



# An Introduction to Obtaining Release Prior to Payment (RPP) Bonds



*January 19, 2022*

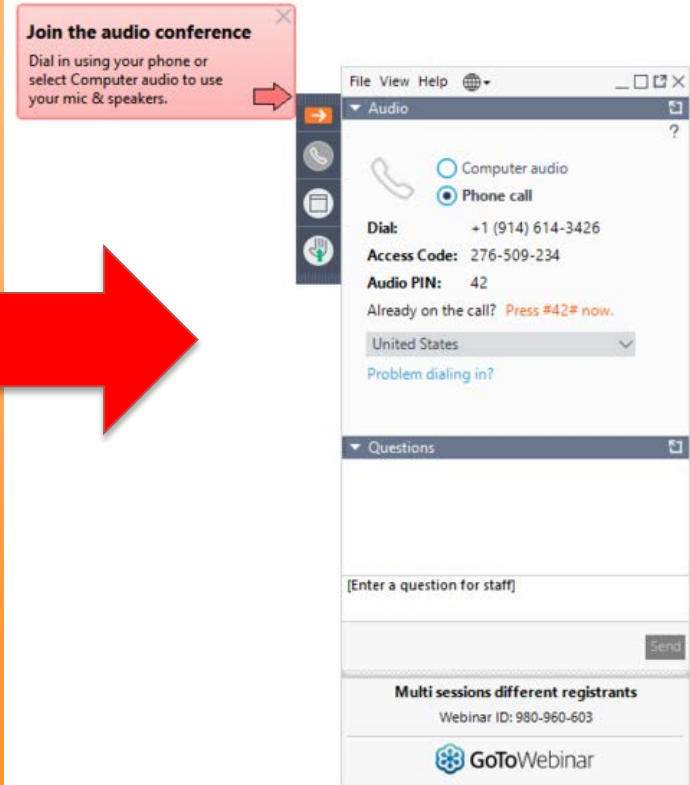
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**Sharon Clark-Koufis**  
**Director of Operations,**  
**Membership & Stakeholder Services**  
**Surety Association of Canada**  
*Moderator*

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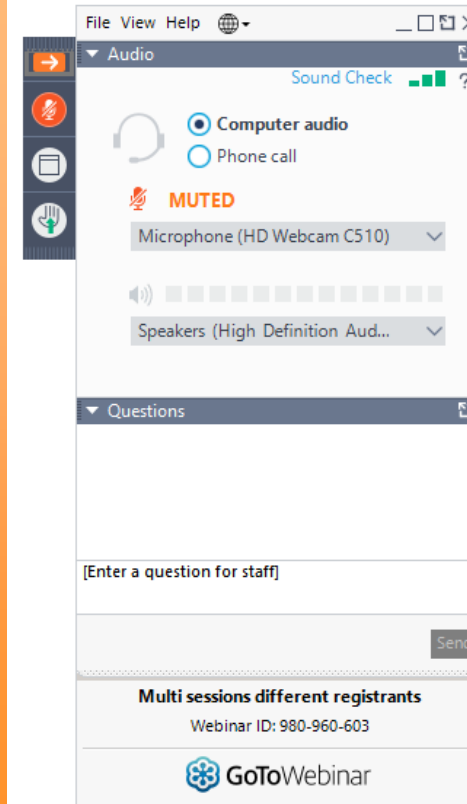


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# Greetings from SAC President



**Steve Ness**  
**President**  
**Surety Association of Canada**

# Webinar Presenter



**Dick Longland**  
VP Commercial & Developer Surety



# CARM

## CBSA Accounts Revenue and Management

- “**CARM**” is the acronym used by the CBSA (Canada Border Services Agency) for their multi-year initiative to modernize and streamline the process of importing commercial goods into Canada.
- CARM will transform the way release prior to payment (RPP) security is provided.
- This presentation is based on the information made available to date by the CBSA about RPP security; this information may change as the CARM initiative evolves.

# Today's RPP Security Requirements

- CBSA's release prior to payment (RPP) privilege enables importers and licensed customs brokers who have posted financial security to:
  - obtain the release of goods from the CBSA before paying duties and taxes
  - defer accounting for goods
  - defer payment of duties and taxes
- Currently, RPP security for importers may be provided by:
  - the importer
  - the importer's customs broker (who assumes the risk of non-payment by the importer under its RPP bond)

# Today's RPP Security Options

- The security provided by each importer and customs broker may be in the following forms:
  - cash
  - certified cheque
  - money order
  - transferrable bond issued by the Government of Canada
  - RPP surety bond



# CBSA's New RPP Security Requirements

- CBSA's changes to RPP security affect:
  1. Who provides RPP security
  2. The type of RPP security importers can provide
  3. The amount of RPP security
  4. How the RPP security will be delivered to the CBSA



# Who Provides RPP Security

	Current State	Future State
<b>Customs Brokers Provide Security for Amounts Owed by Importers</b>	~95%	~0%
<b>Importers Provide Their Own Security</b>	~5%	~100%

# Accepted Types of RPP Security

	Current State	Future State
Cash	✓	✓
Certified Cheque	✓	✗
Money Order	✓	✗
Transferrable Government of Canada Bond	✓	✗
RPP Surety Bond	✓	✓

# What RPP Security Guarantees

	Current State	Future State
<b>D120 Bond Form / Customs Act</b>	<ul style="list-style-type: none"><li>• Duties</li><li>• Taxes</li><li>• GST</li><li>• Penalties</li><li>• Interest</li><li>• Redeterminations</li><li>• SIMA duties (anti-dumping and countervailing duties)</li></ul>	<ul style="list-style-type: none"><li>• Duties</li><li>• Taxes</li><li>• GST</li><li>• Penalties</li><li>• Interest</li><li>• Redeterminations</li><li>• SIMA duties (anti-dumping and countervailing duties)</li></ul>

**Note:** *The Surety industry does not expect the CBSA to expand the coverage provided by RPP security. The CBSA is expected to announce the changes, if any, to the scope of coverage provided by RPP security prior to the implementation of the new RPP security.*

# RPP Security Formula

	Current State	Future State
<b>RPP Bond: Resident Importers</b>	100% of average monthly duties and taxes (excluding GST) over prior 12 months	50% of highest month of duties and taxes (including GST) over prior 12 months
<b>RPP Bond: Non-Resident Importers</b>	100% of average monthly duties and taxes (including GST) over prior 12 months	50% of highest month of duties and taxes (including GST) over prior 12 months
<b>Cash: Resident &amp; Non-Resident Importers</b>	Same formula as for RPP bonds	100% of highest month of duties and taxes (including GST) over prior 12 months
<b>Adjustment Period to Security Amount:</b>	<ul style="list-style-type: none"><li>• Security evaluation period is July 25 to July 24 of the following year</li><li>• Security adjustment to be filed by October 15</li><li>• Importers without 12 months of history are allowed to estimate the security amount</li></ul>	<ul style="list-style-type: none"><li>• Security evaluation period is July 25 to July 24 of the following year</li><li>• Security adjustment to be filed by October 15</li><li>• Importers without 12 months of history are allowed to estimate the security amount</li></ul>

# RPP Security Amount: Maximum/Minimum

	Current State	Future State
<b>Maximum RPP Bond Amount:</b>	\$10,000,000	\$10,000,000
<b>Minimum RPP Bond Amount:</b>	\$5,000	\$25,000
<b>Maximum Cash Amount:</b>	\$10,000,000	\$10,000,000
<b>Minimum Cash Amount:</b>	\$5,000	No minimum amount
<i>Note: The formulas and the above minimum amounts indicate the minimum amount of RPP security required by the CBSA. The CBSA does not restrict any importer from providing additional security in excess of these amounts.</i>		

# Form & Delivery of RPP Bond

	Current State	Future State
<b>Bond Form</b>	D120 Bond Form	To be confirmed by the CBSA
<b>Bond Delivery</b>	Hard (paper) bond signed, sealed and delivered to the CBSA	To be confirmed by the CBSA; ultimately RPP bonds are expected to be electronically delivered to the CBSA by each Surety

# RPP Security Timeline

## R2 = Release 2

- Release 2 is the date on which the CBSA plans to implement enhanced functionality to its CARM Client Portal
- Release 2 is the date on which all importers must provide their RPP security to the CBSA using the new formula
- Release 2 is currently scheduled for Spring 2022

# What is a Surety Bond?

- A surety bond is a form of credit that is used to secure the obligations of one person to another under a statute or a contract. The bond responds in the event the person fails to perform their contractual or statutory obligations.
- A surety bond is a credit instrument. It is not an insurance policy.
- Surety bonds are underwritten like other types of credit. The Surety evaluates the creditworthiness of the applicant and decides whether to issue the surety bond to the applicant. The Surety typically obtains an indemnity from the applicant by which the applicant agrees to repay the Surety in the event a claim is made against the surety bond. The Surety charges a fee, called a premium, for issuing the surety bond to the applicant.

# What is an RPP Bond?

- An RPP bond is a type of surety bond.
- An RPP bond guarantees payment of the importer's duties, taxes and other amounts owed to the CBSA for goods it imports into Canada.
- In the event the importer fails to pay the amount due, the CBSA will ultimately make a claim under the importer's RPP bond for payment of the overdue duties and taxes.
- The Surety will then request the importer to reimburse (indemnify) the Surety for its loss under the RPP bond.

# Why Use an RPP Bond?

- Importers must provide either cash or an RPP bond to the CBSA to guarantee payment of the duties and taxes applicable to their imports.
- An RPP bond is a user-friendly and cost-effective form of security:
  - Sureties typically do not require collateral security to issue an RPP bond, just an indemnity from the importer.
  - An RPP bond does not tie up the importer's cash.
  - The annual cost of the RPP bond is modest, typically less than other forms of credit, such as a letter of credit.

# How to Obtain an RPP Bond?

- There are 2 ways an importer can obtain an RPP bond:
  1. Contact your company's licensed insurance broker, who can provide you with an RPP bond from an authorized Surety; or
  2. Contact your Canadian customs broker, who can help you arrange an RPP bond from an authorized Surety and licensed insurance broker.

# Information Required For RPP Bond?

- To obtain an RPP bond the Surety may require:
  - Application completed by the importer
  - Indemnity agreement (*importer to reimburse the Surety for bond claim*)
  - Importer's financial statement
- Obtaining the minimum RPP bond may require less information.

# Cost of an RPP Bond?

- Every Surety charges a premium for an RPP bond. Each Surety decides what premium to charge for the RPP bond. The cost of an RPP bond can vary from Surety to Surety.
- The cost of the bond is calculated by multiplying the bond amount by a percentage, subject to a minimum premium.
- Generally, a \$25,000 RPP bond will cost \$300 to \$500 annually which is the minimum premium Sureties are likely to charge for RPP bonds.
- For RPP bonds in excess of the minimum premium, the cost is typically 0.4% to 1.0% of the bond amount. For example, a \$100,000 RPP bond will likely cost between \$400 and \$1,000 annually.
- As the RPP bond amount increases or decreases, so does the premium.

# Is Cash Security More Expensive?

- Each importer will need to decide what type of security to provide to the CBSA – cash or an RPP bond.
- The cost of security will be one of the factors in each importer's decision.
- When considering the cost of cash security, importers need to include:
  - Borrowing cost
  - Business impact cost

# Cost of Cash Security: Example 1

- Assume importer is required to provide \$10,000 of RPP security to the CBSA:
  - Cash Security: \$10,000
  - RPP Bond: \$25,000 (minimum bond amount)
- If the importer regularly borrows money from a financial institution, the cost of that money will probably be at least 3.45% (prime + 1%). For \$10,000 of cash security the cost would be \$345 annually.
- The cost of a \$25,000 RPP bond is expected to be in the range of \$300 to \$500, depending on the Surety.
- The importer also must consider the business impact of providing cash security to the CBSA. Cash is a scarce resource; most companies constantly look for ways to maximize their cash and access to cash. Giving \$10,000 of cash to the CBSA for security results in less cash available to the company to finance its operations or grow its business. This is the business impact and opportunity cost each importer must take into account.

# Cost of Cash Security: Example 2

- RPP bonds are clearly more cost effective to importers when the RPP security amount is \$10,000 or more.

Cash Security		RPP Bond	
Amount	Cost (@ 3.45%)	Amount	Cost* (@ 0.5%)
10,000	345	25,000	400
15,000	518	25,000	400
20,000	690	25,000	400
25,000	863	25,000	400
50,000	1,725	50,000	400
100,000	3,450	100,000	500
150,000	5,175	150,000	750

*\*Note: Chart assumes minimum RPP bond premium is \$400. The cost of an RPP bond is typically 0.4% to 1.0% of the bond amount. Administration fees may also apply. Price of an RPP bond is determined by each Surety and may vary from importer to importer.*

# What Happens to my Existing RPP Bond?

- Some importers have already provided an RPP bond to the CBSA. These bond amounts were determined by the current formula. The bond amounts will be required to change at or about the time of Release 2.
- The Surety industry is awaiting further clarification from the CBSA on how and when to make the changes to amounts of the existing RPP bonds.
- We expect the CBSA will require the Surety to issue an endorsement to the RPP bond increasing it or decreasing it to the amount required by the new security formula shortly before or at the time of Release 2.

# When to Provide RPP Security?

- All importers are required to provide RPP security no later than Release 2, currently scheduled for Spring 2022.
- Importers should provide their RPP bond as soon as possible, preferably now. This will avoid a last-minute rush by thousands of importers trying to arrange their RPP security when Release 2 is imminent.

# Key Decisions for Importers

- Each importer has 2 key decisions to make:
  1. Provide cash security to the CBSA or an RPP bond?
  2. Obtain an RPP bond from your company's licensed insurance broker or through your customs broker (via a licensed insurance broker and an authorized Surety)?

## CASH SECURITY VS. RPP BOND:

- How important is cash to your company? Is the best use of cash to provide it to a creditor (CBSA) or use it for another corporate purpose, such as paying down debt or investing in the growth of the business?
- Most companies do not have enough cash. Providing cash to creditors is usually seen as an unproductive use of cash; companies usually have much more important uses of cash than giving to their creditors as security.
- Each importer will have to decide how important their cash is, and whether they can justify providing cash to the CBSA.

# Preparing for RPP Security

- Obtain your business number from the CBSA and open one or more import-export RM accounts.
- Set up your CARM Client Portal user account.
  - Register to attend an upcoming CARM Client Portal Onboarding webinar, contact [CBSA.CARM\\_Engagement-Engagement\\_de\\_la\\_GCRA.ASFC@cbsa-asfc.gc.ca](mailto:CBSA.CARM_Engagement-Engagement_de_la_GCRA.ASFC@cbsa-asfc.gc.ca) for more details.
- Appoint an employee(s) as your business account manager and your program account manager.
- Speak with your customs broker for assistance with enrolling in the CARM Client Portal and with obtaining RPP security.
- Speak with your insurance broker for information about obtaining RPP bonds.

# Useful CBSA Links

- How to create login credentials and user account in the CARM Client Portal
  - <https://www.cbsa-asfc.gc.ca/multimedia/carm-gcra/portal-portail-r1-1-eng.html>
- How to set up a delegation of authority for employees in the CARM Client Portal
  - <https://www.cbsa-asfc.gc.ca/multimedia/carm-gcra/portal-portail-r1-3-eng.html>
- How to set up a delegation of authority for a third-party service provider in the CARM Client Portal
  - <https://www.cbsa-asfc.gc.ca/multimedia/carm-gcra/portal-portail-r1-4-eng.html>
- How to view financial information and transaction history in the CARM Client Portal
  - <https://www.cbsa-asfc.gc.ca/multimedia/carm-gcra/portal-portail-r1-13-eng.html>
- How the trade community can prepare for CARM
  - <https://www.cbsa-asfc.gc.ca/services/carm-gcra/prep-eng.html#s1-1>

# Summary of Key Points

## WHO PROVIDES SECURITY?

- Importers are to provide RPP security.

## TYPE OF SECURITY?

- RPP bond or cash.
- Consider the cost of cash when deciding which type of security to give to the CBSA.

## HOW MUCH SECURITY?

- New formula for RPP security becomes effective at Release 2.

## WHEN TO PROVIDE SECURITY?

- No later than Release 2 - Spring 2022. Do it now to ensure you comply at Release 2.

## HOW TO PROVIDE SECURITY?

- RPP bond: obtain it through your licensed insurance broker or your customs broker (via a licensed insurance broker and an authorized Surety).
- Cash: contact the CBSA or your customs broker for information on how and when to provide the cash security to the CBSA.





Phone: **(905) 677-1353**

Email: **surety@suretycanada.com**

or visit: **www.suretycanada.com**

**THANK YOU**