

HSBC Trade Academy



Today's Agenda

- ❖ Introduction to Trade Academy/Presenters/ HSBC UAE
- ❖ HSBC in the Middle East
- ❖ Overview of Bank Guarantees, Various Types and Case Studies
- ❖ Guarantee Cancellations and Claims
- ❖ Standby Letters of Credits (SBLCs)
- ❖ Closing Remarks

Who we are?

- ❖ HSBC has played a key role in supporting international trade since 1865
- ❖ Continuous presence in Middle East for over 6 decades.
- ❖ Trade finance experts– many with LIBF certifications
- ❖ Innovative processes and systems
- ❖ Dedicated Relationship Managers, Business Development Managers & Client Services Managers

Bank Guarantee

Key Features

- ❖ Security
- ❖ Flexibility
- ❖ Global acceptance
- ❖ Cost-effective
- ❖ Improves credit worthiness

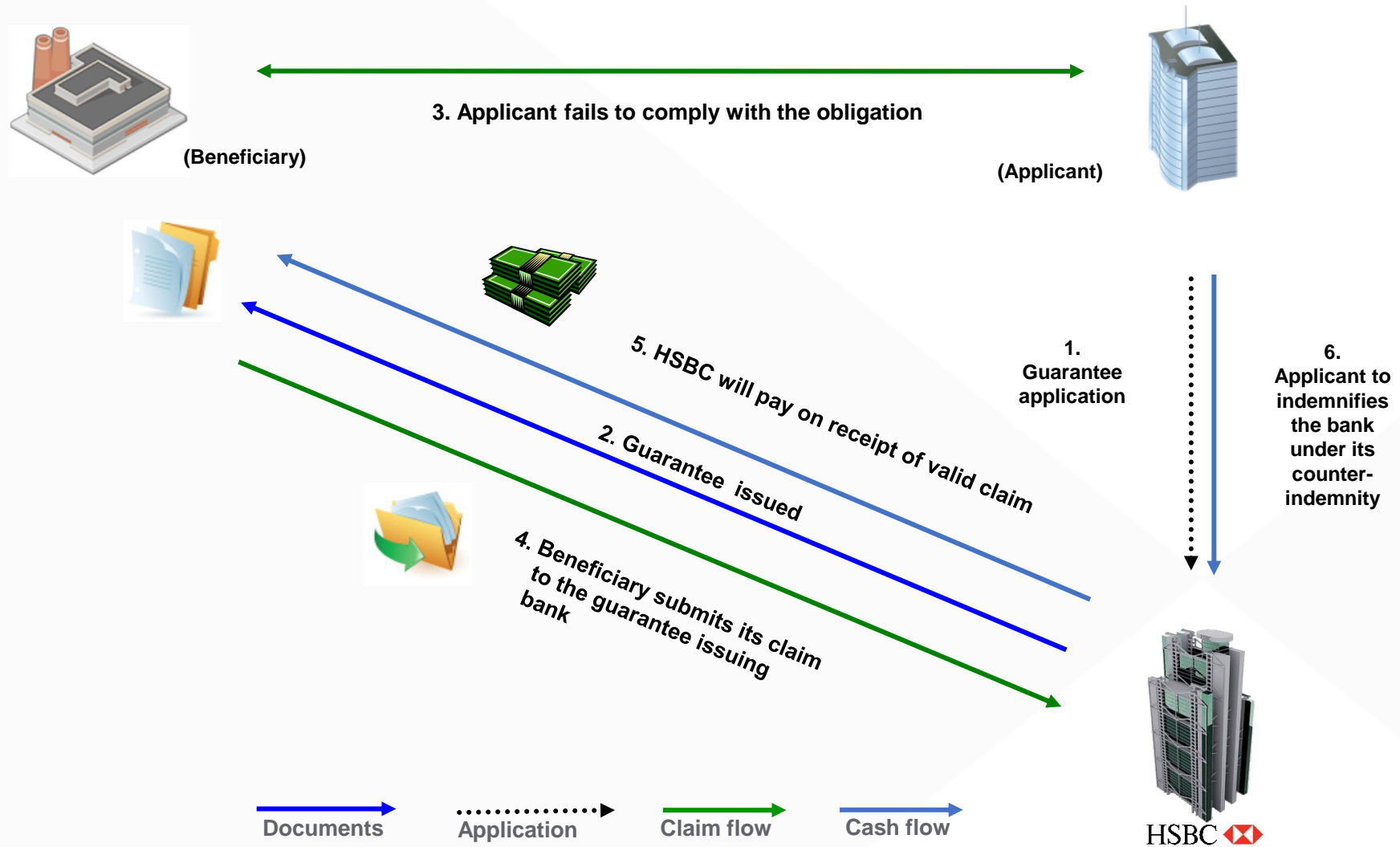
Bank Guarantee

How does bank guarantee work?

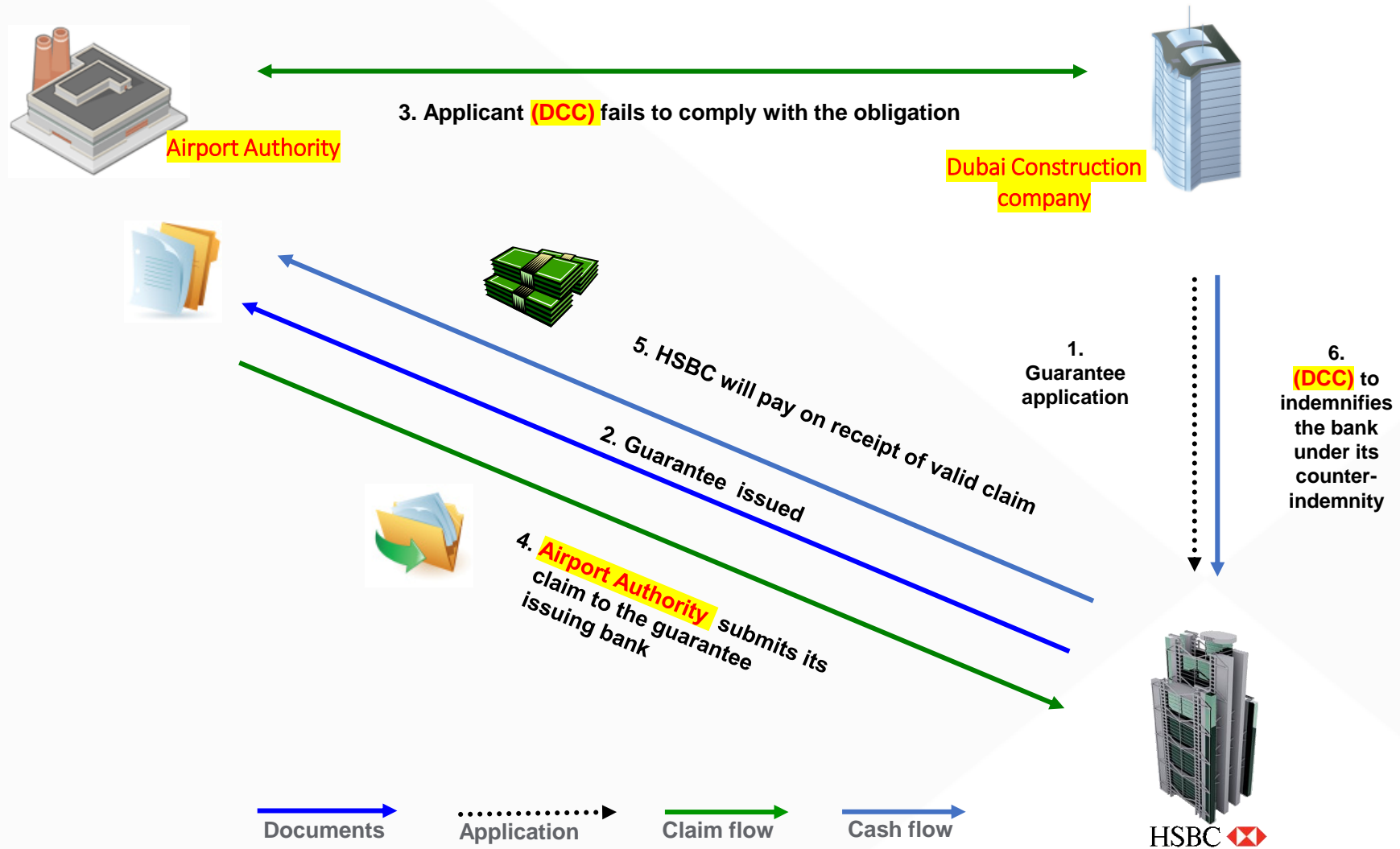
- ❖ A guarantee is an **unconditional, irrevocable** promise, in writing, given by the issuing bank (also known as the guarantor) on behalf of its customer (the applicant) in favor of another party (the beneficiary)
- ❖ The promise is to pay on demand, and **in accordance with the terms and conditions outlined in the guarantee**, a sum of money in the event of breach of an underlying contract. For example non-performance or non-delivery. The sum may be a specific amount or up to a **maximum amount**

Applicable rules: **Uniform Rules for Demand Guarantees / ICC URDG 758**

Bank Guarantees



Bank Guarantees – Case Study



Bank Guarantees Poll questions

1). Given the example, can the beneficiary claim more than \$5 million?

- a) Yes
- b) No

2). What is the process of cancellation if the guarantee is open ended

- (a) Applicant's instructions for cancellation + Beneficiary's NOC + Original Guarantee and any Amendments
- (b) Applicant's instructions only
- (c) Original Guarantee and any Amendments only
- (d) It cannot be cancelled

3). Can the beneficiary submit their claim to their banker instead of HSBC Bank ?

- Yes
- No

Bank Guarantee Tenor

Fixed Expiry	Open Ended	Evergreen
Has a definite expiry date	Has no definite expiry date	Automatically renews for a specified period until either party cancels it or takes another action.
Will be considered null and void after the expiry date if no demand for payment has been received by the bank	May be automatically renewable after the initial tenor of the guarantee as stated in the wording of the guarantee	The bank's liability is usually limited to a fixed amount stated in the guarantee, and it does not automatically increase upon renewal unless explicitly agreed upon by the parties.
	May be valid until a specified expiry event. The expiry event requires the presentation of a document "specified for the purpose of expiry"	

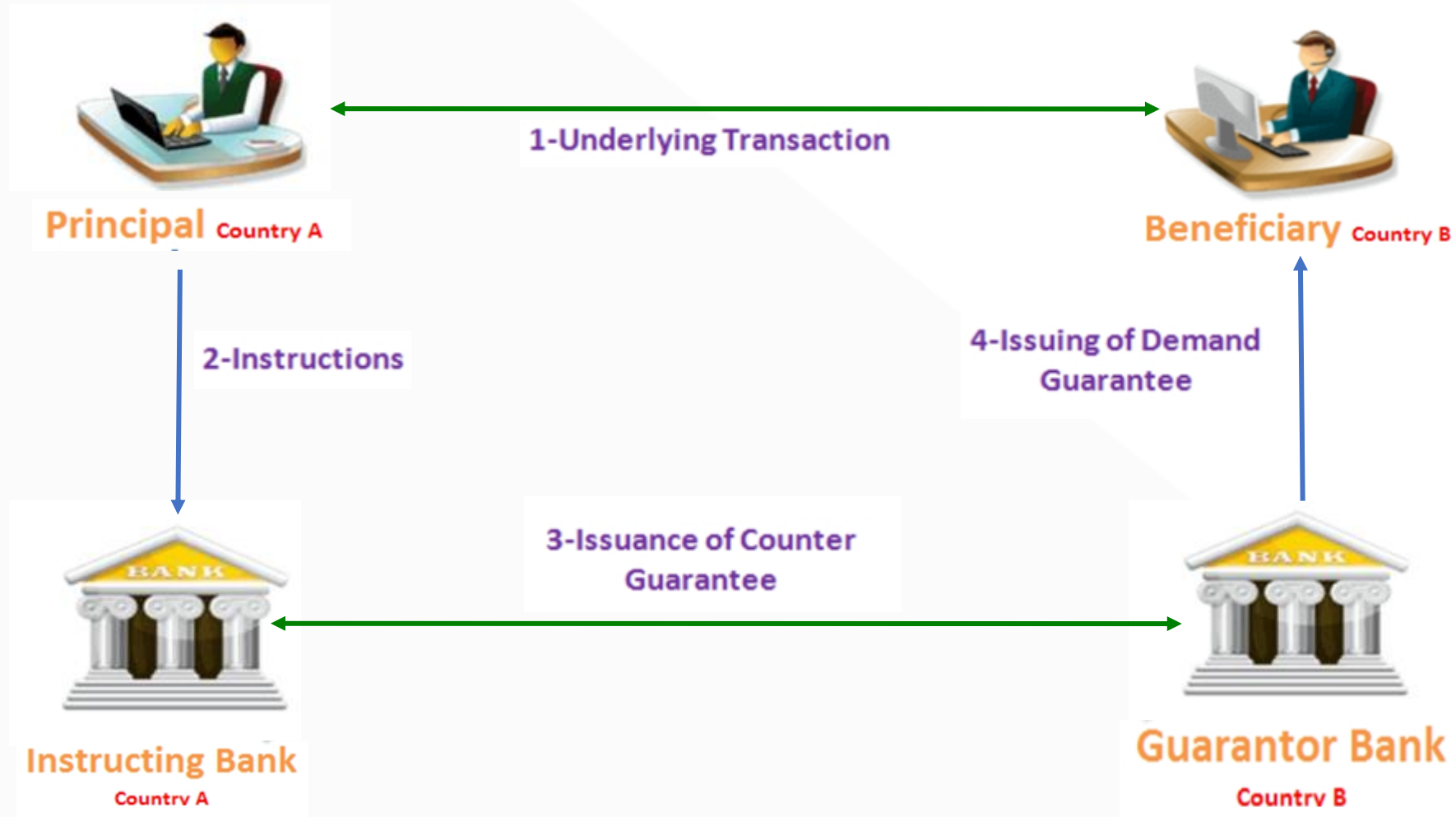
Evergreen Bank Guarantee
Key features

- ❖ Automatic Renewal
- ❖ Validity Period
- ❖ Cancellation Clause
- ❖ Flexibility for Long-term Contracts
- ❖ Limited Liability
- ❖ Trigger for Payment
- ❖ Notice Period for Non-Renewal

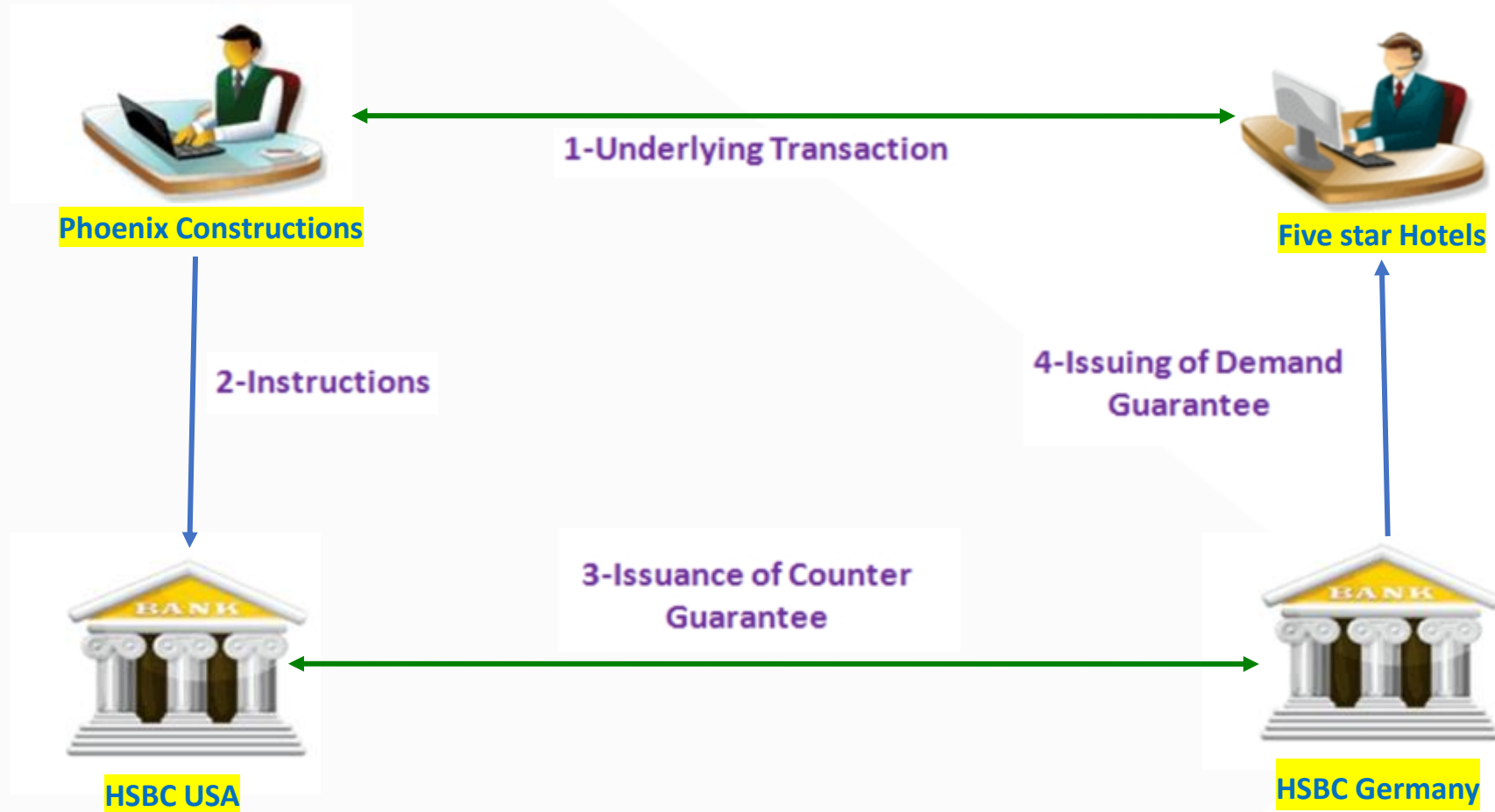
Types of Guarantees

- ❖ Tender Bond
- ❖ Performance Bond
- ❖ Advance Payment
- ❖ Financial Guarantee
- ❖ Retention Guarantee
- ❖ Demand Guarantee
- ❖ Conditional Guarantee

Counter Bank Guarantees



Counter Bank Guarantees – Case study



Counter Guarantee Poll Questions

1) What is the reason for using a counter bank guarantee in your trade transaction?

- (a) Risk Mitigation
- (b) Enhancing credit worthiness
- (c) Contractual obligation
- (d) All of the above
- (e) None of the above

2) Do you think counter bank guarantees reduce the financial risk in international contracts?

- (a) Yes
- (b) No
- (c) Not sure

3) Do you think counter bank guarantees are costlier than normal guarantees?

- (a) Yes
- (b) No
- (c) Not sure

Guarantee Wording

- ❖ It is preferable to use a bank's standard guarantee format
- ❖ By using standard form guarantees, the bank minimizes the legal and reputational of issuing guarantees
- ❖ However, for certain beneficiaries, such as government entities, the beneficiary may insist that the standard form wording be amended
- ❖ Non-standard guarantees may include clauses that result in certain risks, are be ambiguously worded or are otherwise unacceptable to banks

Guarantee Cancellation

1. On expiry of the guarantee
2. When the complete guarantee amount is claimed by beneficiary and paid by the bank
3. When the beneficiary submits their signed consent letter releasing the bank from its liability
4. When the original Guarantee is returned by Applicant
5. When the requirements under the guarantee can no longer be complied with
6. After a termination event has occurred as stated in the guarantee

Guarantee Claims

Direct Pay Claim	Extend or Pay Claim
<ul style="list-style-type: none">❖ Beneficiary wants the payment to be made immediately.	<ul style="list-style-type: none">❖ In this type of claim, a beneficiary usually submits a claim close to expiry of the guarantee, informing the issuing bank that the underlying performance is not yet completed, therefore, they wish to extend the guarantee for a further period of 6 months or so, for example, and if we choose not to extend the guarantee, then we should consider this as their claim for payment.❖ When these type of claims are received, we would ideally extend the guarantee.

SBLC - Standby Letter of Credit

A Standby Letter of Credit (SBLC) is a financial instrument issued by a bank on behalf of a client, guaranteeing the client's commitment to fulfill a financial obligation or contract. If the client (applicant) fails to meet the terms of the contract or defaults on the payment, the bank is obligated to pay the beneficiary (the party receiving the SBLC) up to the specified amount.

Features

- ❖ Secondary Payment Method
- ❖ Non-Transferable
- ❖ Conditional Payment
- ❖ Irrevocability
- ❖ Validity Period
- ❖ Bank Creditworthiness
- ❖ Flexibility in Usage
- ❖ Documentary Nature
- ❖ Applicable to Multiple Situations

New HSBCnet Functionalities

- ❖ Digital Repository
- ❖ Ability to return the Application (for modifications, changes, etc.)
- ❖ Ability to handle claims under Guarantees or Standby DCs
- ❖ Beneficiary Proposition (capability to view the guarantee text which is issued by HSBC group office)
- ❖ View commissions, history, charges etc.
- ❖ Enhanced Expiry Option (dropdown for expiry option)
- ❖ Settlement Instructions (in desired currency)
- ❖ Standard Wording Text is made available
- ❖ Capability to view outstanding guarantees
- ❖ Side by side view in case GTE/SDC amendment

Coming up next...



HSBC Trade Academy:
Traditional Trade - Imports

24th October 2-3pm GST

 [Register Now](#)

The image shows a white truck at a port with a large blue container ship in the background. Two workers in safety gear are standing near the truck. The background features yellow cranes and stacks of colorful shipping containers.

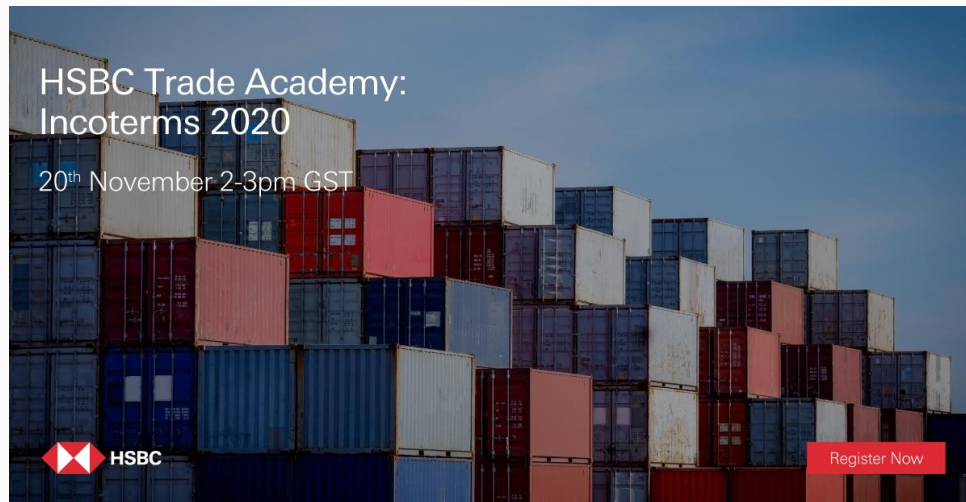


HSBC Trade Academy:
Traditional Trade - Exports

14th November 2-3pm GST


 [Register Now](#)

This image is identical to the one for the Imports session, showing a white truck at a port with a large blue container ship, yellow cranes, and stacks of shipping containers in the background.



HSBC Trade Academy:
Incoterms 2020

20th November 2-3pm GST

 [Register Now](#)

The image shows a large stack of colorful shipping containers in a port setting under a clear blue sky.



Questions?

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