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1. About this Manual

1.1 Introduction

This manual is intended as a guide to help you maintain and process all types of commissions that are applicable to a contract involving a product in Oracle FLEXCUBE.

Besides this User Manual, you can find answers to specific features and procedures in the Online Help, which can be invoked, by choosing 'Help Contents' from the *Help* Menu of the software. You can further obtain information specific to a particular field by placing the cursor on the relevant field and striking <F1> on the keyboard.

1.1.1 Audience

This manual is intended for the officers who set up commission rules in Oracle FLEXCUBE.

1.1.2 Organization

This manual is organized as follows:

Chapter	Description
Chapter 1	Processing Commissions: This chapter explains how commissions can be set up and processed. It details the procedure involved in defining commission rules, linking the rules to products and applying them on a contract.
Chapter 2	Commission Calculation: This chapter describes the manner in which commission is calculated in a contract involving a product in Oracle FLEXCUBE. It contains detailed examples of the parameters that determine commission calculation and collection.

1.1.3 Conventions Used in this Manual

Important information is preceded with the STOP symbol.

1.1.4 Related Documents

For further information on procedures discussed in the manual, refer to the Oracle FLEXCUBE manuals on:

- Common Procedures
- Products

2. Processing Commissions

2.1 Introduction

To process a contract, your bank may collect certain commissions. The commissions that you collect can be:

- For issuing or advising a Letter of Credit (LC) or
- For amending certain details of an issued or advised (LC).

Commissions on a contract can be:

- Calculated as a percentage of the contract amount or as a flat amount,
- Collected on a periodic or non-periodic basis,
- Collected in advance or in arrears, and
- Accrued or not accrued.

Thus, there are different ways of collecting commission from your customers. Every time a contract is processed, you need not specify when and how the commission should be collected. Instead, you can define the attributes of a specific commission as a Commission Rule. A rule identifies the basic nature of the commission component.

Rules can in turn be linked to a product of any type. Thus, the attributes of the commission rule will be applied to all contracts linked to the product. While capturing the details of a contract, you can modify some of the attributes defined for the rule. For a contract, you can also indicate whether the application of a specific component should be waived.

More than one type of commission can be applied on an event, in the lifecycle of a product.

Example

For a Letter of Credit (LC) you can apply two rules. One with 1/8th of 1% of the LC amount for three months, to be collected at the time you issue the LC. The other with a flat Amount of say 200 local currency units. These will be processed as two different commission components. The income accounts can be different for these components. The two commission components will be reported in all reports and in the customer correspondence regarding the LC.

Processing Commissions

In Oracle FLEXCUBE, you process commissions as follows:

- Before a product module becomes operational, you should maintain certain basic information on commissions, which will later be linked to a product. To create this information, you will have to define commission rules. You will create Rule types for commissions with attributes suitable for the product where these rules will be applied. You give each commission rule a specific Rule ID.
- When you define a product, you can choose the required commission rules that are applicable for contracts in the product and link these rules to the product. The product will inherit the Rule ID's that are linked in this manner.

When you process a contract, the commission details defined for the product in which the contract has been entered would be applied automatically on the contract. In other words, the commission rule is 'defaulted' from the product under which the contract is processed. However, if required, you can change some of the attributes for a commission, for a specific contract.

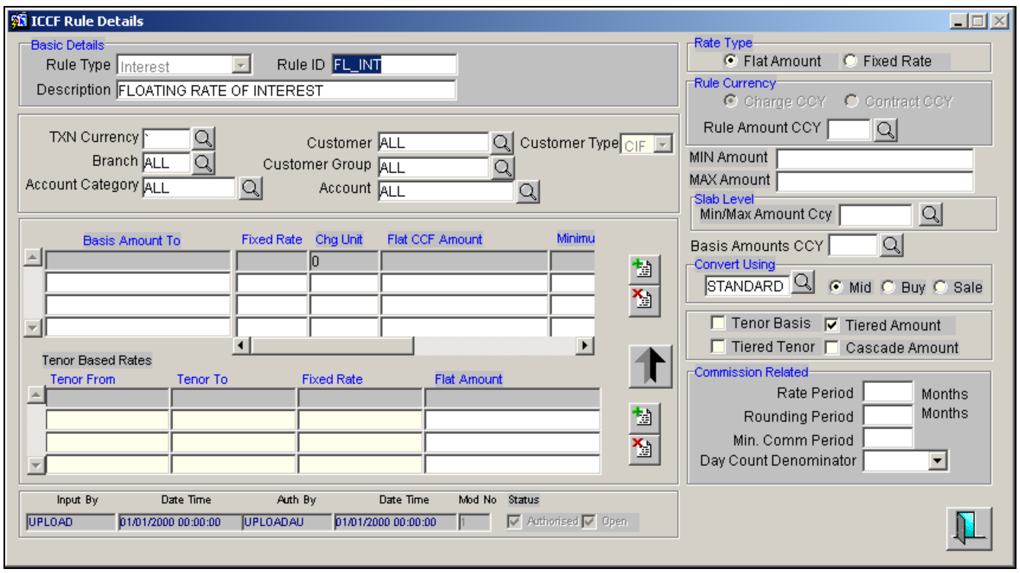
2.2 Defining a Commission Rule

A commission rule uniquely identifies the basic nature of a commission component. Each commission rule is defined by an eight-character code, called a Rule ID. Attributes are defined for this Rule ID, which is then linked to a product. When a contract is processed, the commission attributes defined for the Rule ID linked to the product will be applied on the contract.

You can define any number of rules for the commission that you would like to collect from your customers.

2.2.1 Invoking the Commission Rule Definition screen

The definition of commission rules is a part of the ICCF (Interest, Commissions, Charges and Fees) services that are used by all modules of Oracle FLEXCUBE. The ICCF Rule Definition screen is available in the Application Browser.



2.3 Features of the ICCF Rule Details screen

The following are the features of the ICCF rule details screen.

The Rule Type

The Rule Type identifies the type of ICCF component you are defining. To define a commission rule, choose 'Commission' from the list.

Specifying the rate type

The commission that is applicable for a contract can be expressed either as a flat amount or a percentage of the Basis Amount. This in fact, forms the basic attribute of a commission rule.

If you express the commission as a flat amount, you should also specify the currency in which the amount is expressed. The specific rates or amounts applicable as per the rule being defined can be specified subsequently. These rates or amounts can be changed while processing a contract.

2.3.1 Defining a commission as a rate

Specifying the Fixed Rate

The Fixed Rate will be applied on the Basis Amount of the contract.

Example

For a LC, the Basis Amount is the maximum LC amount (LC amount together with the positive tolerance). The fixed rate will be applied on this amount.

Indicating the tenor basis

The commission to be applied on a contract can be applied on a tenor basis. In effect, you indicate whether the tenor is a component in the formula for calculating the amount due to the Rule ID.

Specifying the rate period

The rate period is used to define the period for which, the fixed commission rate is applicable. Instead of expressing the commission rate on a per annum basis, you should specify it on a rate period basis, which is expressed in months.

0.5% for 3 months = 2% per annum and 1% for six months

Specifying the Rounding Period

The Rounding Period indicates the period up to which, you would like to round off commission calculation. For commission calculations, all periods in the tenor of an LC can be rounded up into multiples of rounding periods based on a rounding period you specify, for a rule. This is determined by the Rounding Period. The Good Until Date is calculated using the tenor of the contract and the Rounding Period. The good until date is the date (after rounding) up to which the commission will be applied.

For example, if you have specified the rounding period as 3 months, and the contract is valid for one month, the commission for the contract will be charged for a period of 3 months.

However, if you indicate the rounding period as 0, the commission will be calculated for the actual number of days of the contract for both periodic and non-periodic method of collection.

Specification of Rate Period and Rounding Period is mandatory, for a tenor based commission.

Example

For a LC, you define the period of rounding to be one month. Let the start date of the LC be 12 January 1998 and the expiry date of the LC be 15 June, 1998. The rate period has been specified as two months.

In this case, the period for the purpose of commission calculation is:

Actual period	**=**	**5 months and 3 days**
After Rounding	=	6 months *

* The six months is derived in the following manner:

12 Jan 98 to 12 June = 151 days (5 months) and the remaining 3 days is rounded up to 1 month.

Thus, even though the actual commission period spans five months and three days, commission will be applied for six months.

In case you have defined the rounding period as zero, the period for calculating commission will be the actual number of days as shown below:

Actual period	**=**	**5 months and 3 days**
After Rounding	=	154 days

Thus, the commission is calculated for 154 days.

Specifying the Maximum Commission Amount

The Maximum Commission Amount for a commission refers to the maximum amount that can be applied on a contract involving this Rule ID. If the commission calculated for a contract using this Rule ID exceeds this amount, the Maximum Commission Amount that you specify, will be applied instead of the amount calculated using the fixed rate. Thus, you can fix the maximum amount that can be charged on a contract that your bank processes.

STOP Please note that you can indicate the Maximum and Minimum Commission Amounts only if the Rate Type is ‘Fixed Rate’. You cannot indicate these in case of a ‘Flat’ Rate.

Example

The commission applicable on an import LC is 0.05% per annum of the LC amount. The maximum commission that can be applied is USD $900.

Your customer, Mr. Silas Reed, has requested an LC for USD $2,000,000 for a year. The commission amount in this case works out to be USD 1000 at 0.05%. As the commission amount calculated using the fixed rate, exceeds the maximum commission amount that you have specified, USD 900, will be collected from Mr. Reed as commission.

Specifying the Minimum Commission amount

The Minimum Commission Amount for a commission refers to the Minimum amount that can be applied on a contract involving this Rule ID. If the commission calculated for a contract using a Commission Rule falls below this amount, the Minimum Commission Amount specified will be applied instead of the amount calculated using the fixed rate. Thus, you can fix the minimum amount that can be charged on a contract processes by your bank.

Example

The commission applicable on an import LC is 0.05% of the LC amount per annum. The minimum commission that can be applied is USD $10.

Suppose your customer, Mr. Silas Reed, has requested an LC for USD 18,000. The commission amounts to USD $9 at 0.05%. As the commission amount calculated using the fixed rate falls below the minimum CCF amount specified, USD $10 is what will be collected from Mr. Reed as the commission.

Defining an amount structure for commission application

You can define the commission to be applied on the Basis Amount of a contract with a specific tier or slab structure.

Calculating commission on the basis of a tiered amount structure

By choosing the Tiered Amount option, you can indicate if the Basis Amount on which commission is calculated for the rule is a tier or a slab. Check the ‘Tiered Amount’ box if the Basis Amount structure is a tier. If a slab, do not choose this option.

STOP You can indicate that commission should be calculated on a tier basis only in the case of non-periodic commissions.

The following example illustrates how such a definition can be made:

Example

You have the following Basis Amount structure for a Rule ID, defined for a commission on a product:

Amount	**Rate per annum**
0 to 250 thousand	5%
> 250 thousand <= 1 Million	6%
> 1 Million <= 3 Million	7%
> 3 Million	8%

When this Rule ID is applied on a Basis Amount of USD 1.5 million, the rate of commission will be calculated depending on whether the Basis Amount has been defined as Slab or Tier. It is calculated as follows:

Cumulative (Tier) basis

The first 250,000 will be charged at 5%

Amount from 250,001 to 1,000,000 at 6%

Amount from 1,000,001 to 1,500,000 at 7%

The total amount charged as commission will be USD 92,500

Non-cumulative (Slab) basis

The entire USD $1.5 million will be charged at 7%

The amount charged will be USD 105,000

These however will be subject to the maximum and Minimum CCF amount specified for the rule.

For a tier structure, you can specify the Floor CCF Amount. This is the commission amount to be considered for the previous slab limit. This amount is used along with Floor Basis Amount to arrive at the commission for an amount falling in the current slab.

This amount need not be the same as the amount calculated using the Basis Amount and rate for the previous slab.

An example for the calculation of commissions based on a tier structure

For issuing LCs at your bank, the charges are applied based on the following structure:

> 0 <= 10,000 - 0.05%

> 10,000 <= 20,000 - 0.06%

> 20,000 - 0.08%

The following will be the specifications in the ICCF Rule Details screen:

Basis Amount	**Fixed Rate**	**Floor Basis Amount**	**Floor CCF Amount**
10000 (upper limit of the first tier)	0.05	0	0
20000	0.06	10000 (upper limit of the first tier)	X (charge amount that will be considered for the first tier)

Basis Amount	Fixed Rate	Floor Basis Amount	Floor CCF Amount
999999999 (a big amount since there is no upper limit for the third slab)	0.08	20000 (upper limit of the second tier)	Y (charge amount that will be considered for the earlier slabs)

This Rule ID is linked to a import LC through the Product for Import LCs. The calculation of commissions will be as follows, depending on the LC amount:

If the LC amount is USD 5000, it falls in the first tier. The commission amount will be calculated in the following manner:

LC Amount = USD 5000

Commission Amount 0.05% of USD 5000 = 2.5

If the LC amount is USD 15000, it falls in the second tier. The commission amount will be calculated in the following manner:

LC Amount = USD 15000

Floor Charge (X)=5

Amount to be charged at 0.06% = USD 5000 (LC Amount - the floor amount of the second tier)

Commission Amount = USD 3+5 = USD 8

If the LC amount is USD 30000, it falls in the third slab. The commission amount will be calculated in the following manner:

LC Amount = USD 30000

Floor Charge (Y)=11

Amount to be charged at 0.08% = USD 10000 (LC Amount - the floor amount for the second tier)

Charge Amount = USD 8+11= USD 19

Specifying the Basis Amount To

You should specify the upper limit of the slab or tier to which a particular rate or amount should be applied as commission.

Example

You have defined the following Tier or slab structure:

Amount	Rate
0 to 250 thousand	5%
> 250 thousand <= 1 Million	6%
> 1 Million <= 3 Million	7%
> 3 Million	8%

The Basis Amount To for the first slab or tier should be indicated as 250,000 that for the second slab or tier as 1,000,000, and so on.

2.3.2 Specifying a commission as a flat amount

Defining the commission as a flat amount involves the specification of the following:

- The flat amount (called the CCF amount for commission, charges of fees) and
- The currency in which the amount is expressed (specified in the Charge Ccy field).

Specifying the flat commission amount

If the commission is expressed in the form of a flat amount, you should specify the amount to be collected as commission.

Specifying the flat amount currency

If the Rate Type is expressed as a Flat Amount, you should also specify the currency in which the amount has to be applied. If it is not the same as the currency of the account from which the commission is paid, the amount will be converted at the rate specified for the product. This rate, as well as the amount defaulted, can be changed while processing the contract involving the rule. You can specify the currency of the flat amount in the Charge Currency (Ccy) field.

2.3.3 Calculating Tenor-based commission

Oracle FLEXCUBE allows you to compute tenor-based commission on a product. You can specify the details required to calculate tenor-based commission in the ICCF Rule Details screen.

Specifying the Minimum Commission Period

If you indicate the Rate Type, of a commission rule as Fixed Rate, you should also specify the Minimum Commission Period for the rule. The commission defined for the minimum commission period will be applied on contracts with tenors *less than* the minimum period. If the tenor of a contract is greater than the minimum commission period, commission will be calculated using the amount and tier structures that you build in this screen.

Indicating the tier/slab basis

You can indicate that commission is to be calculated on the basis of a tiered tenor structure, by choosing the Tiered Tenor option. If the rule should calculate commission on the basis of a slab structure, leave the check box adjacent to Tiered Tenor unchecked.

Calculating commission using a tenor-based tier/slab structure

You can define a tenor-based tier or slab structure for every amount slab that you have built. The following example illustrates how commission is calculated using a tenor-based structure.

Example

Your Requirement

You are building a Commission Rule (Rule ID: Tenor Tier) that you would like to associate with a product. You would like to compute commission for the contracts maintained under the product on the following tiered tenor basis:

Basis Amount (Slab)	**Tenor One (0-3 months)**	**Tenor Two (4-6 months)**	**Tenor Three (7-999 months)**
0 - 100,000	0.1%	0.15%	0.17%
100,001 - 1,000,000	0.2%	0.25%	0.3%
1,000,001 - 99,000,000	0.5%	0.75%	1%

Please note that the commission rates are specified in terms of a per month basis (specified in the Rate Period field as 1.)

Building the commission rule

The Rule you are building calculates commission on the basis of a rate. In the Rate Type field, click on the Fixed Rate radio button.

In Min. Comm. Period, specify the minimum commission period as, say, 1.

Since you would like to calculate commission on the basis of a tiered tenor structure, click on the check box adjacent to Tiered Tenor.

In Basis Amount To, enter the upper limits of the different slabs. That is, enter 100,000; 1,000,000; and 99,000,000.

In the Tenor Based Rates field, you can build the tiered tenors for each amount slab, in the following manner:

For the first amount slab, enter the tenor-based tier structure in the Tenor Based Rates fields. In this case, choose the first amount slab, 100,000 in the Basis Amount field.

For the first amount slab, enter the lower and upper limits of the tenor-based tiers in the Tenor From and Tenor To columns respectively. In this case, for the first tenor-based tier, enter the 0 as Tenor From, and 3 as Tenor To.

For each tenor-based tier, provide the corresponding rate in the Fixed Rate column. For the tenor 0-3 months, enter 0.1 in the Fixed Rate column.

In a similar manner, build the tenor structure for the other amount slabs.

After you have maintained the rates for the tenors, for a given amount slab, use the button to return to the amount fields.

Please note that only some fields are mentioned in this example. When building a commission rule, you have to specify other details such as the Commission Currency, the Basis Amount Currency, etc.

When the rule is applied on a contract

Assume that this rule (Tenor Tier) is linked to a product. Commission for the contracts maintained under this product, will be calculated using the rule TenoTier. The commission for the following contract is calculated using this rule:

Basis Amount = 800,000

Tenor = 8 months

The Basis Amount falls in the second slab (greater than 100,000, upto 1,000,000). The tiered tenors, corresponding to the second amount slab, will be used to arrive at the commission amount.

The commission amount will be calculated in the following manner:

Commission Amount for the period 0 to 3 months: 800,000 * 3 * 0.2% = 4800

Commission Amount for the period 4 to 6 months: 800,000 * 3 * 0.25% = 6000

Commission Amount for the period 7 to 8 months: 800,000 * 2 * 0.3 = 4800

Total commission calculated for the contract using Rule Tenor Tier = 15600

Please note that in the Contract ICCF screen, the rate applied on the last tier (in the example, 0.3%) will be displayed. You cannot modify the Rate, the Collection Method and the Rounding Period during contract input.

2.3.4 Opting to cascade commission when the Basis Amount is amended

You can opt to 'cascade' commission on contracts whose amount has been amended. Commission calculation can either be *solely* for the amended Basis Amount, or the entire Basis Amount of the contract (the amended Basis Amount *plus* the original Basis Amount of the contract). Choosing to calculate commission only for the amended Basis Amount of the contract is referred to as 'Cascading'.

Commission that you collect for the amended amount can be calculated on the basis of a tier or a slab structure.

2.3.5 Defining commission rule application conditions

The conditions for the application of a commission rule can be defined in the following manner:

- The rule can be applied to any contract, irrespective of the currency of the contract and the customer involved. This is referred to as a general commission rule. (You must define a general commission rule before you define rules applicable to specific customers and contracts in specific currencies.)
- The rule can be applied on contracts in a particular currency only, irrespective of the customer involved.
- The rule can be applied on contracts in a particular currency, involving a particular customer only.

Thus, the most general application of the condition can be that it is applicable to contracts in any currency and involving any customer.

An interim condition is when the rule is applied on contracts in a specific currency, involving any customer.

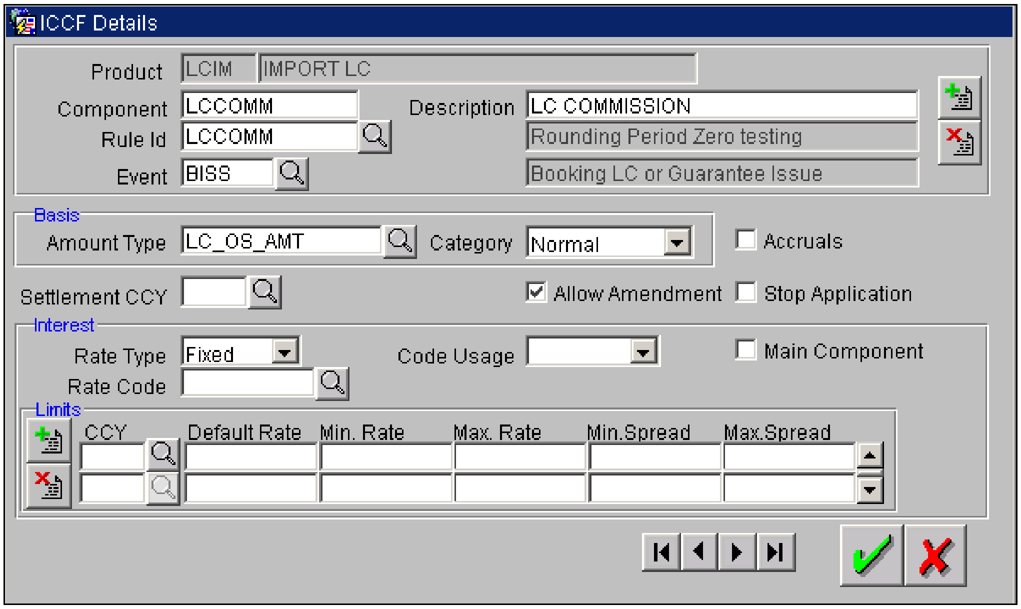
The most specific condition is when a commission rule is applied on contracts in a particular currency, involving a particular customer only.

Once a Commission Rule has been defined, you should link it to a product. Thus, the definition of Commission Rules should precede the definition of the product.

2.4 Linking a commission rule to a product

After defining the attributes of a commission by allotting it a Rule ID and specifying the application conditions, you can link it to a product. When a contract is processed involving the product, the commission attributes defined for the product will be applied. Some of these attributes can be changed while processing the contract. If an attribute can be changed, it will be mentioned in the on-line help for the field.

To invoke the 'ICCF Details' screen, click the button, from the Product Definition screen. The ICCF details screen is displayed.



Through this screen you can make a commission rule that you have defined applicable to a product.

A commission is applicable for a specific event in the lifecycle of a contract involving the product. You can have different types of commissions for issue and amendment of a contract. You can also have more than one commission applicable for a single event of the contract.. While processing a contract involving the product, all these rules can be retained or one or more can be waived.

The commission rules you define for a product must either be periodic or non-periodic in nature. You cannot have a mix of periodic and non-periodic commission rules linked to a product.

Refer the Interest manual for further details on the ICCF Details screen.

2.4.1 Associating a commission rule with an event

For a commission component, you should specify the event during, which the commission component whose attributes are being defined, has to be applied.

Example

For a LC, the events could be at:

- Issue of an import LC or a guarantee (Event Code BISS).
- Advice of an export LC (Event Code BADV).
- Pre-advice of an export LC (Event Code BPRE).
- Advice and confirm an export LC (Event Code BANC).
- Amendment of any LC (Event Code AMND).

2.4.2 Specifying the basis for application

To specify the basis for the application of the commission, you need to specify the following attributes:

Amount Type: If the rate type specified for the commission component is a fixed rate, specify the basis amount on which the commission should be applied.

Example

For a LC, the commission rule can be applied on the Outstanding LC Amount.

Basis Amount Category: If the rate type specified for the commission component is fixed, specify the type of Basis Amount that has to be considered for commission calculation.

Example

For of a LC, as the balance on which a commission is applied will always be the outstanding balance, the basis amount category for an LC is normal.

2.4.3 Specifying whether the commission has to be accrued

The commission on a contract can be accrued over a period. You can accrue some or all of the commissions defined. The frequency of the accruals has to be specified, as part of product preferences. All the components that have to be accrued will thus be accrued at the same frequency.

The accruals will be carried out at the specified frequency, by the batch-processing program for the product, during End of Cycle processing.

2.4.4 Stopping the application of a commission component defined for the product

The attributes defined for a product will be automatically applied to all new contracts involving the product. However, you have an option to stop the application of a commission on new contracts involving the product. This can be achieved by ticking the Stop Application button for the component in the ICCF Rule Details screen.

However, please note that the existing contracts will continue to have the commission rule applied on them. If the rule is used as a periodic commission, you can stop its application for existing contracts, by specifying a Stop Date in the Contract ICCF screen.

At any time, you can revoke the commission rule and reapply it for new contracts by un-checking the Stop Application button.

The commission details defined for a product will be automatically applied on a contract involving the product. However, you can change certain attributes of a commission, for a specific contract.

STOP Some products may need more information on commission processing, which are specific to the product. These inputs are entered in the Product Preferences screen. Refer to the product module user manual for an explanation of product preferences.

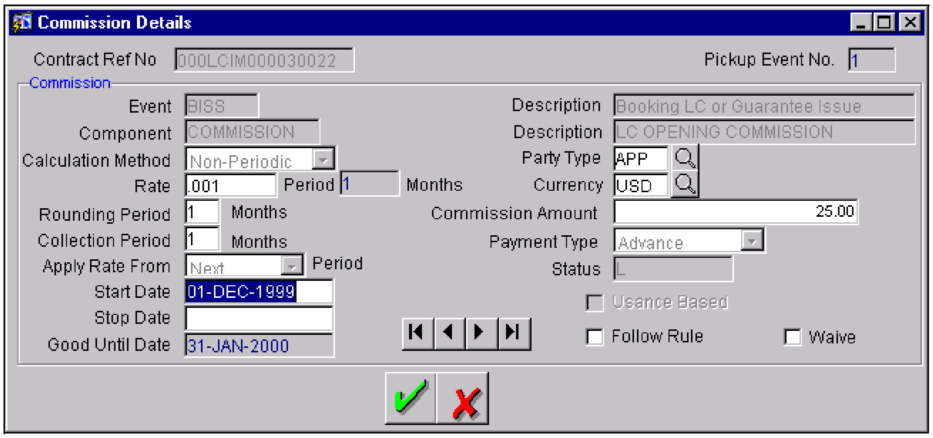
2.5 Specifying commission details for a contract

The commission details defined for a product will be automatically applied on an contract involving the product. These details can be viewed through the contract ICCF screen. You can also change certain attributes of a commission, for a specific contract.

From the Contract screen, click on for a display of the Commission Details screen. The details of the commission applicable for the event you are processing will be shown. The following attributes can be changed for a commission component.

- The rate, if the commission is expressed as a rate.
- The amount if the commission is expressed as a flat amount.
- The collection period for a periodic commission.
- The collection method - arrears or advance.

In the Contract ICCF Screen, use the set of four buttons  to move between the next, previous, first or last rule that has been linked.



2.6 Features of the Contract ICCF screen

The contract reference number, of the contract you are processing, will be displayed on this screen. The details of this screen can be divided into two sections. The first contains and captures details of the commissions that are to be processed on the contract. The second contains details of the charges to be levied on the contract.

The commission component and the event for which the component is to be applied, along with their description, is defaulted from the product under which the contract is processed.

Based on the details you have specified for the rule and the product that a contract involves, the following details will be defaulted. Some of these attributes can be changed.

The commission calculation method

The commission calculation method, i.e., whether it is collected on a periodic or non-periodic basis, is defaulted from the product.

The commission payment type

The commission type specifies whether the commission should be collected in arrears or in advance.

The Good Until Date (GUD)

The Good Until Date is calculated, based on the Expiry Date and the Rounding Period, for commission calculation. The GUD is the date (after rounding) up to which the commission will be applied.

Specifying the start and the end date

By default, the period for commission application will be between the Issue Date and the Good Until Date. However, you can change this period by specifying a Start Date and End Date for commission calculation.

Indicating whether the details from the rule were changed

For a specific commission, you have the option to change certain details while processing a contract. If, after changing some details you decide to reapply the ones defaulted from the product, tick the Follow rule button. This button is basically an Undo action of the changes you made.

Waiving commission Component for a contract

The application of a specific commission can be waived for a contract. This can be achieved by ticking the Waive button before the commission is collected. To waive all the commissions applicable for an event by checking against the Waive all field.

Details of a rate type commission

If you have specified the commission as a rate, the following details will be defaulted. These default settings can be changed.

- The fixed rate defined for the rule.
- The period (in months) for which the fixed rate is applicable.

For a periodic commission, you can specify whether the rate should be applied from the current period or from the next period.

Details of a flat commission

If for the rule, you have specified that the commission component is to be collected as a flat amount, the following details will be defaulted:

- The flat amount defined as the commission amount.
- The currency in which the flat amount is to be collected

3. Commission Calculation

3.1 Introduction

The process of defining parameters that determine the method of commission calculation and collection for a contract is spread over the following four screens:

- The Rule Definition screen
- The Product ICCF screen
- The Product Preferences screen
- The Contract ICCF screen

For details regarding the definition of commission rules and their application on a contract, refer the chapter on processing commissions in this Commissions User Manual.

This chapter explains the manner in which the various commission parameters affect its calculation. As commissions are applied most frequently on Letter of Credit (LC) contracts, the following discussion and examples will assume that we are dealing with a LC contract. However, the methods are applicable to other types of contracts as well.

The methods of commission calculation and commission collection are discussed in the following sections.

3.2 Commission calculation parameters for a rate type commission

Commission can be defined as a flat amount or it can be expressed in terms of a rate.

A commission rule defines the basic attributes of a commission. The procedure for defining commission rules is described under Processing Commissions. The following commission calculation parameters are defined for a commission rule:

- The rounding period
- The rate period

These rules are then linked to a product. For instance, you process an LC contract under a product, all the parameters defined for the rule linked to the product, will be applicable to the LC. Some of these parameters can be changed, when an LC is processed. The calculation of commission will be based on the changed parameters, for such an LC.

3.2.1 The meaning of Rounding Period

The commission rate for an LC is always quoted in multiples of a month. The calculation of commission is also done for a whole period, which should necessarily be an entire month. Fractional periods in the tenor of an LC are thus rounded up based on a rounding period you specify, for a rule.

The tenor of the LC and the rounding period together decide the Good Until Date (GUD). This is the date until which the commission on an LC will be applied.

As a corollary, for an LC, additional commission will be applied when the Expiry Date is extended, only if the new Expiry Date is beyond the original Good Until Date. This is because the commission was originally calculated till the Good Until Date.

3.2.2 Applying the Rounding Period

The Good Until Date of an LC is calculated on the assumption, that commission on an LC is applied for whole months. These months start from the date of issue and finish one day before, the starting date of the following period.

At times, the expiry of the LC does not fall exactly on the start date minus one day of a future period. In such a case the LC validity needs to be rounded up, so that the Good Until Date of the LC falls on the start date minus one day of a future period.

Example

If the LC were issued on 15th August, the Good Until Date that LC would be the 14th (15 - 1) of the next month. So, if the expiry date were on the 8th of a month the Good Until Date of that LC would be on the 15th of the expiry date month.

On the other hand, if the expiry date is on the 20th of a month the validity will be the 15th of the month. It is determined after applying the rounding period

Rate period

The rate period you define is used to determine the period for which the effective commission rate is applicable. Instead of expressing the commission rate on a per annum basis, it is expressed on a rate period basis.

0.5% for 3 months = 2% per annum.

Good Until Date

The date that the commission will be Good until is calculated as given below:

DT + (PR * RP) - 1 day

Where,

DT	**-**	**Start date (or Amendment date).**
PR	-	Number of periods rounded.
RP	-	Rate period.

3.2.3 Commission calculation for an LC

Commissions are calculated using the following formula:

$$\textbf{Total Commission} = \frac{\mathbf{R \; * \; A \; * \; N}}{\mathbf{100}}$$

Where,

R	**=**	**Commission rate to be charged per Rate period.**
A	=	Commission basis amount.
N	=	Number of periods (rounded) to be collected.

STOP In the examples that follow, the minimum and maximum amounts for a commission rule have been ignored.

Example 1

You have set up the following details for an LC:

Issuing date	**-**	**January 12, 1999**
O/S Liab. Amount	-	USD $ 10,000.00
Expiry date	-	June 15,1999
Commission rate	-	0.25%
Rate period	-	2 months
Rounding period	-	2 months

No. of periods (rounded up) involved in the calculation =

$$\frac{\text{January 13 - July 12}}{2} = \frac{6}{2} = 3 \text{ (refer formula)}$$

Good Until Date = Jan 12 + (3 * 2 = 6 months) - 1 day = July 12,1999.

Using the commission calculation formula:

$$\textbf{Total Commission} = \frac{\mathbf{R \; * \; A \; * \; N}}{\mathbf{100}}$$

The following Diagram illustrates the Commission periods and the frequency with which commission is calculated.

Period covered by Commission calculation

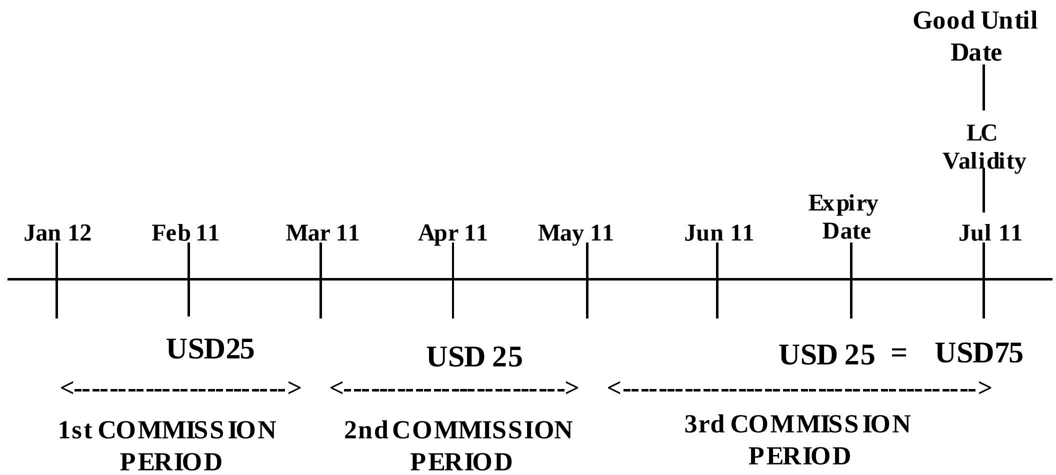


Diagram 1

Based on the commission calculation specified above, a sum of USD 75.50 is to be collected as commission. In the FOLLOWING example we shall examine a case with a different rate and rounding period.

Example 2

You have set-up the following details for an LC:

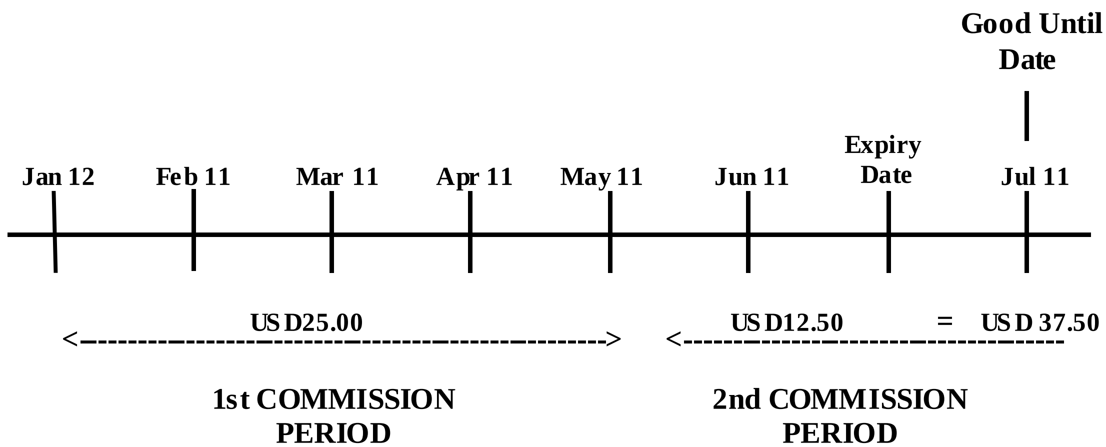
Issuing date	**-**	**January 12, 1999**
Maximum LC amount	-	USD 10,000.00
Expiry date	-	June 15,1999
Commission rate	-	0.25%
Rate period	-	4 months
Rounding period	-	2 months

No. of periods (rounded up) to be collected =

$$\frac{\text{July 12 - Jan 13}}{4} = \frac{6}{4} = 1.5 \quad \text{(refer formula)}$$

Good until date = Jan 12 + (2 * 2 = 6 months) - 1 day = July 11,1999.

Period covered by commission calculation



Based on the commission calculation specified above, a sum of USD 37.50 is to be collected as commission. You can specify different methods in which this commission can be collected.

3.3 Commission collection

The term collection refers to the debiting of commission, either from a receivable account or a customer account. Under this head we shall discuss the following:

- The commission amount that is due to an LC can be collected on a Periodic or Non-periodic basis.
- The collection method can be either immediate (advance) or some time in the future (arrears).

These attributes for a commission are specified for a product (through the Product Preferences screen).

Commission collection can thus be classified as:

- Periodic in advance
- Periodic in arrears
- Non-periodic in advance
- Non-periodic in arrears

3.3.1 Periodic commissions

Periodic commissions are collected in portions, over a period of time. Commission in this case is calculated on the basis of a set of parameters defined. The LC amount on which the commission rate is applied, will always be the LC Outstanding Amount, at the beginning of the period.

When commission is collected on a periodic basis, it will be collected automatically based on the rate period specified. It will be collected at the beginning or end of each collection period, depending on whether it has to be collected in arrears or in advance.

The commission for the last period is collected on the Expiry Date of the LC. This commission will be calculated till the Good Until Date of the LC.

3.3.2 Non Periodic commissions

If the entire commission is collected as one amount, it is said to be non-periodic. In this case, a single commission amount is calculated at the time you enter an LC, using a set of parameters defined for the LC. This type of commission can also be collected either in advance or in arrears.

3.3.3 Commission collected in advance

For *advance* collection of a non-periodic commission, the commission is collected when the LC contract is entered in the system (it could be the issue of an import LC or the advise or any other variation of an export LC). For periodic commission, the collection is done at the booking of an LC and at the start of every subsequent period.

3.3.4 Commission collected in arrears

For *arrears* collection of non-periodic commission, the commission is collected on the Expiry Date of the LC. For periodic commission, the collection is done at the end of each period.

3.3.5 Commission for LC amendment

An amendment to certain details of an LC, has an impact on the method of commission calculation and collection. The following amendments, result in an amendment commission, being applied:

- An increase in the LC amount.
- An extension of the Expiry date, beyond the Good Until Date.

An increase in the LC amount

If you amend a non-periodic LC, to increase the LC amount, the system maintains two separate commission records. Each of these records will be processed separately.

You can specify a new commission Rule (commission base parameters) for the amended amount or continue with the rule defined for the initial LC. The system uses the amendment date as the start date of the new LC. Based on the start date and the rate period specified for the amended amount, a new good until date is computed.

If a flat amount was specified for the initial LC, then only a flat amount can be entered again. If the commission has been entered as non-periodic initially, then only non-periodic type commission can be entered. The re-entering of non-periodic commission details will only change the commission details (base) for any future commission calculations. This is possible only if the LC amount is increased or the expiry date is changed to a date later than the existing Good until date till which commission has been calculated.

The same commission calculation formula as described above is used to determine the Amendment Commission and to establish the LC validity.

Example

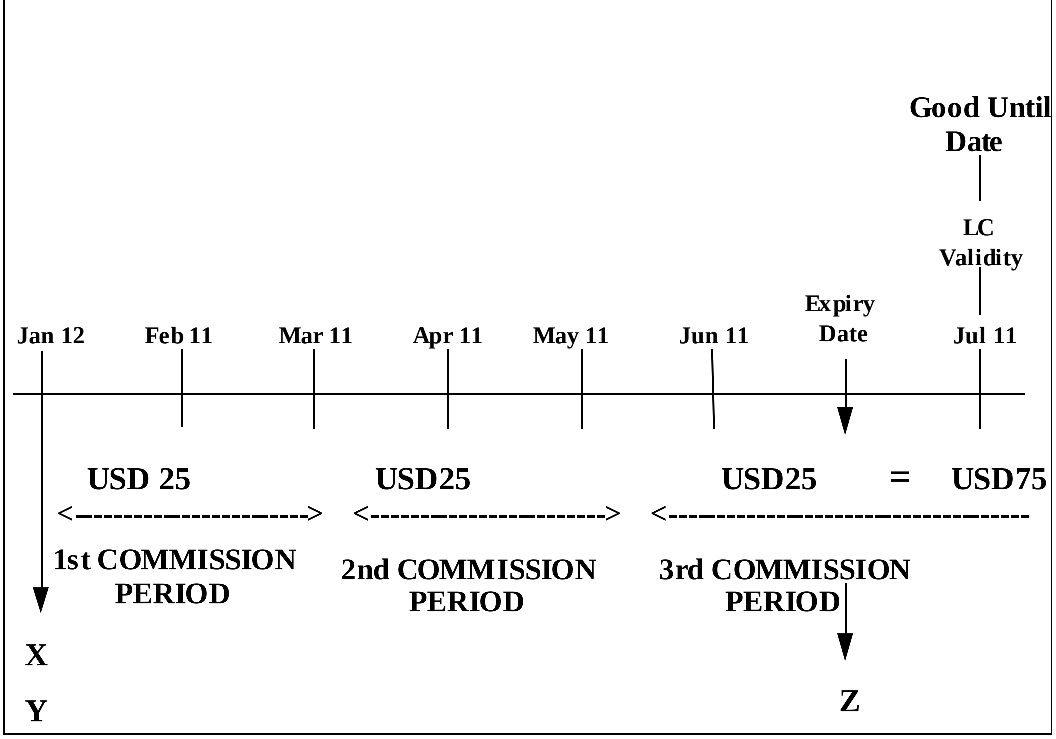
You have set up the following Parameters for commission calculation of an LC:

Issuing date	**January 12, 1999**

Issuing date	January 12, 1999
Maximum LC amount	USD 10,000.00
Expiry date	June 15,1999
Commission rate	0.25%
Rate period	2 months
Rounding period	2 months

Based on the parameters you have specified, the Issue Commission to be collected for the LC is USD 75.

Parameters for the calculation of Issue commission



Where,

X - indicates the date from which commission is calculated.

Y - indicates the date on which commission is collected, if in advance.

Z - indicates the date on which commission is collected, if in arrears.

On 15 March you amend the LC amount to an increase by USD 5,000. However, you do not make a change in the expiry date of the LC. For this example we shall use the same commission rule.

Parameters for amendment commission calculation:

Issuing date	January 12, 1999
Maximum LC Amount	USD 10,000.00
Amount of increase	USD 5,000.00

Issuing date	January 12, 1999
Amendment Date	March 15
Processing date	March 15
Expiry date	June 15,1999
Commission rate	0.25%
Rate period	2 months
Rounding Period	2 months

No. of periods (rounded up) to be collected =

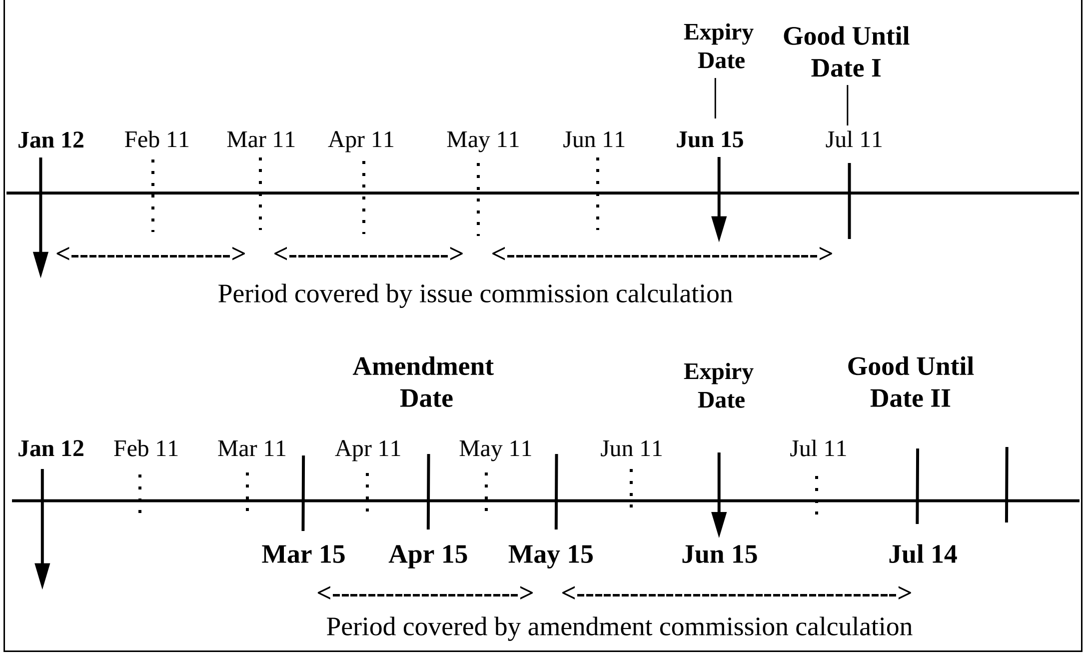
$$\frac{\text{March 16 - July 15}}{2} = \frac{4}{2} = 2$$

Good until date = March 15 + (2 * 2 = 4 months) - 1 day = July 14,1999.

Total commission amount to be collected =

$$\frac{\mathbf{0.25 * 5{,}000.00 * 2}}{\mathbf{100}} = \textbf{USD 25.00}$$

Parameters for caculaion of the amended commission amount



Therefore, a sum of USD 75 is collected as issue commission and a sum of USD 25 is collected as amendment commission.

From the above examples it is evident that the GUD for the issue commission is different from that of the amendment commission.

Example 3

In the example that follows we shall consider a case wherein, you have not only increased the LC amount but also changed the basis for commission calculation.

You have specified the following parameters for amendment commission calculation, with increase in LC amount and change in commission base:

Issuing date	**January 12, 1999**
Maximum LC amount	USD 10,000.00
Amount of increase	USD 5,000.00
Amendment Date	March 15
Processing date	March 15
Expiry date	June 15,1999
Commission rate	0.25%
Rate period	3 months
Rounding Period	3 months

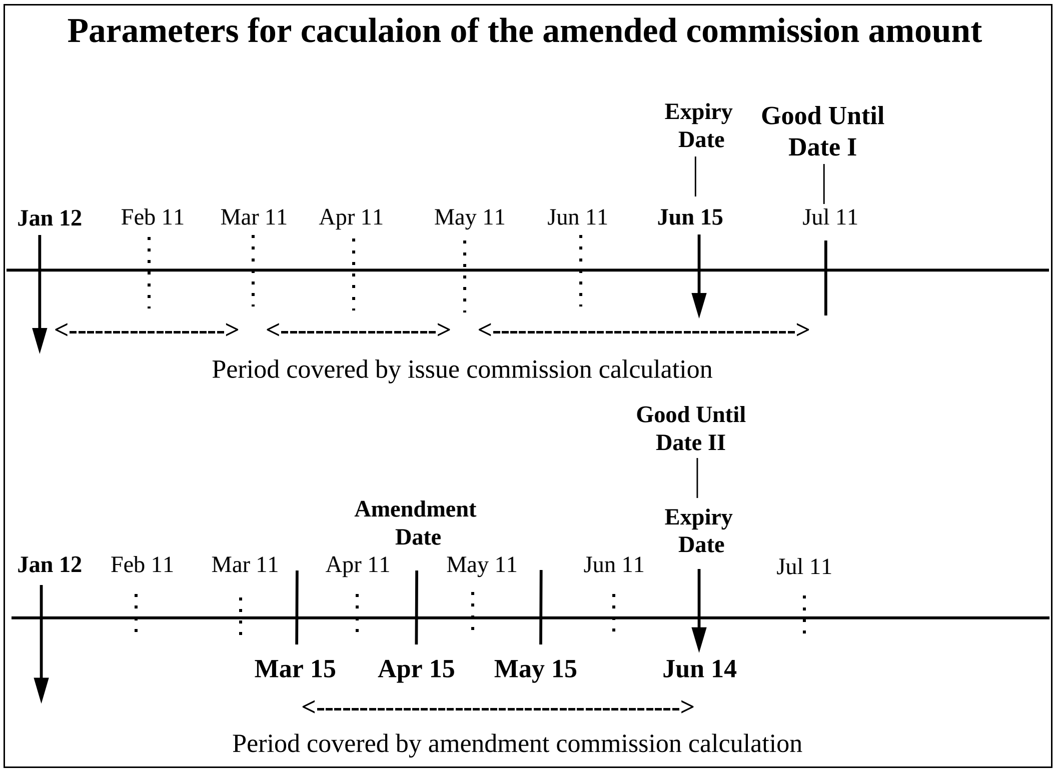
No. of periods (rounded up) to be collected =

$$\frac{\text{March 15 - July 15}}{3} = \frac{4}{3} = 1.3 = 2$$

Good until date = March 15 + (2 * 3 = 6 months) - 1 day = September 14, 1999

Total commission amount to be collected =

$$\frac{0.25 * 5{,}000.00 * 2}{100\ \%} = \text{USD } 2500$$



In the examples we have seen that, though the commission base changed there was no difference in the calculated amount (because of the commission parameters used). There was a change only in the Good Until Date.

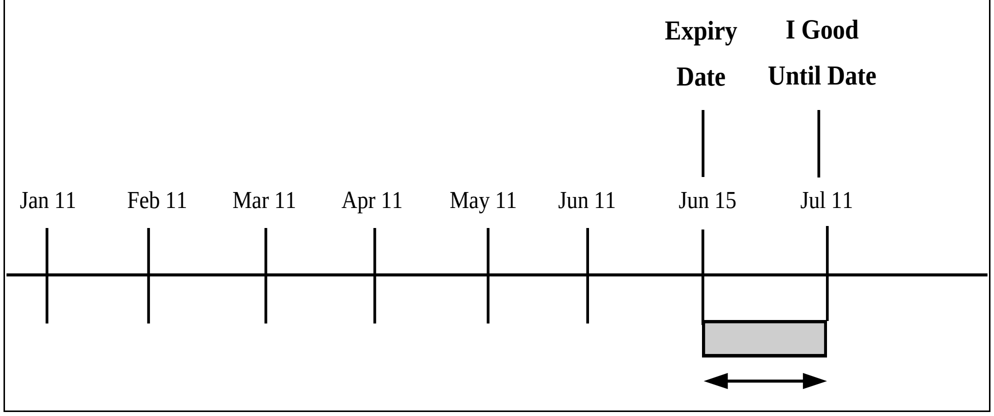
If the LC amount is decreased either through an amendment or because of an availment, there will be no additional commission charged nor will there be a refund of commissions, already collected.

b. If the LC expiry date is changed

If you amend an LC to affect an extension in the expiry date that is earlier than the Good Until Date, the system will not have to calculate any additional commission. The existing commission calculations already cover that period.

Assume the same set up of the previous example,

Amendment of Expiry date before the Good until date



	=	**an extension of the expiry date , it falls within the current expiry date (June 15) and the Good Until Date of first base (July 11) and will not require any additional commission calculation, for that commission base.**

c. Expiry date extended to a date after Good Until Date

You can amend an LC to process an extension in its expiry date. If the new date falls after the Good Until Date defined for the calculation of the initial LC, then a new calculation amount is computed for the applicable commission rule, for the new rate period.

This may require more than one Rate period to be covered depending on the length of the extension. The system determines the amount it should calculate as the additional commission.

Example

You have set up the following details for an LC:

Issuing date	**-**	**January 12, 1999**
O/S Liab. Amount	-	USD 10,000.00
Expiry date	-	June 15,1999
Commission rate	-	0.25%
Rate period	-	2 months
Rounding period	-	2 months

No. of periods (rounded up) involved in the calculation =

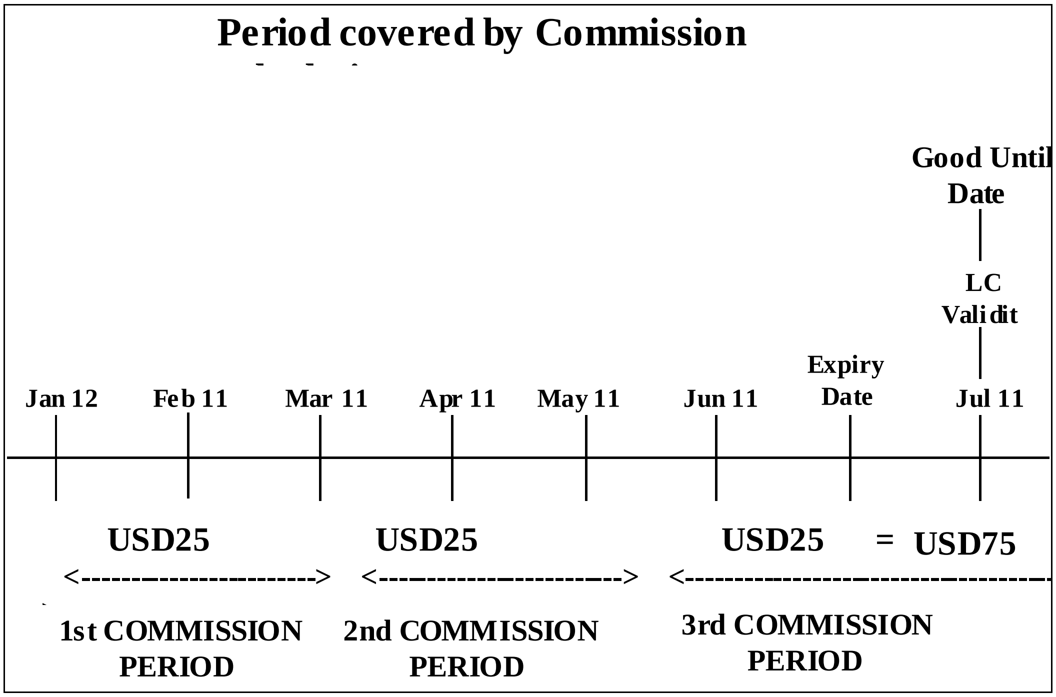
$$\frac{\text{January } 12 \text{ - July } 12}{2} = \frac{6}{2} = 3 \text{ (refer formula)}$$

Good Until date = Jan 12 + (3 * 2 = 6 months) - 1 day = July 11,1999.

Using the commission calculation formula:

$$\text{Total Commission} = \frac{R \, * \, A \, * \, N}{100}$$

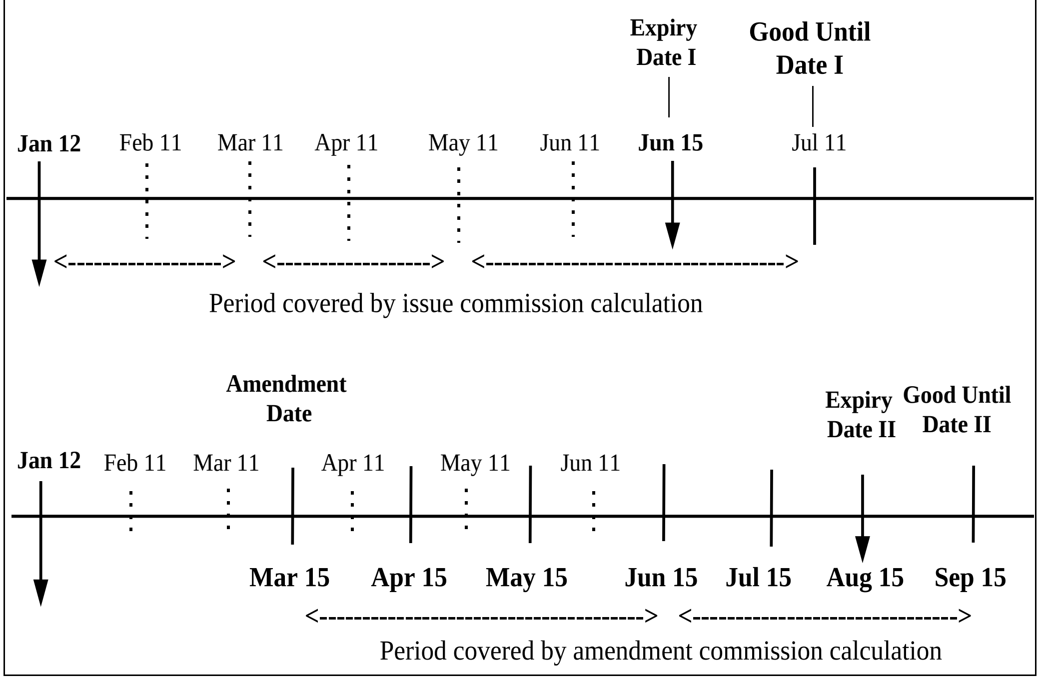
The following Diagram illustrates the Commission periods and the frequency with which commission is calculated.



On March 15, you effect an amendment on the LC. It results in the extension of the LC expiry date to Aug. 15th, (a date beyond the good until date of the initial LC -July 15). The commission will be calculated up to the new Good until date.

If the commission is collected in arrears, the commission amount inclusive of the amendment commission is collected on the amended expiry date - 15 August, 1999.

Parameters for caculaion of the amended commission amount



3.3.6 Non-periodic in advance

If the commission due to an LC is to be collected in advance, then the commission is collected at the time of opening the LC.

Example

You have established an LC on Jan 10th and set it up as having non-periodic commissions to be collected in advance.

In this case 10th is the start date of the LC. The commission amount on the LC is collected on Jan 10th.

3.3.7 Non-periodic in arrears

If the commission due on an LC is to be collected in arrears, the commission will be collected on the expiry date of the LC

Example

You have established an LC on Jan 10th, which expires on 31 April. You set up the LC as having non-periodic commissions, to be collected in arrears.

In this case, 31 April is the expiry date of the LC. The commission amount due, will be collected on 31 April.

3.4 Periodic commission calculation

The Commissions to be collected for effecting an LC are calculated at the beginning of each collection period, for the period up to the next collection date.

The next collection date is derived as follows:

Last collection date + collection frequency (in months)

For LCs whose commissions be calculated on a periodic basis, the collection frequency is picked up based on the preferences specified in the Product Preferences screen.

The commission is calculated on the current available amount. The formula used to calculate the commission earned for each period is:

$$\text{Amount to be collected for that period} = \frac{R * A * F}{P * 100}$$

Where,

R	**=**	**Commission rate**
A	=	Liability amount, as at the time of calculating commission and at the start of each collection period
F	=	Collection frequency
P	=	Rate period

3.4.1 Commission calculation on opening an LC

Let us examine an example with the following set up:

Issuing date	**January 12, 1998**
Maximum availability amount	USD 10,000.00
Expiry date	June 15,1998
Commission rate	0.25%
Rate period	2 months
Rounding period	2 months
Collection frequency	Monthly

Amount to be collected for each calculation period = (refer formula)

$$\frac{0.25 * 10000 * 1}{2 * 100} = \text{US\$12.50}$$

Based on the above set up, there are three commission calculation periods. Thus the commission to be collected for the LC is USD 37.5.

The following diagram illustrates the commission calculation periods and the dates on which commission is collected. It is assumed that the commission is collected in advance, and that the liability amount was the same at each calculation time (diagram 1).

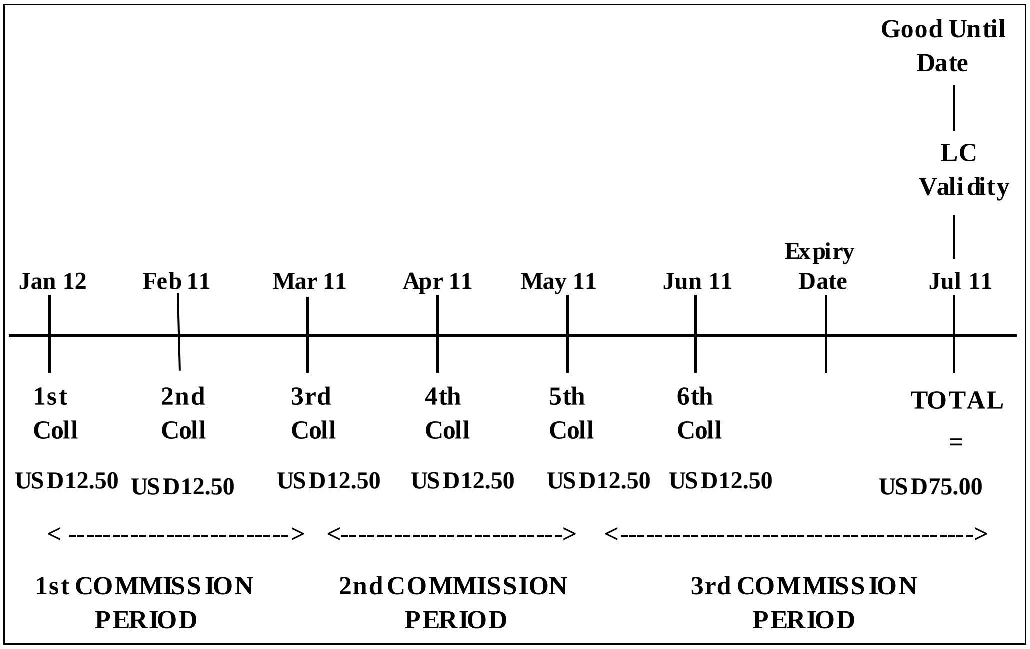


Diagram 1

As the collection frequency specified for the LC is Monthly, the commission due to this LC is collected on a monthly basis. Also note that commission is calculated at the start of each collection cycle i.e., the commission is calculated upto the next commission due date. This happens even if the commission is to be collected in arrears.

Assuming the above set-up, the following diagram illustrates the dates on which commission is collected, also assuming that commission is collected in arrears (Diagram 2).

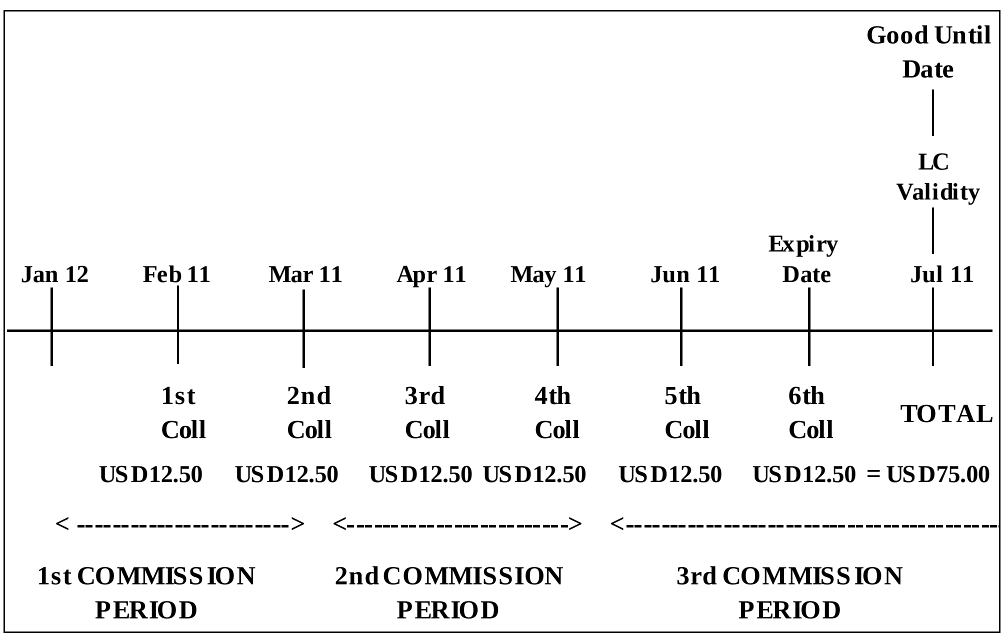


Diagram 2

3.4.2 Commission calculation on amending an LC

Periodic commission with increase in LC amount

If you increase the LC amount, periodic commission is calculated based on the same rules as described previously. The periodic rule used for the earlier LC is applied to the increased LC amount unless a new rule is specified at the time of increasing the LC amount. The collection frequency, however cannot be changed while processing an increase in the LC amount.

In case of an amendment,

$$\textbf{Commission to be collected for the amendment} = \frac{R * I * F}{P * 100}$$

Where,

R	**=**	**Commission rate.**
I	=	Increase in liability amount.
F	=	Collection frequency.
P	=	Rate period.

The system treats the amended amount as a new LC. A new good until date is computed. The new calculations are based on the amended amount and the commission amount is calculated based on the rule defined for the amendment.

Example

You have set up the following details for an LC

Issuing date	**January 12, 1998**
O/S Liability Amount	USD 10,000.00
Expiry date	June 15,1998
Commission rate	0.25%
Rate period	2 months
Rounding period	2 months
Collection frequency	Monthly

Amount to be collected for each calculation period = (refer formula)

$$\frac{0.25 * 10000 * 1}{2 * 100} = \text{US\$12.50}$$

On May 5 you have amended the LC to effect an increase in the LC amount:

Expiry date	**July 15,1998**
Amount increased	USD 5,000.00

Expiry date	July 15,1998
Commission rate	0.25%
Rate period	3 months
Rounding period	3 months
Collection frequency	2 months
Date of amendment	May 5

The commission calculation and collection specified for the initial LC will continue as per the schedules defined for it. The commission calculation for the increased amount is:

Amount to be collected for each period = USD 12.5

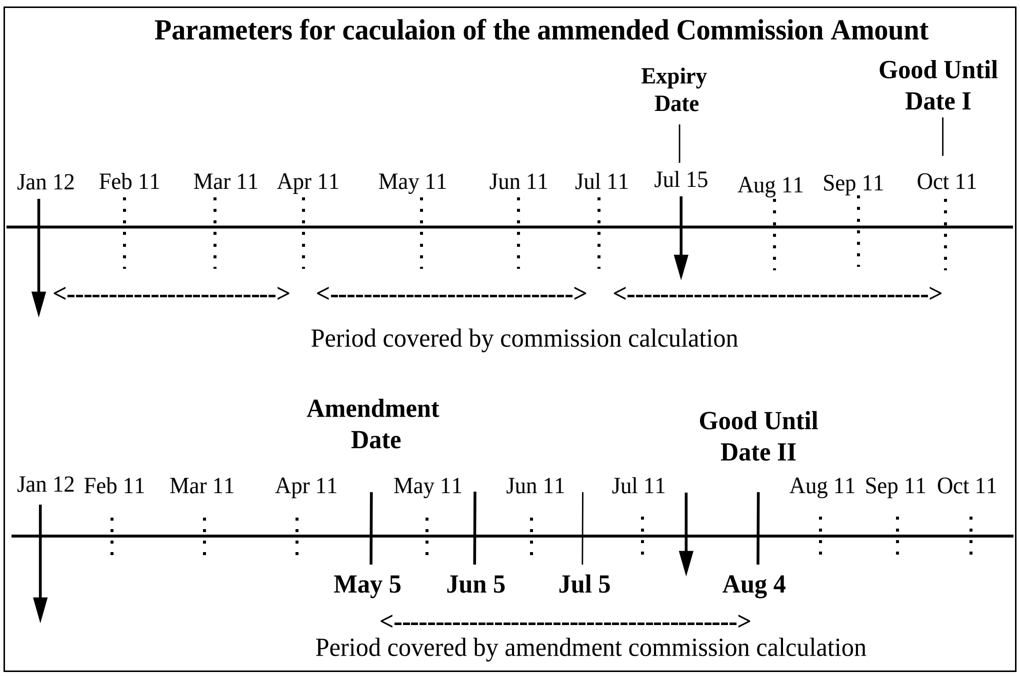


Diagram 3

In the above illustration, while calculating commission, the amended amount is treated as a new LC. The amendment date of 5 May, is treated as the start date. Based on this date, a good until date (Good until date II), which is different from the initial Good until date, is computed for the purpose of commission calculation.

Periodic commission and the expiry date is changed

If the expiry date is extended, to a date later than the date covered by the latest commission calculation, then on the date of the next calculation, the system will calculate an amount based on the current commission details. A flat amount may be entered if required.

3.5 Commission stop date and commission calculation

The minimum and maximum limits that can be collected as commission for an LC are defined in the Rule Maintenance screen. This amount cannot be exceeded regardless of the calculation result. The minimum and maximum amounts can be expressed in the local currency or in the currency of the LC, to which it is applied.

For periodic commissions, you can specify the frequency in which the commission should be collected. Future calculations (and collections) can be stopped when necessary. You do so by specifying a stop date (in the Contract ICCF screen). From then on no further commission should be collected.

Effect of stop date on current calculation

If the commission is collected in advance, the current commission will not be affected. However no commissions will be computed or calculated for the periods that fall, after the stop date.

Example

You have issued an LC for USD 50,000 and specified that commission due to this LC should be collected periodically in advance. The commission due for each period is USD 100.

LC Start date - 1 Jan, 1998

LC Expiry Date - 31 Jun, 1998

Commission calculation period - 3 months

You decide to stop the collection of this commission on 1 Feb, 1998. As the commission is collected in advance, on 1 Jan, 1998 a sum of USD 100 is collected. However from the next commission calculation period, no commission will be collected.

If the commission is to be collected in the future (Arrears**)** an apportioned amount will be collected. This amount is calculated by taking the number of days from when, the commission was calculated to 1 day before the stop date (as a proportion of the total amount of commission over the total number of days).

Assume that commission is on an accrual basis and in arrears. If a stop date is input, the commission is collected upto one day before the stop date and the necessary entries will be passed.

For non-periodic LCs, the total number of days is computed as the number of days from commission calculation date to 1 day before the expiry date.

For periodic LCs, it is computed as the number of days, from commission calculation date to end of Rate period or 1 day before the expiry date (for last Rate period).

Effect of stop date on future calculation

If you specify a stop date, all future commission calculations and collections will be stopped from that date.