



CMA and SMA

Gilles THIEFFRY

Solicitor, Member of the New York Bar, Avocat au Barreau de Paris

Partner, Pestalozzi Lachenal Patry

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AGENDA

 Introduction

 CMA: definition

 Operational and Legal requirements

 Risk control process

 Monitoring Agreements (SMA)

 CMA: duties of each party

 Documents issued under CMA

 Insurance coverage

 Responsibilities under CMA

 Advantages of the CMA

 Conclusion

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1. Collateral Management & Storage Agreement

•Collateral Management Agreement

- **Definition:** Agreement between a Creditor, a Debtor and Inspection Company, under which the Creditor secures the loan / credit it has granted to the Debtor by placing the goods, pledged by the Debtor in favour of the Creditor, under the custody of Inspection Company until such time as the Debtor has satisfied the credit facility conditions.
- **Role of Inspection Company:** Custody of the goods on behalf of the Creditor
- **Responsibility:** linked to the value of the Goods under custody; the limitation of General Terms and Conditions of Inspection Company do not apply for CMA.

•Storage Agreement

- **Definition:** Agreement between a Client and Inspection Company or Inspection Company local office for fully owned warehouse, under which the Client places the goods under the custody of Inspection Company.
- **Role of Inspection Company:** Custody of the goods on behalf of the Client
- **Responsibility:** linked to the value of the Goods under custody; the limitation of Inspection Company General Terms and Conditions do not apply.

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Collateral Management & Storage Agreement

– Operational Requirements (CMA & SA)

- Permanent, uninterrupted access to the warehouse / Inspection Company locks - seals
- Complete & exclusive possession of the goods and warehouse
- Inspection Company inspectors present and controlling the warehouse
- CMA goods segregated from Non CMA goods, if any
- Inspection Company issues warehouse receipts as per CMA terms and conditions
- No release of goods without release instructions

– Legal Requirements (CMA & SA)

- Inspection Company standard contract,
- Contract signed by Inspection Company head office only,
- Only Inspection Company registered office may execute on behalf of Inspection Company , agents not authorized
- Warehouse leased or subleased to Inspection Company Executing offices

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2. An alternative to CMA: Monitoring Agreement

Definition

Agreement between Inspection Company and one or more Client(s) (such as a debtor and /or a creditor, a depositor, etc ...) under which Inspection Company is appointed to carry out services with respect to goods, where scope, frequency and places are pre defined by the parties .

- **Responsibility:** according to General Terms and Conditions

- **Operational Requirements**
 - Goods are under control and custody of a third party
 - Inspection Company assumes no custody / safeguard over the goods
 - Access to goods must be guaranteed by the client
 - No Inspection Company employee on the premises except when conducting inspection
 - No Inspection Company seals, locks or other semblance of control over warehouses
 - Inspection Company does not control release of Goods
 - Inspection Company does not issue warehouse receipts

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DUTIES OF EACH PARTY UNDER A CMA

- The Collateral Manager

- ▣ Takes legal control of the land tank and over the goods.

- ▣ Verifies incoming Goods (quantity and condition).

- ▣ Issues Warehouse Receipts in the name of the lender.

- ▣ Is sole custodian of the Goods until their release as instructed by the Lender.

- ▣ Issues reports on the Goods.

- The Lender

- ▣ Receives the WHR in its name.

- ▣ Receives timely information on the Goods.

- ▣ Is the sole Party from whom the CM takes instructions pertaining to the Goods, and in particular to their release.



DUTIES OF EACH PARTY

- The Borrower

 Surrenders control of the land tanks and the Goods to the CM.

 Agrees to all prerogatives of the other Parties as above.

What receipt is issued under a CMA?

1. At the time the goods are received a **LAND TANK RECEIPT** is issued in favor of the Creditor only.
2. This **LTR** confirms the reception of a specified amount of goods which are described in weight when goods are in bulk.
3. The quality of goods is specified as declared by the depositor/debtor and is checked on a random basis and whenever possible/accessible.
4. The **LTR** has no commercial value, It is a non-negotiable document and not a title document
5. Goods covered by the **LTR** can only be released through written instruction, to be received from the beneficiary of the **LTR**.

SGS

WAREHOUSE RECEIPT N°

ISSUED TO: CREDITOR
 SGS REF: CMA CONTRACT

This is to certify that the undersigned has received the following (DESCRIPTION OF GOODS) for storage at (LOCATION) in apparent good order and condition (except as noted) subject to the Collateral Management Agreement N° (CMA CONTRACT) between SGS DO BRASIL LTDA. , THE CREDITOR, and THE DEBTOR, dated (DATE OF CMA).

Description of goods / grade(*)	Quantity Packages	Weight (kg - to / *)		Total gross
		Net	Gross	
Total			0.000	0.000

(*) As declared by DEBTOR.

RECEIVED ON: DATE OF RECEPTION.
 INSURANCE: All risks covered through SGS SOCIETE GENERALE DE SURVEILLANCE S.A.

Delivery or partial delivery of the goods will only be made upon written instructions from CREDITOR, in accordance with the Collateral Management Agreement above-stated.

THIS RECEIPT IS NOT A DOCUMENT OF TITLE AND CANNOT BE NEGOTIATED, TRANSFERRED OR USED AS COLLATERAL SECURITY IN ANY MANNER.

Place and date.

SG S DO BRASIL LTDA.

SGS do Brasil Ltda. Av. das Nações Unidas, 11.833 - 4º andar - Brooklin - 04778-000, São Paulo - SP
 Tel: 55-11 5504-8800 - Fax: 55-11 5504-8900 - www.sgsbrasil.com
 Member of the SGS Group (Société Générale de Surveillance)

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Insurance

Insurance

- Insurance does neither eliminate nor reduce the risks
- Insurance is a tool for risk management only
- Insurance is a risk transfer mechanism

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INSURANCE COVERAGE

LLOYD'S

1. All CMS operations can be insured by Inspection Company through LLOYD'S of London for Cargo insurance and Professional liability and Creditor can be named as "loss payee".
2. Additionally and upon request coverage for political and/or war risks can be arranged.

Cargo:

All losses and/or damages due to external causes.

Professional:

All losses and/or damages caused by the proven deliberate misconduct or negligence of Inspection Company.



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Responsibility of Inspection Company under a CMA?

*

List below is not exhaustive and final obligations and responsibilities are as per CMA contract.

Responsible for :

1. Any loss or damage caused by the proven deliberate misconduct or negligence.
2. Any loss in weight (i.e. bulk) of products received less specific provisions provided goods are insured through Inspection Company
3. Any loss in quality caused by external factors less specific provisions **provided goods are insured through Inspection Company.**

Not Responsible for :

1. Any loss or damage caused by *Force Majeure* including, but not limited to; Acts of God, war, riots, public enemy, strikes, labor dispute, or any act in consequence of compliance with any order of any government or governmental authority.
2. Any loss or damage to the goods caused by normal depreciation or *inherent defect*.
3. Any indirect losses or consequential damages such as loss of profit, drop in market value or any cost related to the replacement of the goods. Any loss or damage during storage caused by improper maintenance of the goods by the depositor/receiver (if duly reported)

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CMA: RISK MITIGATION

- Collateral Management offers strong mitigation of the risk. It offers several kinds of recourses (not the case when granting financing on corporate basis).

FINANCING WITH CMA

RISK...

- 📁 Default
- 📄 Fire, natural disaster...
- 📄 Theft
- 📄 Misappropriation
- 📄 Other Force Majeure
- 🕒 Unexplained losses
- 📄 Wrongful release
- 👤 Coll. Manager negligence/fraud

RECOURSE ON...

- Goods (claim, poss. Sale)
- Goods Insurance (cover ?)
- Goods Insurance (insured ?)
- Insurance (covered ?)
- Insurance (political risk?)
- Inspection Company
- Inspection Company
- Inspection Company

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WHAT ARE THE MAIN ADVANTAGES OF A CMA?

For the creditor:

- ✓ Transfers the risk over pledged goods to the collateral manager (i.e. Inspection Company).
- ✓ Makes trade finance transactions more flexible.
- ✓ Increases competitiveness levels.
- ✓ Allows longer and revolving finance transactions.
- ✓ Gives on a regular basis a clear assessment over pledged goods
- ✓ Ensures the existence of pledged goods in case of bankruptcy of the debtor or foreclosure.
- ✓ Out sources a non-core competence.

For the borrower:

- ✓ Facilitates access to structured trade finance.
- ✓ Makes access to trade finance more economic.
- ✓ Allows long term revolving financing
- ✓ Increases competitiveness levels.
- ✓ Brings an alternative to adverse market conditions.
- ✓ Allows improvement trading liquidity

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Conclusion

- Question time



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