

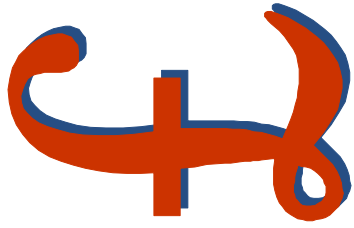
## JPMorgan's Global Trade Services

U.S. Department of Commerce  
Basic Exporting Seminar  
May 17, 2005  
Ramada Inn  
New Hartford, NY

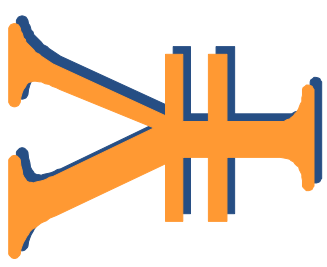
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# International Payment Mechanisms



**When selling your merchandise, how quickly would you like to be paid?**



# Credit Risks

- **Political** - unexpected changes (country or regional - I.e. war)
- **Economic** - economic change in specific countries, regions, or inter-regional
- **Commercial**
  - Buyer credit acceptability
  - Information difficult to obtain
  - Different financial standards
  - Cultural/Business Standard Differences
- **Language** (Negotiation/Interpretation)

# Credit Risks

- **Foreign Exchange** - currency rate fluctuations
- **Transfer Risk**
  - Availability of US Dollars
  - Currency Restrictions/Licenses
- **Time and Distance**
  - Shipping Hazards (insurance coverage)
  - Freight Costs
  - Customs (quotas, customs delays)

# Credit Risks

- **Government Regulations**
  - Special Import or Export licenses
  - Office of Foreign Asset Control (OFAC)  
[www.ustreas.gov/offices/enforcement/ofac](http://www.ustreas.gov/offices/enforcement/ofac)
  - Bureau of Industry & Security (BIS)  
[www.bis.doc.gov](http://www.bis.doc.gov)
  - Office of Antiboycott Compliance  
[www.bis.doc.gov/AntiboycottCompliance/Default.htm](http://www.bis.doc.gov/AntiboycottCompliance/Default.htm)

# International Payment Methods

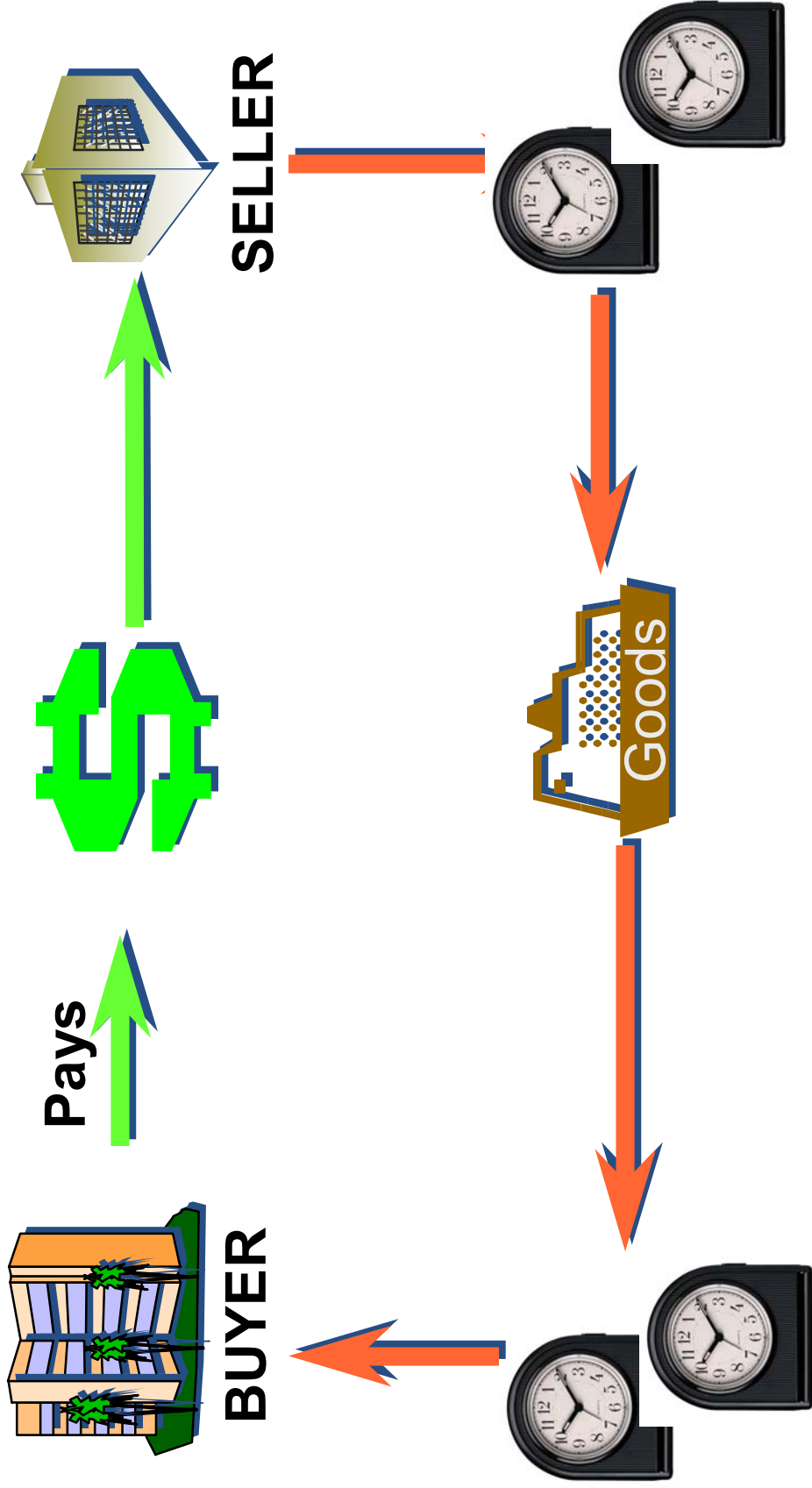
## Assessing What's Right For You

- How much risk is your company willing to take?
- How well do you know your customer?
- What payment terms are typical for your industry?
- What is your competition offering?
- What is the nature of the order?
- What is the political and economic situation in the Buyer's country?

# International Payment Methods

- **Cash in Advance**
- **Open Account**
- **Documentary Collection**
- **Letter of Credit**

# CASH IN ADVANCE



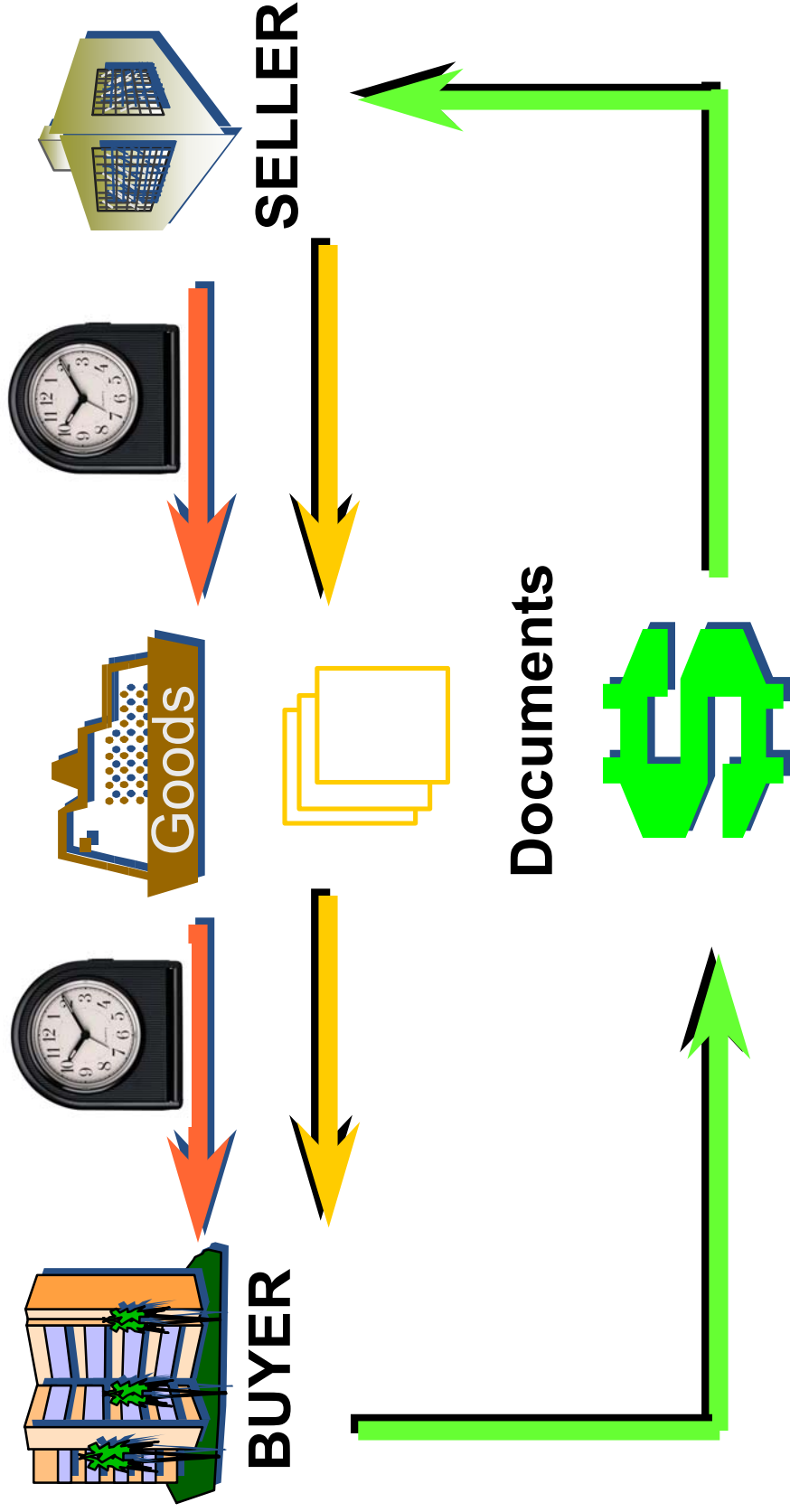
- BUYER orders and pays for goods before shipment is made
- SELLER ships goods upon receipt of funds

# International Payment Methods

## Cash in Advance Characteristics

- BUYER and SELLER typically know each other very well, and/or shipment and the cost of goods is small
- BUYER is not protected and may not be willing to pay up front
- A SELLER's preference

# OPEN ACCOUNT



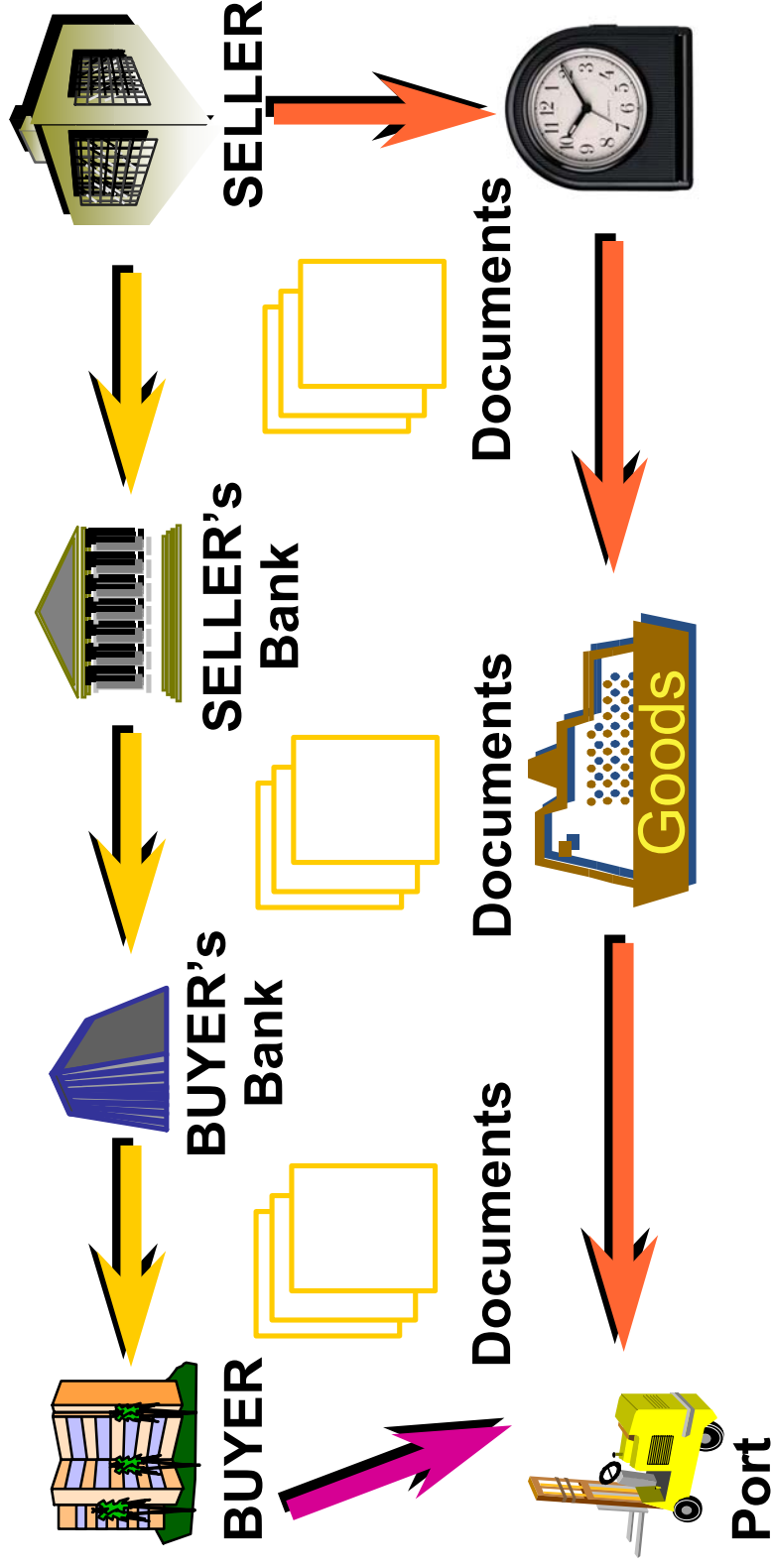
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# International Payment Methods

## Open Account Characteristics

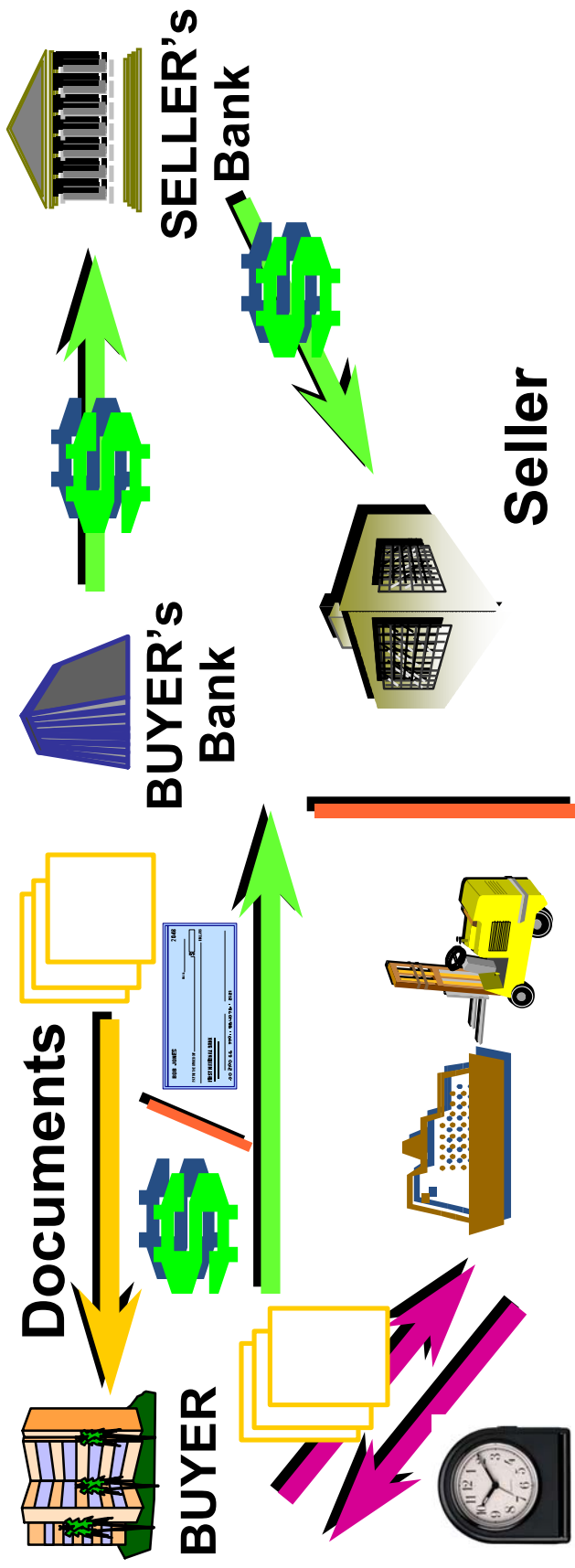
- SELLER knows BUYER well and has little concern about BUYER's ability to pay
- Typically, these are periodic shipments of the same goods and often the same quantity
- Least secure method for SELLER, but also least costly

# Collection - Documents and Goods



- SELLER makes shipment and send shipping documents to its Bank, who sends them on to BUYER's Bank
- BUYER's Bank advises BUYER that documents have arrived and will be released against whatever payment terms are in the Collection Letter

# Collection - Documents Against Payment/Acceptance



- BUYER makes payment or accepts draft and BUYER's Bank releases the documents to BUYER
- BUYER takes documents to port/airport and picks up goods
- BUYER's Bank pays SELLER's Bank or advises of acceptance. SELLER's Bank pays SELLER or advises of acceptance.

# International Payment Methods

## Collection Characteristics

- Collections are a method that may allow a SELLER to ensure that shipping documents are exchanged for payment or acceptance. They may also help monitor receivables.
- Sight or Usance terms may be used in Collections
- The full amount of a collection must be paid, unless the Collecting (BUYER's) Bank receives authority from the Remitting (SELLER's) Bank to accept partial payment
- Collections are subject to the International Chamber of Commerce Rules for Documentary Collections

# International Payment Methods

## Collection Characteristics (continued)

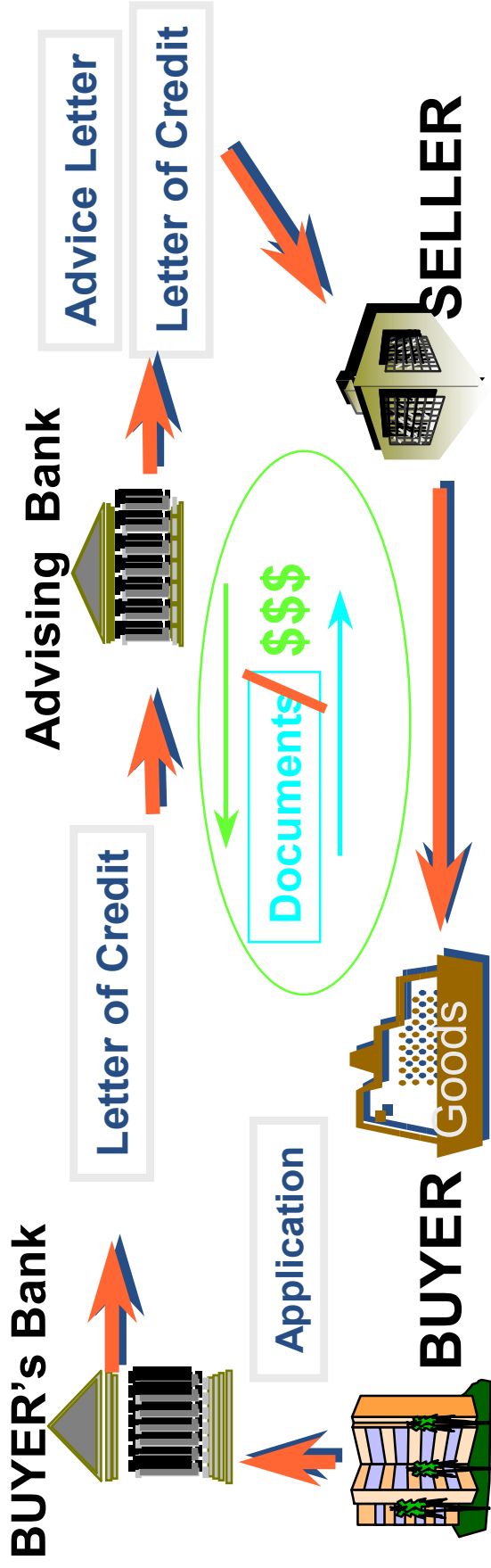
- The SELLER's Bank (Remitting Bank) will collect proceeds from the Collecting Bank (BUYER's Bank) according to the instructions of the SELLER
- The BUYER's Bank (Collecting Bank) is responsible for carrying out the instructions described in the collection letter sent from the Remitting Bank, in order to collect the proceeds from the BUYER
- Banks act as agents only and are not responsible for the payment / non-payment of the collection, at sight or at maturity of an accepted draft.

# DOCUMENTARY COLLECTIONS

## RISKS

- Buyer unable/unwilling to honor demand
- Renegotiate terms
  - reduced amount
  - extended terms
- Merchandise: Perishable/Special Order
- Options:
  - store/insure - find another buyer
  - salvage
  - re-ship

# LETTERS OF CREDIT



A Letter of Credit replaces risk of BUYER with risk of Issuing Bank

It assures the SELLER that he will be paid provided that documents presented comply with its terms and conditions

A Confirmed Letter of Credit is the undertaking of two Banks; the Issuing Bank and the Confirming Bank. Both are equally liable to pay the beneficiary.

# International Payment Methods

## Letter of Credit (LC) Characteristics

- Offers the most protection to the SELLER, but costs the most
- Three independent contracts underline letters of credit:
  - between BUYER and SELLER (their contract)
  - between Applicant and Issuing Bank (application)
  - between Issuing Bank and Beneficiary (the LC)
- Banks deal in documents only. BUYER's recourse for problems with goods is to the contract with the SELLER
- Documents presented under an LC must comply with its terms and conditions, otherwise there is no obligation to honor

## Payment Terms

- **Sight**
  - Payment effected when complying documents are presented
    - documents must be correct
  - May or may not occur immediately
    - if payable in the US - 2 to 7 days
    - if payable in a foreign country - 7 to 21 days, maybe more
  - LC terms may contain special provisions about timing

## Payment Terms

- **Time - Bankers Acceptances**
  - Provides short term financing - 30 to 180 days
  - Defined in LC
    - Requires draft drawn with a defined tenor
      - Can be xxx days from B/L date or other event
      - Can be xxx days from Sight (as defined by accepting bank)
  - Negotiable instrument
  - Accepting bank obligated to pay at maturity
  - Can be discounted to exporter for earlier payment

# Payment Terms

## Sample of Draft

At	<u>90 days sight</u>	Date:	<u>3/1/2005</u>
Pay to the order of:	<u>ABC Company Inc.</u>	Amount:	<u>\$100,000.00</u>
<u>One Hundred Thousand and no/100 USDollars only</u>			
<u>JPMorgan Chase Bank, N.A.</u>			
<u>Dallas, Texas</u>			
<u>drawn under LC 123 45 of JPMorgan Chase, HK dated 2/14/2005</u>			
<u>ABC Company Inc.</u>			
<u>Authorized Signer</u>			

- Draft must show:

Tenor

Payee (name of beneficiary)

Date

Drawee(name and address of obligor)

Amount

Specific due date

Amount in words

Proper endorsement

# The Letter of Credit

## CHARACTERISTICS OF A COMMERCIAL LETTER OF CREDIT THAT ARE IMPORTANT TO YOU

- Beneficiary
- Applicant
- Amount
- Expiry Date
- Tenor
- Presentation Period
- Latest Shipment Date
- Merchandise Description
- Shipping Terms
- Documents Required
- Engagement Clauses
- Currency Denomination

# The Letter of Credit

## ADDITIONAL IMPORTANT CHARACTERISTICS IN YOUR COMMERCIAL LETTER OF CREDIT

- Is it irrevocable?
  - Is it subject to UCP 500?
- Charges
  - Non-documentary requirements
  - Special Conditions
  - Place of Expiry
- Confirmation
  - Availability
    - where payable
    - where negotiable