

Principles for Product Transparency and Disclosure on Cross-Border Trade Settlement

Prepared By
ASEAN Working Committee on
Payment and Settlement Systems
(WC-PSS)

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1. Introduction

- 1.1 The Working Committee on Payment and Settlement Systems (WC-PSS), established in April 2010, is a regional collaboration between central banks in ASEAN, to enhance the cooperation and harmonisation in the area of payments. This is in support of the financial and capital market integration to achieve the ASEAN Economic Community vision by 2015. Strategic recommendations to improve the efficiency of cross-border payment and settlement services in ASEAN in five key areas, namely, retail payments, remittances, trade settlement, capital market transactions and standardisation, were endorsed by the ASEAN Central Bank Governors in April 2011.
- 1.2 One of the key areas is to improve the efficiency of cross-border trade settlements in the region. Whilst the study undertaken by the Committee indicated that the existing settlement mechanisms via correspondent banking arrangements are deemed adequate, it was agreed at the 6th WC-PSS TaskForce meeting held in Bangkok in July 2012 that improvements can be made in terms of the level of transparency of charges and service level offered by the financial institutions.
- 1.3 This “Principles for Product Transparency and Disclosure (Principles)” outlines the best practices in product disclosure of cross-border trade settlement services for financial institutions in ASEAN drawing on the works of various international and regional initiatives (see section 5). The adoption of the best practices is based on the preferred approach by respective countries. The Committee recognises that some financial institutions already have these measures in place and they are encouraged to adopt higher disclosure standards in addition to the best practices outlined in this report.

2. Public policy objective

- 2.1 The Principles are designed to ensure customers have clear, timely, easily accessible and comparable key information to enable them to make informed decisions before using the products and services offered by the financial institutions to enable payment in local currencies for trade settlement purpose.

3. Scope and initial considerations

- 3.1 The Principles are initially focused on increasing the transparency of fees imposed by financial institutions for cross-border trade settlement to assist small and medium size enterprises (SMEs) in making informed decisions. Nevertheless, individual ASEAN member countries may elect to apply the principles to a wider range of payment services offered by financial institutions.

4. The general principles

4.1. Disclosure should highlight material information

- 4.1.1 Material information should be disclosed to customers prior to them committing to the services offered by the financial institutions.

- 4.1.2 Material information should be included, at a minimum where applicable:

Prior to the execution of the payment

- (a) a detailed breakdown of fee components payable by the sender. The wording of fee components should whenever possible be standardised at national level to facilitate comparison;

the daily actual, contracted or reference ex

- (b) change rate, where applicable, used for the payment transaction;
- (c) fees charged on the beneficiary for receiving inward payments, to be published by the receiving bank;
- (d) the cut-off time for the sender's request to be processed by the sender's bank and the corresponding estimated timeframe for the crediting of the funds;

After the execution of the payment

- (a) the status of the transaction to be made available to the sender by the timeframe specified in part (d) above in an easily accessible manner

4.2. Disclosure should be clear and consistent

- 4.2.1 Material information should be presented in a clear and simple format that promotes customers' understanding.
- 4.2.2 In the event that several cross-border trade settlement services are offered by the financial institutions, a schedule of fees and charges for all trade settlement products is recommended to facilitate comparison across banks, guided by a common template given in the Appendix.

4.3 Appropriate means of communication should be established to allow easy access by customers

- 4.3.1 Financial institutions shall provide, at the minimum, up to date information on fees and charges of all cross-border trade settlement services at all of its branches and on their websites if online banking is offered.
- 4.3.2 In the event that information is disclosed in the websites, financial institutions shall ensure such information is published in a medium of language that is commonly understood by all ASEAN countries. In this respect, English is recommended.

- 4.3.3 Any changes to the fees and charges of cross-border trade settlements services should be communicated to customers on a timely basis. In this regard, financial institutions shall ensure that reasonable notice, as determined by respective ASEAN countries, is given to customers prior to the effective date of the revision.
- 4.3.4 In communicating changes to customers, financial institutions are encouraged to adopt the most cost-effective means of notification, for example, in statements sent to customers, press advertisements, notices posted on the financial institutions website, etc.

5. References

- (a) General Principles for International Remittance Services prepared by the Committee on Payment and Settlement Systems and the World Bank;
- (b) Code of Consumer Banking Practice issued by the Association of Banks in Singapore; and
- (c) Guidelines on Product Transparency and Disclosure issued by Bank Negara Malaysia

Common template for disclosure of cross-border trade settlements services

Type of services	Fees and charges	Cut-off time for transaction to be processed
1.0 IMPORT		
<i>Example:</i>		
1.1 Import Letter of Credit		
Issuance		
Amendment		
Cancellation		
Cost of wire/TT/SWIFT/cable charges		
Service charges (e.g. handling, advising, commission, etc)		
Other charges (e.g. stamp duty, postage, courier, etc)		
2.0 EXPORT		
<i>Example:</i>		
2.1 Export Letter of Credit		
Confirmation		
Cost of wire/TT/SWIFT/cable charges		
Service charges (e.g. handling, advising, commission, etc)		
Other charges (e.g. stamp duty, postage, courier, etc)		

Foreign exchange counter rates

Code	Foreign currency	Unit	Selling TT/OD	Buying	
				TT	OD

Definition of Small and Medium Enterprises (SMEs)

Brunei

Type of SMEs	Number of Employees
Micro	1 - 5
Small	6 - 50
Medium	51 - 100

Cambodia

Type of SMEs	Number of Employees	Total Assets (USD)
Micro	Less than 10	Less than \$50,000
Small	11 - 50	\$50,000 to \$250,000
Medium	51 - 100	\$250,000 to \$500,000

Indonesia

Type of SMEs	Number of Employees	Total Assets (IDR)	Annual Sales Turnover (IDR)
Micro	≤ 4	≤ 50 mil	≤ 300 mil
Small	5 - 19	> 50 mil to ≤ 500 mil	> 300 mil to ≤ 2,500 mil
Medium	20 - 99	> 500 mil to ≤ 10 bil	> 2,500 mil to ≤ 50 bil

Laos

SMEs are classified into the following categories:

- i) Small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip, and

- ii) Medium sized enterprises are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred million kip or an annual turnover not exceeding one billion kip.

Malaysia

Type of SMEs	Number of Employees	Annual Sales Turnover (MYR)
Manufacturing		
Micro	Less than 5	Less than 300,000
Small	5 to < 75	300,000 to < 15 mil
Medium	75 to 200	15 mil to 50 mil
Services and Other Sectors		
Micro	Less than 5	Less than 300,000
Small	5 to < 30	300,000 to < 3 mil
Medium	30 to 75	3 mil to 20 mil

Philippines

Type of SMEs	Number of Employees	Total Assets (PHP)
Micro	1 - 9	Up to 3 mil
Small	10 - 99	3 mil to 15mil
Medium	100 - 199	15mil to 100mil

Singapore

SMEs are defined as follows:

- i) Annual sales turnover of not more than S\$100 million or employment size of not more than 200 workers.
- ii) For banks own internal rating purposes, Singapore banks apply the Basel II definition which is sales turnover of up to Euro \$50 million.

Thailand

Type of SMEs	Number of Employees	Total Assets (THB)
Manufacturing and Service industries		
Small	Up to 50	Up to 50 mil
Medium	51 - 200	≥ 50 mil to 200 mil
Wholesale industry		
Small	Up to 25	Up to 50 mil
Medium	26 - 50	≥ 50 mil to 100 mil
Retailing industry		
Small	Up to 15	Up to 30 mil
Medium	16 - 30	≥ 30 mil to 60 mil

Vietnam

Type of SMEs	Number of Employees	Total Assets (VND)
Small	10 - 50	Less than 10 bil
Medium	50 - 100	10 bil to 50 bil