

SBC Trade Academy



Agenda

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- ◆ **Documentary Trade**

 - ◆ **Payment Risk Ladder**

 - ◆ **Documentary Credit**

 - ◆ **Types of Import Documentary Credits**

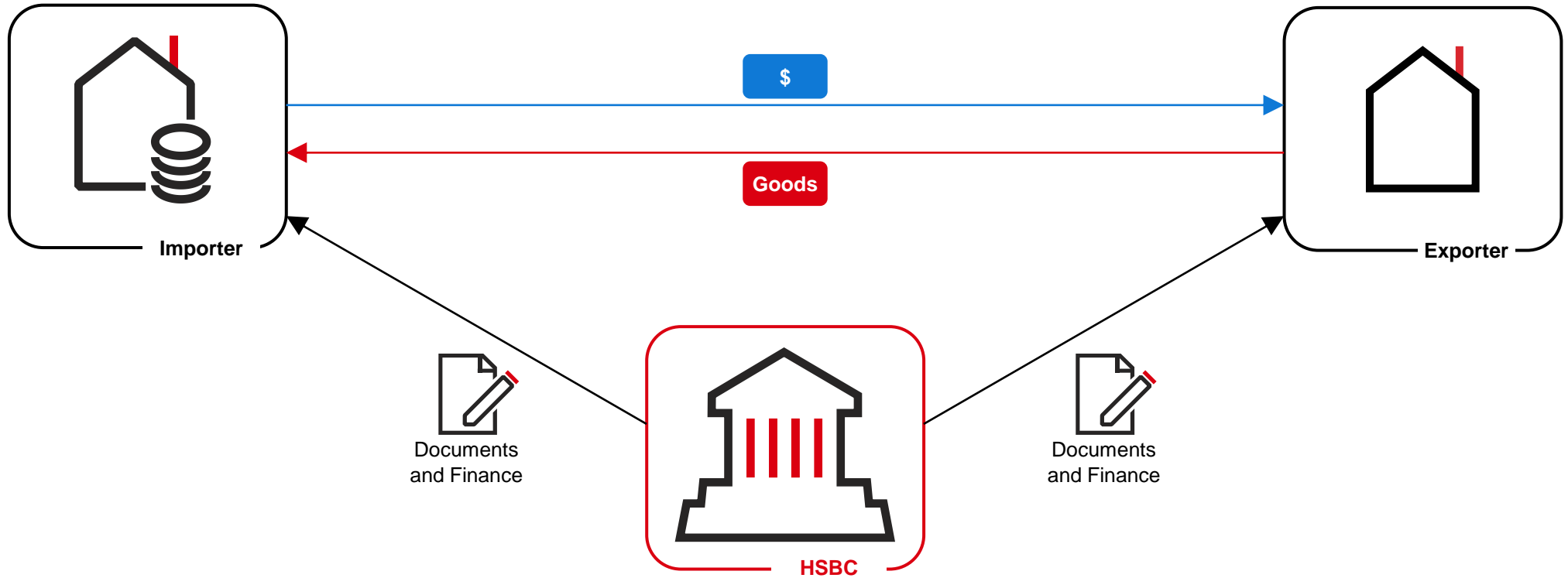
 - ◆ **Export Documentary Credits**

 - ◆ **DC Confirmations**

 - ◆ **DC Discounting**

 - ◆ **Documentary Collections**

Documentary Trade



- 1 **Risk Mitigation:** Collections, Documentary Credit, and DC Confirmation
- 2 **Processing:** Fulfilling Trade Flows Globally – Movement of Documents and Funds
- 3 **Financing:** Pre and Post Shipment Financing – For Importers and Exporters



Payment Risk Ladder

Exporter

Least Secure









Most Secure

Importer

Most Secure



-  Open Account
-  Collection – DA
-  Collection – DP
-  Documentary Credit
-  Confirmed DC
-  Advance Payment

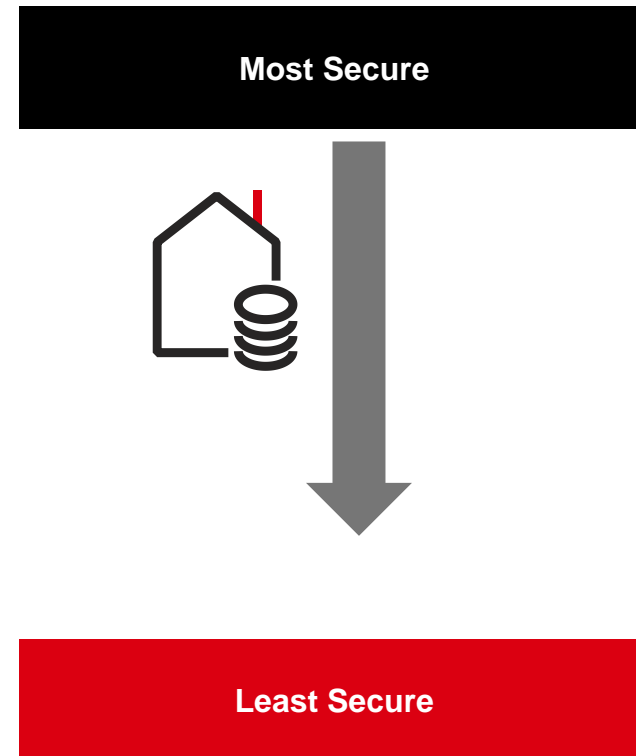
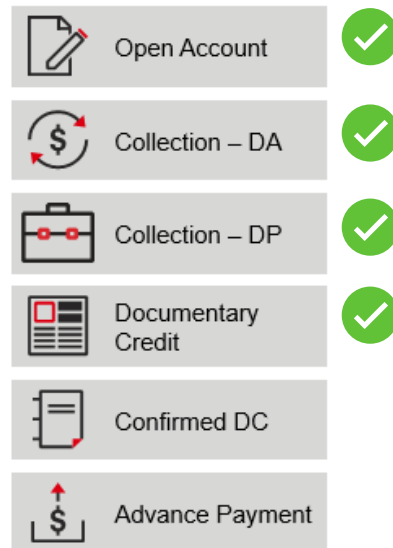


Payment Risk Ladder – Scenario

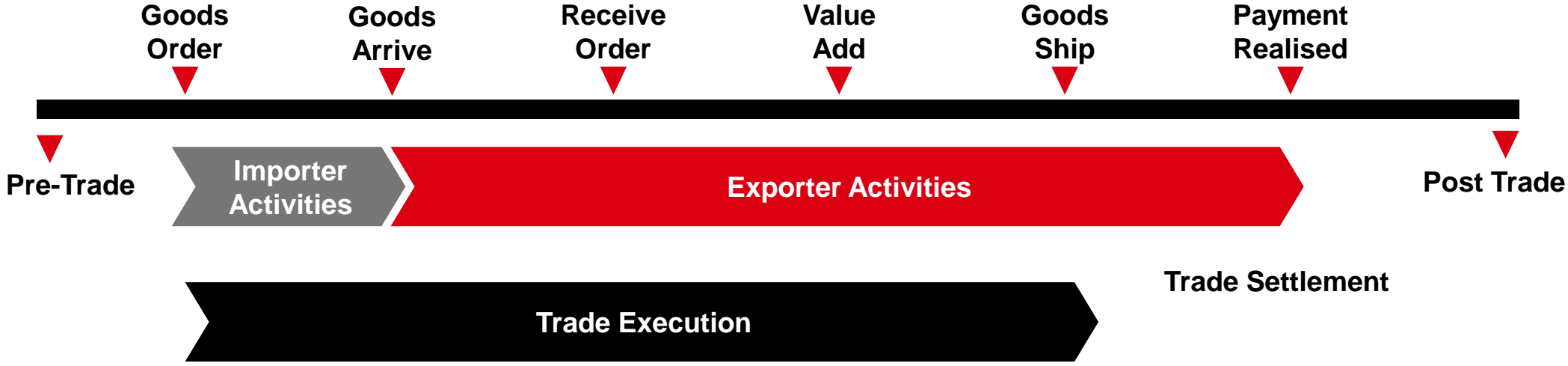
- ◆ Medium sized trading company based in UAE; been in business for 25 years
- ◆ Raw material purchase opportunity with a start-up (1 year old company) based in China
- ◆ What would be your preferred methods of payments?

Exporter

Importer



Trade Transaction Life Cycle

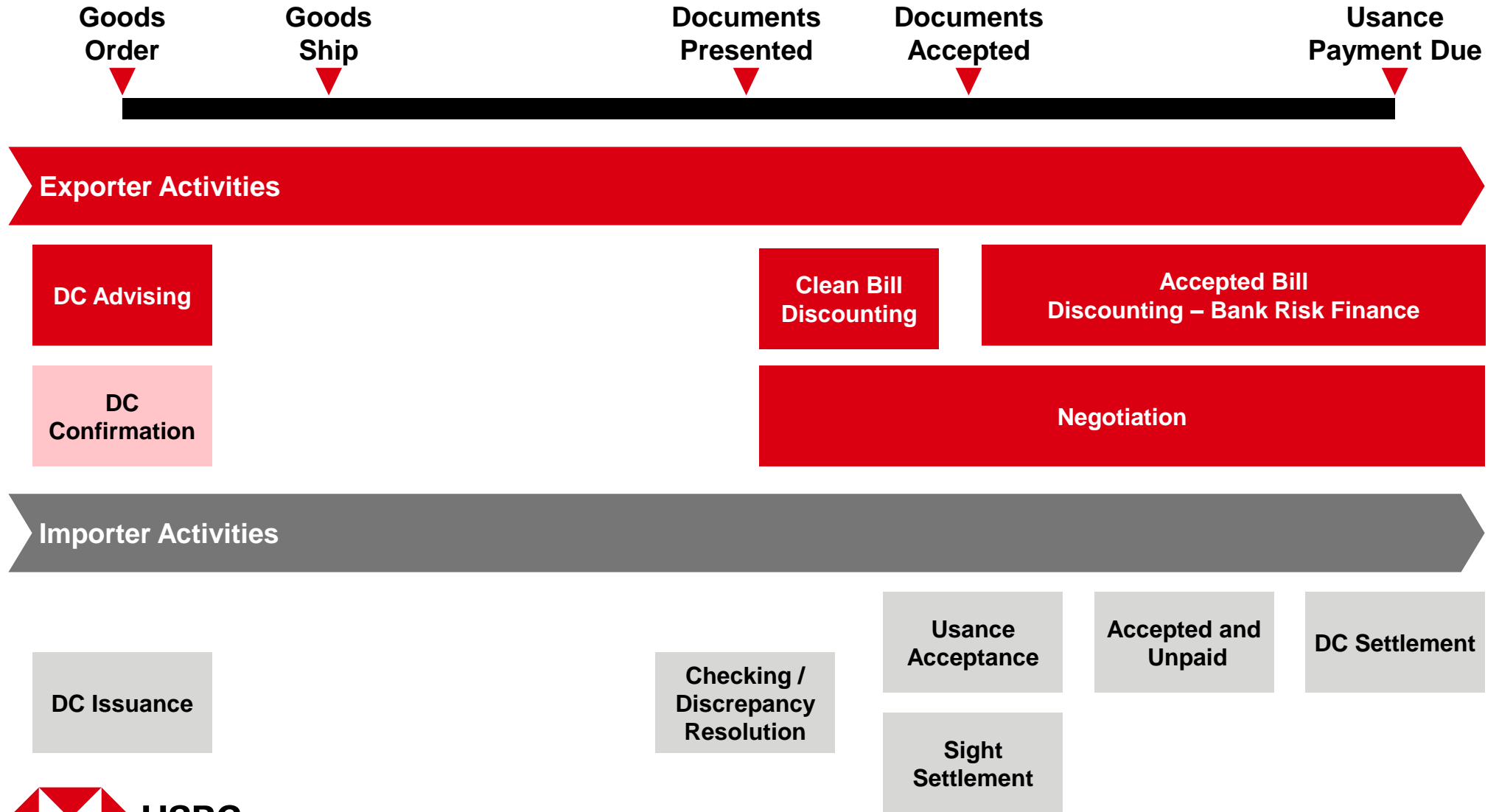


Documentary Credit (DC)

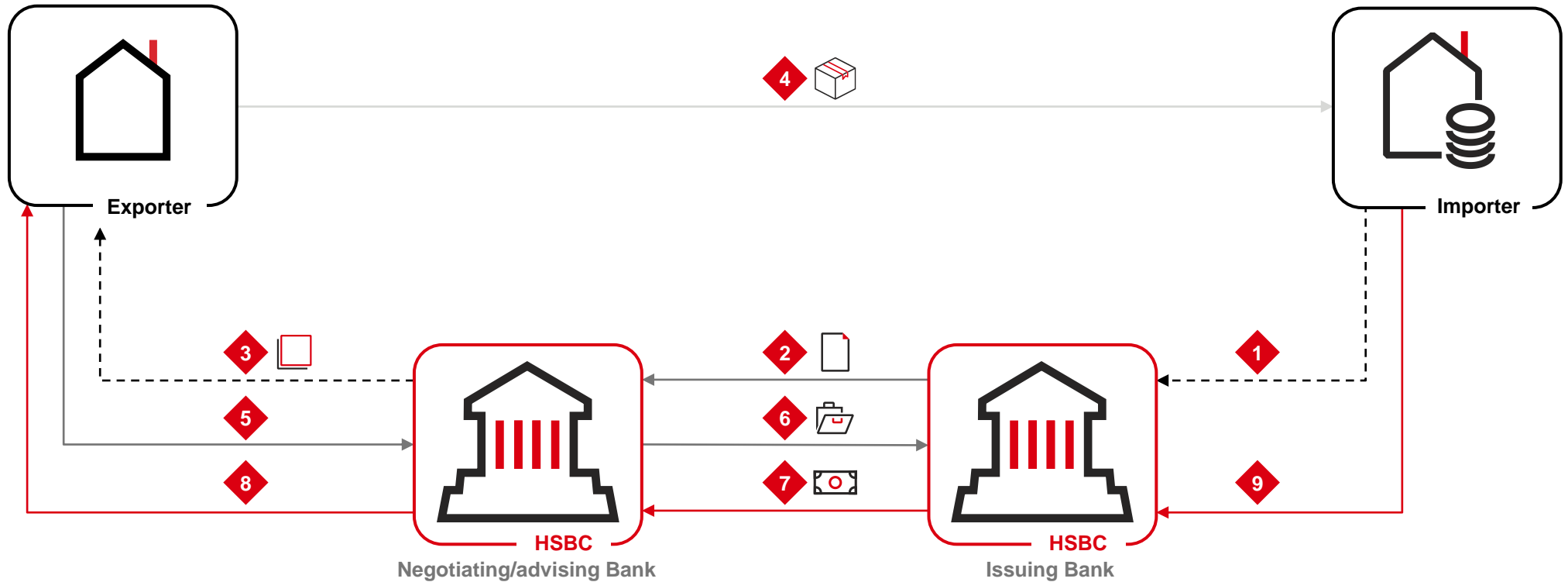
A Documentary Credit (DC) is an irrevocable undertaking given by a Bank at the request and on behalf of an Applicant (Importer) to effect settlement (payment) to a Beneficiary (Exporter) upon certain agreed conditions

- ◆ Payment terms
- ◆ Payment assurance to seller by bank
- ◆ Seller presents the DC and trade documents to Bank to claim payment
- ◆ Issuing bank will release documents to the buyer
- ◆ Buyer is obliged to make payment
- ◆ Governed by ICC rules and UCP 600

DC – Transaction Life Cycle



Documentary Credit

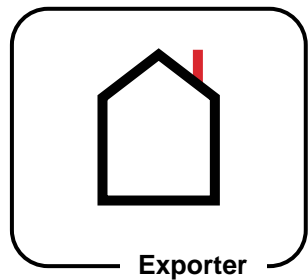


Documents
 Advice/Notice
 Goods flow
 Cash flow

- ◆ 1 DC application
- ◆ 2 DC issued
- ◆ 3 DC advised
- ◆ 4 Goods are shipped
- ◆ 5 Documents presented. If any discrepancy exists the Exporter is notified
- ◆ 6 Document sent to issuing bank
- ◆ 7 Issuing bank will effect payment or accept for a future payment
- ◆ 8 Payment to Exporter
- ◆ 9 Documents received and import bill settled



Documentary Credit – Advantages and Considerations

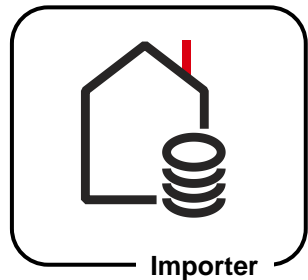


Advantages

- ◆ Payment security
- ◆ Can be used to obtain pre-shipment finance
- ◆ Can be used to obtain post-shipment finance by discounting the DC

Considerations

- ◆ Must comply with all Documentary Credit terms
- ◆ Without adding confirmation, bank and country risks are greater and should be considered
- ◆ Trading terms with Importer



- ◆ Risk mitigation
- ◆ Can facilitate financing at favourable rates
- ◆ Ability to monitor the flow of goods and payment

- ◆ Credit lines are utilised
- ◆ Trading terms with Exporter

Import DC Issuance solutions

- ◆ Transferable DC
- ◆ Back-to-back DC
- ◆ Revolving DC
- ◆ Usance DC Payable at sight (UPAS)

Transferable DC



Designated as transferable



Transferring Bank does not use limits



Transferred to third party on request of beneficiary and approval of HSBC



Terms can be changed for value, unit price, beneficiary details, Expiry/Shipment dates, Quantity, insurance percentage



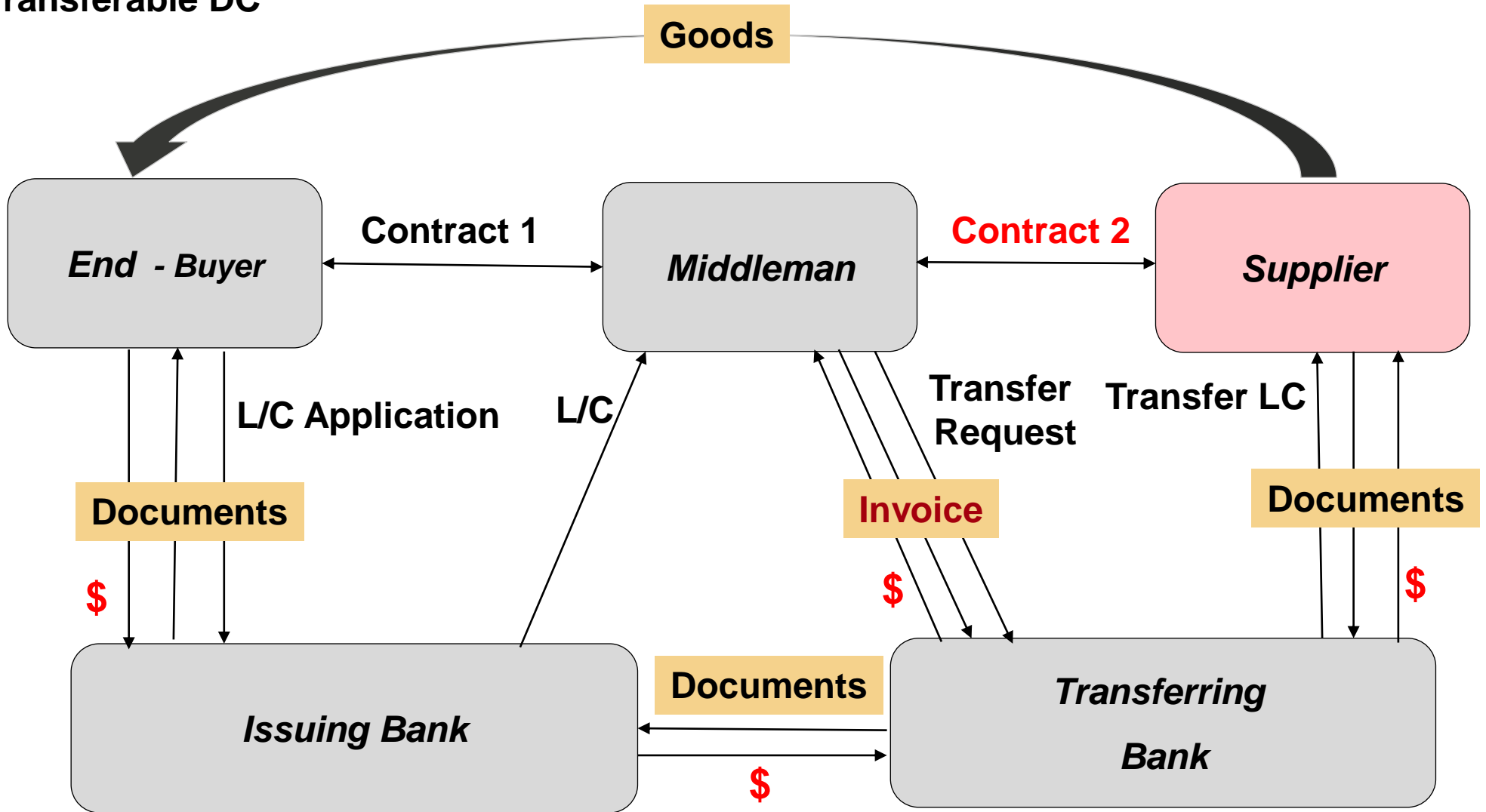
Upon HSBC approval, DC may be transferred to one or more beneficiaries (Multiple shipments may be allowed)



Beneficiary can substitute drafts and invoices



Transferable DC



Back to Back DC



For traders, intermediaries, agents etc.



Issued backed by Master DC



Helps maintain confidentiality with Importer

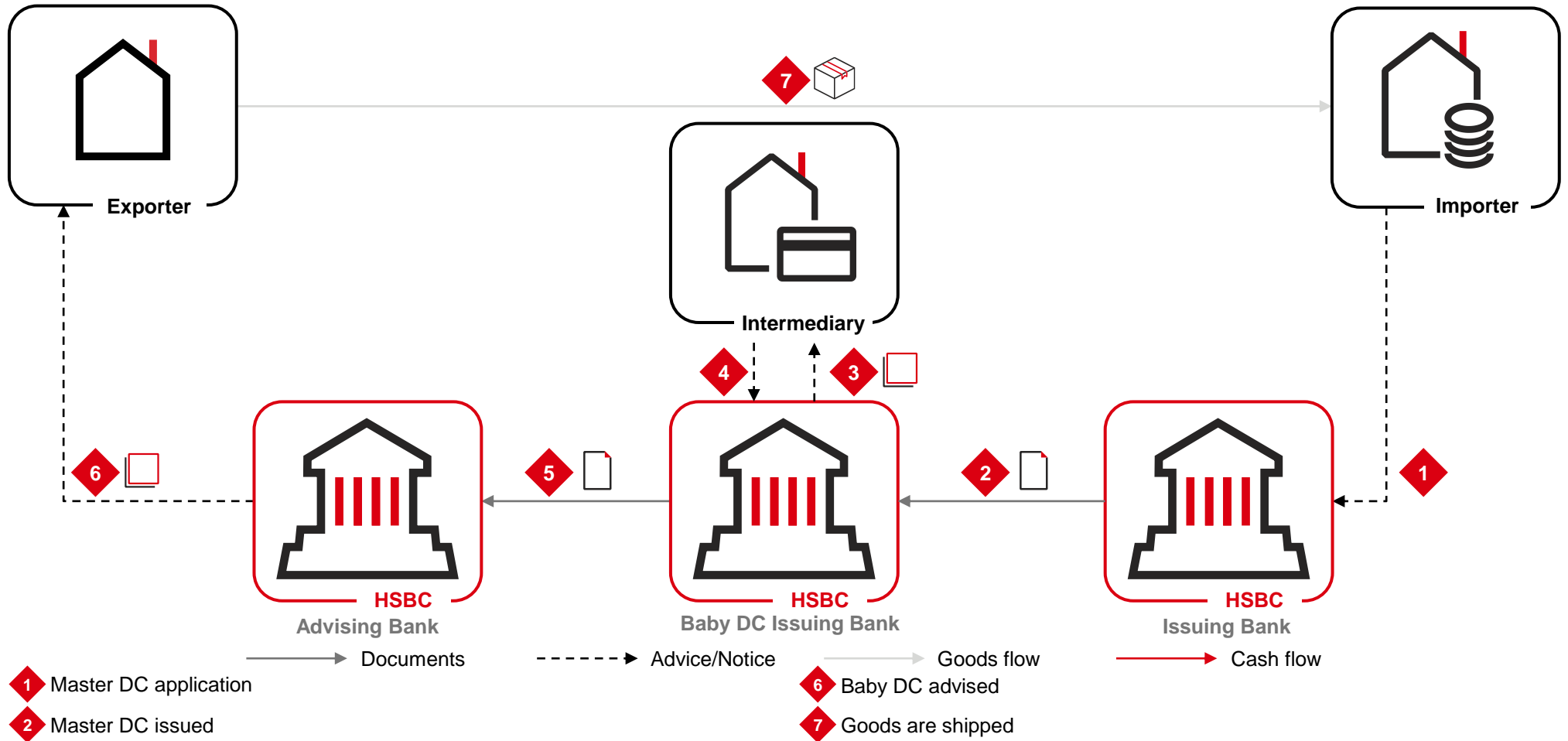


More flexibility in documents substitution

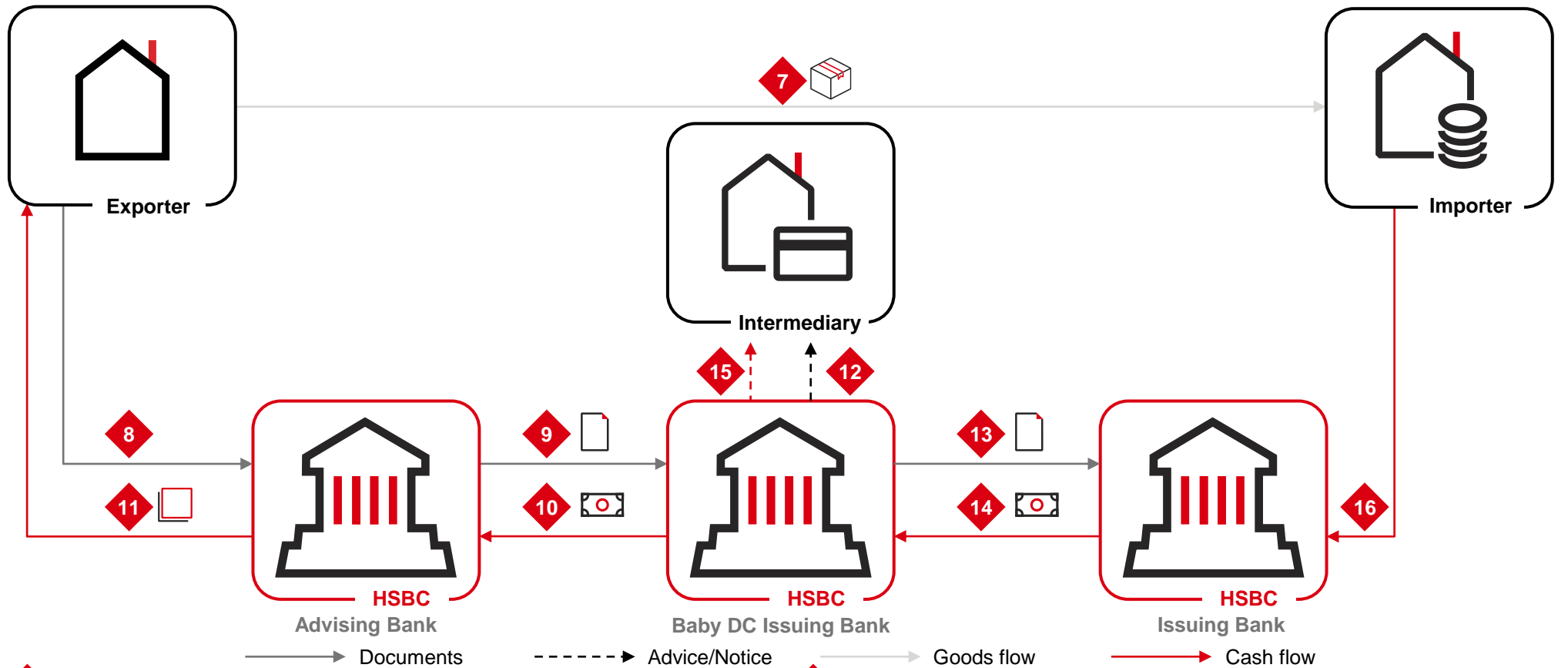


Does not need ultimate Buyer's consent

Back-to-Back DC phase 1



Back-to-Back DC phase 2



- 7** Goods are shipped
- 8** Documents presented. If any discrepancy exists the Exporter is notified
- 9** Baby DC documents sent to negotiating/advising bank
- 10** Remittance made under Baby DC¹
- 11** Payment to Exporter
- 12** Intermediary advised to substitute documents for presentation under Master DC
- 13** Master DC documents sent to issuing bank
- 14** Remittance made under Master DC¹
- 15** Intermediary receives payment
- 16** Documents received and import bill settled

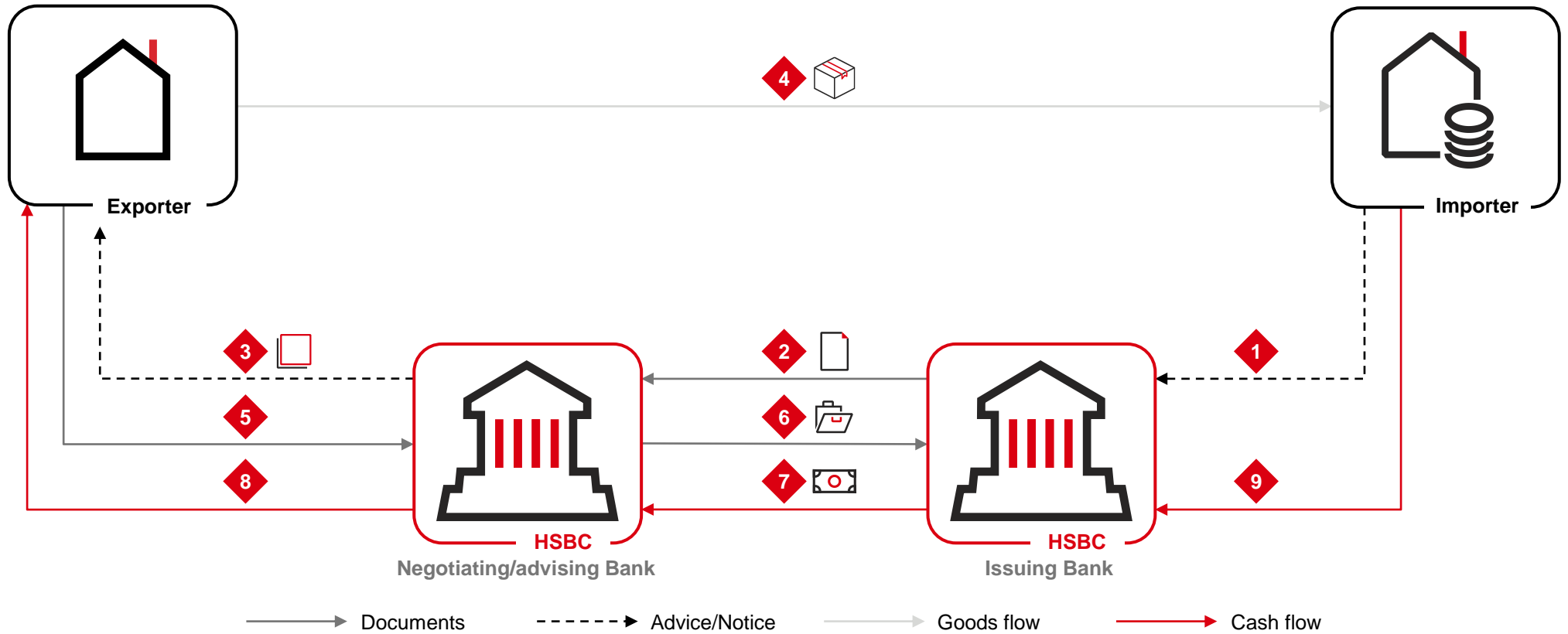
Note:
1. Timing of the flow may change based on the structure of the DC



Revolving DC

- ◆ A single Documentary Credit
- ◆ Covers multiple shipments over a long period
- ◆ Automatically reinstated after each drawing
- ◆ Less expensive than opening individual DCs for each shipment
- ◆ Can revolve around time or by value

Revolving DC



- ❖ 1 DC application on revolving payment terms
- ❖ 2 Revolving DC used
- ❖ 3 DC advised
- ❖ 4 Goods are shipped, Since being a revolving DC multiple shipments can be accommodated
- ❖ 5 Documents represented. If any discrepancy exists the Exporter is notified

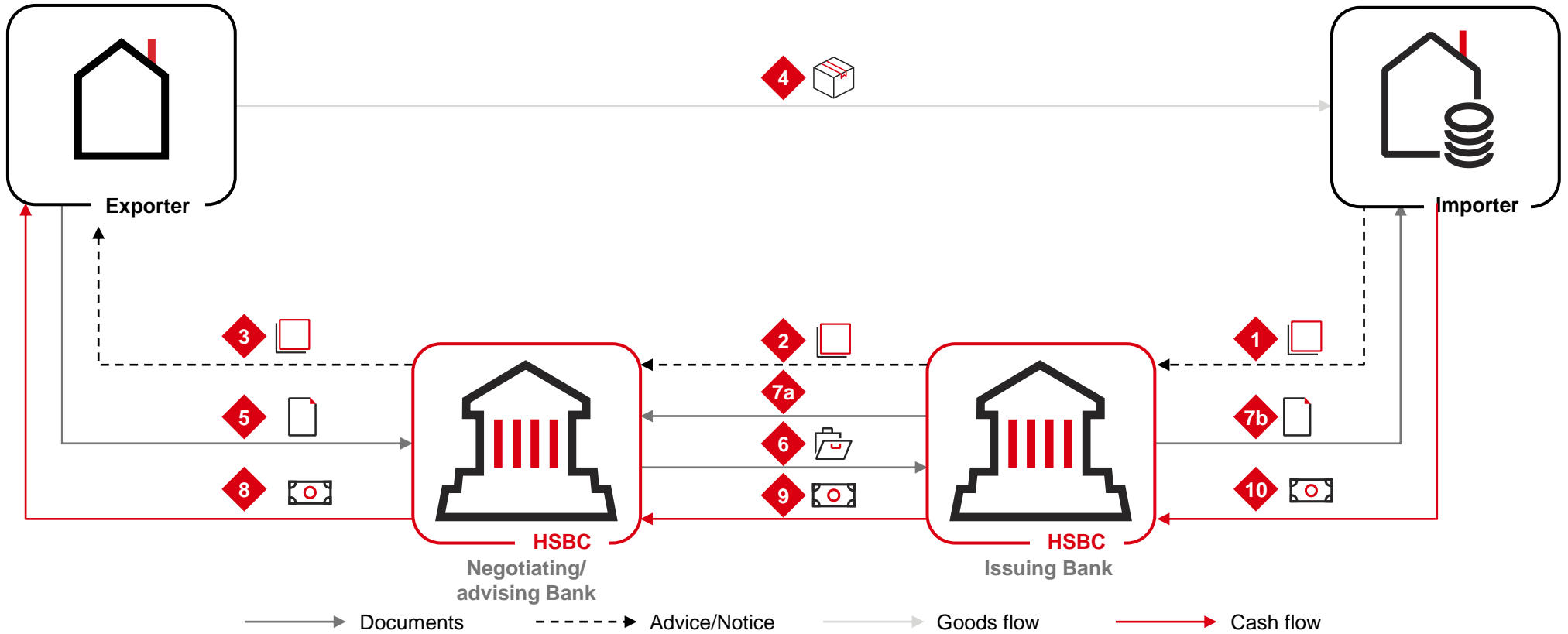
- ❖ 6 Documents sent to issuing bank
- ❖ 7 Issuing bank will effect payment or accept for a future payment (In addition, reinstatement notice will be sent if the DC is revolving around value)
- ❖ 8 Payment to Exporter
- ❖ 9 Documents received and import bill settled Multiple drawings allowed under revolving DC



Usance DC payable at sight (UPAS)

- ◆ Usance DC but ability to negotiate at sight
- ◆ Issuing bank reimburse the negotiating bank
- ◆ Favourable payment terms from exporter's perspective
- ◆ Faster access to payment
- ◆ Importer's ability to negotiate better pricing

Usance DC Payable at Sight (UPAS)



- 1 Usance DC application
- 2 Usance DC issued (with sight payment clause)
- 3 DC advised
- 4 Goods are shipped
- 5 Documents presented for examination with request for discounting, subject to clean presentation

- 6 Documents sent to issuing bank
- 7 Issuing bank sends acceptance advice to negotiating bank and documents released to Importer
- 8 Negotiating bank to make payment to Exporter
- 9 Issuing bank will effect payment + interest to negotiating bank on due date
- 10 At maturity, Importer will settle DC amount and interest



Coming up next...



HSBC Trade Academy:
Traditional Trade - Exports

14th November 2-3pm GST

 [Register Now](#)

The image shows a white truck at a port with a large blue container ship and yellow cranes in the background. Two men, one in a high-visibility vest and one in a suit, are standing in the foreground.



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.



Questions?

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