Release Prior to Payment (RPP) at CARM Release 2- Transition Plan

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Introduction

The Canada Border Services Agency (CBSA) recently shared proposed regulations in the *Canada Gazette Part 1* to support the CBSA Assessment and Revenue Management (CARM) Release 2 implementation. The proposed regulatory package will introduce new regulations to allow for a Release Prior to Payment (RPP) transition period to help importers shift to the importer financial security model, where they must post financial security for their own accounts to realize the benefits of RPP program (i.e. Customs Brokers will no longer be allowed to post financial security to secure debt to the Crown on behalf of importers.)

The intent of the RPP transition period is to allow time for importers, and their service providers, to adapt to this model, while ensuring that border disruptions are mitigated. Commercial importers will still be able to obtain release prior to payment of duties and taxes during the transition period as they proceed to meet the requirement for the of financial security.

In order to qualify for the transition period, **an importer will be required to onboard to the CARM client portal before the go live date of CARM Release 2.** The transition period will last for 6 months (180 calendar days) beginning on the go live date, scheduled for October 2023 – *exact date to be announced*.

Frequently Asked Questions

Can an importer enrol in RPP through the CARM Client Portal prior to Release 2?

Up until Release 2, there is no ability to enrol in the Release Prior to Payment (RPP) program or review an importer's financial security status via the CARM Client Portal. It is as of CARM Release 2 that importers who wish to obtain RPP privileges will be able to post their own financial security in order to participate in RPP.

If an importer wishes to enrol in Release Prior to Payment (RPP) prior to the R2 go-live date, under the Importer Direct Security option, they may do so via the existing manual processes. A cut-off date for accepting new applications will be communicated at a later date.

What options are available at Release 2 to post a financial security?

At Release 2, importers will be able to meet their financial security requirements by posting a financial security agreement or a cash security deposit. Other forms of financial security (beyond Cash Security and Financial Security Agreement) that are currently in use may still be available at Release 2.

How will an importer post an electronic financial security agreement?

Financial Security Agreements are financial security instruments which importers obtain from an approved guarantor provider (surety companies and/or financial institutions). The process for posting financial security agreements is enabled by an API connection where the financial security provider

transmits the bond information to CBSA on behalf of the importer, or by the importer entering their financial security information on the CARM Client Portal (CCP). If the importer posts the bond directly on the CCP, the CARM solution pushes the information entered by the importer to the financial security provider for validation via the CCP.

When choosing a Financial Security Agreement

There are multiple types of financial security agreements that can be issued by different guarantor providers. The CBSA will be providing additional guidance on all entities that will be approved to issue financial security agreements for the purpose of securing debt for the RPP program.

The formula for calculating the amount of financial security agreement is as follows:

- Equal to or greater than 50% of the importer's highest monthly accounts receivable (inclusive of duties and taxes) within the last 12-months of historical payments to the CBSA at the time of enrollment.
- A minimum amount of $25 K is required per importer program account. An importer may choose to post the minimum amount however they must keep their accounts within their security limits by making interim payments or increasing the amount of security posted.
- The maximum amount of security will be capped at $10 million for each RM importer program account number.

An importer may choose to obtain a single bond for multiple importer program accounts associated to a business (BN9) however they will need to identify the security breakdown for each importer RM number, while meeting the minimum threshold of $25,000.

How will cash security work?

Cash securities are submitted directly into CARM by the importer through a cash request and payment via the CARM Client Portal. Cash securities work by creating a cash bond 'shell' for the amount of financial security the importer wants to lock, and then allocating a payment toward the cash bond to activate it. Payments can be directly submitted to the CARM Client Portal, or using an accepted form of payment in accordance with the Memorandum D17-5-1, where the credit would appear on the CARM Client Portal account for the importer to allocate to the "shell" to activate their security.

Importers can start posting cash security from day 1 of CARM R2. They can submit the cash security at any time during the 180 days, but they must post it before the end of the 180 days period to avoid incompliance *post* the transition period.

The formula for calculating the amount of the cash deposit that is required is as follows:

- Equal to or greater than 100% of the importer's highest monthly accounts receivable (inclusive of duties and taxes) within the prescribed period.
- There is no minimum amount requirement when posting a cash deposit.
- An importer may choose to make a single cash deposit for multiple importer program accounts. associated to a business (BN9) however they will need to identify the security breakdown for each importer program.

How will the CBSA convert Legacy Security programs (Importer Direct Program)?

Existing Financial Security Agreements (*custom bonds*) will be automatically transferred to CARM. When the amount is not enough to meet the new CARM R2 requirement, the importers will have the option to post additional security. They would receive system nudges when their due balance is equal or higher than 75% of the total expected security coverage.

Do importers have to enrol in RPP during the transition period?

At CARM R2 Go-live, CBSA will automatically enrol existing importers that have already registered in the CARM Client Portal (CCP). Importers will not be required to enroll at this time, they only need to post their required financial security prior to the end of the 180 day transition period.

Importers not registered in the CCP at R2 Go-live will be required to enroll in RPP through the CARM portal and provide their financial security at time of enrollment.

What happens if an importer fails to post financial security before the end of the transition period?

Importers will be required to post security prior to the end of the 180 day transition period. If security is not provided within the 180 days, the TCP will be removed from the RPP program (at day 181).

Will CARM calculate the financial security requirement?

The CARM system will automatically calculate the financial security requirement an importer must post, based on the last 12-months of historical payments to the CBSA at the time of enrollment. An importer that posts the system calculated amount will be automatically accepted. However, if the importer submits a bond amount that is lower then what is recommended by the system, a case would be generated for officer review. It would be at that time that the importer would provide clarification for the posting of a lower amount (i.e. lower account receivable expected going forward). Upon officer approval, the amount would be accepted, and system monitoring would begin.

In the CARM Client Portal, the importer will land automatically on their Financial Security Dashboard. They will then know the amount of security they have to post by looking at the Security Requirement field.

Can an importer use a one-time financial security agreement?

Yes. Financial Security Agreements can be continuous or for a set duration. Continuous agreements do not expire; however, they are monitored to validate they sufficiently cover the security required.

Financial Security Agreements for a specific duration are only considered active for the timeframe for which they are underwritten and are considered inactive after the end date of the agreement.

How will Financial Security be monitored, and when will the nudging begin?

The CARM Solution uses a nudging framework to encourage real-time compliance of financial security requirements. The nudging framework is used for RPP importers only. When an RPP importer's financial security utilization is approaching (e.g. >75%) or over capacity (e.g. >100%), the CARM Solution will nudge the importer to either increase the financial security posted or post payment to reduce the account balance. If the importer remains non-compliant, CBSA may undertake compliance activities, which may result in a suspension or revocation from the RPP program.

If an importer registers in the CARM Client portal after R2 implementation *during* the 180-day transition period, will that importer be eligible for the remaining balance of the transition period?

No, a new importer during the transition period will have to comply with the CARM R2 requirements from day 1 of Release 2. If the importer wishes to benefit from RPP after registering in the CARM Client Portal, they will have to enroll in the program and post the type of financial security selected (i.e. cash deposit of financial security agreement).

Will the RPP review period change (July – June; letters out in October)? If so, how will it work and when will the change/first review period take effect?

The RPP annual review period will remain the same as it is today. However, it will be run automatically by the CARM solution on October 15th of each year. CARM will perform a recalculation of the financial security requirement based on the last 12-months of historical accounts receivable. If applicable, the importer will receive a notification to update their financial security amount.

How will an importer be able to view their financial security in the CARM Client Portal?

The *Financial Security Dashboard* will allow importers to view and manage their program security requirements. The *Financial Security Dashboard* provides an overview of the importers total security required and current security coverage. The dashboard lists financial security by program (RM).

The RPP utilization compares the real-time account balance against the security posted for importation activities.