

# A Platform for Trading Firms

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***“Delivering useful technology to trading firms is as valuable for the economy as Fintech is for banks and consumers. What most firms seek is an efficient and low cost way to carry out compliance, ensure contract certainty, manage credit risk and obtain finance. Ideally in a marketplace setting and from one place.”***

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## The Anatomy of a Trade

### Compliance

Before entering into a contract, it is good practice that a buyer or seller first ensures that the counterpart has the identity it claims, is not in default on debts and is not on proscribed lists (Sanctions, Anti Money Laundering and Politically Exposed Persons). The legal obligation and penalty for failure is determined by regulations in the country where the trade occurs but it is a good idea where there is any international aspect to aim for the highest international standards. The USA (acting through OFAC and FinCEN) has particularly high standards, is aggressive in enforcement and has used wide-ranging powers to prosecute parties breaching its rules in the USA and abroad. Doing compliance checks is not simply a one-off exercise; checks need to be made regularly as things change and people move around, and this is all the more cumbersome for SME firms who cannot justify dedicating resources to handle these tasks. What is needed for firms of all sizes is a solution which removes the burden of these tasks through automation at an affordable cost.

### Documentation and Contract Certainty

Once agreement is reached between buyer and seller, a typical trade starts either with a purchase order issued by the buyer or a pro forma invoice issued by the seller. Both contain terms for the counterpart to accept so as to form a contract. The terms of the trade are then usually confirmed by the seller issuing an invoice. The invoice itself, however, is not the contract *per se*; it is more often a document which supports a sale and purchase agreement which includes detailed terms and conditions. The contract is made when both buyer and seller are deemed to have agreed on terms sufficient to form a legal agreement. Before that, an invoice is, on its own, simply a demand from a seller to a buyer, providing some evidence in determining whether a fully-formed sale and purchase contract exists in law.

In the UK, as in many other countries, an invoice is required so that tax is properly charged and collected. The invoice thus contains not only the identity of the parties, description of the goods or services, price, payment due date, etc., but also the tax calculation. Despite the level of detail, the invoice is still not by itself a legally binding claim on the buyer. This makes sense because its limited status avoids the potential chaos from fraudulent vendors creating bogus invoices and then trying to enforce them. On the other side of the coin, in the absence of a legally binding sale and purchase contract, a disreputable buyer might also try and deny the placing of an order actually made leaving the seller with unsold goods. To avoid such issues, it is ideal for buyer and supplier to have a properly formed contract documenting the trade with a mutually agreed invoice to close things off.

Contract certainty is greatly enhanced with a physical or electronic signature of buyer and seller on a sale and purchase agreement or invoice. With the trend for documents to be electronic only and to be mutually accepted through ‘e-signature’, contract certainty can theoretically be achieved as soon as the document or invoice is electronically generated. What is needed is for the electronic

documents to have a time-stamp, for there to be a record of activity that led up to it, and for this to be stored on and retrieved from an independent source (e.g. a secure server). Although desktop software is cheap and ubiquitous, the documents held by each party are at risk of not being identical if there is dishonesty, an uncertainty which can be avoided by using a platform shared by buyer and seller.

The answer is for buyers and sellers to both open an account on a shared, secure, data repository run by an independent entity which retains a time-stamped record of the basic terms proposed and accepted, the invoice itself and any ancillary documents containing terms and conditions. If this could be accessed efficiently and cheaply, it would certainly help companies of all sizes although the benefit for SME users would be considerably more than for large companies who have the turnover to absorb the high costs of using traditional resources and procedures.

### Insurance and Finance

Many trades require insurance and finance to make them happen. Checking counterparty compliance is good practice in itself but is also essential when dealing with insurance and finance suppliers who are required by law to be carrying out compliance checks on not only their own customers but sometimes also counterparts of their customers. Therefore, financial services firms value clients who have procedures to reduce the ever-present risks of fraud and regulatory breaches they might face when providing non-compliant firms and individuals their products and services.

If a trading firm has already carried out compliance on a counterparty and has a record of it, any insurance and finance applications to facilitate the transaction will be more likely to succeed if that is disclosed and can be evidenced. Sharing this data by offering insurance and finance suppliers viewing rights to compliance checks on a trading firm's counterparts held on a secure server would achieve this.

### A Single Platform, A Complete Solution

The market for domestic and international trade in the UK and EU is many USD billions in size. Delivering useful technology to trading firms is as valuable for the economy as Fintech is for banks and consumers. What most trading firms seek is an efficient and low cost way to carry out compliance, ensure contract certainty, manage credit risk and obtain insurance and finance. Ideally in a marketplace setting and from one dashboard. However, this opportunity has not yet received the attention of the venture capitalists and tech titans.

The Tradehub 365 platform developed by EXIM.L aims to address some of the problems described above. It is expected to be launched in mid-2019.



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EXIM.L operates a member-only platform (Tradehub 365) for trading firms who buy, sell or extend credit.