US 20080208723A1

(54) **SYSTEM AND METHOD FOR SETTLING TRADES IN A DIGITAL MERCHANT EXCHANGE**

(76) Inventor: **Jorn IVERSEN**, Toronto (CA)

Correspondence Address:
**SMART & BIGGAR**
**P.O. BOX 2999, STATION D**
**900-55 METCALFE STREET**
**OTTAWA, ON K1P5Y6 (CA)**

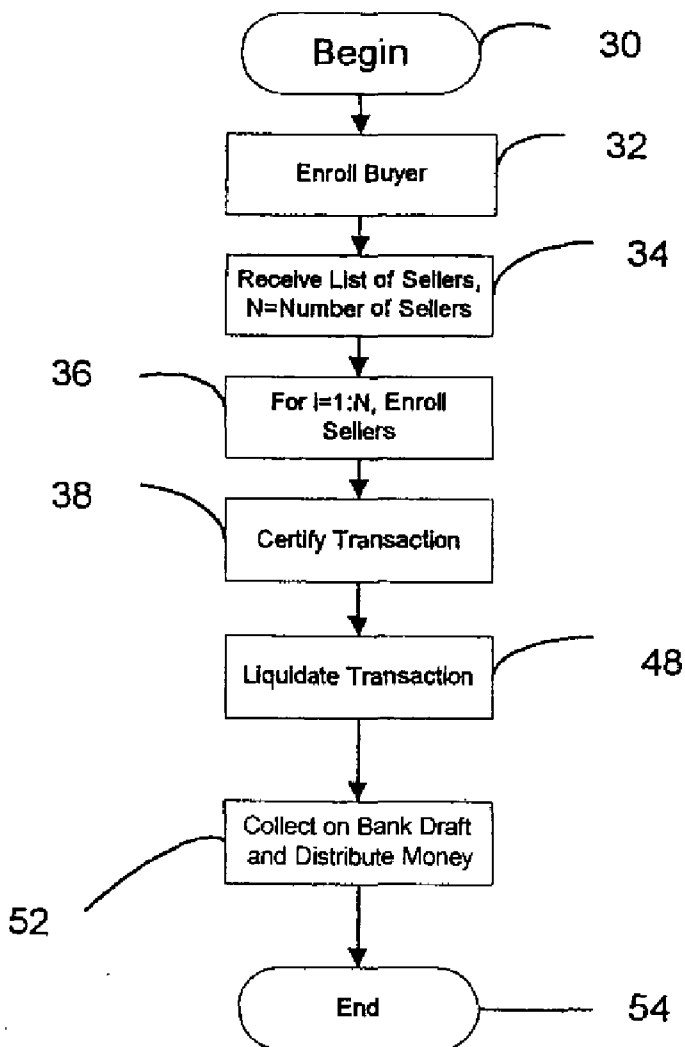**Publication Classification**

(57) **ABSTRACT**

A system and method for settling trades in a digital merchant exchange includes a buyer, a seller, a transaction agent, a network and a capital pool. The buyer and seller communicate through the network to agree on a contract. When the goods are received or the services are performed, the buyer issues a negotiable instrument that is received by the transaction agent. The transaction agent communicates with the buyer, seller, and capital pool through the network and facilitates the settlement of the trade. The system may call upon the capital pool to provide liquidity so that the system can issue payment to the seller at a time prior to the maturity date of the negotiable instrument.
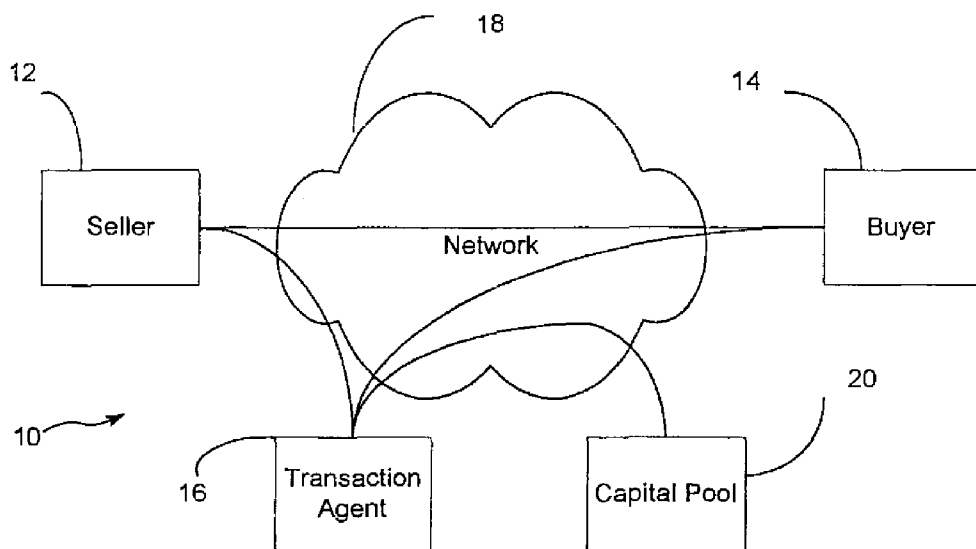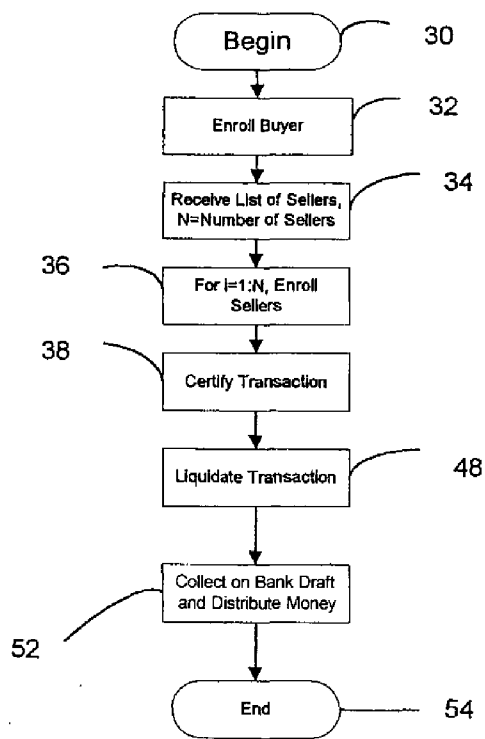
Fig. 1



Fig. 2

Fig. 3

Fig. 4

Start

14

Buyer

202

Contract
Formed

Seller

12

12

Seller

204

Consideration
Delivered

Buyer

14

14

Buyer

206          80

Issue PN And/
Or Notification

Receiving
Module

80

Receiving
Module

208

Store PN And/
Or Notification

Storage

78

210

Does Stored PN Match A
Stored Notification

82

Verification
Module

212

Certify
Transaction

Certification
Module

84

84

Certification
Module

Notify Seller of
Certified
Transaction

214

Seller

12

14

Buyer

216

Receive Bank
Draft

Draft
Receiving
Module

110

110

Draft
Receiving
Module

218

Store Bank
Draft

Storage

78

112

Draft Verification Module

14

Buyer

220

Does Bank Draft
Match PN Totals?

No

Notify Buyer

Issue Bank
Draft
Correction

22

222

Buyer

Draft
Receiving
Module

14

End

226

110

Fig. 5

Fig. 6

260

Start

262

| 12 — Seller | → | Notification to Sell CPN | → | Liquidity Receiving Module | 90 |

264

| 90 — Liquidity Receiving Module | → | Store Sell Order | → | Storage | 78 |

266

| 92 — CPN Notification Module | → | Send Notice of Custodian of CPN | → | Capital Pool | 20 |

268

| 20 — Capital Pool | → | Receive Money | → | Disbursement Module | 94 |

270

| 98 — Holdback Module | → | Receive/ Store Holdback Certificate | → | Storage | 78 |

272

| 4 — Disbursement Module | → | Liquidate CPN | → | Seller | 12 |

274

| 96 — Title Module | → | Transfer Title | → | Storage | 78 |

276

| 96 — Title Module | → | Notify title transfer | → Buyer | 14 |
|                    |    |                      | → Capital Pool | 20 |

End

278

Fig.7

Fig. 8

*300*

Start

*302*

Due Date
Arrives

*78*

Storage

*304*

Retrieve
Bank Draft

*100*

Collection
Draft
Module

*306*

*100*

Collection
Draft
Module

Send Bank
Draft

*14*

Buyer

*308*

*14*

Buyer

Receive
Money

*72*

Bank
DraftReceiving
Module

*106*

Distribution
Module

*310*

Distribute
Money

*290*

Interest
Holders

*104*

Holdback
Module

*312*

Deliver
Holdback

*12*

Seller

*78*

Storage

*314*

Retrieve PN

*112*

Bank Draft
Verification

*112*

Bank Draft
Verification

*316*

Certify
Disbursement

*114*

Bank Draft
Transmitting
Module

*114*

Bank Draft
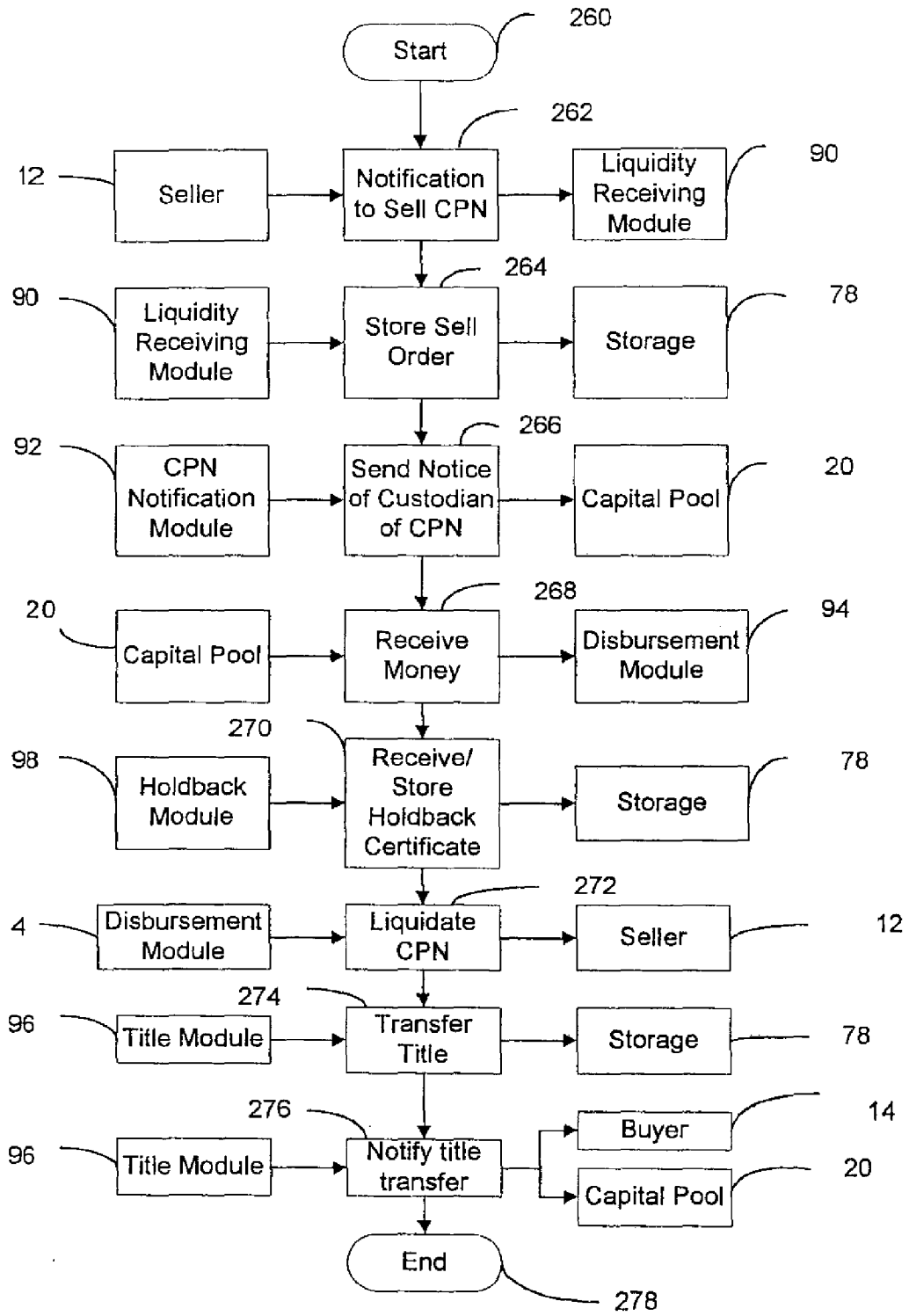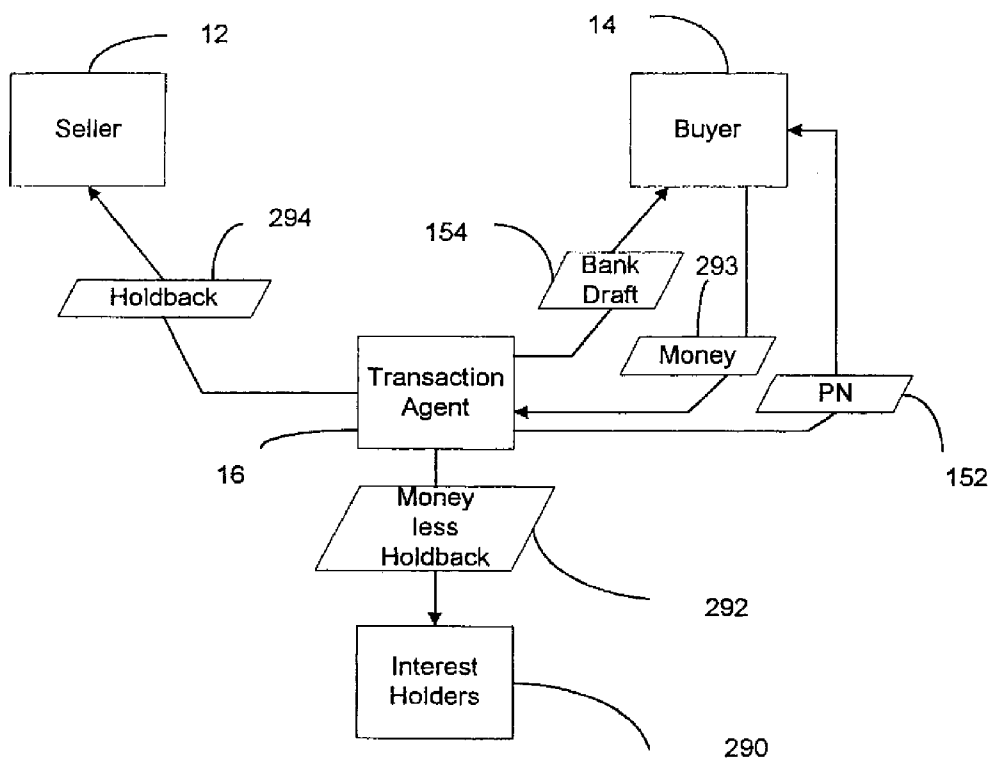Transmitting
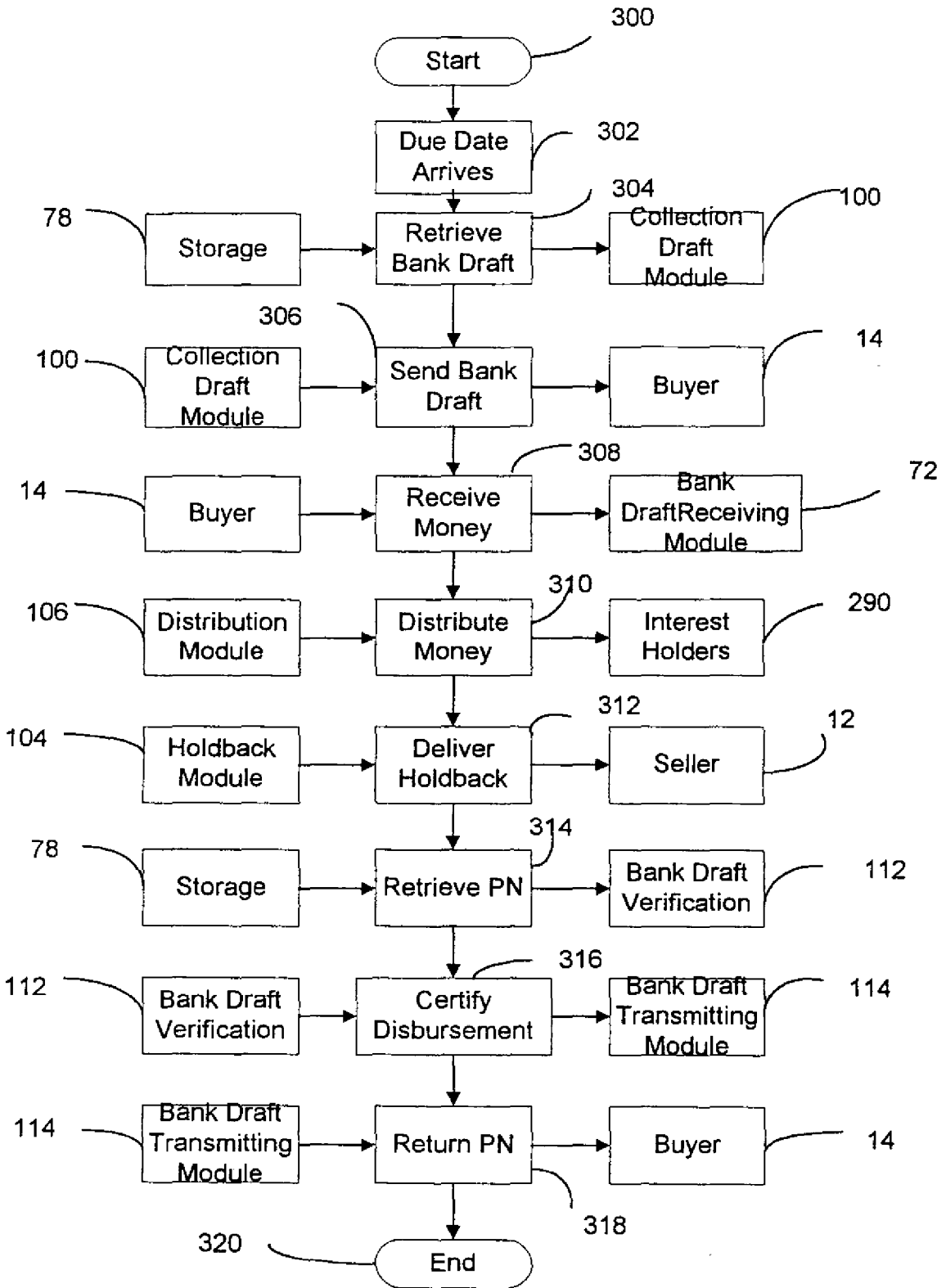Module

Return PN

*14*

Buyer

*318*

*320*

End

Fig. 9

# SYSTEM AND METHOD FOR SETTLING TRADES IN A DIGITAL MERCHANT EXCHANGE

## BACKGROUND OF THE INVENTION

[0001] The present invention relates to a system and method for settling purchases of goods and services between a buyer and a seller.

[0002] When a buyer purchases goods from a seller, the buyer generally acknowledges receipt of the goods and then begins the process to pay the seller. The process may include awaiting an invoice from the seller, checking the invoice against goods received, sending the invoice to an accounts payable department, and then sending a check from the buyer's account on a payment date usually delayed significantly from the date of performance. This delay creates an obvious financial disadvantage for the seller.

[0003] The buyer, who may record numerous transactions daily, must record receipt of the goods for each invoice and follow each invoice through the accounts payable department until payment is sent on the payment date. Furthermore, the buyer's accounts payable department may be further frustrated by receiving orders on the same day that have different payment dates and many different sellers. Thus, the buyer is burdened with tracking invoices and creating payments to numerous different sellers as a daily course of business.

## SUMMARY OF THE INVENTION

[0004] A system and method for settling trades in a digital merchant exchange includes a buyer, a seller, a transaction agent, a network and a capital pool. The buyer and seller communicate through the network to agree on a contract. When the goods are received or the services are performed, the buyer issues a negotiable instrument that is received by the transaction agent. The transaction agent communicates with the buyer, seller, and capital pool through the network and facilitates the settlement of the trade. The system may call upon the capital pool to provide liquidity so that the system can issue payment to the seller at a time prior to the maturity date of the negotiable instrument.

[0005] One aspect of the invention comprises an apparatus and method for providing liquidity to a seller who has provided value to a buyer. The apparatus includes a receiving module, and a calling module. The receiving module is configured to receive a negotiable instrument from the buyer. The calling module is configured to call upon a capital pool to purchase an interest in the negotiable instrument and to send a portion of the value of the negotiable instrument to the seller prior to the maturity date of the negotiable instrument.

[0006] Another aspect of the invention provides an apparatus and method for distributing payment to a seller who provides value for a contract. The apparatus comprises a negotiable instrument, a notification, a verification module, a certification module, and an order. The notification comprises a receipt of the consideration from the seller. The verification module is configured to verify that the negotiable instrument and the notification are responsive to the consideration. The certification module is configured to present the verified negotiable instrument and the notification to the seller prior to the maturity date of the negotiable instrument. The order to pay the value of the certified negotiable instrument matures on the maturity date.

[0007] Yet another aspect of the invention provides an apparatus and method for extending the payment term to a buyer who has received value from a seller. The apparatus comprises a receiving module configured to receive a negotiable instrument, a certification module, and a liquidity module. The negotiable instrument is received from the buyer and has an extended maturity date. The certification module certifies that the negotiable instrument is responsive to the receipt of the value. The liquidity module is configured to liquidate the negotiable instrument. Thus, the seller receives funds before the maturity date of the negotiable instrument.

[0008] Another aspect of the invention provides an apparatus and method for providing liquidity to a seller who has provided value to a buyer. The apparatus includes a negotiable instrument, and money for the purchase of the negotiable instrument. The negotiable instrument is issued by the buyer and received by the seller for the value. The negotiable instrument has a maturity date on a future date and is redeemable from the buyer. The negotiable instrument is purchased from the seller where the amount of money tendered to the seller is a portion of the amount of money represented in the negotiable instrument.

## BRIEF DESCRIPTION OF THE DRAWINGS

[0009] FIG. 1 is a schematic system diagram of the preferred embodiment of the present invention;

[0010] FIG. 2 is a flowchart showing steps of the preferred method of the present invention;

[0011] FIG. 3 is a schematic diagram of the transaction agent of FIG. 1;

[0012] FIG. 4 is a schematic diagram of information that is transferred between parts of FIG. 1 during the certification step of FIG. 2;

[0013] FIG. 5 is a flowchart of the certification step of FIG. 2;

[0014] FIG. 6 is a schematic diagram of information that is transferred between parts of FIG. 1 during the liquidation step of FIG. 2;

[0015] FIG. 7 is a flowchart of the liquidation step of FIG. 2;

[0016] FIG. 8 is a schematic diagram of information that is transferred between parts of FIG. 1 during the collection step of FIG. 2;

[0017] FIG. 9 is a flowchart of the collection step of FIG. 2.

## DETAILED DESCRIPTION OF THE DRAWINGS

[0018] Turning now to the drawing figures, FIG. 1 is a schematic system diagram of the preferred embodiment of the present invention. A system 10 includes a seller 12, a buyer 14, a transaction agent 16, a network 18, and a capital pool 20. The buyer 14 and seller 12 communicate through the network 18 to agree on a contract. The transaction agent 16 communicates with the buyer 14, seller 12, and capital pool 20 through the network 18 to settle the trade established by the contract.

[0019] After the seller 12 completes the required performance under the contract between the buyer 14 and seller 12, the buyer 14 sends a notification and a promissory note (PN) to the transaction agent 16. The notification can include the price and quantity of the goods or services provided in the contract, or other relevant information. The PN is a negotiable instrument that is a promise to pay the amount of money stated on its face. The transaction agent 16 will then certify to

the seller **12** that it has received the notification and the PN settling the amount referenced in the notification. This certification can take the form of an electronic certification such as a digital certification. The seller **12** may wait for the certified promissory note (CPN) to come to term and collect the payment for goods or services on the appropriate maturity date, or alternatively, may engage the transaction agent **16** to sell the CPN or an interest in the CPN on behalf of the seller **12**.

[0020] In order to collect the money on the maturity date, the transaction agent **16** may also receive a bank draft before the maturity date of the CPN. The bank draft is an order to pay the amount of money for the CPN on the due date. The transaction agent **16** can thus secure the collection of the money on the due date by receiving the bank draft prior to the date the CPN matures. When the bank draft has been honored, the transaction agent **16** will disperse the funds to the interest holders of the CPN. Additionally, the bank draft may represent multiple transactions for the buyer. The transaction agent **16** may receive a bank draft that is an order to pay multiple transactions for one or more sellers **12**.

[0021] The seller **12** can be a merchant who is selling goods or services to the buyer **14**. The seller **12** negotiates a contract with the buyer **14**. This contract may be formed through the network **18** or may be completed off line. Once the seller **12** delivers the goods or services to the buyer **14**, the seller **12** receives the certification from the transaction agent **16** confirming the buyer's acknowledgement of performance of the contract, as well as confirmation of receipt of the PN equivalent to the monetary amount of the contract. The seller **12** then determines to wait for the maturity date of the CPN to occur, or to order the transaction agent **16** to sell the CPN or an interest in the CPN and deposit the proceeds from the sale into the seller's account. If the seller **12** waits for the maturity date of the CPN, then the transaction agent **16** performs a custodial function and maintains possession of the CPN until the maturity date at which time liquidity will be provided by the buyer.

[0022] If the seller **12** would rather have immediate access to liquidity, then the transaction agent **16** calls on the capital pool **20** to provide the liquidity to the seller **12**. The capital pool **20** provides the liquidity for the transaction agent **16** to pay the seller **12**, and thus the capital pool **20** purchases the CPN or an interest in the CPN. If the CPN is completely purchased by the capital pool **20**, then the transaction agent **16** can retain custody of the CPN under an agency agreement with the transaction agent **16**. The amount paid to the seller may be a portion of the total amount of the CPN or may be the entire portion of the CPN, depending on the agreement between the capital pool **20** and the seller **12**. A portion of the CPN may be withheld as a holdback until the maturity date, and a finance fee may also reduce the payment amount. The transaction agent **16** can then deposit the payment amount into an account of the seller **12**.

[0023] Accordingly, the transaction agent **16** knows the identity of the banking institutions for both the buyer **14** and the seller **12**, and the appropriate account information for both of these participants. The transaction agent **16** presents the bank draft to the bank of the buyer **14** for collection. Following collection, the transaction agent **16** can then distribute the money to the seller **12**, or to the interest holders of the CPN such as the capital pool.

[0024] The network **18** may comprise a number of smaller networks located between the capital pool **20**, the seller **12**, the buyer **14**, and the transaction agent **16**. For example, the seller **12** may communicate with the buyer **14** through a private buyer-seller network through a proprietary network architecture. The transaction agent **16** may contact the seller **12** through a local area network (LAN) that is isolated from the buyer-seller network, and may employ standard TCP/IP protocol. The buyer **14** may communicate with the transaction agent **16** through a wide area network (WAN) that connects a plurality of distribution centers of the buyer **14** so that the buyer **14** can track receipt of goods, or performance of services, at a number of processing facilities. Furthermore, these communications may be sent across the Internet using security measures, such as an SSL layer, to ensure a level of confidentiality. Thus, the generic network **18** may represent a number of smaller networks that may or may not facilitate communication between all of the participants.

[0025] Turning now to FIG. **2**, a flowchart showing steps of the preferred method of the present invention is shown leading up to the liquidation of a CPN will be described in further detail with reference to the system of FIG. **1**. The method begins in step **30**. The buyer **14** enrolls with the transaction agent **16** in step **32**. The transaction agent **16** then receives a list of sellers from the buyer **14** in step **34**. In step **36**, the transaction agent **16** retrieves enrollment information for each of the sellers **12** on the list of sellers and enrolls the sellers with the transaction agent **16**. The transaction agent **16** receives a notification from a buyer **16** and certifies that transaction in step **38**. The transaction agent **16** then liquidates a part or all of the CPN according to the instructions of the seller **12** in step **48** and issues payment to the account of the seller **12**. In step **52**, the transaction agent **16** collects on the bank draft and disburses the funds according to the interest holders of the CPN. The method ends in step **54**.

[0026] The setup steps **30**, **32**, **34**, **36** include general information that is exchanged between the transaction agent **16** and the buyers **14** and sellers **12**. The general information includes routing numbers for accounts, name and address of the business, and documentation for agency appointments between the buyer **14** and the transaction agent **16**, and the seller **12** and the transaction agent **16**. The setup steps **30**, **32**, **34**, **36** initiate the relationships between the participants so that future trades may be settled by the transaction agent **16**.

[0027] The certification step **38** verifies that the transaction has occurred by comparing the notification received from the buyer **14** to the PN sent by the buyer **14**, and notifies the seller **12** that the promise to pay, in the form of the negotiable instrument, has been received by the transaction agent **16**. These documents contain the information that settles a trade between the buyer **14** and the seller **12**. The information may include the quantity of the goods, the price of the goods, the value of the services, a settlement date, buyer and seller business information, commodity taxes as computed by the buyer **14**, and any other identifiers for the trade. The transaction agent **16** verifies these documents against one another so that the agent **16** may be sure that the documents represent the same trade. Thereafter, a CPN is generated and the seller **12** is then notified of the certification of the trade by the transaction agent **16**. If the documents do not match, then the transaction agent **16** does not recognize the trade as a valid transaction. The transaction agent **16** awaits further promissory notes and notifications until a pair of these documents can be matched to form a trade.

[0028] The liquidation step **48** includes the steps taken by the transaction agent **16** to provide liquidity to the seller **12** against the value of the CPN. The transaction agent **16** then acts on behalf of the seller **12** to access the liquidity provided

by the capital pool **20**. The seller **12** may wish to collect the payment immediately or wait for the maturity date. If the seller wishes to liquidate the CPN prior to the maturity date, then the seller **12** will issue a notice to the transaction agent **16** to sell at least a portion of the CPN. The seller **12** may automate this process, in which case the transaction agent **16** does not have to wait for a decision by the seller **12**. Instead the transaction agent **12** may immediately sell a portion of the seller's interest in the CPN to the capital pool **20** and issue the payment to the seller's account on behalf of the capital pool **20**. On the maturity date, the transaction agent **16** collects the value of the PN by calling on the buyer to pay the value of the PN, and then the transaction agent **16** disburses the money to the interest holders of the CPN.

[0029] FIG. **3** is a schematic diagram of the transaction agent **16** of FIG. **1** and will be described in further detail with regard to the system of FIG. **1**. The transaction agent **16** includes a PN and notification module **70**, a bank draft module **72**, a liquidity module **74**, a collection module **76**, and storage **78**. The PN and notification module **70** communicates with the buyer **14** to receive the PN and the notification, and then certify these documents. The bank draft module **72** receives a bank draft from the buyer **14**, verifies the draft amount, and cashes the bank draft when the maturity date arrives. Once the trade is settled, then liquidity for the seller is provided through the liquidity module **74**. The liquidity module **74** communicates with the seller **12** to determine the actions the seller **12** wants the transaction agent **16** to proceed to liquidate the CPN. The liquidity module also tracks the title of the CPN so that if the CPN is sold, the liquidity module **74** can update the title information. Similarly, the liquidity module **74** may also track interests in the CPN. Once the maturity date arrives, the collection module **76** communicates with the bank draft module **72** to secure the money from the account of the buyer **14** and distribute the money to the interest holders of the CPN.

[0030] The PN and notification module **70** includes a receiving module **80**, a verification module **82** and a certification module **84**. The receiving module **80** communicates with the buyer **14** and receives trade notifications and PNs that are sent from the buyer **14**. The verification module **82** determines if the received PN or notification matches any of the previously stored notifications or PNs. If a PN and notification pair are found that match, then the certification module **84** certifies the trade and issues a CPN for the seller **12**. The PN and notification are stored in storage **78** until the seller **12** determines whether he will liquidate the CPN prior to the maturity date or retain custody of the CPN until the maturity date arrives.

[0031] The liquidity module **74** includes a receiving module **90**, a CPN notification module **92**, a disbursement module **94**, a title and interest transfer module **96**, and a holdback module **98**. The CPN notification module **92** transmits the certification to the seller **12**. The receiving module **90** communicates with the seller **12** and receives instructions for holding or liquidating the CPN prior to the maturity date. The receiving module **90** may also receive an instruction from the seller **12** to automate the liquidation process and always sell a CPN. The disbursement module **94** transmits the money received from the capital pool **20** arising from the sale of a portion of the CPN to the seller's account. If the CPN was purchased outright by an interest in the capital pool **20**, then the title and interest transfer module **96** transfers the title of the CPN from the seller **12** to that interest in the capital pool

**20**. If a portion of the CPN is purchased by an interest in the capital pool **20**, then the liquidity module **74** will note the partial purchase and provide the information to the collection module **76** which distributes to the partial holder his portion when the maturity date arrives. The holdback module **98** manages the holdback during this period, and also forwards the holdback to the seller **12** on the maturity date of the CPN.

[0032] The collection module **76** includes a draft module **100**, a calling module **102**, a holdback module **104**, and a distribution module **106**. The draft module **100** notifies the bank draft module **72** when the maturity date arrives. The calling module **102** calls upon the capital pool **20** to provide liquidity to the transaction agent **16**, who can then forward the liquidity to the seller **12**. The distribution module **106** retrieves the bank draft from the storage **78**, and receives the money from the bank draft module **72** when the draft is cashed. Once the money is received, then the distribution module **106** distributes the money to the interest holders of the CPN. The interest holders may be participants in the capital pool **20** or other investors who have otherwise purchased a part of the CPN. If a holdback was kept from the seller **12**, then the holdback module **104** forwards the holdback to the liquidity module **74** when the money from the draft is received. The liquidity module **74** subsequently forwards the holdback to the seller **12**. Once the money is collected and distributed the PN can be returned to the buyer **14** through the bank draft module **72**.

[0033] The bank draft module **72** includes a receiving module **110**, a verification module **112**, and a transmitting module **114**. The receiving module **110** receives from the buyer **14** a bank draft as future payment for the PN. The verification module **112** determines if the amount of the bank draft matches the amount of the CPNs that will mature on the date that the draft is issued for. If the amount is different, then the transmitting module **114** reports the error to the buyer **14**. When the maturity date arrives, then the bank draft module **72** functions to collect the money for the draft.

[0034] The bank draft module **72** calls upon the buyer **14** on the maturity date to collect the money. The transmitting module **114** transmits the bank draft to the buyer's bank. The receiving module **110** receives the money from the buyer's bank. The verification module **112** determines if the money received represents the amount of the bank draft. Once the amount is verified, then the money is passed to the collection module **76** which distributes the money to the interest holders of the CPN. Once the obligations of the buyer **14** to the interest holders is satisfied, then the transmitting module **114** of the bank draft module **72** can return the PN to the buyer **14** so that the buyer **14** can retain proof that his obligations have been satisfied.

[0035] The transaction agent **16** thus includes modules that certify the CPN, liquidate the CPN, collect money on the bank drafts, and disburse the money to the interest holders of the CPN. In some embodiments, the storage **78** of the transaction agent **16** also includes secure storage so that these documents can be protected while the transaction agent **16** retains custody of the documents.

[0036] FIG. **4** is a schematic diagram of information that is transferred between parts of FIG. **1**. This information is passed from the parts during contract inception and the certification process of the system. The information includes a contract **150**, a PN and a notification generally indicated together at **151**, a bank draft **154**, an error statement **156**, a bank draft correction **158**, and a certification **160**. The con-

tract **150** is formed between the seller **12** and the buyer **14**. The PN and notification **151**, the bank draft **154**, and the bank draft correction **158** are sent from the buyer **14** to the transaction agent **16**. The error statement **156** is sent from the transaction agent **16** to the buyer **14**, and the certification is sent from the transaction agent **16** to the seller **12**. Each of these communications is responsive to information that is needed by the receiving party in order to complete the transaction.

[0037] The contract **150** is formed between the seller **12** and the buyer **14**. The contract **150** may include terms and conditions that are agreed to by both the buyer **14** and seller **12**. The terms and conditions of the contract **150** may also include an extended payment period for the buyer **14**. The extended payment period can be offered because the issuance of the PN allows the seller **12** to choose to receive liquidity on or about the date of performance of the contract **150**, and thus make the payment term less critical to the seller **12**.

[0038] The PN is a negotiable instrument that is transmitted from the buyer **14** to the transaction agent **16** once the consideration has been received from the seller **12**. The PN and the notification **151** may be sent individually to the transaction agent **16**. The PN is a promise to pay the value of the PN in settlement of the trade established by the contract **150**, and further includes the names of the issuer (the buyer **14**) and the holder (the seller **12**). The PN is uniquely identified so that if the notification is sent separately, the notification may use such identification to match the documents thereby authenticating these documents. The notification may include such information as receiving documents, quantity, and any commodity taxes due on the consideration. While the PN is a promise to pay, the bank draft **154** is an order to pay.

[0039] The bank draft **154** is sent from the buyer **14** to the transaction agent **16** to facilitate the payment obligation of the buyer owed to the interest holders of the CPN. The bank draft **154** includes the amount of money to be withdrawn from the buyer's account, the date on which the amount will be withdrawn, and the relevant account information for the withdrawal. Once the bank draft **154** matures, the transaction agent **16** will collect the money from the buyer's account. If the amount noted in the bank draft **154** does not match the amount called for in the CPNs that will mature on the same day as the bank draft **154**, then the error statement **156** is generated and the bank draft correction **158** is issued by the buyer **14**.

[0040] When the PN and the notification **151** are received by the transaction agent **16**, the transaction agent **16** generates the certification **160** that is sent to the seller **12**. The certification is the CPN and can include a copy of the PN and the notification **151** so that the seller **12** can update his records.

[0041] FIG. **5** is a flowchart of the certification step of FIG. **2** and will be described in detail with reference to FIGS. **1** and **3**. The method starts in step **200**. The contract **150** is formed in step **202** between the buyer **14** and the seller **12**. Consideration is delivered in step **204** from the seller **12** to the buyer **14**. The buyer **14** then issues a PN and/or the notification in step **206**. The PN and/or the notification is received in the receiving module **80** located in the transaction agent **16** of FIG. **3**. The receiving module **80** stores the PN and/or the notification in storage **78** in step **208**. Step **210** determines whether the stored PN matches any of the stored notifications. If the PN does not match, then the method waits for another PN and/or the notification in step **206**.

[0042] If the stored PN does match, then the verification module **82** verifies the PN and sends the CPN to the certification module **84** in step **212**. The certification module **84** notifies the seller **12** that the PN has been certified in step **214**. The buyer **14** sends a bank draft to the draft receiving module **110** of the transaction agent **16** in step **216**. The bank draft may be received at the same time as the PN, or may be delivered at some time up to the maturity date of the CPN. The draft receiving module **110** then stores the bank draft in step **218**, for example storage **78** of FIG. **3**.

[0043] Step **220** determines whether the bank draft matches the CPN total for the maturity date. If the total does not match the CPN total, then the draft verification module **112** notifies the buyer **14** in the step **222** that the totals do not match. The buyer **14** then issues a bank draft correction in step **224** that is received by the draft receiving module **110**. The verification module **112** then checks the totals again in step **220**, and if the totals match, then the method ends in step **226**.

[0044] The buyer **14** may have issued many PNs that mature on the same date. The buyer **14** may then produce a single bank draft for all such PNs that mature on the same day. In this manner, the buyer **14** may minimize any transactions fees imposed by its bank by settling many trades with the draft. Although the bank draft facilitates the collection step, the transaction agent **16** does not have to receive the bank draft before liquidating the CPN **152**.

[0045] FIG. **6** is a schematic diagram of information that is transferred between parts of FIG. **1** during the liquidation step of FIG. **2**. The information includes a notice to sell **240**, a notice of custodian for the CPN **242**, money less holdback and fees **244**, a holdback certificate **246**, and a title and interest transfer notification **248**. The seller **12** sends the notice to sell **240** to the transaction agent **16**. The transaction agent **16** sends the capital pool **20** the notice of custodian for the CPN **242**. The capital pool purchases or acquires an interest in the CPN from the seller facilitated by the transaction agent **16** and returns money less holdback and fees **244** and the holdback certificate **246** to the transaction agent **16** which acts on behalf of the seller **12**. The money less holdback and fees **244** are then forwarded to the seller **12** from the transaction agent **16**, which, if required, then notifies the buyer **14** that the title has been transferred in the title transfer notification **248**.

[0046] The capital pool's fees that are taken from the sale or transfer of an interest in the CPN represent the finance cost and profit to the capital pool **20**. The amount of the fees may vary depending on the buyer **14** and seller **12**. The holdback is used as collateral for performance by the buyer. The transaction agent **16** may also take a fee from the money that is sent to the seller **12**. The holdback certificate **246** represents a subordinated interest on the part of the seller **12** in the liquidated CPN. This certificate **246** is likewise stored in the storage **78** of the transaction agent **16** to be collected upon by the seller **12** when the maturity date arrives.

[0047] FIG. **7** is a flowchart of the liquidation step of FIG. **2** and will be described in detail with reference to FIGS. **1**, **3** and **6**. The method begins in step **260**. The seller **12** sends a notification to sell an interest in the CPN to the liquidity receiving module **90** in step **262**. The liquidity receiving module **90** stores the sell order **240** in storage **78** in step **264**. Once the sell order **240** is received then the CPN notification module **92**, if required, sends the notice of custodian **242** to the capital pool **20** in step **266**. The disbursement receiving module **94** receives money from the capital pool **20** for the CPN in step **268**. The amount of money paid by the capital

pool **20** to the seller is net of the fees charged by the capital pool and also less any holdback.

[0048] The holdback is received and stored at step **270** in storage **78** by the holdback receiving module **98**. The disbursement module **94** then forwards the money less fees and holdback **244** to the seller **12**, thus liquidating the CPN, in step **272**. After the CPN is liquidated, and, if required, the title of the CPN is transferred from the seller **12** to the capital pool **20** in step **274** by the title and interest transfer module **96**, the CPN is then replaced in storage **78**. The title transfer module **96** then sends a notification of title transfer **248** to both the buyer **14** and capital pool **20** in step **276**, if required. The method ends in step **278**.

[0049] The process of liquidation provides the seller **12** with a means of collecting all or a portion of a claim against a buyer **14** on or about the date of seller's performance. This enhanced liquidity allows the seller **12** to benefit financially. Also, because his cost for extending terms to a buyer **14** is diminished, the seller **12** may extend those terms to the buyer **14**. Thus the buyer **14** can use additional time to generate the revenue to pay the obligation under the PN.

[0050] The liquidation process is facilitated by the PN. The PN is a promise made by the buyer **14** to pay the amount stated. The seller **12** is not forced to find a source of funding based on his receivables account, but can instead use the CPN as a source of liquidity. The buyer **14** is obligated to pay pursuant to the PN, regardless of any claims of merchantability, express or implied warranties, or any change in business status of the seller **12**. The system therefore enables the capital pool **20** to purchase the CPN primarily based on the financial strength of the buyer **14**, and only to a limited extent on the financial strength of the seller **12**.

[0051] For example, a small farmer (seller **12**) regularly sells produce to a large supermarket chain (buyer **14**). The chain can issue a PN to the farmer which the farmer can then sell in the form of an interest in the CPN to the capital pool **20**. The capital pool **20** does not have to risk business fluctuations that may effect the small farmer, but instead bases its decision to purchase the CPN based primarily on the strength of the supermarket chain. Thus, the system has transformed the financing of the trade from a loan on accounts receivable of a small farmer to a purchase of an interest in a certified negotiable instrument issued by a credit-worthy supermarket chain. The capital pool **20** can provide liquidity over and above the amount provided by conventional alternatives because the capital pool **20** will derive its security based primarily upon the future performance by the buyer of its obligations under the PN. The buyer **14** receives the extended terms for the trade and is able to generate the required revenue to pay for the PN.

[0052] FIG. **8** is a schematic diagram of information that is transferred between parts of FIG. **1** during the collection step of FIG. **2** and will be discussed with respect to these figures. The information includes interest holders **290** of the CPN, the bank draft **154**, the money **293** from the buyer's account, and the PN **152**. The transaction agent **16** sends the bank draft **154** to the buyer's bank who then sends the money **293** to the transaction agent **16**. On behalf of the buyer **14**, the transaction agent **16** then forwards the money less holdback **292** to retire the buyer's obligations due to interest holders **290**, and, on behalf of the capital pool, the transaction agent **16** may distribute the holdback **294** to the seller **12**. Once the money has been distributed, then the transaction agent **16** may return the PN **152** to the buyer **14**.

[0053] The interest holders **290**, for example, may be members of the capital pool **20** who purchased the CPN or an interest in the CPN during the liquidation step. The interest holders **290** may fully own the PN **152**, in which case the title and interest transfer module **96** would have updated the title of the PN **152** to reflect this ownership. Or, the interest holders **290** may only own a portion of the PN **152**, in which case the collection module **76** would distribute the money on the maturity date based on the partial ownership of the PN **152**.

[0054] FIG. **9** is a flowchart of the collection step of FIG. **2** and will be described in detail with reference to FIGS. **1** and **3**. The method starts at step **300**. The due date arrives in step **302**. The bank draft is retrieved from storage **78** and sent to the collection draft module **100** in step **304**. The collection draft module **100** sends the bank draft to the buyer's bank in step **306**. The buyer's bank then sends the money **293** to the bank draft receiving module **72** in step **308**. Once the transaction agent **16** has received the money **293**, the distribution module **106** of the collection module **76** distributes the money less holdback **292** to the interest holders **290** in step **310**. The holdback is delivered to the seller **12** in step **312** by the holdback module **104** of the transaction agent **16** on behalf of the capital pool **20**. Once the money has been disbursed, the PN is retrieved from storage **78** and sent to the bank draft verification module **112** in step **314**. The bank draft certification module **112** certifies that the disbursement has satisfied all obligations of the buyer **14** in step **316**, and forwards the certified paid PN to the bank draft transmitting module **114**. The bank draft transmitting module **114** then returns the PN to the buyer **14** in step **318**, and the method ends in step **320**.

[0055] The collection method is processed by the transaction agent **16**. This process allows the buyer **14** and the seller **12** to minimize their participation in the accounts payable and accounts receivable departments, respectively. The seller **12** is not waiting for an outstanding balance to be forwarded to him because he had liquidated the transaction during the liquidation process. The buyer does not have to keep track of the transaction in the accounts payable department because he had finalized his payment of the transaction when he had made the promise to pay in the PN **152**. The buyer **14** then was able to control the payment of the transaction the day the goods arrived, or the services were delivered, instead of having to wait for invoices and processing the invoices against docking slip, receivables, etc., and thus the buyer's control of the process is increased.

[0056] The above description and accompanying drawings are illustrative in nature. One of ordinary skill in the art can recognize various changes or modifications that may be made without departing from the scope of the present invention.

1-75. (canceled)

76. An apparatus for distributing payment to a seller providing value for a contract, said apparatus comprising:
    a negotiable instrument;
    a notification indicating that the value has been received from the seller;
    a verification module configured to verify that said negotiable instrument and said notification are responsive to the value provided by the seller;
    a certification module configured to present said verified negotiable instrument to the seller prior to the maturity date of said negotiable instrument; and
    an order to pay the value of said certified negotiable instrument on the maturity date.

77. The apparatus as defined in claim **76** wherein said negotiable instrument is a promissory note.

78. The apparatus as defined in claim **77** wherein said promissory note is certified to be responsive to receipt of the value.

79. The apparatus as defined in claim **78** wherein said certified promissory note is electronically certified.

80. The apparatus as defined in claim **79** wherein said electronically certified promissory note is digitally certified.

81. The apparatus as defined in claim **76** further comprising a network, wherein said certification module is configured to present said verified negotiable instrument to the seller through said network.

82. The apparatus as defined in claim **81**, wherein said network is the Internet.

83. The apparatus as defined in claim **76** wherein said order to pay is a bank draft.

84. A method of distributing payment to a seller providing value for a contract, said method comprising the steps of:

generating a negotiable instrument;

generating a notification to the seller that indicates the value has been received;

that said negotiable instrument is responsive to the receipt of the value;

presenting said verified negotiable instrument and said notification to the seller prior to the maturity date of said verified negotiable instrument; and

generating an order to pay the seller the value of said verified negotiable instrument.

85. The method as defined in claim **84** wherein said negotiable instrument is a promissory note.

86. The method as defined in claim **85** further comprising the step of certifying that said promissory note is responsive to the receipt of the value.

87. The method as defined in claim **86** wherein said certified promissory note is electronically certified.

88. The method as defined in claim **87** wherein said electronically certified promissory note is digitally certified.

89. The method as defined in claim **84** wherein said verified negotiable instrument is presented to the seller through a network.

90. The method as defined in claim **89** wherein said network is the Internet.

91. The method as defined in claim **84** wherein said order to pay is a bank draft.

\* \* \* \* \*