WHY ARE FINANCIAL STATEMENTS REQUIRED?

This document is provided on behalf of the surety for informational purposes only. Before a bond can be issued, the surety requires several items to underwrite the bond, including a signed Customs Bond Application and Indemnity, as well as financial statements. All items received for surety underwriting purposes are considered confidential.

HOW DOES A BOND WORK?

There are three parties in a Customs Bond contract — the obligee (U.S. Customs and Border Protection), principal (importer) and surety (insurance company). Customs Bonds are not insurance and do not protect or relieve an importer of any government obligations. A bond guarantees that the importer will comply with CBP regulations and pay duties, somewhat like a letter of credit. If the surety is forced to pay CBP because the importer defaults under the bond contract, the surety has the legal right to demand reimbursement from the importer.

WHY DO I NEED TO PROVIDE FINANCIAL STATEMENTS?

Because the surety provides a financial guarantee to CBP, they need to confirm the importer's financial strength and ability to

- Liquidated Damages are a monetary penalty issued to an importer when they violate CBP regulations. The penalty is limited to the bond amount, but the threat of Liquidated Damages is on the rise, especially with additional regulations for FDA imports and ISF transmissions.

- Increased Duty Bills can bankrupt an otherwise financially sound importer. Unlike Liquidated Damages, duty is not limited by the bond amount. In the case of anti-dumping and countervailing duties (AD/CVD), for example, the risk is enormous. The United States uses a retrospective AD/CVD system, which means duty can be collected years after entry. If the final duty rate is greater than the estimated rate, CBP will send the importer an Increased Duty Bill. In some cases, the final duty rate can be exponentially higher. In addition, the total duty owed by the importer can be doubled if they do not provide a reimbursement statement to CBP at the time of entry.

WHAT TYPES OF FINANCIAL STATEMENTS SHOULD BE PROVIDED?

Four items are required: an income statement, balance sheet, statement of cash flows and any accompanying accountant's notes. All statements should be provided in English for the last calendar year, and if possible, the latest completed quarter. The surety prefers to receive financial statements that have been reviewed or audited by a third-party. They can also accept "in-house" financial statements signed by a corporate officer of the importer or "personal" financial statements.

HOW ARE FINANCIAL STATEMENTS ANALYZED?

- Income Statement – Evaluates a bond principal's revenue streams, expenses, profit margins and overall profitability.
- Balance Sheet – Provides a snapshot of the bond principal's equity.
- Statement of Cash Flows – Useful in determining the short-term viability of the importer, particularly its ability to pay bills.
- Accountant's Notes – Demonstrates reliability of the statements.

The financial position of the importer is examined and an assessment is made regarding their ability to outlay funds and pay future duties, should a claim occur. Financial factors such as liquidity, profitability, positive cash flow and allowed net worth of the importer are reviewed. All of these metrics are then entered into a risk calculator. At the same time, the potential for and severity of claims are taken into consideration. Underwriters also use financial statements to determine if any collateral is required.

For more information, contact us at bondunderwriting@avalonrisk.com or 847-700-4735.