date will have changed.