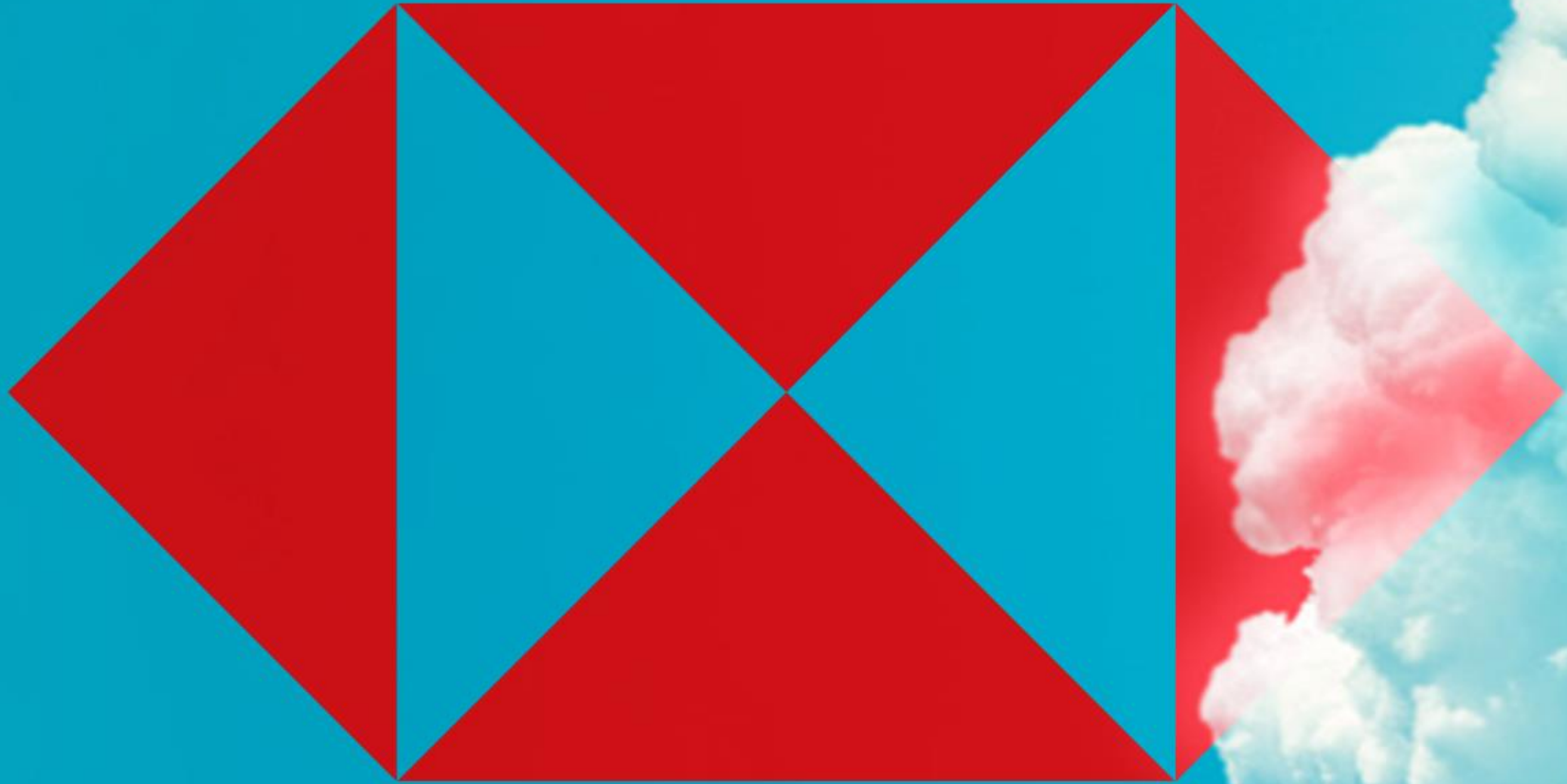


HSBC Trade Academy:

Traditional Trade | Imports and Exports



Agenda

◆ **Documentary Trade**

◆ **Payment Risk Ladder**

◆ **Documentary Credit**

◆ **Types of Import Documentary Credits**

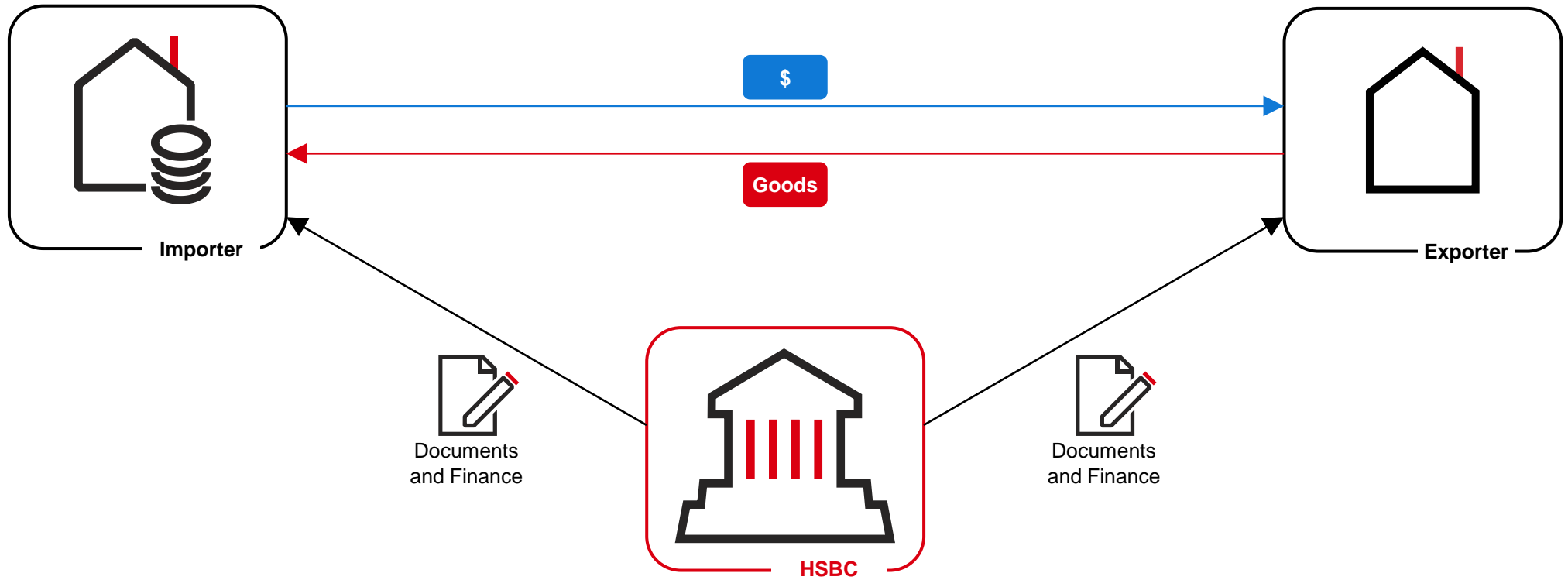
◆ **Export Documentary Credits**

◆ **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

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

Importer

Most Secure



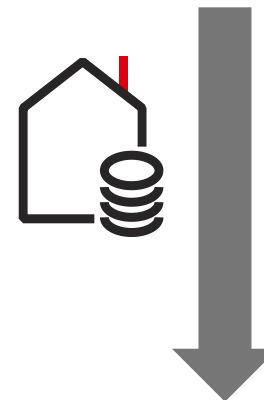
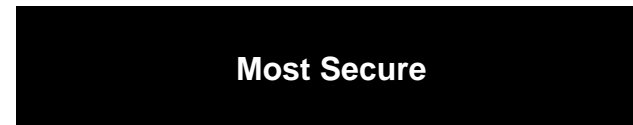
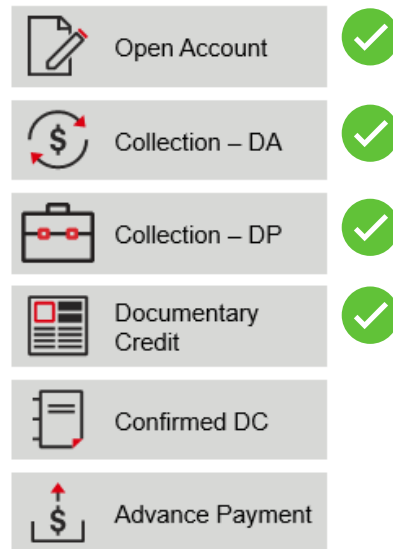
Least Secure

Payment Risk Ladder – Scenario

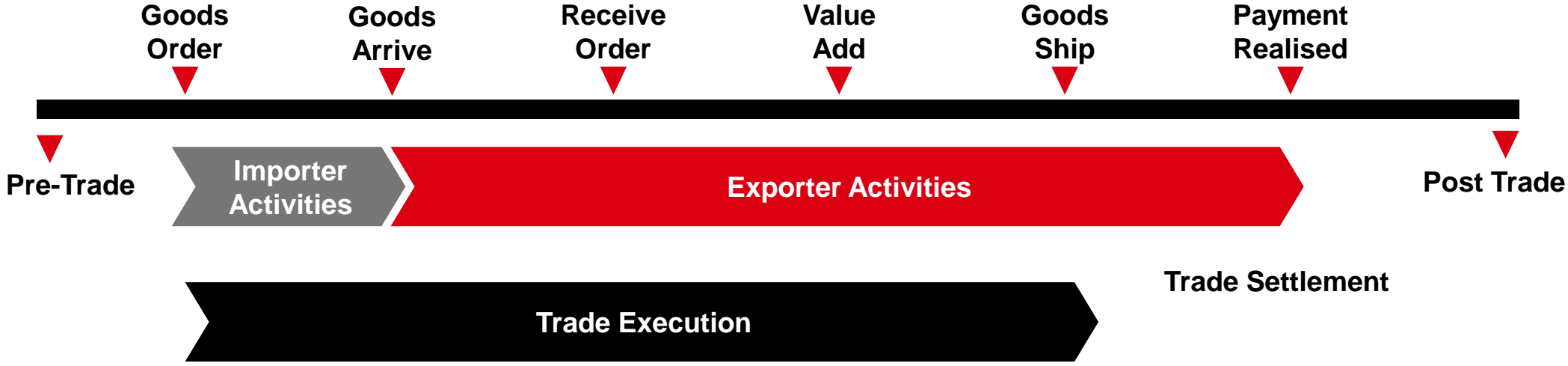
- ◆ Medium sized trading company based in UAE; been in business for 25 years
- ◆ Raw material purchase opportunity with a start-up (1 year old company) based in China
- ◆ What would be your preferred methods of payments?

Exporter

Importer



Trade Transaction Life Cycle

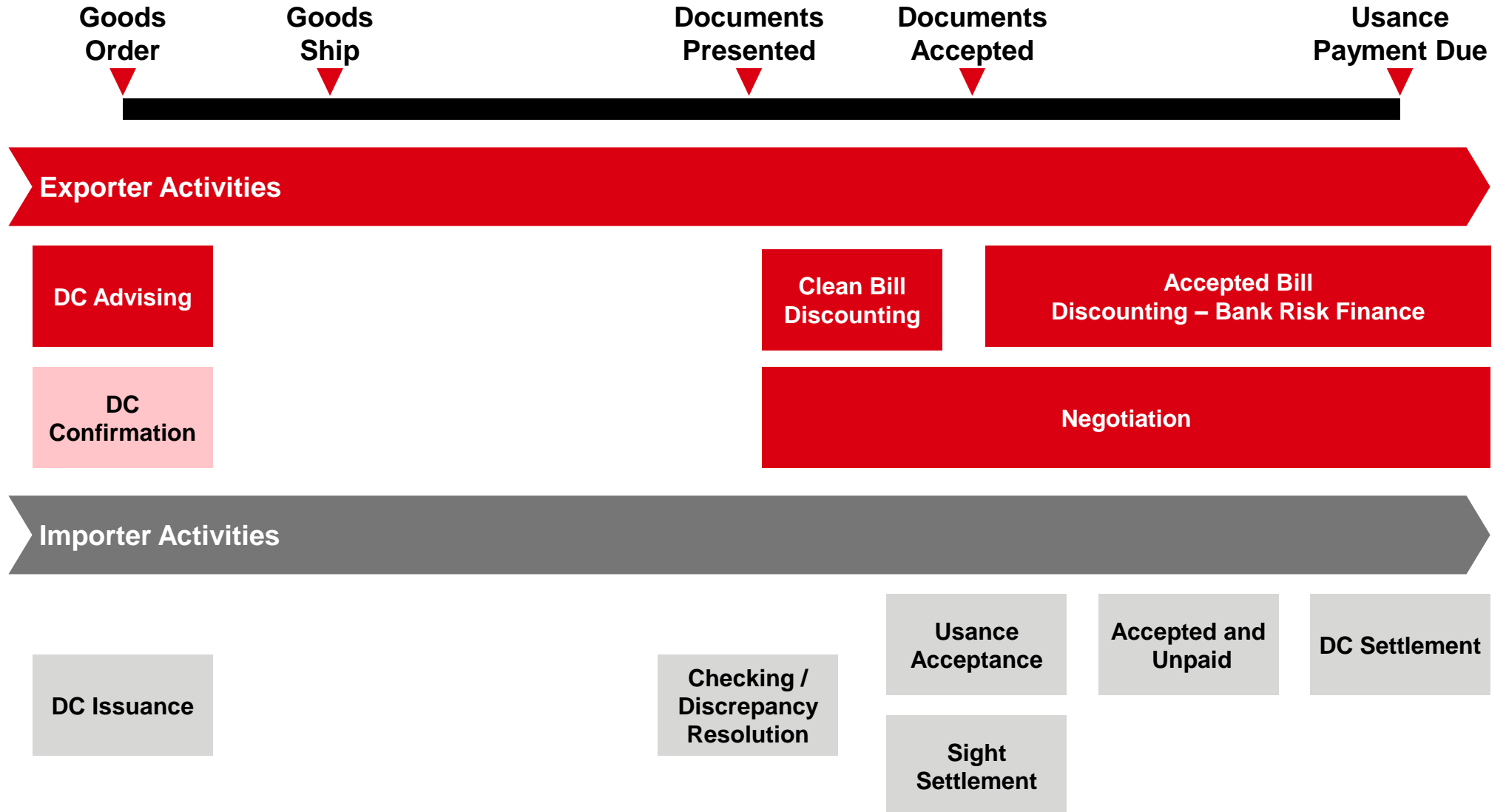


Documentary Credit (DC)

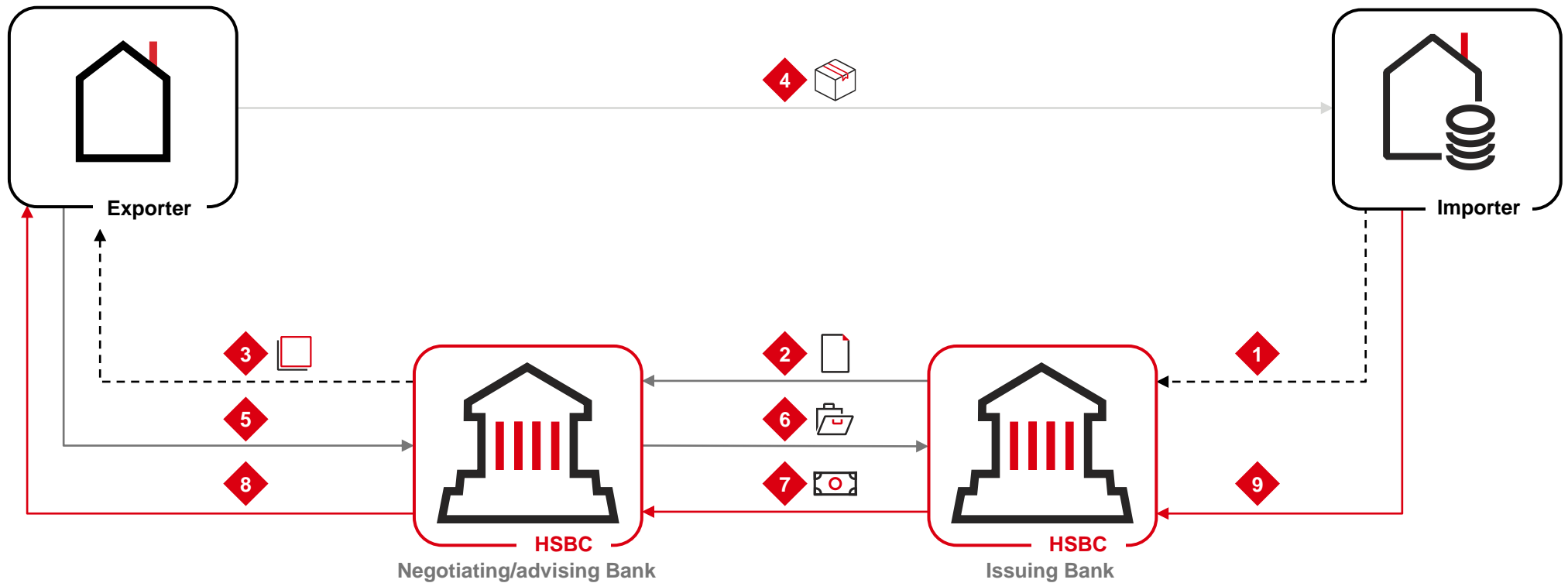
A Documentary Credit (DC) is an irrevocable undertaking given by a Bank at the request and on behalf of an Applicant (Importer) to effect settlement (payment) to a Beneficiary (Exporter) upon certain agreed conditions

- ◆ 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



1 DC application

2 DC issued

3 DC advised

4 Goods are shipped

5 Documents presented. If any discrepancy exists the Exporter is notified

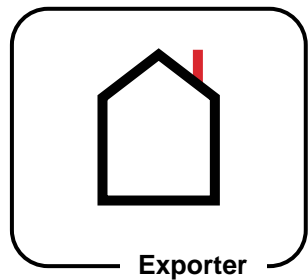
6 Document sent to issuing bank

7 Issuing bank will effect payment or accept for a future payment

8 Payment to Exporter

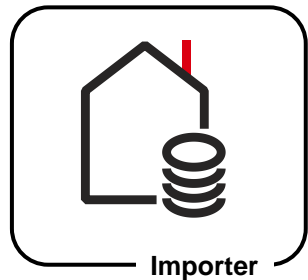
9 Documents received and import bill settled

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

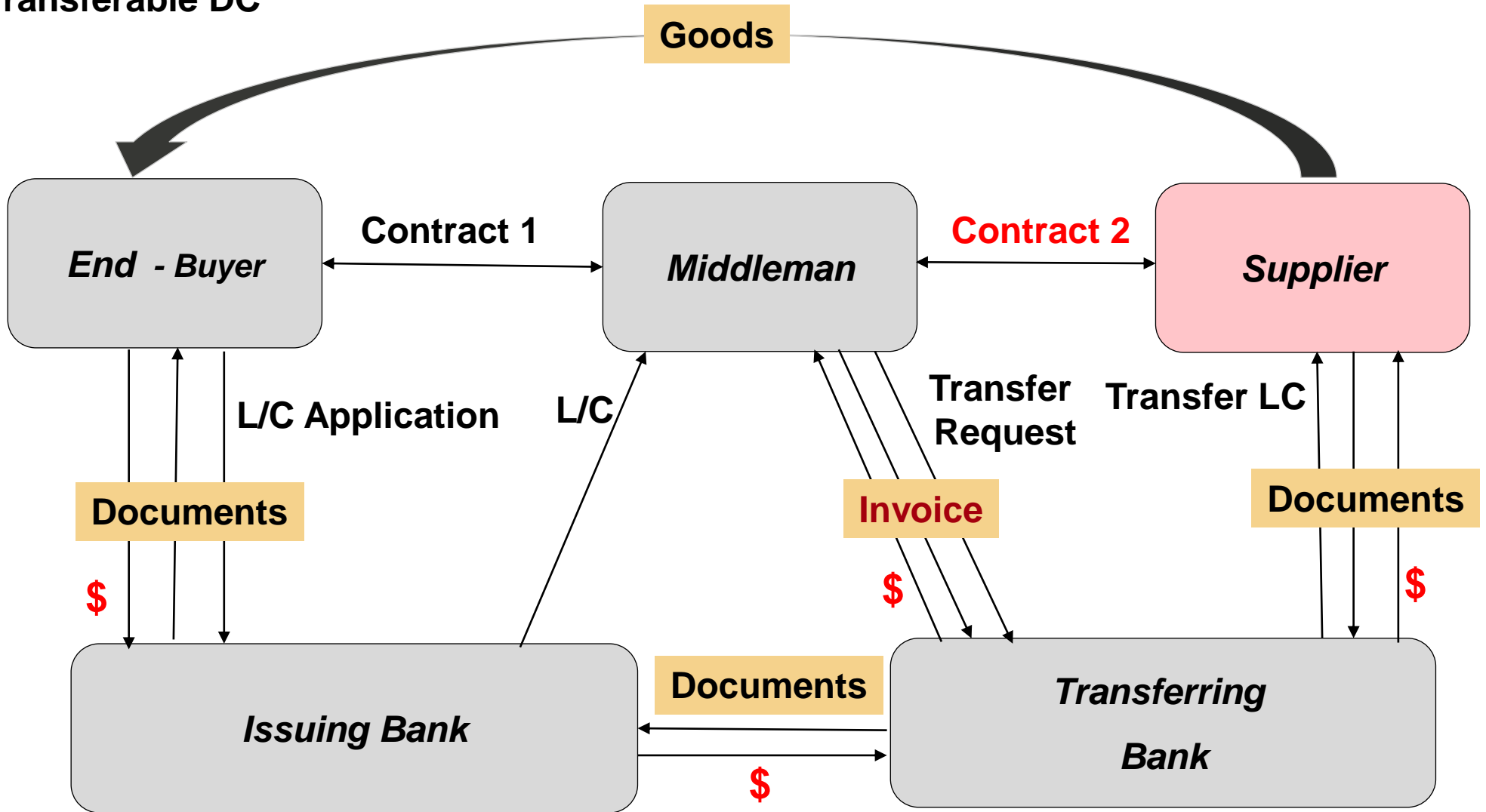


Upon HSBC approval, DC may be transferred to one or more beneficiaries (Multiple shipments may be allowed)



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

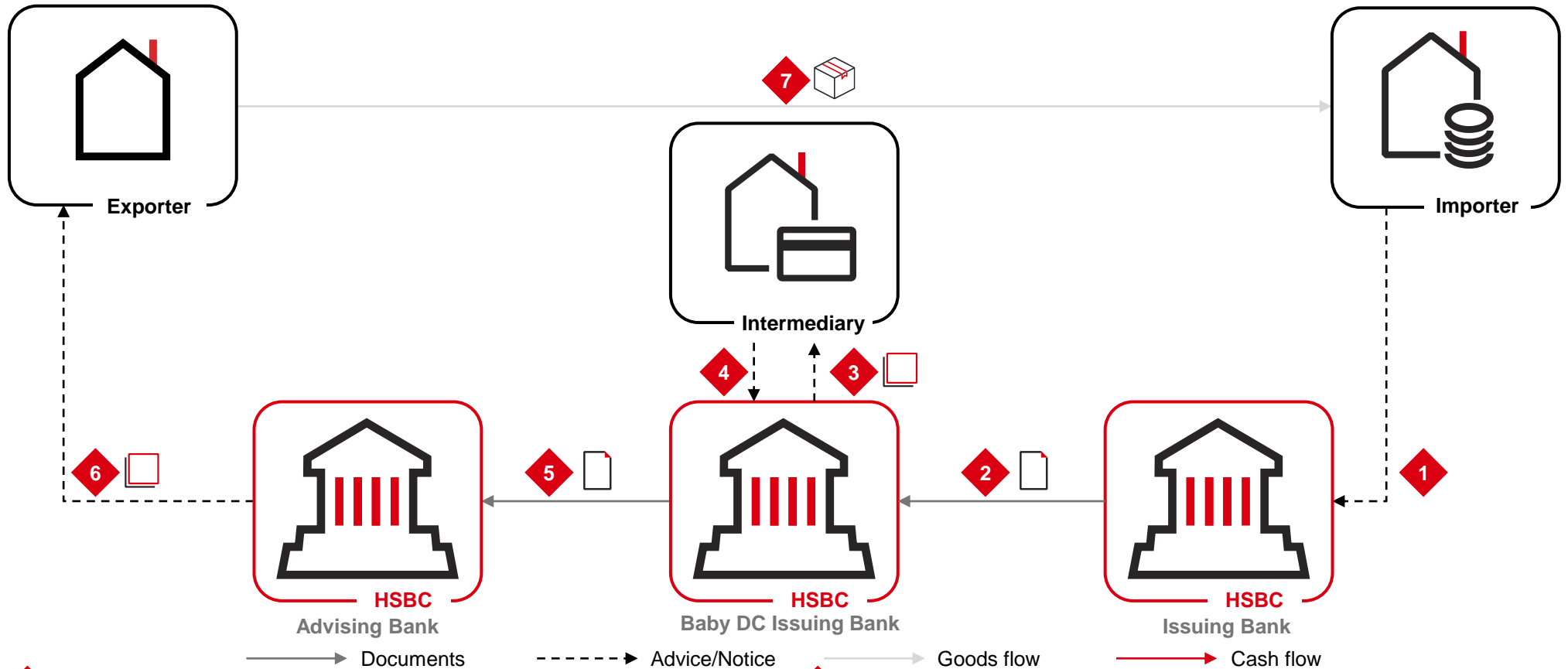


More flexibility in documents substitution



Does not need ultimate Buyer's consent

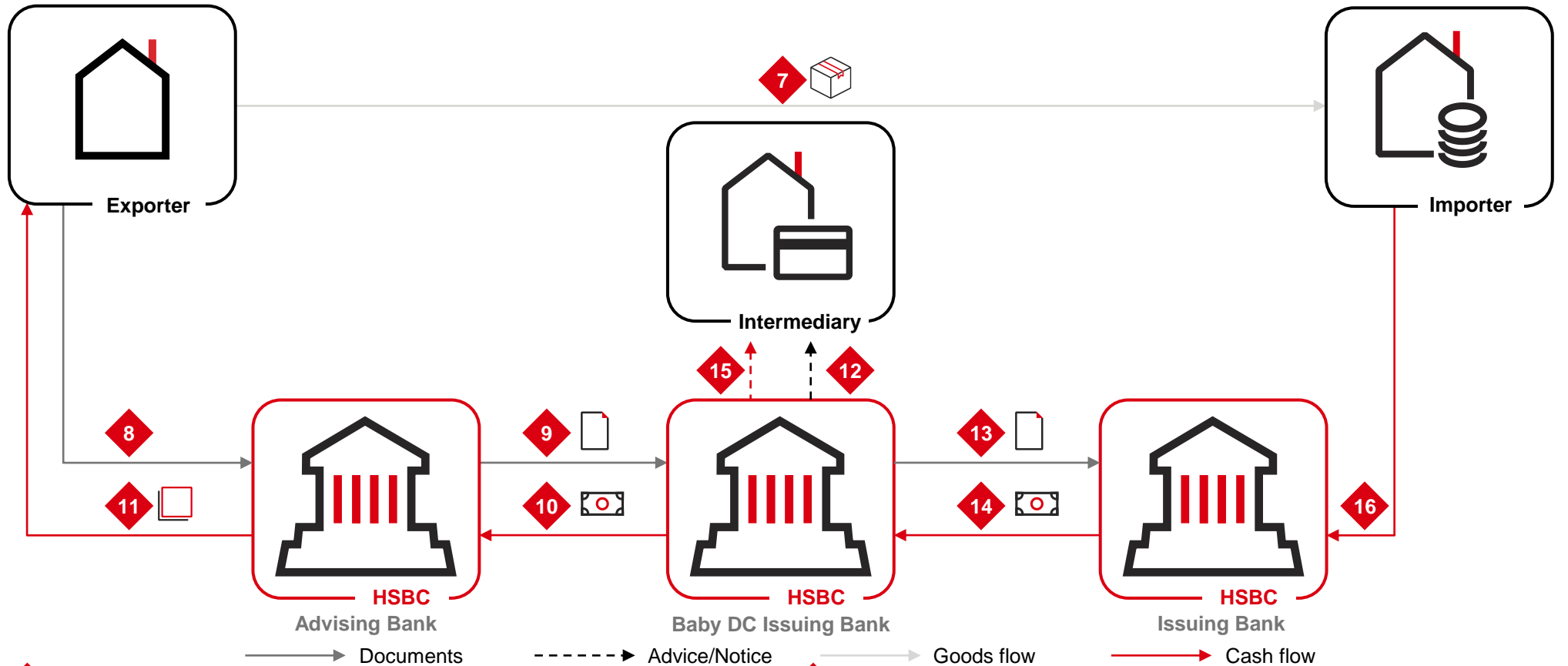
Back-to-Back DC phase 1



- 1 Master DC application
- 2 Master DC issued
- 3 Master DC advised
- 4 Request for a Baby DC
- 5 Baby DC issued

- 6 Baby DC advised
- 7 Goods are shipped

Back-to-Back DC phase 2



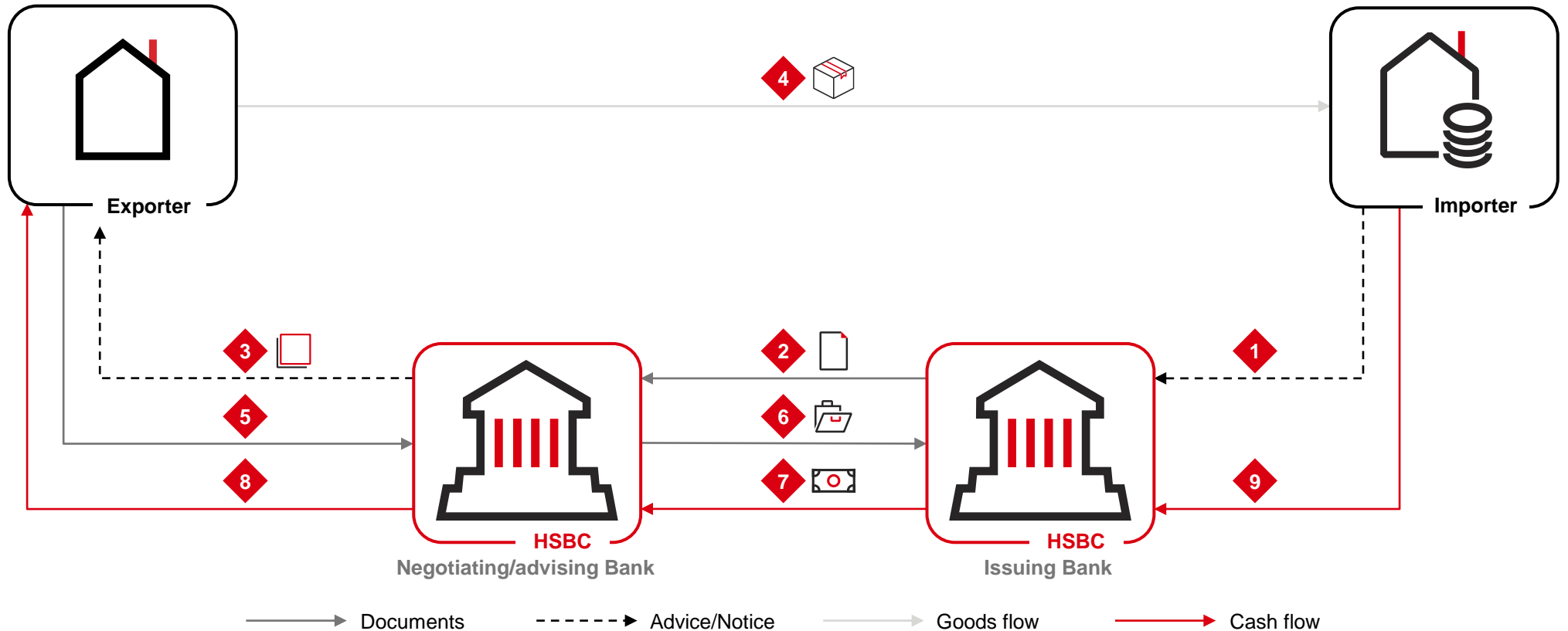
- 7** Goods are shipped
- 8** Documents presented. If any discrepancy exists the Exporter is notified
- 9** Baby DC documents sent to negotiating/advising bank
- 10** Remittance made under Baby DC¹
- 11** Payment to Exporter
- 12** Intermediary advised to substitute documents for presentation under Master 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



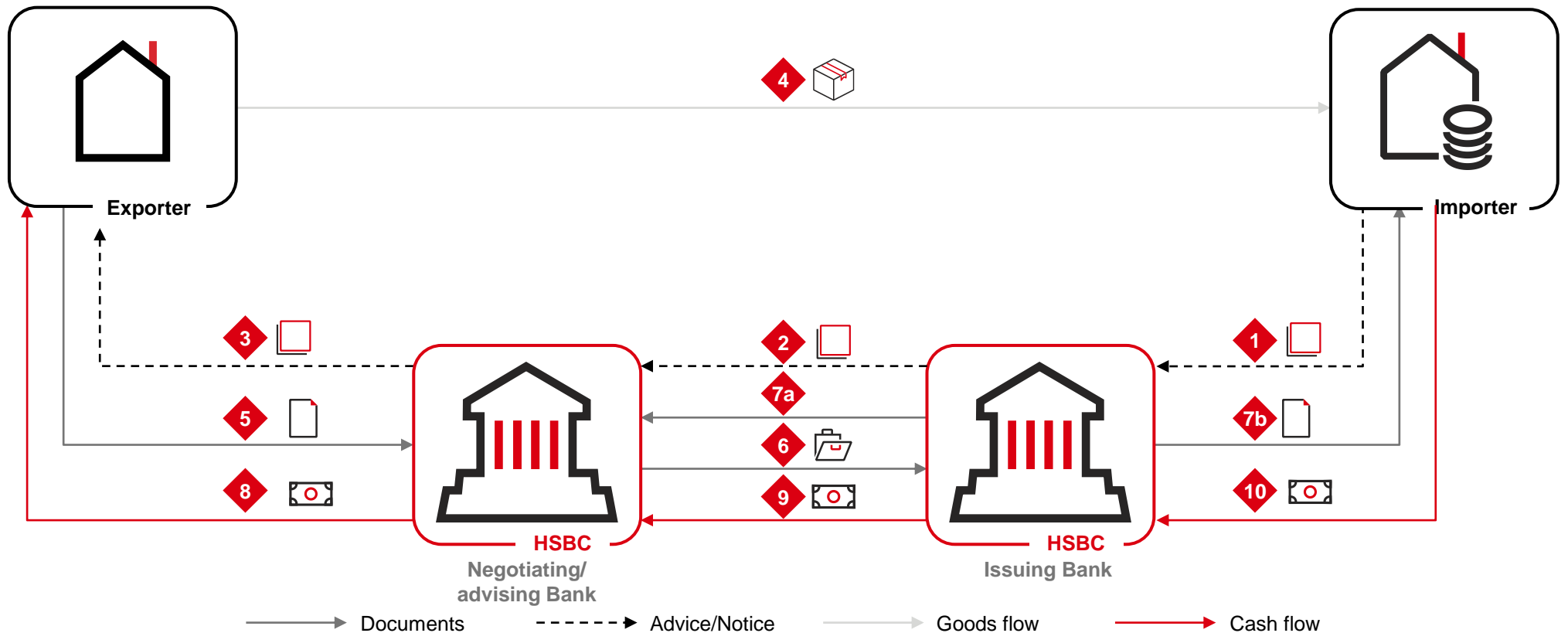
- ❖ 1 DC application on revolving payment terms
- ❖ 2 Revolving DC used
- ❖ 3 DC advised
- ❖ 4 Goods are shipped, Since being a revolving DC multiple shipments can be accommodated
- ❖ 5 Documents represented. If any discrepancy exists the Exporter is notified

- ❖ 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

Export Documentary Credit Solutions

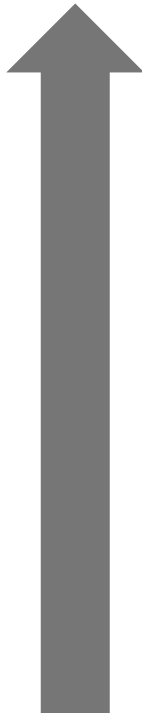
◆ DC Confirmation

◆ DC Discounting







Payment Risk Ladder

Exporter

Least Secure



Most Secure

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

Importer

Most Secure



Least Secure

DC Confirmation



Confirming bank takes on risk of non-payment



Bank and country risks are mitigated

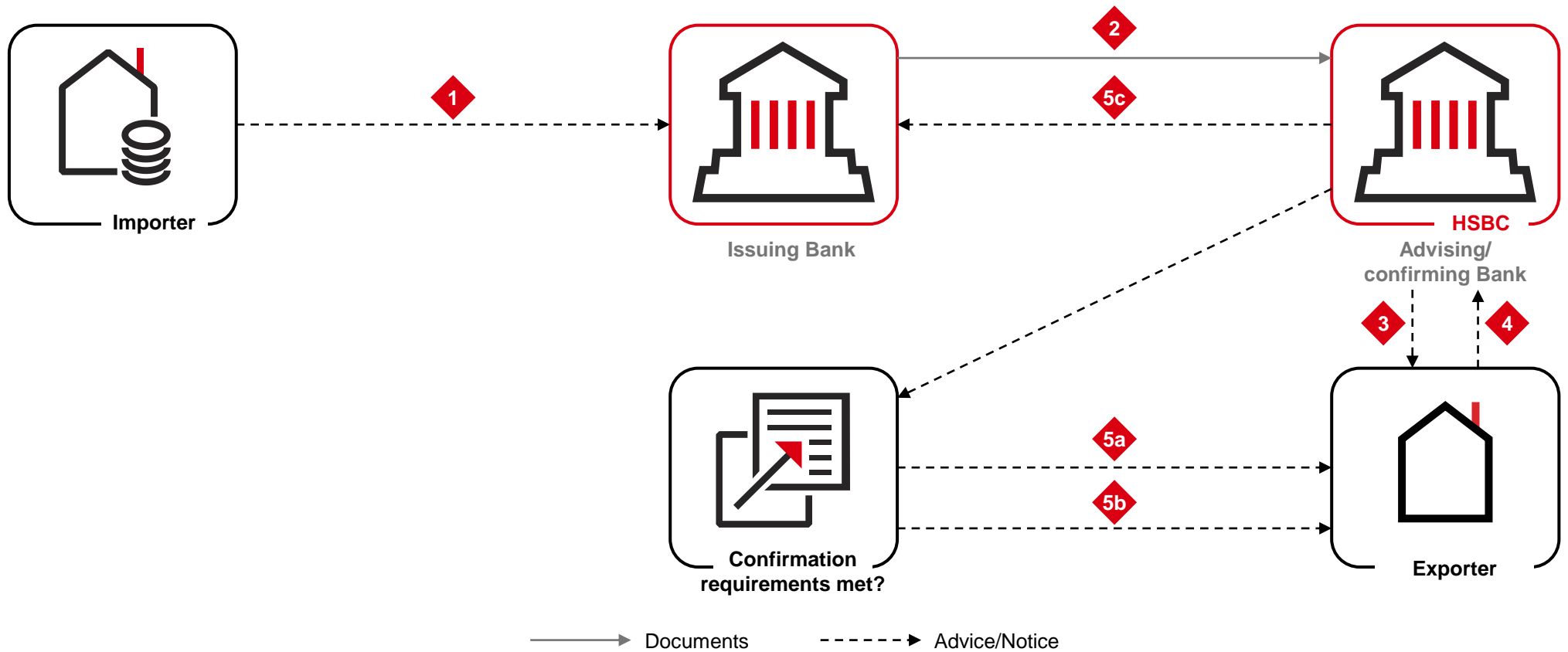


Only valid if compliant documents are presented



Confirming bank's ability to confirm depends on risk appetite

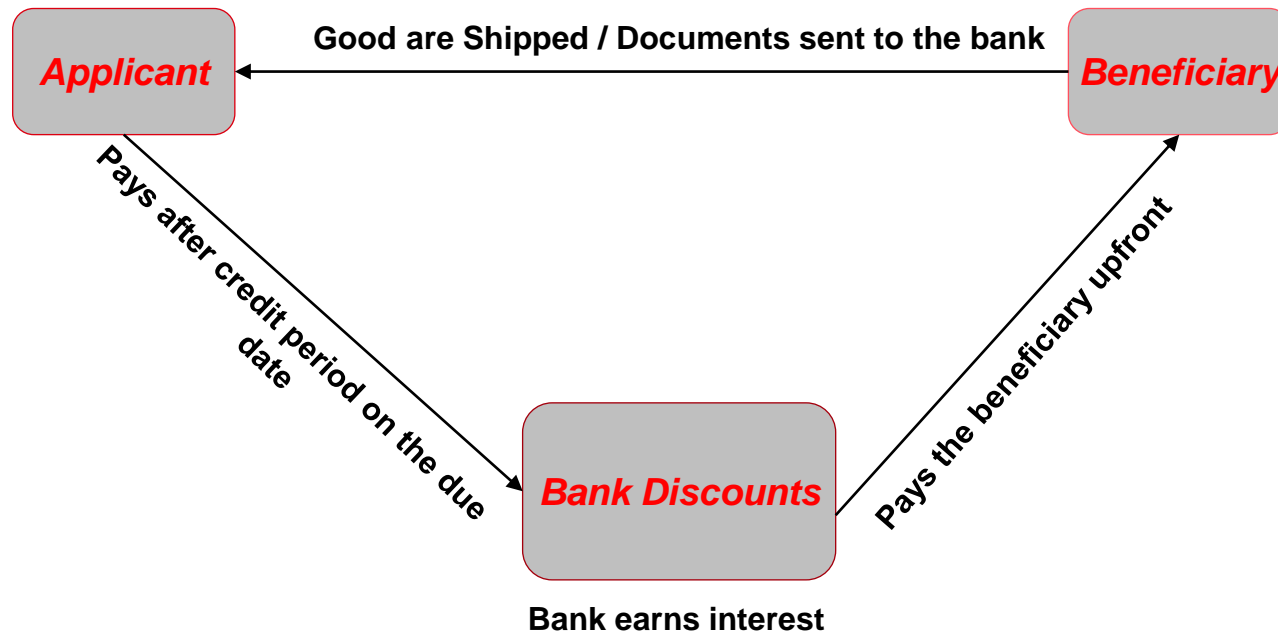
DC Confirmation



- 1 DC application
- 2 DC issued (with request to add confirmation)
- 3 DC advised
- 4 Requests for confirmation
- 5a Yes. HSBC adds confirmation

- 5b No. HSBC notifies accordingly
- 5c Notification to Issuing Bank

DC Discounting



- ◆ DC Discounting - The negotiating bank agrees to make payment in advance to the beneficiary upon receipt of compliant documents or post acceptance from the Issuing bank.
- ◆ The Exporter receives the money for their exported goods from the bank before the due date. An Exporter may find it beneficial to discount the DC to enhance cash flow.

Advantages of Discounting



Immediate Liquidity



Mitigates Credit Risk



Flexibility and Working Capital Optimization

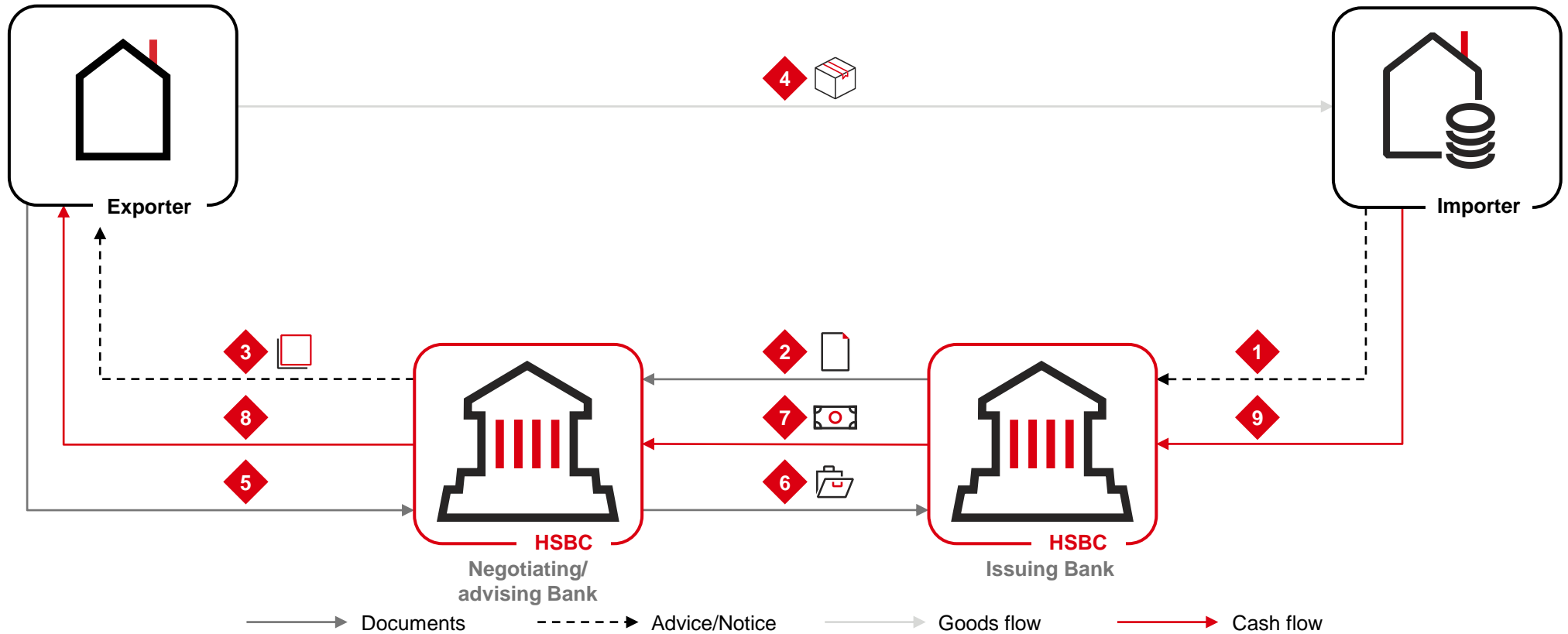


Cost-effective Financing Option



Improved Cash Flow Management

DC Discounting



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

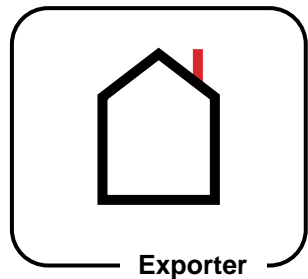
- 6 Documents sent to issuing bank
- 7 Issuing bank will effect payment or accept for a future payment
- 8 Negotiating bank will discount DC after acceptance
- 9 Documents received and import bill settled

Documentary Collections

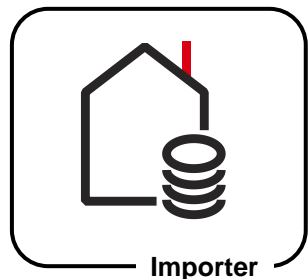
In a collection - banks act as a trusted third party who holds the documents pending payment or promise of payment

Documents are released to the Importer upon the terms of the collection:

- ◆ Payment – Documents against Payment (D/P)
- ◆ Acceptance of a term bill of exchange – Documents against Acceptance (D/A)

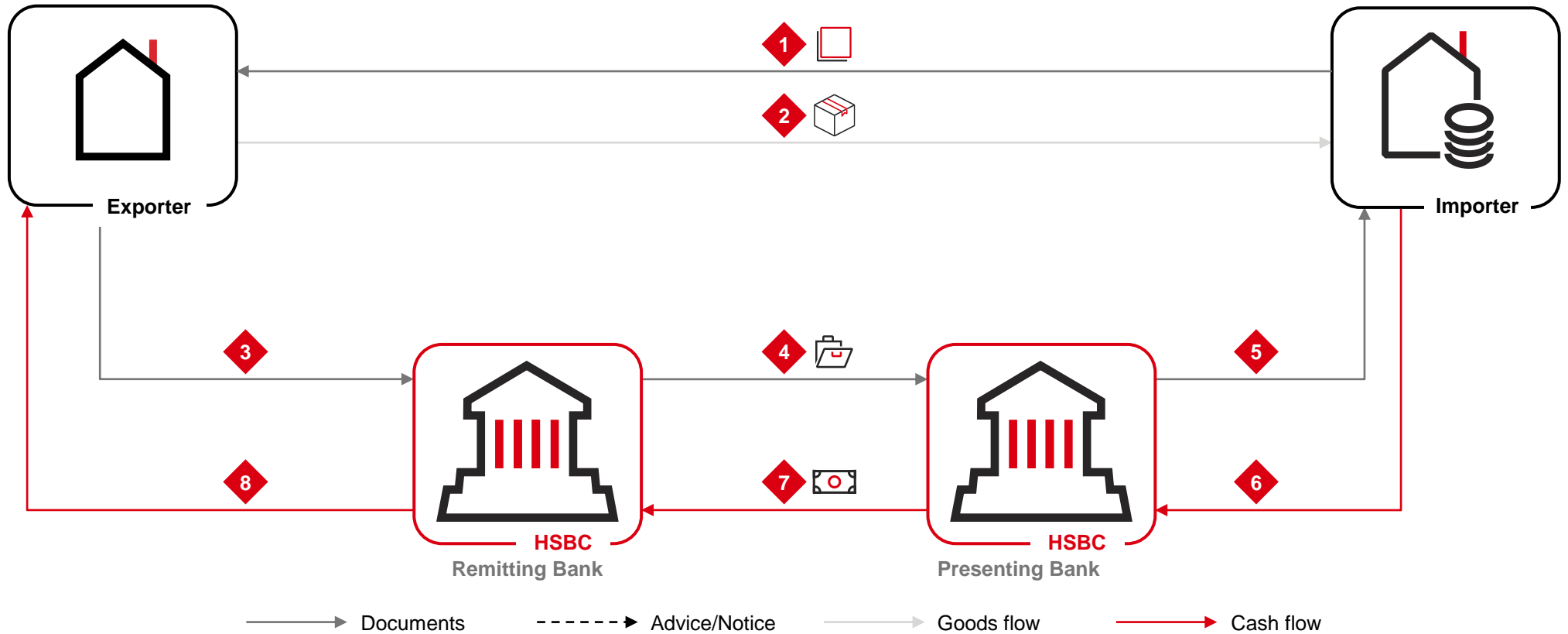


- ◆ Control of goods retained (sight collections only)
- ◆ Access to DP/DA finance
- ◆ Visibility of transaction processed through a bank of goods through banks



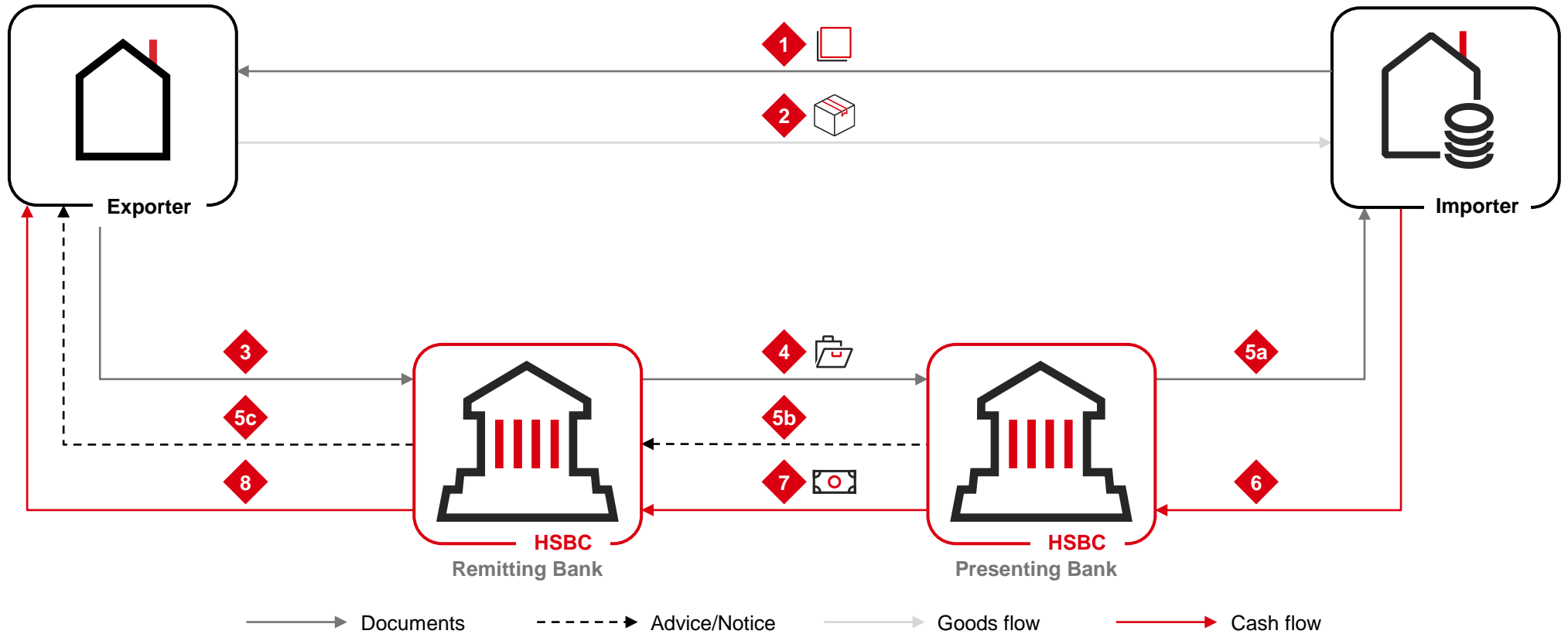
- ◆ Means of accessing extended finance (i.e. term collections)
- ◆ Opportunity to inspect documents before settlement or acceptance
- ◆ Access to Import Finance

Documents against Payment (D/P)



- 1 Sales contract
- 2 Goods are shipped
- 3 Documents presented
- 4 Documents sent to presenting bank
- 5 Import bill accepted and payment
- 6 Documents sent to Importer
- 7 Remit proceeds to remitting bank
- 8 Payment to Exporter

Documents against Acceptance (D/A)



- 1 Sales contract
- 2 Goods are shipped
- 3 Documents presented
- 4 Documents sent to presenting bank
- 5a Presenting bank requests the Importer for acceptance of the import bill. Only upon acceptance of the draft for future payment are the documents handed over to the Importer

- 5b Acceptance communicated to remitting bank
- 5c Acceptance notified
- 6 Payment affected to presenting bank on due date
- 7 Remit proceeds to remitting bank
- 8 Payment to Exporter

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