

LETTER OF CREDIT

GLOSSARY of TERMS

Acceptance

An acceptance is a time draft or bill of exchange on the face of which the drawee has stamped "accepted" and signed it. The acceptor (a buyer or a bank) is obligated to pay the face amount of the time draft at maturity.

Account Party

The party instructing the bank to open a letter of credit and on whose behalf the bank agrees to make payment. In most cases, the account party is the importer/buyer, and is also known as the applicant.

Advising Bank

A bank that accepts a letter of credit from the issuing bank, verifies its authenticity, and forwards it to the beneficiary. The advising bank does not take on any payment obligations.

Air Waybill (of lading)

A signed receipt and a contract to deliver goods by air. Such bills are non-negotiable and do not convey title to the goods as do "To Order" bills of lading used by ocean and land carriers. The title passes to the party to whom the goods are consigned (the Consignee).

Assignment of Proceeds

A request by the beneficiary to pay all or part of the funds due to him to a third party. This instrument does not transfer rights in the letter of credit nor the title to the goods.

Bank Draft

A check drawn by a bank on another bank payable to the seller at the request of the buyer. The check may be denominated in U.S. Dollars or most foreign currencies.

Beneficiary

The party who receives payment as stipulated in a letter of credit. This party is usually the seller/exporter.

Bill of Lading (Air, Ocean, Railroad, Truck)

A document of title issued by the carrier (transport company) or its agent. Bill of lading is a receipt for the merchandise in transit, as well as a contract for delivery to a specified party at a specified destination.

"BLANK ENDORSED": A negotiable bill of lading in which the title to the merchandise is passed on to another party by means of an endorsement. The holder of the "blank endorsed" bill of lading is entitled to take possession of the merchandise.

"CLEAN BILL OF LADING": One in which the goods are described as having been received by the carrier in "apparent good order and condition" and without qualification.

"LATE PRESENTATION" (STALE): A bill of lading is presented to a bank for payment or negotiation after the stipulated date in the letter of credit, or later than 21 days after the date of its issuance.

“NEGOTIABLE OR ‘TO ORDER’”: A bill of lading in which the merchandise is consigned directly “to order” or “to the order of” a designated party, usually the shipper or a bank. The phrase “to order” or “to the order of (a designated party)” signifies negotiability permitting the title of the merchandise to be transferred many times by means of appropriate endorsements.

“NOTIFY”: This phrase requires the carrier to notify a designated party upon arrival of the merchandise, but does not transfer title of the merchandise to that party.

“STRAIGHT OR NON-NEGOTIABLE”: A bill of lading in which the merchandise is consigned directly to a designated party, generally the buyer, but not to his “order”. Delivery of the merchandise is made only to the designated party, usually without surrendering the bill of lading.

“THROUGH”: A bill of lading issued by a shipping company or their agent covering more than one mode of transportation.

Cash Against Documents (CAD)

Payment for goods in which an intermediary (usually a bank) releases title documents to the buyer upon payment in cash.

Cash in Advance (CIA)

A term of trade in which the exporter does not ship goods until payment is received; offers the least risk to sellers and the most risk to buyers.

Clean Draft

A sight or time draft (bill of exchange) which is not accompanied by additional documents.

Commercial Invoice

A written and signed list of merchandise and/or services with associated quantities, prices and expenses. It contains the terms of the sale and is prepared by the seller to show the total amount owed by the buyer.

Confirmed Credit

A letter of credit in which the issuing bank’s obligation to pay is backed (confirmed) by a second bank.

Direct Collection

Method of payment for goods in which the seller sends a draft drawn on the buyer, the shipping documents, invoices, insurance certificates, other appropriate documents directly to the buyer’s bank for collection. Only an information copy of the advice is sent to the exporter’s bank to establish and monitor the collection transaction for the seller.

Documentary Credit

A letter of credit issued to support the movement of merchandise supported by shipping documents presented by the beneficiary to the Issuing Bank for payment or acceptance.

Draft

A draft is a formal demand for payment. It is an unconditional order in writing, addressed by one party (drawer) to another party (drawee), requiring the drawee to pay, at a designated or determinable future date, a specified sum in lawful currency (either in dollars or other currency) to the order of a named party (the Payee). In international trade, drafts are also known as “Bills of Exchange.”

Eurocurrency

Currency that is held outside its “native” country; not necessarily of European origin, but limited to major currencies that are freely convertible and high demand.

Eurodollars

A term used for U.S. dollars held on deposit or traded anywhere else in the world except in the USA.

Eximbank (Export-Import Bank of the United States)

A U.S. government agency that offers insurance/guarantees of commercial or political risks associated with U.S. export transactions. These programs encourage U.S. exports by reducing the exporter’s risk.

Expiry or Expiration Date

The date on which the draft and documents drawn under a letter of credit must be presented to the negotiating, accepting, paying, or issuing bank in order to effect payment. The issuing bank’s obligation ceases on that date if the letter of credit is a “straight credit.” If the letter of credit is a “negotiable credit,” the issuing bank must honor the credit, provided the complying documents were submitted prior to the expiry (or expiration) date.

Foreign Exchange

The process of trading the currency of one country for that of another.

Foreign Exchange Exposure

A situation in which a U.S. company, selling/purchasing in a currency other than U.S. Dollars, runs the risk of receiving a reduced dollar amount or paying an increased dollar amount due to a fluctuating exchange rate.

Forward Transactions

Foreign exchange transactions settling between three business days and one year (and sometimes longer).

Freight Forwarder

An independent business that arranges for the shipment of export cargo and completes the necessary export documentation on behalf of the exporter.

Letter of Credit

An instrument issued by a bank, at the request of the applicant, promising to pay the beneficiary upon his presentation of stipulated documents in accordance with the terms and conditions of the credit.

“CONFIRMED”: A letter of credit issued by one bank to which another bank added its irrevocable confirmation to pay, thereby obligating itself in the same manner as the opening bank.

“STAND-BY”: A letter of credit that generally guarantees payment due for an unfulfilled obligation on the part of the applicant or another party. It is payable upon presentation of a draft, as well as a signed statement or certification by the beneficiary that the applicant has failed in his obligation.

Maturity Date

The date on which negotiable instruments become due for payment.

Negotiating Bank

The bank that reviews the documents required in the letter of credit for compliance with its terms and remits payment to the beneficiary. The bank may be specifically named in the letter of credit, or may be a bank chosen by the seller.

Proforma Invoice

An invoice sent in advance of shipment, to enable the buyer to obtain an import permit or exchange permit or both. The proforma invoice gives a close approximation of the weights and values of the intended shipment.

Reimbursing Bank

The bank named in a letter of credit as the bank authorized by the issuing bank to honor claims presented by the paying, accepting, or negotiating bank.

Revocable

A letter of credit that can be modified or canceled by the issuing bank without the beneficiary's consent unless the negotiation of complying documents has already taken place. The issuing bank must honor the draft(s) negotiated before the notice of revocation has been made.

Spot Transactions

Foreign exchange transactions settling within two business days.