

HSBC Trade Academy:

Introduction to International Trade & Guarantees

It's great doing
business
as we get a better
understanding of trade



HSBC

Opening up a world of opportunity

Today's Agenda

- ❖ Introduction to Trade Finance
- ❖ Various parties in Trade Transactions
- ❖ Methods of Payments and Risks Associated
- ❖ Bank Guarantees and Different Types of Guarantees
- ❖ Issuances, Cancellations, and Claims Process

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

International Trade and Finance

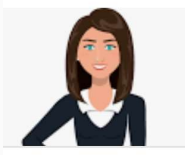
*What is
International Trade
and Finance?*

- Its providing goods or services across the border.
- The process of financing such trade is international trade finance and the same thing happening inside the border of the country is domestic / Inland trade Finance.

***Roles / Players in
International
Trade***



Exporter – The Seller of the Goods



Importer – The Buyer of the Goods



Banks – The banks play a vital role acting between the buyer and the seller as intermediaries.

***Roles / Players in
International
Trade***



Transport Companies - They are involved in the actual movement of the goods.

Insurance Companies - These Companies insure the goods so that the risk of financial loss due to damaged goods can be avoided.

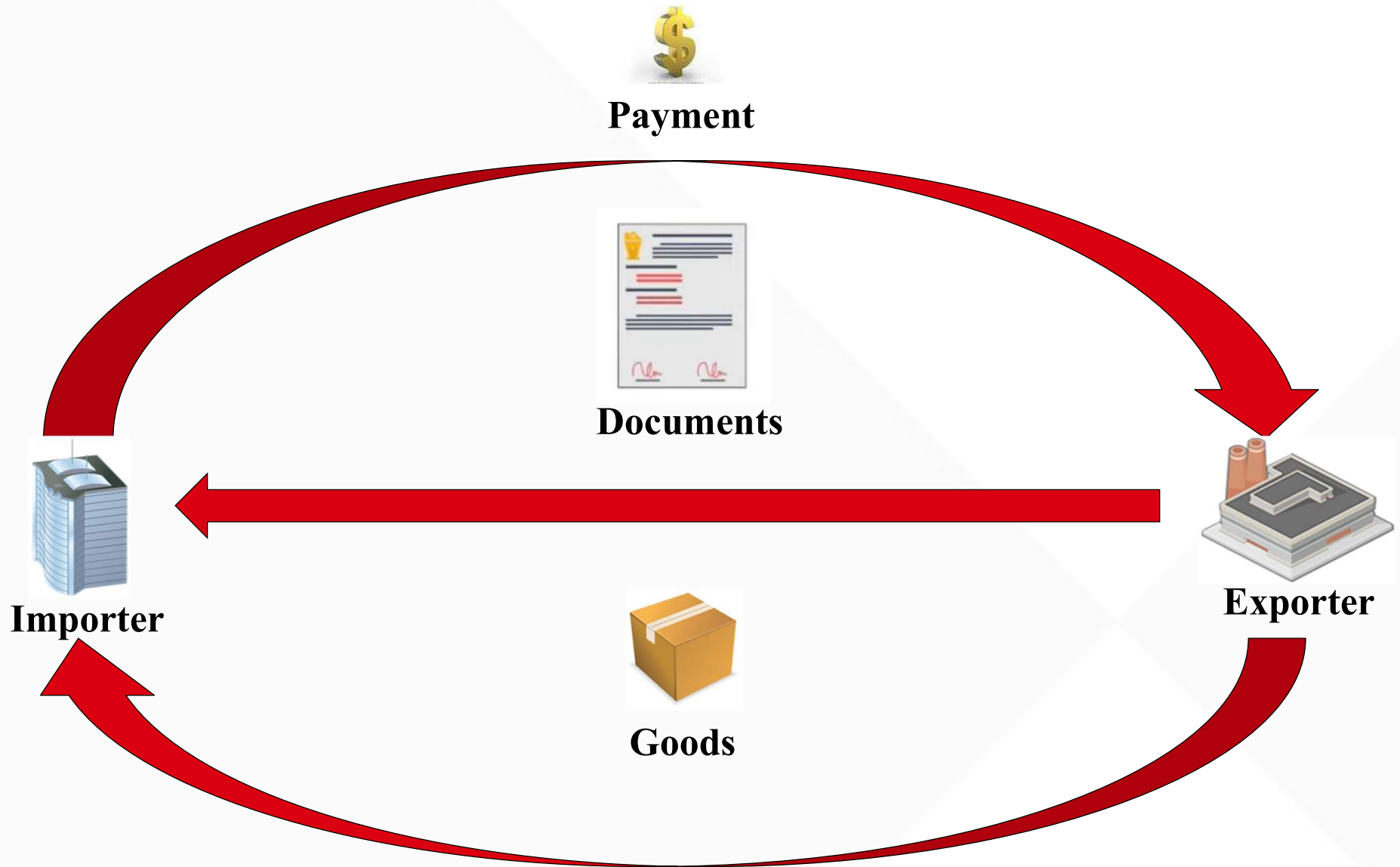
***Roles / Players in
International
Trade***



Regulatory Bodies - World Trade Organization (WTO), International Chamber of Commerce (ICC), Central Bank of UAE etc.

Certification companies – These provide various certificates required which are related to the goods shipped.

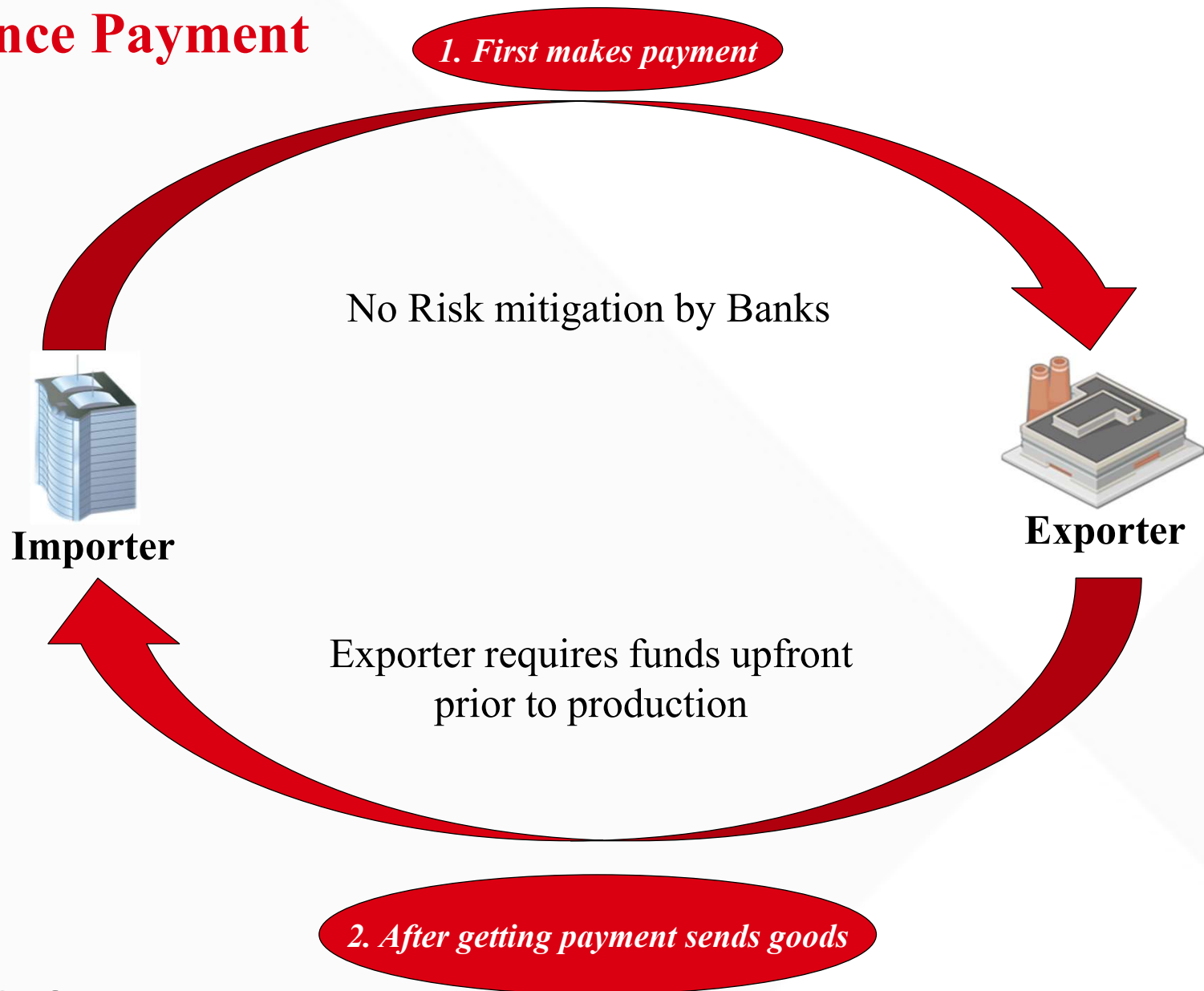
Movement in International Trade



Payments Methodology

- ❖ Advance Payment
- ❖ Open Account
- ❖ Documentary Collections
- ❖ Documentary Credits (Letters of Credits)

Advance Payment



Open Account



*Overview of
Collections &
letter of credit*

DOCUMENTARY COLLECTIONS

- Movement of documents through exporters and importers banks
- Importer's bank hands over documents only after importer pays immediately or promises to pay at a future date. But the importer's bank have no responsibility if no payment is made.

LETTER OF CREDIT

- Movement of documents through exporters and importers banks.
- Banks are not only handing over documents according to the LC terms, LC issuing bank gives irrevocable undertaking that if the importer fails to pay the bank will pay the exporter provided the LC terms are followed.

Applicable Rules

- **DOCUMENTARY COLLECTIONS - Uniform rules for collections 522 or URC 522.**

Documentary collection is A process for collecting payment. A bank in the country of the buyer plays a key role in the arrangement, acting as a collecting agent for the seller. The bank (the “presenting bank”) delivers the agreed documents to the buyer in accordance with the collection instruction provided by the seller, against payment or acceptance.

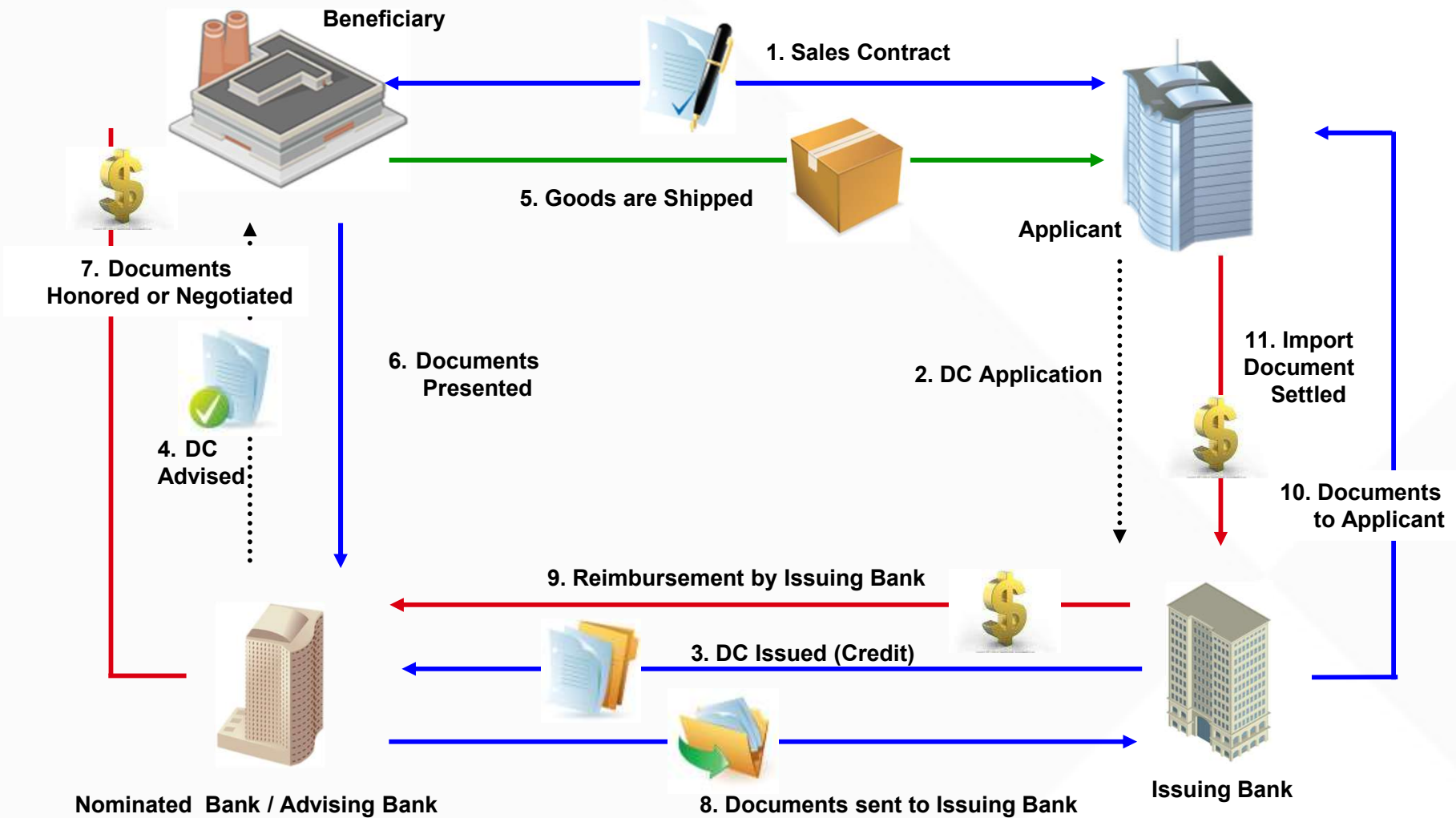
- **LETTER OF CREDIT : Uniform customs and practice of documentary credit version 600 also known as UCP/UCPDC 600. To support this, we have ISBP 745 international standard practice.**

Letter of Credit is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request of the buyer (applicant) to pay at sight or at a determinable future date up to a stated sum of money, against stipulated documents presented by the Beneficiary, which must comply with all the terms and conditions established by the credit.

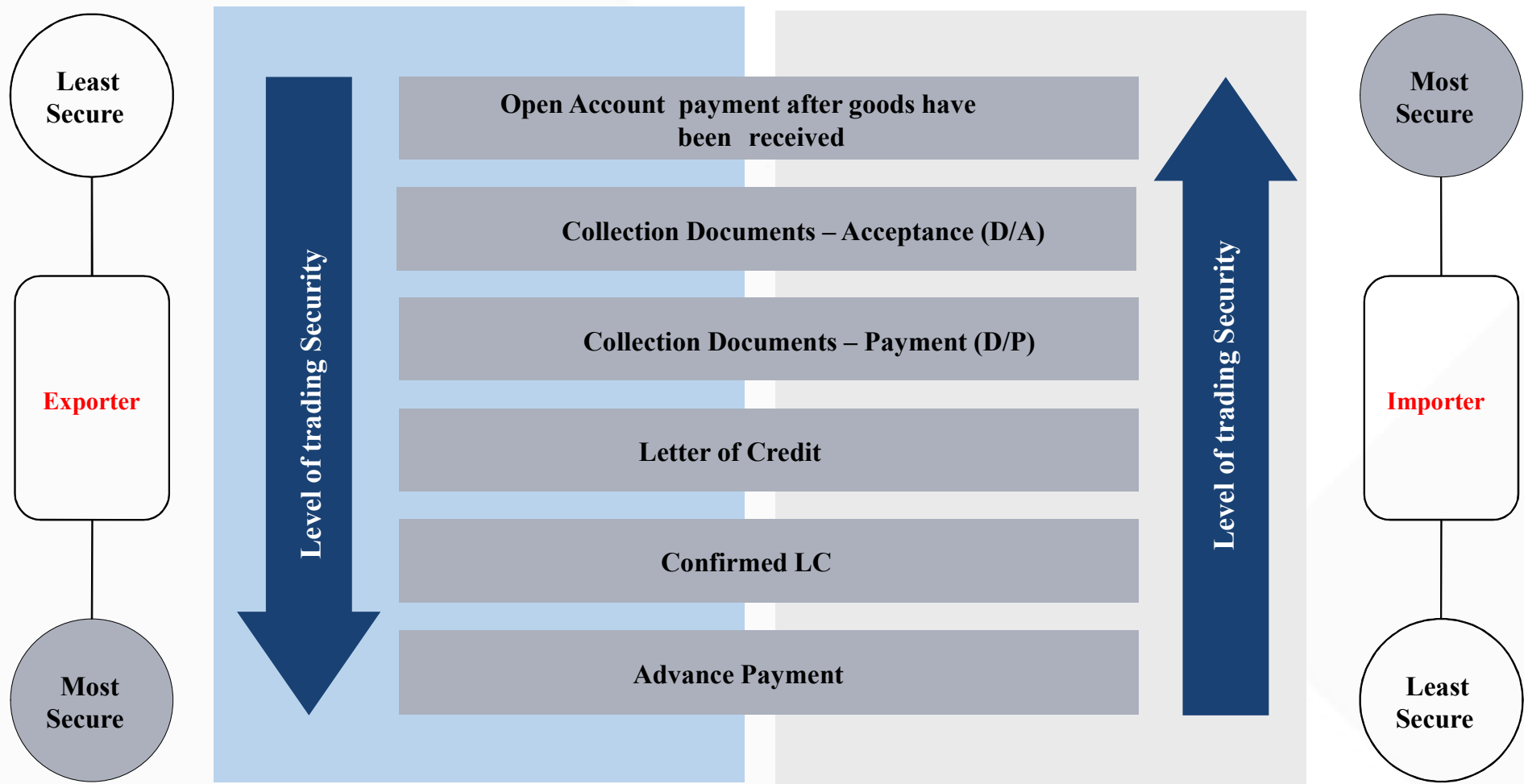
Autonomy of the documentary credit:

Banks deal with documents and not with goods, services or performance to which the documents may relate. A decision on whether a bank makes settlement to a beneficiary is dependent upon the determination of compliance by that bank. It is not subject to information or data obtained outside of those documents.

Documentary Credit Cycle



The payment risk ladder



Bank Guarantee

Key Features

- Security
- Flexibility
- Global acceptance
- Cost-effective
- Improves creditworthiness

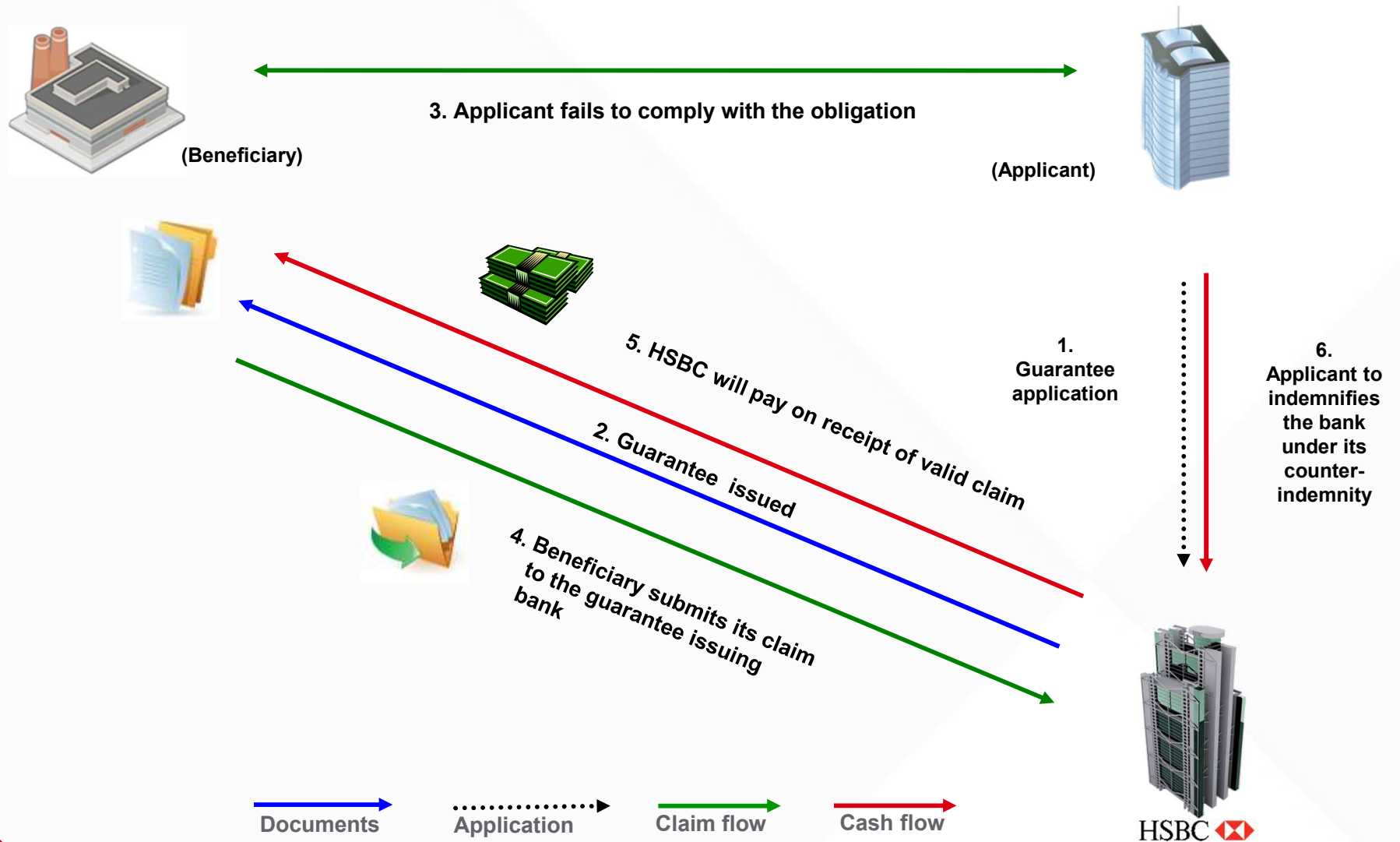
Bank Guarantee

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



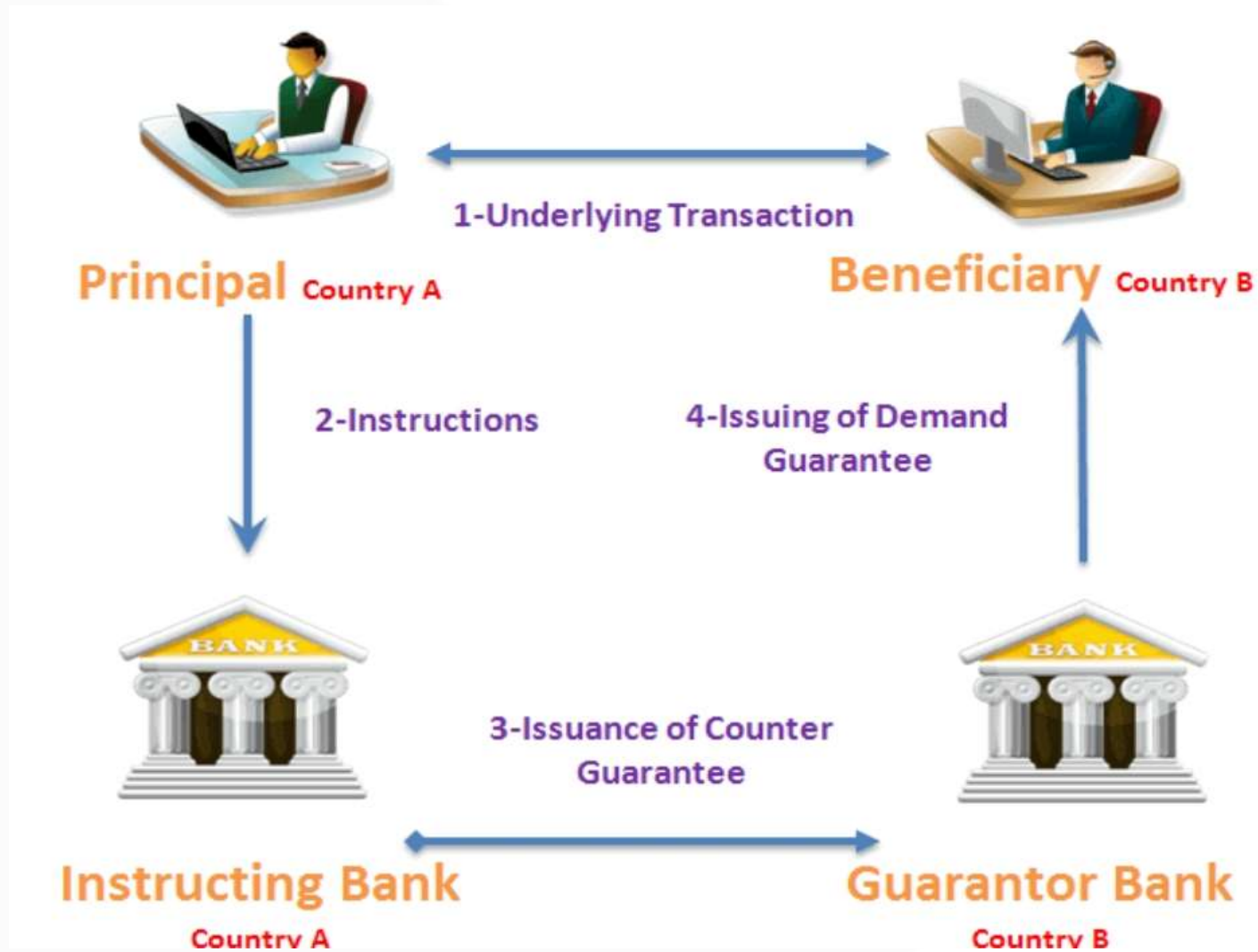
Tenors in Bank Guarantees

Fixed Expiry	Open Ended
Has a definite expiry date	Has no definite expiry date
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
	May be valid until a specified expiry event. The expiry event requires the presentation of a document “specified for the purpose of expiry”

Types of Guarantees

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

Counter Bank Guarantees



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
<p>Beneficiary wants the payment to be made immediately.</p>	<ul style="list-style-type: none"><li data-bbox="1003 444 1953 963">▪ 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.<li data-bbox="1003 1036 1953 1141">▪ When these type of claims are received, we would ideally extend the guarantee.

Coming up next...

Traditional Trade – Imports & Exports



Date: 18th Oct &
1st Nov 2023
Time: 2-3pm GST



Incoterms



Date: 15th Nov 2023
Time: 2-3pm GST





Questions?

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