



Best practices in global trade payments


U.S. Bank Global Trade Services

Presented by: Mark Brici, Vice President
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Speaker introductions


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Discussion roadmap



- Introductions
- World events and global trade risks
- Methods of payment and decision factors
- Assess trade payment options
- Current trends and resources
- Recap






World events and global trade risks

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The impact of world events on global trade



Consider how events

Create shifts in industry and chain reactions across the globe

Impact production, consumption and distribution

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Companies face a variety of risk factors

Consider all perspectives for your global trade approach

Commercial

Product

Country

Bank

Documentary

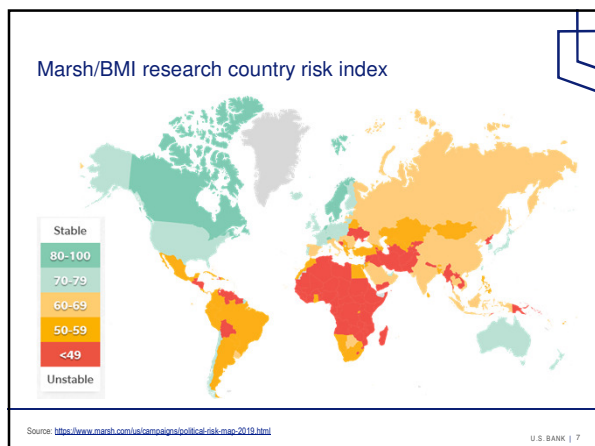
Transportation

Compliance

Geopolitical



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Methods of payment and decision factors

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Methods of payment in global trade

Open account	Documentary collection	Letter of credit	Cash in advance
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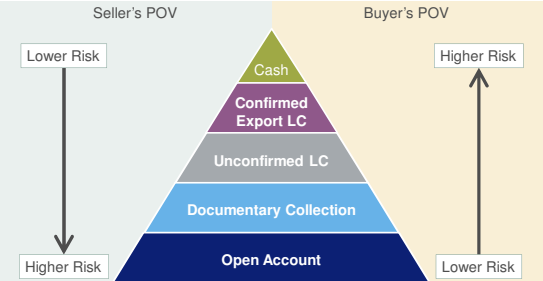
Decision factors



- Relationship
- Degree of risk
- Amount of order
- Type of product
- Competitor's terms
- Cash flow needs
- Working capital needs
- Costs
- Profit margins
- General international experience

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Matrix of risks and international payment



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Assess trade payment options

Open account and cash in advance

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When to consider open account

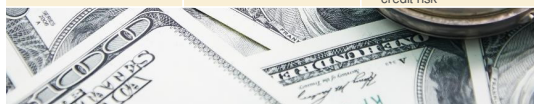


Seller	Buyer
<ul style="list-style-type: none"> Competitive sales terms Reduced bank fees and document preparation Full commercial and country risk Capital tied up, full cost of financing Mitigate risk with credit insurance or standby LC Reliable credit info can be hard to obtain 	<ul style="list-style-type: none"> Full use of funds No product risk
Use	
<ul style="list-style-type: none"> Well established relationships Buyers with good credit Low risk countries Competitive sales reasons 	

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When to consider cash in advance

Seller	Buyer	Use
<ul style="list-style-type: none"> No commercial or country risk Immediate use of funds for working capital No cost Uncompetitive sales term 	<ul style="list-style-type: none"> Risk of non-receipt of goods Bears all financing costs, capital tied up 	<ul style="list-style-type: none"> Small value shipments or down payments Newer/weaker relationships or one-time sales Seller needs working capital source High buyer or country credit risk



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Payment vehicles

Cross border wire transfer <ul style="list-style-type: none"> Typically used for urgent payments Initiated worldwide through SWIFT in USD or foreign currency 	International ACH <ul style="list-style-type: none"> Typically used for non-urgent payments Canada, Mexico and 22 European countries USD or foreign currency
Credit cards <ul style="list-style-type: none"> Typically for smaller dollar amounts Quick and easy Can be expensive to set up and process 	Foreign drafts or check <ul style="list-style-type: none"> USD or foreign currency Significant float time, funds may not be available

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Assess trade payment options

Trade Letter of Credit

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The basics of a Trade Letter of Credit

A payment made by an issuing bank

To pay a seller (exporter) for merchandise shipped

On behalf of the buyer (importer)

Provided that the beneficiary presents required documents in compliance with letter of credit terms

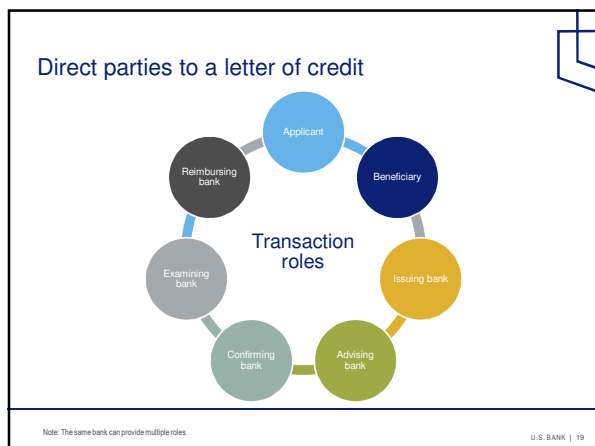
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Primary reasons to use

- Higher value shipments
- Higher commercial and/or country credit risk
- Financing purposes (usance LC)
- Payment vehicle

Trade Letters of Credit protect buyer and seller

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Benefits of letters of credit for the seller

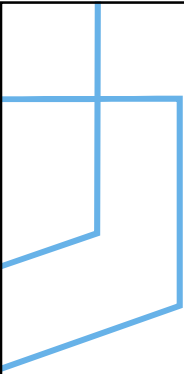
- Pre-export guarantee
- Ability to sell in higher risk markets
- Protection from order cancellation
- Reliance on issuing bank's credit standing instead of the buyer's
- Foreign vendors – particularly in Asia – may be able to secure working capital using LC as collateral
- Ability to offer extended terms as a selling tool (usance LCs)

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Benefit of letters of credit for the buyer

- Documentary evidence that the goods have shipped
- Assurance that the goods will be shipped on time
- Assurance that documents needed for customs clearance will be provided
- Payment deferred until goods are shipped and documents presented
- Can request deferred payment while allowing payment to shipper on sight basis

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Trade confirmations

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Confirmations of Export Letters of Credit

- Provided by a second bank
- Usually in the exporters country
- Confirming banks have same legal obligation as issuing bank
- Provides extra layer of protection
- LC will specify in field 71B: confirm, may add or without

Use when		
Seller has conservative credit policy	Higher risk issuing bank and/or country	Unusually high value of shipment

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Confirmations decision and approval



Contract

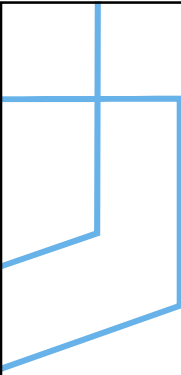
Confirming bank decision

- Based on credit of issuing bank and country risk
- Existing availability under an established line of credit

For approval and pricing the seller provides

- Name of the issuing bank
- Country of issuance
- Applicant Name
- Amount of the LC
- How long will LC be open
- Tenor of draft


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Trade financing (Usance LCs)

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How do extended term (usance) L/Cs work?



The buyer issues a letter of credit with extended terms (For example: 90 days after shipment date)	Rather than the seller having to wait 90 days to be paid, their bank discounts the payment*	The buyer does not have to make the payment until 90 days after shipment	The discounting bank takes the risk of issued L/C, as well as country risk
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Key Terminology


Acceptance: Cost of taking risk on issuing bank and country of domicile

Discount: Time value of money; cost of being paid early (typically LIBOR)

*Not all banks would qualify for such discounting so it's important to check with your bank ahead of time.

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How much does this cost?



Example

- \$500,000 sale to a buyer in the UAE
- L/C issued by Top Tier Bank in the UAE, payable 90 days after shipment
- Seller opts to be paid as if "at sight"

Costs of Discounting

- Acceptance fee = 1.75% per annum
- Time value of money = 2.8%
- L/C Amount x (Acceptance fee + time value of money) x (annualized)
- $\$500,000 \times (1.75\% + 2.8\%) \times (90 \text{ days} / 360 \text{ days}) = \$5,687$
- Discounting cost is just over 1% of the transaction value

NOTE: Related to this cost example: The acceptance fee and time value of money fees vary based on a number of factors and discounting is not available for every issuing bank. It is important for exporters to consult with U.S. Bank in advance of any discussion with their customer.

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LCs applied in the real world



Challenges

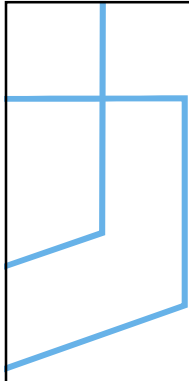
- Large corporate client with extensive international sales
- Faced major challenges from west coast ports slow down
- Initially major constraint on export product flow, followed by product flow glut when ports normalized
- Buyers in the Middle East threatened order cancellations

Solutions

- Our client offered 90 day extended term L/C financing as alternative
- We provided financing with either buyer or seller covering the costs

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LC negotiation best practices



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Negotiate to meet your needs and lower risks

- Always negotiate the contents with your trading partner
- Your bank should work with you from the initial stages of the transaction
- Focus on the structure and key issues to avoid costly amendments and delayed sales



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Key details to consider while negotiating


Issuing bank
Examining bank
Reimbursing bank
Confirmation instructions
Tenor (sight or time)
Dates (latest ship date and expiry date)
Term of sale (incoterm)
LC charges
Presentation period
Documents required



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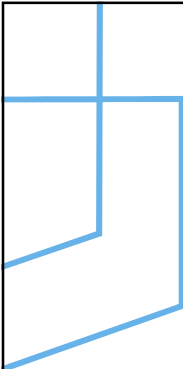
Incoterms

- Define costs and responsibilities
- Determines the type and control of transport document to be used
- Eliminates confusion
- Do not address title transfer
- Each term identifies location where seller will deliver the goods to the buyer
- Insurance provisions – CIP/CIF only



If not followed as intended and something goes wrong, **who is responsible?**

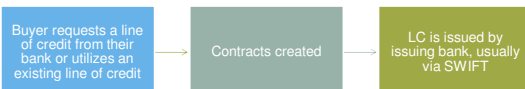
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LC cycle and review

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Basics of the application process



Key takeaways

- The LC is initiated and authorized only by buyer
- The LC is a legal contract between buyer and issuing bank
- SWIFT (Society for Worldwide Interbank Financial Telecommunications)

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Best practices for a sellers review



- Review application or a draft of the LC before issuance
- When LC is advised, review against instructions to buyer, purchase order or other documents
- Use a LC checklist
- Ask international banker and forwarder to review
 - Reportable and non-reportable boycott language
- Route internally

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Amendments, presentation, examination, payment and fees

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How an amendment works?



Requires agreement of applicant, beneficiary, issuing and advising banks

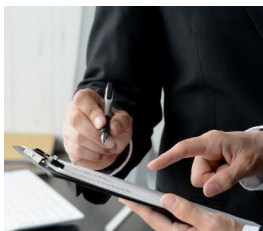
Buyer must request from applicant

Authorized signer at buyer's company must approve amendment

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Presenting documents

- Use a cover letter
- Can be completed by an exporter, forwarder or document prep agent
- Don't automatically send documents back to the advising bank
- Field 41d: what does "available with" mean??
 - "Any bank in the USA" vs. restricted

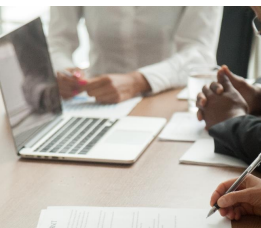


Best practice to consider

Present documents to your preferred trade finance bank whenever possible. Normally, your preferred partner would offer better rates and enhanced service.

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LC examination process



- The examining bank, on behalf of the exporter, examines documents, corrects documents or assists with discrepancies

• Why?

- Protect client (the exporter) by finding and correcting any discrepancies to make a clean presentation to the issuing bank
- Ensures prompt payment

Best practice to consider

Exporters should use a bank that corrects documents in-house and teaches how to avoid future discrepancies.

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LC payment process

- Clean documents: seller's bank makes claim for payment
- Discrepant documents: sent on approval
- Seller's bank waits for issuing bank's agreement to pay
- Seller instructs paying bank where to deposit funds
 - No depository relationship necessary

Timing of payment based on	
Tenor of draft	Reimbursement instructions
<ul style="list-style-type: none"> • Sight • Time or usance <ul style="list-style-type: none"> • (Number of days, sight) • (Number of days, date) 	<ul style="list-style-type: none"> • Payable in the USA • Payable only at counters of the issuing bank

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Fee stipulations are outlined in LC

Importer typically pays

- Issuance (credit line fees)
- Amendments
- Examination of documents by their bank
- Miscellaneous courier/cable fees

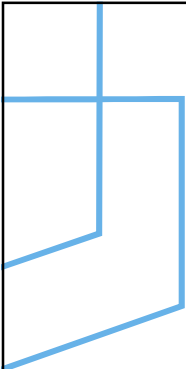
Exporter typically pays

- Advising
- Confirmation
- Amendments
- Examination of documents by their bank
- Any discount fees on time draft
- All discrepancy fees – examining banks AND issuing bank (if sent on approval)



Tip: LC charges should always be factored into selling price.

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Discrepancy review

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Best practices for avoiding discrepancies

- Request that duplicative or onerous documents be deleted from the LC and presented to the buyer outside of the LC
- Identify a presentation period that allows sufficient time to obtain all documents required
- Obtain a drafted copy of the LC so a thorough review can be performed and corrections are made prior to issuance
- Review LC carefully against your original instructions



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Best practices for avoiding discrepancies



- Take advantage of electronic LCs
- Have UCP 600 and ISBP 2013 at your disposal
- All documents are examined in two ways – stand alone (vertical) and as a set (horizontal)
- Request amendments in a timely manner

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Best practices for avoiding discrepancies

- Less is always more
- Have third party docs reviewed prior to issuance
- Ensure all originals/copies of documents within the Letter of Credit are presented as required
- Expedite delivery of documents to allow sufficient time for examination and corrections as needed
- Mitigate documentary risk by making corrections and avoid sending documents out on approval




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Current trends and resources

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Global trade trends



- LC's and DCL's are increasingly being used to prevent fraud
- Compliance and screening are becoming more onerous – all parties to the transaction must now be screened by banks
- Know Your Customer "KYC" required for all trade clients
- Countries with low FX reserves are limiting trade transitions to LC's or DCL's
- Some Banks requiring that DCL's be presented by the seller's bank
- Updates to Incoterms expected in 2020
- SWIFT Formatting Changes
- Blockchain technology and electronic presentations

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Resources to consider

International Trade & Finance Professional (ICTF) | www.ictfworld.org

International Trade Administration | <http://export.gov/>

Export Compliance Bureau of Industry & Security | <http://www.bis.doc.gov/>


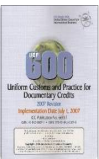

Bank International Financial Institutions Group



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International chamber of commerce

- Incoterms 2010® came in to effect on January 1, 2010
- Uniform customs and practice for documentary credit (UCP 600)
- Standard list of guidelines governing LC processing and interpretation
- Recognized by banks in most countries
- Uniform rules for collections URC 522
- Standardized list of guideline governing collections processing
- ISBP (international standard banking practices)






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Recap of today

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Key discussion takeaways



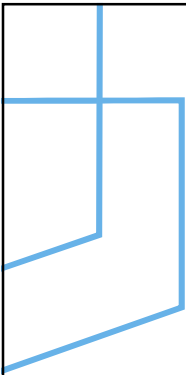
- Select forwarders and bankers with solid trade finance experience
- Keep the UCP 600, ISBP, URC 522 and incoterms guides available
- Consider all risk factors prior to determining what payment method
- Prepare documents carefully
- Don't issue or ship until both parties agree on all terms
- Use checklists to ensure all steps are reviewed and completed as required
- Keep forwarders and bankers accountable – request frequent updates
- Exporters should negotiate favorable LC terms before it's issued and ask international banker and forwarder for input

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Questions?




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Appendix

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Best practices in global trade

Risk factors	Letter of Credit	Collection	Open account
What is the customer relationship?	New	Established	Parent or sub established
Impact of total loss (\$)	Substantial	Normal	Small
Nature of order	Custom	Normal	Excess inventory
Political situation	Unstable	Stable	Strong
Economic situation	Unstable	Stable	Strong
Competition	No	Some	Heavy
Changing price environment	Yes	No	No
Experience in document preparation	Extensive	Some	None
Protection policy	Strong	Medium	Unwritten
Financing needs	Strong	No	No

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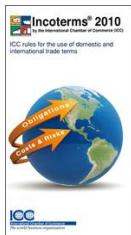
Incoterms 2010: modes of transportation

Rules for any mode of transport

EXW	Ex works
FCA	Free carrier
CPT	Carriage paid to
CIP	Carriage and insurance paid to
DIP	Deliver at place
DAT	Deliver at terminal
DDP	Deliver duty paid

Rules for sea and inland waterway transport

FAS	Free alongside ship
FOB	Free on board
CFP	Cost and freight
CIF	Cost, insurance and freight



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LC checklist

Customer Name _____
 LC # _____
 Advising Bank's Ref # _____
 Advising Bank Contact/Phone _____
 PO # _____

THE LC TERMS

1. What is the full amount of the LC? _____
 2. Does the LC request confirmation? _____
 3. What is the tenor of the LC? _____
 (Period from issuance to expiration)
 4. What is the tenor of the draft? _____
 (Payment terms - i.e. sight, 30 days from B/L, etc.)
 5. What are the relevant dates? Are they all acceptable?
 Issuance: _____
 latest ship date: _____
 presentation period: _____
 expiration: _____
 7. What is the Incoterm? _____ named place _____
 Does it agree with: _____
 Transport document? _____
 Freight charges collect or prepaid? _____
 Ports of loading and discharge? _____
 Insurance requirements? _____
 8. Are the other docs acceptable/appropriate? _____
 9. For what charges are we responsible? _____
 10. Has the LC been circulated through sales, treasury / credit, production, traffic, etc. and to your
 forwarder? _____
 11. Comments / issues / amendments req'd? _____

Checked by: _____ Date: _____

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Instructions for completion of a draft – Trade LC

- The draft, also known as bill of exchange, is a demand for payment
- Five basic items make up a draft

1. **TENOR:** Date that the draft is due for payment (At Sight, 30 Days Sight, 60 Days Date, etc.)
2. **PAYEE:** Who the draft is payable to, i.e. beneficiary of the credit
3. **AMOUNT**
4. **DRAWER:** The maker of the draft, i.e. beneficiary or their agent
5. **DRAWEE:** Who the draft is drawn on for payment. The letter of credit will provide instructions on whether the drawee is the issuing bank, the paying bank or the advising bank

U.S. BANK NATIONAL ASSOCIATION

DATE: FEBRUARY 3, 2013
 LOCATION: MINNEAPOLIS, MN

1 CUSTOMER DRAFT 3 Amount: \$30,000.00

AT 120 DAYS AFTER BILL OF LADING DATE PAY TO THE ORDER OF

2 U.S. BANK NATIONAL ASSOCIATION

THE SUM OF THIRTY THOUSAND AND 00/100 DOLLARS
 DRAWN UNDER LETTER OF CREDIT NO. 51151/9857 ISSUED BY BANK OF NOVA SCOTIA,
 TORONTO, CANADA DATED 2-3-2013

TO: U.S. BANK NATIONAL ASSOCIATION 5
 MINNEAPOLIS, MINNESOTA

4 AUTHORIZED SIGNATURE

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