BUSINESS JUSTIFICATION

FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Messages set for factoring services

B. Submitting organisation:

Association française des sociétés financières (ASF)

24, avenue de la Grande Armée,

75854 PARIS cedex 17 – France

C. Scope of the new development:

The scope of the new development is the assignment and the financing of invoices, the guarantee of invoices and the collection of invoices, which are the services potentially offered in a factoring operation by a financial institution.

The scope of the new development is the Business to Business (BtoB) trade transactions and also the Business to Administration (BtoA).

In the following pages, the seller is the legal entity, commercial or industrial firm, which has the ownership of the invoice, as the creditor; it is also the supplier of a good or a service provided to the buyer, which is also the debtor regarding to the invoice. The financial institution is the entity to which an invoice can be assigned by a creditor, according to an applicable law, for different purposes, as financing, guarantee, repayment, etc, linked with the value of the invoice.

The submitting organisation wants to develop two keys messages in order to proceed to a legal assignment of invoices (with ownership transfer). The purpose of the two messages is to express expressly the commitment agreed between the seller and the financial institution.

In all the following messages, the financial institution is the owner of a Seller –Supplier account, which is used for all the factoring operations.

- "InvoiceAssignmentRequest" : Intention given or commitment taken by the seller towards the financial institution containing the data relevant to the assignment regarding legal references (law, country, legal mention, etc.) in order to enforce the assignment done ;   This message makes reference to one or several invoices or credit notes.

- "InvoiceAssignmentResponse" Commitment taken by the financial institution on each invoice contained in the request message ; each invoice takes a status regarding the request done by the seller ; all acceptance or non acceptance can be motivated not only by a bad message syntax, but also for other motives linked with risk,

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compliance, covenants, etc. ;   according to the law applicable, the explicit or definite acceptance can be the fact that leads to the legal assignment ;

The submitting organisation considers that the purpose of those messages is not a financing request for one invoice but an assignment negotiation for a set of invoices, including proposal/request and acceptance/non acceptance in order to complete a transaction, according to a legal context chosen by the two parties and containing the compulsory legal mentions.

To complete the factoring needs, the following messages are submitted:

- "AssignmentDebtorNotification": Information given to the buyer company (also the debtor) that it has to pay to the financial institution because the property of the invoice has been transferred to it. This information can be done in the invoice (e-invoice or paper invoice), but in some cases the information does not fit into the invoice and need to be given by a separate document or message.

- "InvoicePaymentStatus": Information given by the buyer company (also the debtor) to the invoice holder that it wants to pay or it wants to dispute the payment of the invoice; various statuses may be given to this message in order to scale the commitment to pay or dispute the amount of the invoice. Note that the message can be used even if the invoice is not assigned to a financial institution; in such a case, the message is sent by the debtor to the seller, its supplier.

- "InvoicePaymentDetail" : Information given by the buyer (also the debtor) to the entity which is paid in order to link a payment with all the invoices paid ; This message can also be sent by the financial institution or by the supplier to the debtor, when the payment is initiated by the supplier or the financial institution itself ; this message is necessary to improve the account netting or clearing when a lot of invoices are paid with a unique payment (for instance a SCT or a SDD),

An additional set of new messages are submitted regarding credit insurance (or invoice guarantee) and debtor identification, if needed, for instance for full factoring services :

- "DebtorInitiationRequest" : Information given by the supplier (also the client of the financial institution) in order to identify the entity which is the debtor related to the supplier ; This information is necessary to initiate the assignment of invoices against the debtor ; This request is sent by the supplier in order to obtain an agreement from the financial institution to take into account the invoices or credit notes against this new debtor.

- "DebtorInitiationResponse" : Information returned by the financial institution in order to accept or reject the debtor ; the debtor can be rejected if its activity is out of the scope of the contract signed by the supplier with the financial institution. This response is necessary before starting the assignment of invoices against the debtor ; This message contains also some informations to be transmitted by the supplier to the debtor to enable it to pay the financial institution as required, for instance BIC/IBAN references ;

- "DebtorGuaranteeRequest": Request from the supplier to the credit insurer or to the financial institution in order to obtain the amount asked as a "guarantee" in case of insolvency of the debtor for its corresponding account receivable.

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- "DebtorGuaranteeAgreement": Response or agreement given by the credit insurer or by the financial institution to the supplier which covers an account receivable up to a certain amount; this message can also be used to revoke or modify a covered amount starting a certain date.

- "DebtorPaymentInformation": Information given to the debtor by the supplier or by the financial institution to explain the consequences of the contract signed by the supplier with the financial institution; for instance, the next invoices will be assigned to the financial institution and the debtor is invited to~~must~~ take this information into account in order to pay the financial institution instead of the supplier. ~~and must use the electronic address to inform it and pay it using the bank account given~~.

- "DebtorPaymentAcknowledgment": Acknowledgment receipt or agreement sent by the debtor to the sender of the precedent message.

This set of messages should be assigned to the "Trade services" SEG. The Payments SEG will be consulted.

The messages would relate to the ISO 20022 Business Areas "tsin" or "tsrv".

The submitting organisation wants to deploy the future messages in the ISO 20022 XML syntax; the ISO 20022 message models should be used by the RA to generate and publish ISO 20022 XML messages.

The submitting organisation considers that all the messages proposed in this set are new messages and that:

- the messages for assignment of invoices, which are proposed in the set, do not have to be considered as changes to be done to the Invoice Financing set of messages submitted by ACBI in 2006 ;

- the messages regarding the credit insurance, which are proposed, are different from the messages in the scope of the request "Demand Guarantees and Standby Letters of Credit" on at least one important point : Standby Letters of Credit are requested by the buyers, whereas Credit insurance are requested by the sellers. However, the submitting organisation intends to :

  o follow and examine, in detail the Standby Letters of Credit messages, during their development, in order to reuse most of them, as much as possible ;

  o develop specific messages for the Credit Insurance only if the Stand-by Letters of Credit set of messages did not bring an adapted response to the factoring services needs.

D. Purpose of the new development:

Today, financial institutions are more or less involved in automation of their process and of their exchanges with their customers ; today, some of them exchange proprietary messages which are not standardized and lead clients to develop themselves specific tools or software in order to exchange with efficiency with each financial institution. The software provided by the editors do not include the facilities to exchange invoices and other messages enabling manage assignment or invoice financing, to facilitate the payment, the accounts receivable allocations.

On the other hand, the suppliers and their debtors are not able to exchange standardized messages dealing with the approval of an invoice, the disputes, the link between a payment and the invoices paid with it.

As we know, the credit insurers have not created a set of messages in order to exchange with their clients about the covered accounts receivable. This kind of request can be done on web sites, and the responses can be sent by different way, but not with a set of standard messages which could be integrated into the account software package.

The submitting organisation wants to provide a complete solution ISO 20022 for all theses purposes.

The goal of these messages is to enable financial institutions to migrate all their offers paper based towards dematerialized services, including invoice discounting, full factoring, with recourse or without recourse, and also reverse factoring. Amongst financial institutions, we target banks and factoring companies.

The goal of this set of messages is also to leverage e-invoicing processes, in providing solutions to improve the automation of all processes from e-invoicing to clearing and netting the accounts receivables.

E. Community of users and benefits:

Different kinds of players would benefit from the new messages:

- First of all, the companies, the SMEs, as suppliers :

    a. Benefits :

        - The companies will be able to assign their receivables to a financial institution, without any paper document to be sent, to be signed ; it could be very easy even if the supplier has a lot of customers and even if the invoices are of low amount ;

        - The companies will benefit from new software packages including assignment of receivables facilities, because the software editors will includes new facilities based on standards in the accounting packages ;

        - The companies will be enabled to make their allocations, even in the worst conditions when a payment matches a lot of invoices, very easily and without any waste of time.

        - The companies will be able to contract with a financial institution or another one without having IT charges to develop software compliant with a new set of messages.

    b. Adoption scenario :

        - The adoption will be linked to the expansion of the e-invoicing, that the new messages come reinforce ;

        - The adoption will be driven also by the effort done by the software companies which will propose new packages including exchanges of the new messages in addition to e-invoicing standards.

    c. Estimated and potential volumes :

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- Worldwide, 1.283 billions € have been assigned to factoring companies, in the year 2009;

- Today, between 200.000 and 300.000 companies use factoring services worldwide, and the annual growth of this market is more than 10%, except last year because of the economic crisis.

d. Sponsors and adopters :

- The French authorities support the project, because they think that the NTIC (New Technologies of Information and Communication) are keys elements for the development of SMEs and has elected this project in an official program named TIC-PME 2010.

- Sage, which is an international Group, is a leading supplier of business management software and services worldwide. From small start-ups to larger organisations, Sage makes it easier for companies to manage their business processes, and will integrate the new messages in its software.

- Other software vendors will also adopt the messages in order to provide new features to their customers.

- The corporate companies as buyers :

  e. Benefits :

  - Corporate companies are expecting from their suppliers to send them more and more e-invoices and will accept to give back to their suppliers some useful information like disputes or approval of the invoices, and also information to help them to process the allocations.

  f. Adoption scenario :

  - The adoption will be linked to the expansion of the e-invoicing, that the new messages should reinforce ;

  - The adoption will be driven also by the effort done by the software companies which will propose new packages including exchanges of the new messages in addition to e-invoicing standards.

  g. Estimated and potential volumes :

  - Worldwide, most of the corporate companies handling a lot of suppliers and receiving a lot of invoices are potentially interested in these messages, even if there is no financial purpose ;

  h. Sponsors and adopters :

  - Retailing groups will be the first adopters followed by industry groups.

- The financial institutions :

  i. Benefits :

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- Improvement of the quality of data exchanged and improvement of the automation of treatments and of control processes.

- Drop in charges for processing the assignments of receivables, or the allocations ;

- Extension of the targeted companies, thanks to drop in charges and increased capacity to manage higher volumes.

j. Adoption scenario :

- The community of French factoring companies is committed to propose new offerings and new processes based on these new standards as soon as possible, probably in 2013.

k. Estimated and potential volumes :

- Worldwide, FCI, the global network of currently 252 leading factoring companies, whose common aim is to ease international trade through factoring and related financial services, are potientially new users of theses standard messages.

l. Sponsors and adopters :

- The main French factoring companies (2nd market in the world in 2009) support and is involved in these project (Interfinance), which is also supported by the French government;

- ASF which is an influent member of EU federation will promote the use to other national factoring association within Europe ;

- Most of French factoring companies are members of the Factor Chain International and will promote in this community the use of the new messages for the "client – factoring companies – debtor" relationships;

F. Timing and development:

The messages will be ready for submission to the RA at the Q1 2012. The consequence of any delay is a delay in the market release of the new offerings based on the new messages, probably resulting in a lower market growth.

The submitting organisation will consult regularly the CFONB during the development of the messages and also the software provider and IT group Sage.

No other initiative involved in an effort to address the same requirements is known.

G. Commitments of the submitting organisation:

The submitting organisation confirms that it can and will:

- undertake the development of the candidate ISO 20022 business models and message models that it will submit to the RA for compliance review and evaluation. The submission must include Business Process Diagram (activity diagram), Message Flow Diagram (sequence diagram) and Message Definition Diagram (class diagram), and, optionally, examples of valid and invalid XML instances of each candidate

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message and other descriptive material that will be used by the RA to generate the Message Definition Report;

- address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

The submitting organisation confirms that it will promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

The submitting organisation confirms that it intends to organize any testing or the actual implementation of the messages once the related documentation has been published by the RA. The purpose is to ensure that the documentation of the messages is accurate and consistent and to verify that the approved messages can be implemented with no adverse effects on communication infrastructures and/or applications.

The submitting organisation confirms that it is committed to initiate and/or participate in the future message maintenance.

The submitting organisation confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows.

"Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information".

H. Contact persons:

The submitting organisation can be contacted by the RA, RMG or SEG to get additional information on the project and/or its business justification.

The person to be contacted is:

- Mr Pascal Mercier (pascal.mercier@ca-lf.com) who represents the submitting organisation, ASF, regarding this request.

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Annex – Schemes

In all the following schemes, the Financial Institution is the owner of a Seller –Supplier account, which is used for the factoring operations between the Financial Institution and the Seller.

A - Scenario related to the "Assignment" of the invoices by the supplier:
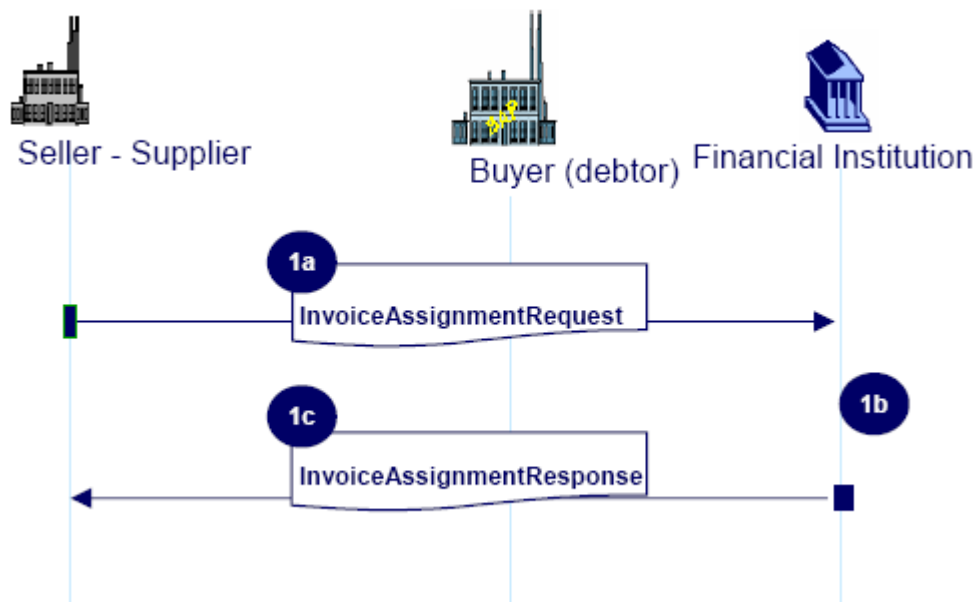

1a : The supplier requests from the financial institution the assignment of some invoices or a part or an entire account receivable to the financial institution ;

1b : The financial institution checks the request according to its commitments or to the agreement signed with the supplier and processes the assignment if compliant ;

1c : The financial institution informs the supplier whether the assignment has been done or not and gives an explanation to the status taken in case of a refused assignment ;

B - Scenario related to the "Payment" of the invoices in the hands of the financial institution and related to the disputes of the invoices by the debtor:
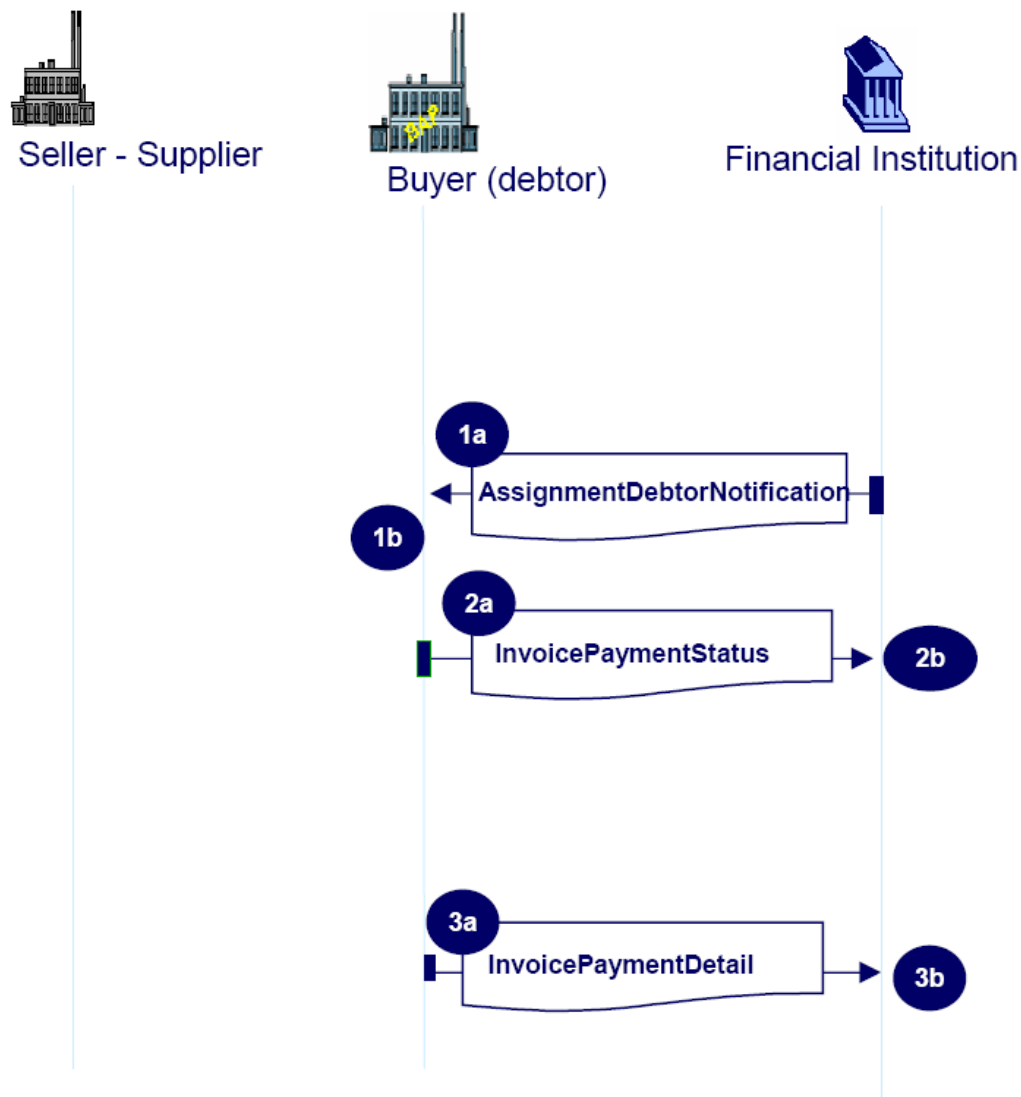
1a : The financial institution notifies the debtor that it has to pay the invoices listed in the hands of the financial institution because of the assignment of the invoices.

1b : The debtor records the information in its IT system in order to take into account the notification;

2a : The debtor informs (the financial institution, but it could be the seller its supplier, if the invoices had not been assigned) of any dispute of the notified invoice and gives any significant status of the invoice regarding its future payment.

2b : The financial institution takes into account the status given on the invoice;

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3a : The debtor sends a payment (by the normal way, SCT for instance) and in parallel sends the information detailed on all the invoices paid.

3b : The financial institution makes its allocations based on the information given by the debtor on its payment;

C - Scenario related to the "Credit Insurance" or "Guarantee" delivered in a factoring without recourse operation and related to the enrolment of debtors :
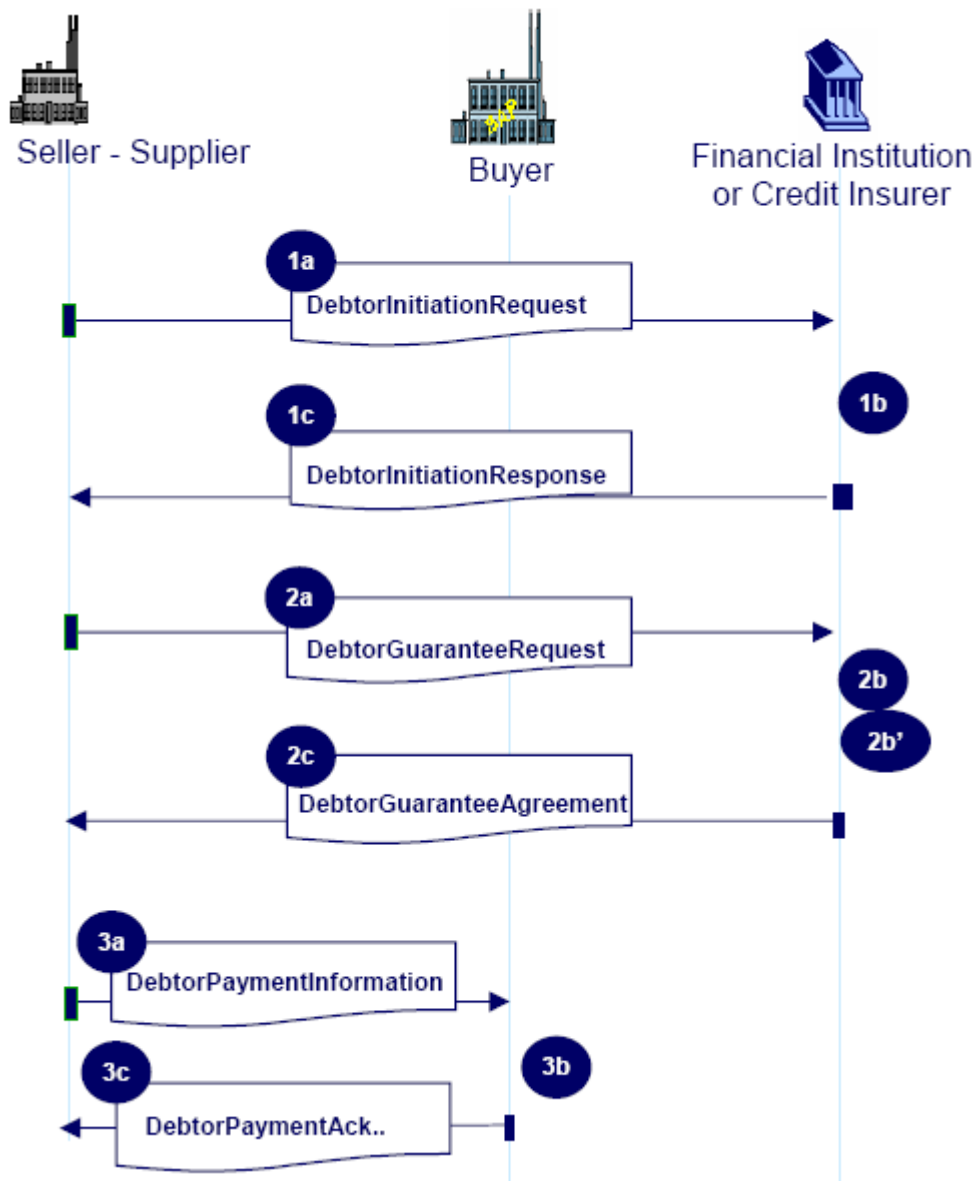
1a : The seller intending to initiate trade with a new buyer gives to the financial institution the elements which are required to identify it as unique a legal entity.

1b : The financial institution searches for the entity and checks the entity identity in its databases;

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1c : The Financial institution returns the recorded information and the status of this registration regarding to the context (e.g. contractual / legal / activity).

2a : The seller wants to accept trade with the new buyer after it has been identified by the financial and registered as potential buyer ; The seller asks the financial institution in order to have its account receivable covered against insolvency ;

2b : The financial institution makes a credit study in order to meet the demand and give satisfaction to its client, the supplier ;

2b' : The financial institution updates its study of the quality of the debtor and of its solvency;

2c : The financial institution gives a new agreement or modify an old agreement and send this new commitment to its customer, the supplier.

3a : The seller informs the debtor that its invoices will be from now assigned to the financial institution and that the debtor has to pay to the financial institution instead of the supplier

3b : The debtor processes this information, sets up and checks its system in order to execute the payment in the hands of the financial institution ;

3c : The debtor acknowledges the request and says whether it accepts or not.

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I. Comments from the RMG members and relevant SEG(s) and disposition of comments by the submitting organisation:

Changes to the original text of the business justification are highlighted in track change mode.

Comments from UK *and disposition of comments*:

The BJ should endeavour to make explicit how it intends to harmonise with the other invoice messages that already exist to ensure that no overlap occurs, such as in the Invoice Financing set of messages submitted by ACBI in 2006.

- *ASF intends to harmonize with other invoice messages as much as possible to ensure that no overlap occurs in particular regarding the Invoice Financing set of messages submitted by ACBI in 2006.*

- *During the process of creation of these new messages, if it appears that an overlap will really occur, ASF will give up the creation process of the concerned messages and write a change request.*

Comments from France *and disposition of comments*:

1) A "Financial Institution" is described in each flows' schema, but we don't know if this financial institution is the Financial Institution which owns the creditor account or the debtor one. This has to be specified in the definition of each message described and each schema.

- *This has been specified in the paragraph before the definition of each message described and before the schemes.*

2) The SEG Payment has to be consulted. The new messages to be designed (for example "InvoicePayment Status", "InvoicePayment Détail") have links with Payment messages and Financing messages. When the e-invoice message (tsin.004.001.01) has been created, the SEG trade and the SEG Payment have been consulted.

- *The SEG Payment will be consulted; this has been added in the BJ.*

3) "InvoicePaymentsDetail": this message will be initialized by the buyer to be sent the payee entity. It may not be necessary to create a new message. The existing e-invoice message (tsin.004.001.01) or a part of it can be reused (even if the tsin004 message is a message used from the seller to the buyer).

- *The needs covered are to link a unique payment with a set of invoices or credit notes. It seems to be out of the scope of the message tsin.004.001.01 as described in its "Message definition report" (ed. Nov 2010); however, if all the data needed are present in this message, ASF could reuse this message in its new context.*

4) The definitions of "DebtorInitiationRequest" and "DebtorInitiationResponse" messages (page 2) are not explicit/clear. The description of the scenarios 1a and 1c is clearer. We would suggest to rewrite the definitions.

- *ASF has made these descriptions clearer.*

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5) The messages 1a, and 1c of the scénario C can not be used in some countries because of the regulation

- *ASF does not understand this remark. However the use of theses messages is not compulsory.*

6) The "DebtorPaymentInformation" definition specifies: "the debtor must pay ... must use the electronic address to inform it and pay it using the bank account given"....the use of ISO messages do not force any body to do any thing...

- *ASF has rewritten this part.*

7) page 3 : "the messages for assignment of invoices, which are proposed in the set, do not have to be considered as changes to be done to the Invoice Financing set of messages submitted by ACBI in 2006";
We don't understand why. Indeed the scenario B messages "Assigmentdebtornotification" and "InvoicePaymentStatus" are the extension of "Invoicefinancing Request" (tsin.001) and "RequestStatus" (tsin.002).

- *ASF considers that the assignment of invoices is a legal transfer of ownership of one or more invoices and that this difference justify to create new messages related to the assignment. It could be possible to make changes to the Invoice Financing set of messages in order to manage it, but it is not the choice of ASF.*

Comments from Switzerland *and disposition of comments***:**

We support the Business Justification. Due to market condition we do not have any pressure from our customers to implement these messages and even than we only see small volumes. In the European context we anticipated different processes and messaging needs in each country.

We miss a „silent assignment".

- *A silent assignment is quite possible for undisclosed factoring services .*

It seems to us, that in the document the customer view is not sufficiently taken into consideration.

- *The customers want a standardization of the messages and of the exchanges with the financial institutions, in particular with the factoring institutions and want facilities to exchange with the financial jnstitutions embedded into their invoicing software. ASF wants to provide the favorable conditions to give the customers a response to their legitimate needs.*

We have the impression that similar messages are already used for Invoice Financing and TSU and suggest to enhance these existing messages with the necessary fields/information in the regular change request process.

- *We prefer to create a new set of messages dedicated to factoring services, but we are open to use the change request process if needed.*

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Comments from Finland *and disposition of comments***:**

This enhancement seems very interesting and we can see that it would be useful with our foreign clients. There are still many open issues, but we are waiting for the more detailed documents with interest.

We had few ideas for some of the messages.

On page 1 "InvoiceAssignmentRequest", does this include also Credit Notes?

- *Yes this includes also Credit Notes.*

On page 9 "B-scenario", could there be messages for:

2c "InvoicePaymentStatus" to the Supplier from the Financial Institution, in this message the Supplier would get the information of disputes from the Financial Institution

- *Yes, the Financial Institution can use this message in order to inform the Supplier of disputes.*

4a "InvoiceStatusRequest" from the Supplier to the Financial Institution, in this message the Supplier could request for the data of an invoice (open balance, status, collection information etc)

4b "InvoiceStatusAnswer" from the Financial Institution to the Supplier, the answer for the previous request

5a "BalanceRequest" from the Supplier to the Financial Institution, in this message the Supplier could request for the balances of a debtor (open total balance, overdue balance, financed balance etc)

5b "BalanceAnswer" from the Financial Institution to the Supplier, the answer for the previous request

- *4a, 4b and 5a, 5b: Theses messages are interesting and could be added in a second time.*

In addition the following comment has been raised:

Annex B: 1a. Supplier - not the financial institution - notifies the debtor of the assignment. The FI might remind the debtor to pay.

- *The supplier could notify the debtor to pay the FI, but in some cases, the FI needs the evidence that the notification has been done, and the easier way to obtain the evidence is to notify itself.*

Comments RMG from Netherlands *and disposition of comments***:**

Quote: 'in such a case, the message is sent by the debtor to the seller, its supplier.' But it may be assumed that this type of interaction is already in place. Why should the debtor (and creditor) change their existing practice into another format ?

Quote: '"InvoicePaymentDetail" - what is the relation with The Structured Creditor Reference - Collection Factory -ISO 11649 ?

- *This message can be use alternately to Structured Creditor Reference, in particular whereas the 140 characters are not enough to describe all the invoices paid.*

In draft versions of documents, or versions under comment, use linenumbers for ease of reference in review or questions.

- *The BJ has been adapted to this demand.*

Quote 'consult regularly the CFONB' … According to http://fr.wikipedia.org/wiki/Comit%C3%A9_fran%C3%A7ais_d'organisation_et_de_normalisation_bancaires CFONB is dedicated to (French) payments. In addition, the approach of consultation with French domestic companies and associations does further highlight the risk that the standard will not meet global requirements The approach shows consulting a national environment (only) whereas the deliverables from ISO 20022 are intended to have a global scope. How is this taken care of ?

- *A lot of ASF members have subsidiaries in several european countries and participate to this BJ for themselves and also for their subsidiaries. However, it's true that ASF is not representative of the entire world and need the supports of the countries represented in the ISO structures.*

How does the input in the messages relate to the invoice information in the message set falling within the jurisdiction of the payment messages ? These have a set of invoice related fields (not defined in the documents shared), would these be affected by the proposal for the Factoring messages ? After all, if ISO20022 allows for the exchange of certain invoice related information this could also affect the eventual settlement process.

- *The set of invoice related fields will not be affected by the proposal, these set of fields will be use as input.*

Comments from SWIFT *and disposition of comments*:

1) Section C (Scope of the new development)
Under Section C it states "*the submitting organisation considers that all the messages proposed in this set are new messages and that the messages regarding the credit insurance, which are proposed, are different from the messages in the scope of the request "Demand Guarantees and Standby Letters of Credit" on at least one important point : Standby Letters of Credit are requested by the buyers, whereas Credit insurance are requested by the sellers*".
This statement is not correct, while Guarantees and Standby Letters of Credits can be requested by buyers (e.g. performance guarantee or performance standby), sellers can equally request these instruments (e.g. payment guarantee or financial standby). The intention of the submitting organization to closely evaluate the applicability of these messages is certainly encouraged.

- *ASF intends to use the messages created by these previous BJ, if possible and will evaluate the applicability of this set.*

2) International Factoring

The business justification appears not to include the full international (single and double factor) factoring process. An explanation of scope in this context needs to be fully articulated. Noted is the reference to

"*Worldwide, FCI, the global network of currently 252 leading factoring companies, whose common aim is to ease international trade through factoring and related financial services, are potentially new users of these standard messages.*"

- *The BJ does not cover the exchanges between two financial institutions, because FCI has done it previously with its "EDI factoring" set of messages. However, the messages proposed include also international factoring (single and double factor), but not the exchanges between the 2 factors in the 2 factors system of FCI.*