

2014

FpML Version 4.10 for Loans

FpML Loan Working Group

Executive Summary

FpML version 4.10 is being published, at the request of the FpML Loan Working Group, to support tax withholding legislation and additional refinement to the letter of credit purpose.

Bhavik Katira (TenDelta) - Chair, FpML Loan Working Group

October 2014



1. Purpose

The syndicated loan standard was introduced into the FpML standard in September 2009 as part of v4.6.7 of FpML. Industry participants have since been working towards implementing communication links using the standard, as defined.

During the period since initial release two things have happened:

- Certain tax withholding legislation is being enforced (as of January 2015), requiring agent banks to communicate this information on most notifications to lenders.
- Some discrepancies in enumerations have been noted, which require update.

As a result it has become necessary to advise the FpML Standards Committee of such changes and request a re-publication of the previous standard to meet the current needs of the global syndicated loan market. The proposal is to re-publish a new version of v4.10 specifically for the syndicated loan market – dubbed as ‘v4.10 for Loans’.

This document will explicitly define all changes that are being requested by the Loan Working Group.

2 Loan FpML – Updates

As previously mentioned there are two sets of change requested:

- Inclusion of a standard structure which will outline the tax withholding amounts associated with any notification.
- Addition of an entry as part of a pre-existing enumeration used to define the purpose of a Letter of Credit.

2.1 Tax Withholding

Business Use Case

Agent banks must now specify the amount of tax withholding that is being exercised, for each lender, against any cash-flow producing events occurring against a syndicated loan.

For example: in the event of an interest payment being paid by the borrower (on a syndicated loan), it is the agent bank’s responsibility to disperse this cash to the syndicate lender group. Such cash transfers are liable for tax withholding based on the lender’s legal standing. The agent bank must make a determination as to whether any tax withholding applies and thus make a determination as to whether any tax withholding should take place.

Solution Design

Referring to the v4.6.7 loan schema design, every notification is inherited from the `FacilityNotice` abstract type. This structure contains a model (`FacilityNoticeDetails.model`) which represents the most pertinent information associated with a loan servicing notification. A single element was added to this model which contains the relevant `CashPayable` amounts associated with the notification.

The Loan Working Group is currently undergoing a re-design effort to be included in the 5.x series FpML standard. The `Cash Payable` structure shown in this document is taken from this design to ensure 100% forward compatibility.

The `CashPayable` structure is designed with the following attributes:

- **Payment Date:** The date on which a payment against the associated business event is made.
- **PayerReceiver.model** (re-used from FpML): References to the payer and receiver parties associated with the cash flow.
- **Net Amount (NonNegativeMoney):** The cash amount payable, net of all tax withholding. This amount represents the funds to be wired from 'payer' to 'receiver' as a result of the underlying business event.
- **Tax Withholding, a complex type containing ZERO or MORE of the following:**
 - **Amount [REQUIRED] (NonNegativeMoney):** The amount of withholding tax being applied.
 - **Tax Rate [OPTIONAL] (NonNegativeDecimal):** The tax rate being applied to the associated cash flow.
 - **Reason [OPTIONAL] (FpML Scheme):** A scheme used to identify the reason for withholding tax being applied to a cash flow.

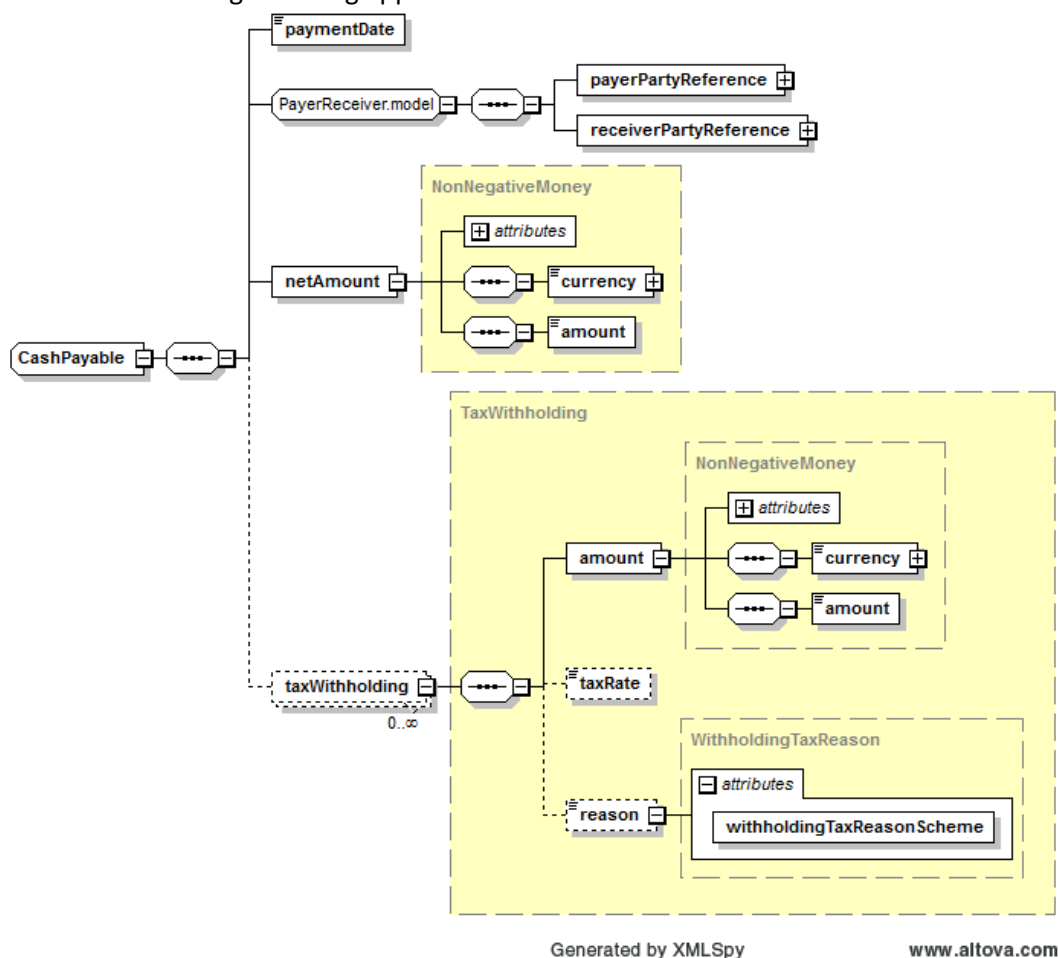


Figure 2: `CashPayable` structure

As mentioned previously, all loan servicing notifications in v4.6.7 inherit from `FacilityNotice` which, in turn, contains the `FacilityNoticeDetails.model` to which the `CashPayable` structure sits was added. Please see Figure 3 on the following page for a reference to the structure.

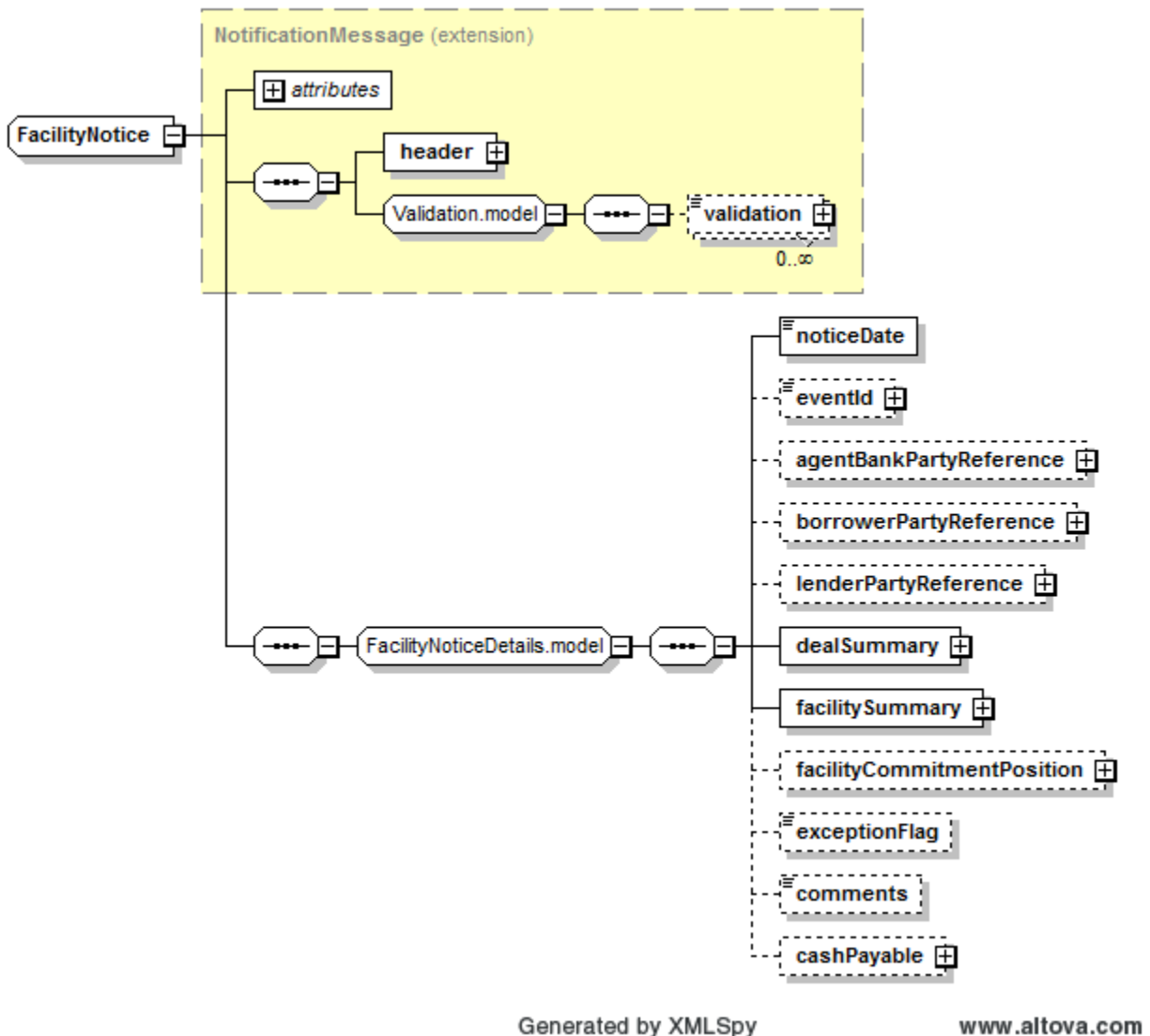


Figure 3: `FacilityNotice` abstract type

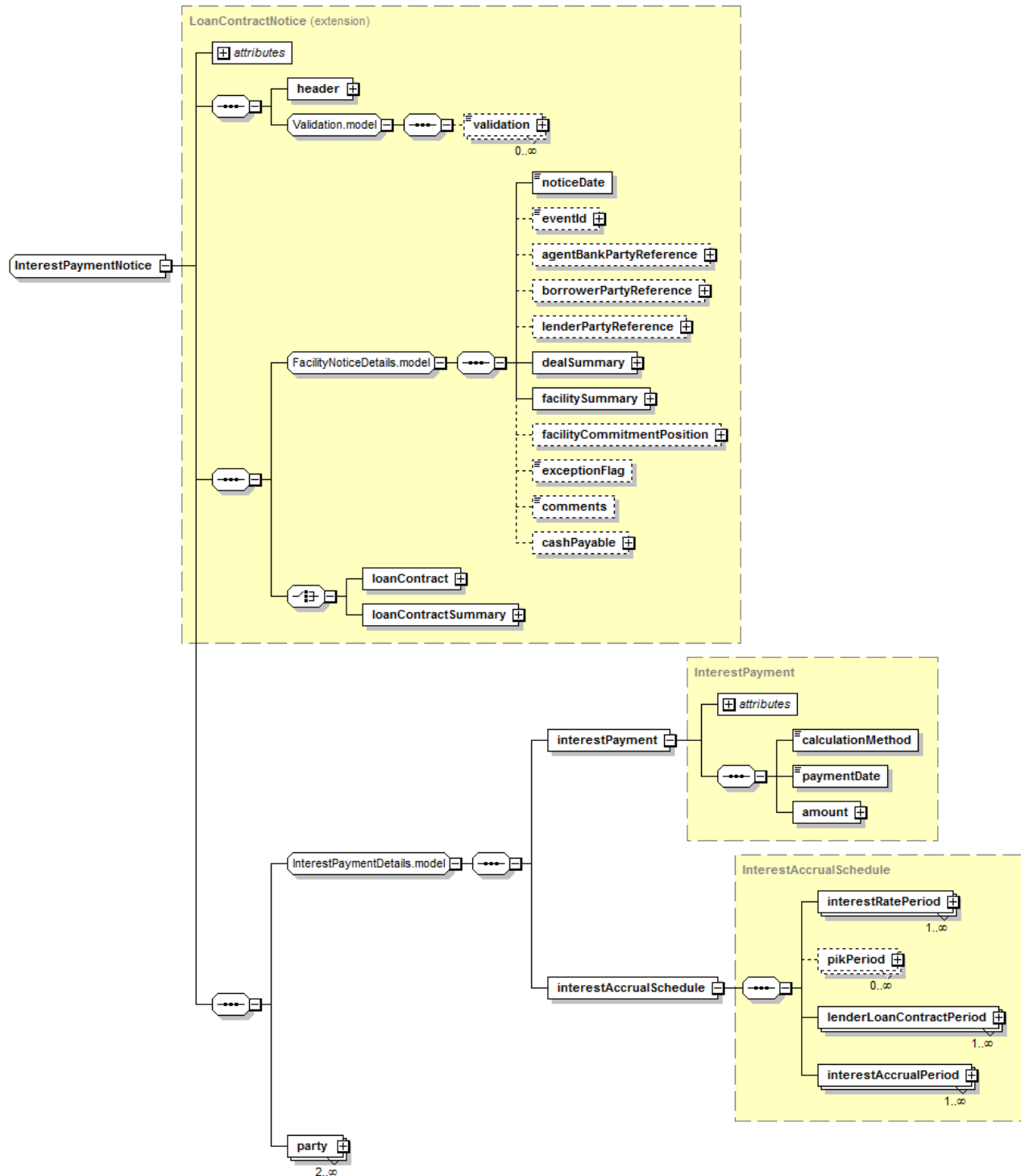
Business Justification

- Every notification may or may not have a `CashPayable` element associated with it.
 - There are certain notification types that will NEVER generate a cash flow, but to keep the design relatively simple, the structure has been added as an optional element on the header of every notification.
- The payment date can be independent of any effective date associated with a business event.
- There can be different forms of tax withholding applied to a single cash flow (or maybe none), hence the array of withholding elements.
- Rate and reason are not required as part of the withholding data (since this is mainly

informational for the lender). The reason codes will most likely vary over time (as rules change) and therefore defined as a scheme:

- FATCA
 - Chapter 3
 - NRA (Non-Resident Alien)
 - Back-up Withholding (US Citizen with no W-9)
 - *Other [BK: Do we need this or can we easily re-publish the scheme to include future values...?]*
- If specifying the tax withholding, a Net Amount must be defined, it is assumed that the Net Amount has taken the tax withholding details into account.

The full schema structure of an interest payment notification is as follows:



Generated by XMLSpy

www.altova.com

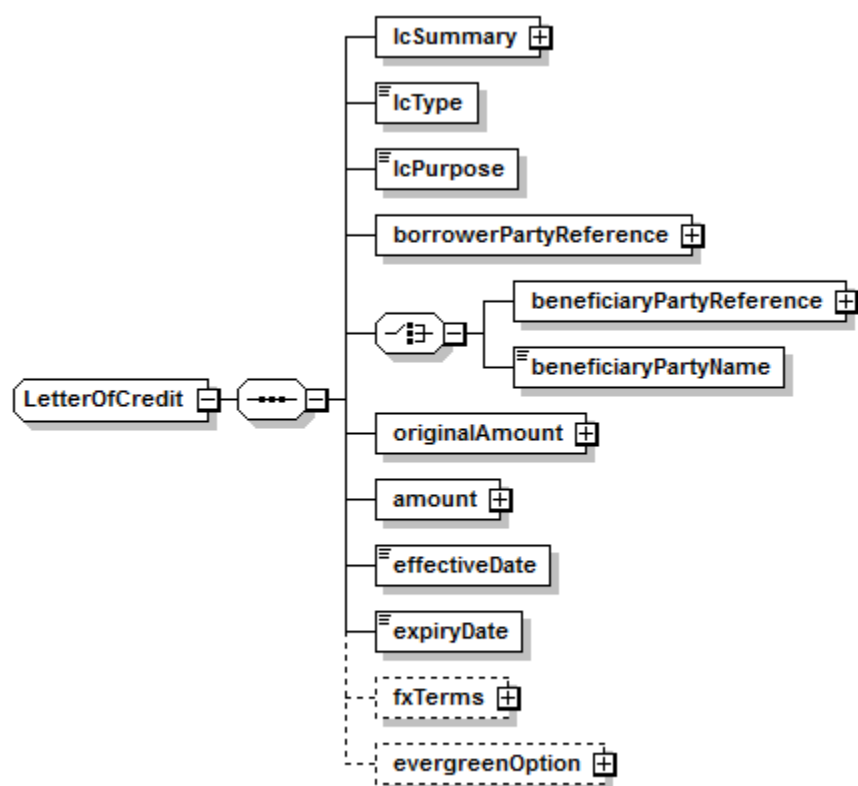
Figure 4: InterestPaymentNotice

Please Note: The Payment Date is defined both within the event definition as well as the CashPayable structure. This was a by-product to keep the v4.6.7 and the v5.x CashPayable designs identical. In v5.x, payment dates are ONLY defined within the CashPayable complex type.

2.2 Letter of Credit Purpose

Business Use Case

When communicating Letter of Credit information, it is necessary for agent banks to define the purpose for which the borrowing was originated. The current structure of the Letter of Credit is defined as follows:



Generated by XMLSpy

www.altova.com

Figure 5: Letter of Credit

One of the purposes required by the agent banks is 'Documentary', which is missing from the enumeration currently. The **lcPurpose** element is currently defined as an enumeration:

```
<xsd:element name="lcPurpose" type="LcPurposeEnum">
  <xsd:annotation>
    <xsd:documentation xml:lang="en">Defines the purpose of a Letter of Credit. </xsd:documentation>
  </xsd:annotation>
</xsd:element>
```

Solution Design

The working group has requested the addition of a single entry, *Documentary*, into *LcPurposeEnum*, as follows:

```
<xsd:simpleType name="LcPurposeEnum">  
  <xsd:restriction base="xsd:token">  
    <xsd:enumeration value="Financial"/>  
    <xsd:enumeration value="Performance"/>  
    <xsd:enumeration value="Documentary"/>  
  </xsd:restriction>  
</xsd:simpleType>
```

Definition: A documentary letter of credit is an obligation of the bank that opens the letter of credit (the issuing bank) to pay the agreed amount to the seller (of goods/services) on behalf of the buyer (of goods/services), upon receipt of the documents specified in the letter of credit.