**ANNEX F**

**CREDIT MANAGEMENT**

**Definitions**

1. In this Annex, a reference to a paragraph or Appendix, unless stated otherwise is to a paragraph or appendix of this Annex. Words, abbreviations and expressions have the meanings given in Annex D except as shown below.

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| **“Adverse”** | any or all of the following:1. a classification of the Operator or BT, as the case may be, by Dun and Bradstreet as “slightly greater than average level of risk” or a classification of a higher risk level, or an equivalent by an external credit agency listed in the BT SIA/SIPIA Credit Policy;
2. if the information available in respect of the Operator or BT, as the case may be, is less than that which would be available for a UK company under UK Companies Act legislation;
3. if at the time of the Credit Vet, or at any time thereafter, the Operator or BT, as the case may be, fits any of the circumstances in paragraph 30.5.1 to 30.5.6 of the main body of the Agreement;
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| **“BT SIA/SIPIA Credit Policy”** | the document of that name issued by BT and made available to the Operator, as varied by BT from time to time on not less than three month’s advance notice provided that such changes are made available to the Operator on the BT website and are brought to the attention of the industry by the BT interconnect notification procedures; |
| **“Calendar Month Invoice Sum”** | in respect of either Party, the aggregate sum of all sums due under all invoices sent by the other Party under the Agreement, which invoices each have an invoice date within the same calendar month. For the avoidance of doubt, such sums shall be deemed to exclude any sums which are the subject of an invoice dispute under paragraph 5.2.2 of Annex B; |
| **“Credit Limit”** | a limit on the monthly amount of credit that may be extended by one Party to the other under this Agreement, calculated as a result of a Credit Vet exercise.; |
| **“Credit Vet”** | an exercise carried out by a Party using external agency financial data and a Party’s internal records (if any) to assess the ongoing credit risk of business with the other Party under the Agreement; |
| **“Deposit Interest Rate”** | one per cent above the Bank of England base rate applying as at the end of the (banking) day when the deposit was received. Such Deposit Interest Rate to be calculated on a daily basis; |
| **“Payment Period Notice”** | a notice issued under paragraph 5 or 14 of this Annex F; |
| **“Profile Monitor(ing)”** | a mechanism whereby a Party’s liability is calculated on a regular basis within a Billing Period to produce a Projected Invoice Value; |
| **“Profile Monitoring Limit”** | an amount of credit in connection with profile monitoring under this Agreement which may be set by BT under paragraphs 3.2 and 7 or set by the Operator under paragraphs 12.2 or 16.; |
| **“Profile Security”** | any of1. a cash sum deposit to be paid within five Working Days of request, where the maximum value of such deposit is three times the difference between the Projected Invoice Value and the Profile Monitoring Limit, and if set by BT such deposit value is set in accordance with the BT SIA/SIPIA Credit Policy; and/or
2. Set-off; or
3. an agreed advance payment scheme in accordance with paragraph 8.1 or 18;
 |
| **“Projected Invoice Value”** | the estimated total invoice value under this Agreement to be raised at the end of a month by a Party on the other Party, calculated during that month by pro-rating the billing information available to date as held on the system or systems of that Party to the end of that month; |
| **“Security Notice”** | a notice issued under paragraph 4 or 13 of this Annex F; |
| **“Set-off”** | an arrangement whereby a Party may set-off any debt or sum owing to that Party under the Agreement against invoices which are due or become due under this Agreement for the duration of the period during which security is requested.  |

**General**

2.1 If a Due Date for payment falls on other than a Working Day, payment shall be due on the previous Working Day.

2.2 References to “sum(s) due” shall be deemed to exclude any sums which are the subject of an invoice dispute under paragraph 5.2.2 of Annex B.

**BT: Credit Management Activity**

3.1 Subject to the provisions of this Annex F and the BT SIA/SIPIA Credit Policy, BT shall be entitled to Credit Vet, apply a Credit Limit and to Profile Monitor and apply a Profile Monitoring Limit to the Operator under this Agreement if

3.1.1 the Operator entered into this Agreement with BT after 30 April 2004; or

3.1.2 the Operator has received two valid Security Notices from BT in respect of any 12 months’ period, and there has been a subsequent Credit Vet of the Operator which is Adverse.

3.2 Subject to the provisions of this Annex F, BT shall be entitled to apply a Profile Monitoring Limit to the Operator under this Agreement if the Operator has received two valid Payment Period Notices in respect of any 6 months’ period. A Security Notice issued under paragraph 4.1, shall also be deemed a Payment Period Notice for the purposes of this paragraph 3.

3.3 Pursuant to paragraphs 3.1 and 3.2, in respect of the same calendar month BT may issue, as appropriate, either a single Payment Period Notice or a single Security Notice, but not both.

3.4 BT’s entitlement to continue to apply credit management action under paragraphs 3.1 and 3.2 shall continue until payment of sums due not later than 7 calendar days after the Due Date (as defined in Annex D, or as described in this Annex F for the purposes of this Annex F) for 12 consecutive calendar months (other than a sum or sums due in any such month which sums do not exceed 25% of the relevant Operator Calendar Month Invoice Sum(s) for such months).

3.5 The Operator may supply audited financial information and/or other data, and/or Credit Vet reports from one of the external agencies listed in the BT SIA/SIPIA Credit Policy (or another equivalent external agency), in connection with any BT Credit Vet or appeal by the Operator under this Annex, and BT shall consider such information in good faith.

3.6 In the event of inconsistency between this Annex F and the BT SIA/SIPIA Credit Policy, the provisions of this Annex F shall have precedence.

**BT: Security Notices**

4.1 Without prejudice to any other rights or remedies available to BT under this Agreement, if in respect of any calendar month a sum or sums due payable by the Operator which sums exceed 25% of the respective Operator Calendar Month Invoice Sum(s) remain(s) outstanding on a date 15 calendar days after the relevant Due Date(s), BT may serve a Security Notice to the Operator not later than 90 calendar days from the end of the calendar month for the relevant Calendar Month Invoice Sum.

4.2 The Operator may appeal against the issue by BT of a Security Notice in accordance with paragraph 22.

**BT: Payment Period Notices**

5.1 If in respect of any calendar month the Operator fails to pay a sum or sums due payable by the Operator, which sum(s) is/are not in dispute, exceed 25% of the respective undisputed Calendar Month Invoice Sum, and which sum is outstanding more than 7 calendar days after the relevant Due Date(s), but is not outstanding on a date 15 calendar days after such Due Date(s), BT may serve a written Payment Period Notice to the Operator at any time but not later than 30 calendar days from the payment of such sums.

5.2 The Operator may appeal against the issue by BT of a Payment Period Notice in accordance with paragraph 22.

**BT: Credit Limit**

6.1 Under paragraph 3.1.1 or 3.1.2 BT shall set a Credit Limit for the Operator (under paragraph 3.1.2 subject to the Credit Vet being Adverse), and shall notify the Operator in writing of such Credit Limit and the level of security required for payment of monies arising under this Agreement, and the security type preferred by BT in accordance with the BT SIA/SIPIA Credit Policy (Credit Limit Notice). Such notification shall include a summary of the Credit Vet information used in setting such Credit Limit, including:

* 1. source(s) of the external Credit Vet information;
	2. recommendation within such sources;
	3. summary of any BT internal Credit Vet report

6.2 The Credit Limit pursuant to paragraph 3.1.1 shall be set in accordance with the BT SIA/SIPIA Credit Policy.

6.3 The Credit Limit pursuant to paragraph 3.1.1 or 3.1.2 shall be set and notified by BT at a reasonable sum proportionate to the business credit risk under this Agreement with the Operator.

6.4 The Operator may appeal the Credit Vet, the Credit Limit, or in the case of paragraph 3.1.2 whether the Credit Vet is Adverse in accordance with paragraph 22.

 6.5 Either Party shall have the right to require a further Credit Vet after not less than three months’ application of such Credit Limit, to ascertain whether the Credit Limit should be varied or removed. Immediately following such Credit Vet, BT shall adjust the Credit Limit and Profile Monitoring Limit (if appropriate) and the Parties shall increase or decrease the sums held by BT as security and as Profile Security (as appropriate).

**BT: Profile Monitoring Limit.**

7.1 Pursuant to paragraph 3.1 or 3.2, BT may set the initial Profile Monitoring Limit in accordance with the BT SIA/SIPIA Credit Policy.

7.2 Any Profile Monitoring Limit pursuant to paragraph 7.1 shall be set by BT at a reasonable sum proportionate to the business credit risk under this Agreement with BT.

**BT: Security**

8.1 Following the notification of a Credit Limit under the Agreement, the Parties shall use reasonable endeavours to agree the provision by the Operator of appropriate security for payment of monies under this Agreement, or to implement an advance payment scheme in accordance with the BT SIA/SIPIA Credit Policy. The amount for security pursuant to paragraph 3.1.2 (other than during the initial twelve month period of Call conveyance under this Agreement) shall be calculated by BT in accordance with the BT SIA/SIPIA Credit Policy. The maximum amount for security pursuant to paragraph 3.1.2 (other than during the initial twelve month period of conveyance of traffic under this Agreement) calculated by BT shall not exceed a sum equivalent to the previous 3 months’ total invoicing by BT to the Operator under this Agreement.

8.2 Pursuant to paragraph 8.1 BT shall consider in good faith any of the following security types proposed by the Operator, and BT’s agreement shall not be unreasonably withheld:

8.2.1 a deposit

8.2.2 a bank guarantee

8.2.3 a standby letter of credit

8.2.4 a parent company guarantee

8.2.5 a Set-off arrangement

8.2.6 a combination of the above

or such other financial security as may be agreed between the Parties in writing.

8.3. In respect of security required by BT pursuant to:

8.3.1 paragraph 3.1.1, no traffic shall be allowed to flow until appropriate security has been supplied to BT’s reasonable satisfaction;

8.3.2 paragraph 3.1.2, BT shall be entitled to refuse or suspend orders, or restrict traffic which would cause business in excess of the Credit Limit until appropriate security has been supplied to BT’s reasonable satisfaction.

8.4. BT shall continue to hold such security until payment by the Operator of sums due under the Agreement not later than 7 calendar days after the Due Date (as defined in Annex D, or as described in this Annex F for the purposes of this Annex F) for 12 subsequent consecutive calendar months (other than a sum or sums due in any such month which sums do not exceed 25% of the relevant Operator Calendar Month Invoice Sum(s) for such months).

8.5 If the Operator supplies a deposit to BT under this Annex F, BT shall pay interest on such deposit in accordance with the BT SIA/SIPIA Credit Policy at the Deposit Interest Rate for:

8.5.1 the initial three month period (being the three month period commencing on the (banking) day when the deposit was received) if the total interest calculated at the Deposit Interest Rate for such three month period exceeds £1,000, and the Operator raises an invoice for the interest which invoice applies the appropriate VAT

8.5.2 the period after the initial three month period referred to in paragraph 8.5.1

**BT: Profile Monitoring**

9.1 If a Profile Monitoring Limit has been set by BT, the actual level of traffic invoiceable by BT in a month will be monitored against the Profile Monitoring Limit for that month.

9.2 If a Profile Monitoring Limit is exceeded (or if BT reasonably considers that it is likely to be exceeded) in any month, BT may require Profile Security from the Operator in accordance with the BT SIA/SIPIA Credit Policy.

9.3 In respect of Profile Security required by BT pursuant to paragraph 3.1.2 or 3.2, BT shall be entitled to refuse or suspend orders, or restrict traffic which would cause business in excess of the Profile Monitoring Limit until appropriate Profile Security has been supplied to BT’s reasonable satisfaction.

**BT: Application/Restoration of Security or Profile Security**

10. If the Operator fails to pay under this Agreement any overdue amounts that are not in dispute six calendar days after the Due Date, BT shall be entitled to apply any security or Profile Security held by BT under this Agreement against such non-payment, and the Operator shall supply security to restore the value of such security or Profile Security holding by BT within five Working Days of written notice from BT to do so.

10.1 If payment is received by BT after such security or Profile Security has been so applied against non-payment under paragraph 10, BT shall either apply such payment to restore the value of such security or Profile Security, or shall issue a credit note in respect of such payment, as appropriate.

11. If the Operator fails to so restore the value of the security and Profile Security, BT shall be entitled to apply the provisions of paragraph 8.3 or 9.3 as if such paragraphs apply in respect of the value of the security or the Profile Security under paragraphs 10 and 11.

**Operator: Credit Management Activity**

12.1 Subject to the provisions of this Annex F the Operator shall be entitled to Credit Vet, apply a Credit Limit and to Profile Monitor and apply a Profile Monitoring Limit to BT under this Agreement if BT has received two valid Security Notices from the Operator in respect of any 12 months’ period, and there has been a subsequent Credit Vet of BT which is Adverse.

12.2 Subject to the provisions of this Annex F, the Operator shall be entitled to apply a Profile Monitoring Limit to BT under this Agreement if BT has received two valid Payment Period Notices in respect of any 6 months’ period. A Security Notice issued under paragraph 12.1, shall also be deemed a Payment Period Notice for the purposes of this paragraph 1.

12.3 Pursuant to paragraphs 12.1 and 12.2, in respect of the same calendar month the Operator may issue, as appropriate, either a single Payment Period Notice or a single Security Notice, but not both.

12.4 The Operator’s entitlement to continue to apply credit management action under paragraphs 12.1 and 12.2 shall continue until payment of sums due not later than 7 calendar days after the Due Date (as defined in Annex D, or as described in this Annex F for the purposes of this Annex F) for 12 consecutive calendar months (other than a sum or sums due in any such month which sums do not exceed 25% of the relevant BT Calendar Month Invoice Sum(s) for such months).

12.5 BT may supply audited financial information and/or other data, and/or credit vet reports from one of the external agencies listed in the BT SIA/SIPIA Credit Policy (or another equivalent external agency), in connection with any Operator Credit Vet or appeal by BT under this Annex, and the Operator shall consider such information in good faith.

**Operator: Security Notices**

13.1 Without prejudice to any other rights or remedies available to the Operator under this Agreement, if in respect of any calendar month a sum or sums due payable by BT which sums exceed 25% of the respective BT Calendar Month Invoice Sum(s) remain(s) outstanding on a date 15 calendar days after the relevant Due Date(s), the Operator may serve a Security Notice to BT not later than 90 calendar days from the end of the calendar month for the relevant Calendar Month Invoice Sum.

13.2 BT may appeal against the issue by the Operator of a Security Notice in accordance with paragraph 22.

**Operator: Payment Period Notices**

14.1 If in respect of any calendar month BT fails to pay a sum or sums due payable by BT, which sum(s) exceed 25% of the respective Calendar Month Invoice Sum, and which sum(s) is outstanding more than 7 calendar days after the relevant Due Date(s), but is not outstanding on a date 15 calendar days after such Due Date(s), the Operator may serve a written Payment Period Notice to BT at any time but not later than 30 calendar days from the payment of such sums.

14.2 BT may appeal against the issue by the Operator of a Payment Period Notice in accordance with paragraph 22.

**Operator: Credit Limit**

15.1 Under paragraph 12.1 the Operator shall set a Credit Limit for BT, and subject to the Credit Vet being Adverse shall notify BT in writing of such Credit Limit and the level of security required for payment of monies arising under this Agreement. Such notification shall include a summary of the Credit Vet information used in setting such Credit Limit, including:

* 1. source(s) of the external Credit Vet information;

(b) recommendation within such sources;

(c) summary of the Operator internal Credit Vet report

15.2 The Credit Limit pursuant to paragraph 12.1 shall be set and notified by the Operator at a reasonable sum proportionate to the business credit risk under this Agreement with BT.

15.3 BT may appeal the Credit Vet, the Credit Limit, or whether the Credit Vet is Adverse in accordance with paragraph 22.

15.4 Either Party shall have the right to require a further Credit Vet after not less than three months’ application of such Credit Limit, to ascertain whether the Credit Limit should be varied or removed. Immediately following such Credit Vet, the Operator shall adjust the Credit Limit and Profile Monitoring Limit (if appropriate) and the Parties shall increase or decrease the sums held by the Operator as security and as Profile Security (as appropriate).

**Operator: Profile Monitoring Limit**

16.1 Pursuant to paragraph 12.1 or 12.2, the initial Profile Monitoring Limit shall be the lesser of

16.1.1 the Credit Limit set under paragraph 15, or

16.1.2 if the Profile Monitoring Limit is set as a result of two late payment Notices under this Annex F and BT is not subject to an existing Credit Limit, the arithmetic average of the last three months’ Calendar Month Invoice Sum(s) for BT.

16.2 The Profile Monitoring Limit will be increased monthly at the rate of 10%.

16.3 If BT receives any Payment Period Notice or any Security Notice during the term of Profile Monitoring a new Profile Monitoring Limit shall be calculated in accordance with paragraph 16.1.

16.4 The Profile Monitoring Limit pursuant to paragraph 16.1 shall be set and notified by the Operator at a reasonable sum proportionate to the business credit risk under this Agreement with the Operator.

**Operator: Security**

17.1 Following the notification of a Credit Limit under the Agreement, the Parties shall use reasonable endeavours to agree the provision by BT of a deposit and/or a Set-off arrangement, or such other financial security as may be agreed between the Parties in writing, as security for payment of monies under this Agreement, or to implement an advance payment scheme in accordance with paragraph 18. The maximum amount for security under this paragraph 17 calculated by the Operator shall not exceed a sum equivalent to the previous 3 months’ total invoicing by the Operator to BT under this Agreement.

17.2 The Operator shall be entitled to refuse or suspend orders, or restrict traffic which would cause business in excess of the Credit Limit until appropriate security has been supplied to the Operator’s reasonable satisfaction.

17.3. The Operator shall continue to hold such security until payment by BT of sums due under the Agreement not later than 7 calendar days after the Due Date (as defined in Annex D, or as described in this Annex F for the purposes of this Annex F) for 12 consecutive calendar months (other than a sum or sums due in any such month which sums do not exceed 25% of the relevant BT Calendar Month Invoice Sum(s) for such months).

17.4 If BT supplies a deposit to the Operator under this Annex F, the Operator shall pay interest on such deposit at the Deposit Interest Rate for:

17.4.1 the initial three month period (being the three month period commencing on the (banking) day when the deposit was received) if the total interest calculated at the Deposit Interest Rate for such three month period exceeds £1,000, and BT raises an invoice for the interest which invoice applies the appropriate VAT

17.4.2 the period after the initial three month period referred to in paragraph 17 .4.1.

**Operator: Advance Payment Option**

18.1 If the Operator and BT agree the introduction of an advance payment regime pursuant to paragraph 17, for Operator services invoiced:

18.1.1 in advance, such services shall continue to be invoiced by the Operator and payable by BT in accordance with the standard terms in this Agreement;

18.1.2 in arrears, the Operator shall notify BT in writing not later than the 15th calendar day of each month of the Operator’s reasonable estimate of the monies (being monies estimated by the Operator for payment for services to be supplied under this Agreement by the Operator to BT) for the following month, and BT shall pay to the Operator not less than 50% of that estimate before the 1st and 15th calendar days of the next following month (for the purposes of this paragraph 18.1.2, the “Due Date”) in advance of invoice. Such payment regime shall continue until all sums due have been paid by the Due Date (as described in this paragraph 18.1.2) for 12 subsequent consecutive calendar months (unless the Operator and BT shall agree to replace this advance payment regime with security pursuant to paragraph 17).

18.2 For the avoidance of doubt if the actual use of the services differs from the estimated use (used by the Operator for the calculation of the estimate) and as a consequence the actual amount subsequently invoiced by the Operator against the estimates paid by BT under paragraph 18.1.2:

(a) exceeds; or

(b) is less than

such estimates then in the case of (a) above, BT shall, not later than 7 Working Days after the relevant invoice date pay the difference to the Operator; and in the case of (b) above the Operator shall allow such over-payment against the next estimate (if any) payable by BT or the next invoice (as appropriate) payable by BT. For the avoidance of doubt, and without prejudice to the application of the Ofcom Interest Rate or Default Interest Rate as applicable in accordance with this Agreement, no Ofcom Interest Rate or Default Interest Rate shall be payable in respect of any payment or credit adjustment made solely in accordance with this paragraph 18.2.

18.3 If this option is used for Profile Security the Operator shall notify BT in writing as soon as reasonably practicable the Operator’s reasonable estimate of the monies (being monies estimated by the Operator for payment for services to be supplied under this Agreement by the Operator to BT) for the following month, and BT shall pay to the Operator the initial sum within 5 Working Days of notification. For the avoidance of doubt, subsequent estimates and payments shall follow the timescales specified in paragraph 18.1

**Operator: Profile Monitoring**

19.1 If a Profile Monitoring Limit has been set by the Operator, the actual level of traffic invoiceable by the Operator in a month will be monitored against the Profile Monitoring Limit for that month.

19.2 If a Profile Monitoring Limit is exceeded (or if the Operator reasonably considers that it is likely to be exceeded) in any month, the Operator may require Profile Security from BT.

19.3 In respect of Profile Security required by the Operator, the Operator shall be entitled to refuse or suspend orders, or restrict traffic which would cause business in excess of the Profile Monitoring Limit until appropriate Profile Security has been supplied to the Operator’s reasonable satisfaction.

**Operator: Application/Restoration of Security or Profile Security**

20. If BT fails to pay under this Agreement any overdue amounts that are not in dispute six calendar days after the Due Date, the Operator shall be entitled to apply any security or Profile Security held by the Operator under this Agreement against such non-payment, and BT shall supply security to restore the value of such security or Profile Security holding by the Operator within five Working Days of written notice from the Operator to do so.

21. If the BT fails to so restore the value of the security and Profile Security, the Operator shall be entitled to apply the provisions of paragraph 17.2 or 19.3 as if such paragraphs apply in respect of the value of the security or the Profile Security under paragraphs 20 and 21.

**Appeals Process**

22. If a Party disputes a Security Notice, a Payment Period Notice, a Credit Vet, whether a Credit Vet is Adverse, a Credit Limit or the amount or type of the related security, a Profile Monitoring Limit or the amount of the Profile Security, such Party shall notify the other Party of an appeal in writing, the other Party shall acknowledge receipt of such appeal, and shall respond to such appeal in accordance with the procedures and time periods set out in the BT SIA/SIPIA Credit Policy.

23. If BT and the Operator are unable to agree a dispute as a result of such appeal, either Party may invoke the provisions of paragraph 24.

**External Disputes Process**

24. Further to paragraph 23 for any unresolved dispute either Party:

24.1 may request in writing the other Party to agree to participate in the mediation procedure, and/or

24.2 may require in writing the other Party to participate in the adjudication procedure

of The Chartered Institute of Arbitrators under the BT SIA/SIPIA Credit Mediation/Adjudication Procedures which apply from time to time.