

Acceptance

An undertaking or promise, by the party on whom a draft is drawn (i.e., the drawee), to pay a draft on a specified maturity date. This undertaking is conveyed by marking the draft Accepted and having it signed by one or more duly authorized individuals who represent the drawee. Acceptances created by banks are known as Bankers Acceptances while acceptances created by commercial firms are generally known as Trade Acceptances.

Account Currency

The currency an account is recorded in.

Advice

A written confirmation of a service performed, funds transferred, or a payment received or made.

Advising Bank

A correspondent of the issuing bank that notifies the beneficiary of a letter of credit without adding its engagement to that of the issuing bank. Advising banks perform the following functions: (a) they verify the authenticity of the letter of credit message (b) they authenticate and pass along to the beneficiary all subsequent amendments under the credit (c) they serve as a local contact point through whom the beneficiary may communicate with the opening bank. Advising a letter of credit, however, does not engage the bank in any of the undertakings expressed in the letter of credit.

Advising Letter

A covering letter sent by the advising bank when forwarding a letter of credit to a beneficiary. The purpose of the advising letter is to set forth any special instructions or information which the advising bank wishes to communicate to the beneficiary.

Amendment

Any change to a letter of credit transaction. To become effective, an LC amendment must be approved by all parties who have a credit interest in the transaction (i.e., the issuing bank, the applicant, the beneficiary and the confirming/accepting bank(s), if any). Approval of amendment by the advising bank generally is not required.

Applicant

The credit party in a letter of credit transaction. The applicant is the individual or company who assumes the ultimate liability for making payment of the LC. Although the Applicant and Account Party of a LC transaction may be one and the same entity, this is not always the case. For example, a parent company may assume the credit risk for LCs issued on behalf of a subsidiary company. In this case, the parent company would be the Applicant while the subsidiary would be the Account Party (and shown as such on the LC instrument)

At Sight

A payment term which signifies payment at first presentation or on demand (i.e., immediate payment)

Authorization

Approval given to complete a transaction or pay funds.

Aval

A third party guarantee of payment on a bill or note. Avals are similar to acceptances in that the guarantee to pay is denoted on the face of (or as an attachment to) the instrument. Unlike acceptances, however, the party which avals the instrument is called upon to make payment only in the event that the original obligor fails to honor its commitment to pay. Avals generally are used in the forfait market, which provides financing for medium and long term trade transactions.

Back-to-Back LCs

A back-to-back LC transaction involves two separate letters of credit: (a) an original LC, opened by a buyer (using his line of credit with his issuing bank) in favor of a beneficiary who is not the real supplier of the goods; and (b) a second LC, opened by the beneficiary of the first LC (also using his own line of credit with his issuing bank) in favor of the party who will actually supply the merchandise. While the two LCs may be transactional linked, from a credit perspective they are unrelated. Back-to-back LCs, therefore, are not subject to the same rules and limitations of transferable letters of credit. And, therein lies both the strength and risk of this type of transaction. On the one hand, it allows greater flexibility in structuring the second (or the back-up) LC almost any element may be changed, including adding (or deleting) documents, special conditions or other terms as required under the original credit. On the other hand, a poorly constructed back-to-back transaction may leave gaps or loopholes so that the original beneficiary may be required to make payment under the original letter of credit. Because of the perceived risk of this type instrument, back-to-back LCs are not frequently used in the United States. They, however, are quite prevalent in Asia, where the practice has been developed into an art form.

Bank Draft

A draft drawn by a bank against its own funds deposited with another bank.

Bankers Acceptance

A time draft drawn on a bank and accepted by that bank. A bankers acceptance represents the accepting banks obligation to effect payment for the draft on the specified maturity date. This undertaking is conveyed by marking or stamping the draft Accepted and having the acceptance mark signed by one of more duly authorized individuals who represent the accepting bank.

Beneficiary

The party in whose favor a letter of credit is issued. The beneficiary is generally the seller (or exporter) in a letter of credit transaction.

Bill of Exchange

Another term for Draft. A draft or bill of exchange is a demand for payment, issued by the party demanding payment (the drawer or the maker) and drawn on the party who is to make the payment (the drawee). The most commonly used form of drafts or bills of exchange are checks drawn against ordinary checking accounts.

Bill of Lading

A document issued by a carrier that governs the shipment of goods from one point to another. Bills of lading convey a variety of instructions about the shipment, ranging from a description and quantification of the goods being shipped, to the routing of the shipment (defining the points of origin, destination or place of transshipment, if any), to the name, address and local telephone numbers of the consignee and/or notify parties. The most important function, however, that a bill of lading performs is to transfer title of the goods. In order for the goods to be retrieved, the consignee (or, in the case of negotiable bills of lading, the bona fide holder of the bill of lading) must surrender at least one original to the carrier. Without an original bill of lading, the goods will not be released. The carrier stores unreleased cargo in a warehouse, accruing fees commonly referred to as demurrage charges.

Collection

A payment vehicle whereby a draft (frequently with shipping or other commercial documents attached) is presented for payment through the banking channels. Unlike letters of credit, banks involved in the collection process do not engage in any obligation to effect payment for collection items. Their role is simply to pass along information and instructions between the buyer and the seller while safekeeping the commercial documents until such time as the item is settled (i.e., paid or, in the case of time items, that the draft, promissory note or other undertaking is accepted for payment on a future date). Collections can take a variety of forms, as follows:

- a. Clean collections, where only a draft is presented for payment.
- b. Import collections, where a draft and shipping documents are presented to the buyer for payment of imported goods.
- c. Regular export collections, where the exporter presents a draft and shipping documents to his bank for collection. In this instance, the exporter's bank (sometimes referred to as the Remitting Bank) completes a collection letter, attaches the commercial documents and sends off the entire package to the designated collecting bank. The collecting bank is either the buyer's bank or a correspondent of the remitting bank.
- d. Direct export collections, where the exporter himself completes the collection letter, attaches the commercial documents and sends off the entire package to the designated collecting bank. A copy of the collection letter is sent by the exporter to his bank, both to record the item and to perform all necessary follow-up steps (i.e., send tracers, effect payment). The advantage this process offers is that it accelerates both the presentation of the collection item to the collecting bank and, as a result, the payment to the exporter as well.

Confirming Bank

In letters of credit, a bank that adds its own engagement to that of the issuing bank. By confirming an LC, a bank undertakes to honor the commitments and obligations expressed in the letter of credit, including ultimate payment. Since confirmation represents a use of credit, banks charge a fee for this service, commonly known as the confirmation commission. It is important to note that a confirmation to a letter of credit can only be applied upon the specific instructions of the issuing banks. Confirmations cannot originate as special or side agreements between the LC beneficiary and the advising bank. Although attempts are sometimes made to do the latter (frequently known as Silent Confirmations), such arrangements are not true confirmations since they have not been effected under the authority of the issuing bank.

Correspondent Bank

A bank that provides operating or credit services to another bank. Correspondent banks can be both domestic and foreign. Generally, the correspondent bank provides some kind of service which the originating bank, because it does not maintain a physical presence in that location, cannot offer.

Currency

The circulating money accepted as a medium of exchange for all payment of debts within a country.

Documentary Credit

A financial instrument, generally issued by a bank, in which the issuer undertakes to effect payment against the presentation of documents that conform to the terms and conditions stipulated in the credit document. There are two types of documentary credits, commercial letters of credit (i.e., import or export LCs) and standby letters of credit.

Draft

A demand for payment, issued by the party demanding payment (the drawer or the maker) and drawn on the party who is to make the payment (the drawee). Drafts may be issued at sight, denoting immediate payment or for payment on a future date (often for a specified number of days following the date on which some event took place, say for example, after the shipment of goods). Drafts issued for future payment are frequently referred to as time drafts.

Drawee

The party upon which a draft is drawn. The drawee is the party who is being called upon to make the payment.

Drawer

The party which issues (or makes) the draft. The Drawer is the party who is claiming the payment.

Electronic Data Interchange (EDI)

Any electronic transfer of data or information using pre-defined message formats. EDI facilitates data exchange by standardizing what and how much information is conveyed in a message.

Expire At

The place or location where a Letter of Credit expires. This is generally expressed as a city or

country (for example, New York, or in the United States) or as a specific location (i.e., at our counter).

Expire Date

The date on which a letter of credit expires.

Field

An area within a computer screen which displays or allows for the entry of data. Within formatted documents like SWIFT messages, an area which contains specific data elements.

Financial Guarantee

Any undertaking which promises to pay an amount of funds upon the presentation of a claim or some other defined event (usually a financial default on the part of the entity for whom guarantee was issued).

Guarantor

An individual or entity who undertakes to fulfill the commitments or obligations of some other individual or entity. Depending upon the nature of the guarantee, the guarantor may be called upon to complete the actions of the party for whose account the guarantee was issued. Or, in a financial guarantee, to effect payment upon the default of the account party.

Irrevocable LC

An LC that, once issued, cannot be altered or canceled without the agreement of all parties who have a credit interest in the transaction. These parties typically consist of the issuing bank, the applicant, the beneficiary and the accepting/confirming banks.

Letter of Credit (LC)

A financial instrument, issued by a bank, in which the issuer undertakes to effect payment against the presentation of documents that conform to the terms and conditions stipulated in the credit document. There are two types of documentary credits, commercial letters of credit (i.e., import/export LCs) and standby letters of credit.

Negotiating Bank

In letters of credit, a bank that takes up the documents from the LC beneficiary and, in exchange, gives value to the beneficiary for those documents. In simpler terms, the negotiating bank purchase (i.e., takes up) letter of credit documents from the LC beneficiary, paying the beneficiary (i.e., gives value) either at a discount from the face value of the documents or against the payment of fees.

Password Screen

A security screen at which the user must enter his ID Number and Password. The user cannot access any functions without successfully completing this screen.

Reference Number

A unique identification number given to a specific transaction.

Sell Rate

The rate at which a bank will sell a currency.

SWIFT

Society for Worldwide Interbank Financial Telecommunication. An organization designed to facilitate the exchange of payment or other financial transaction messages to financial institutions around the world. SWIFT is essentially a communications network which uses formatted message types to quickly and efficiently transmit information to banks worldwide.

Tenor

Designates the time when payment of a draft is due. Tenors range from sight (immediate) to time (for future payments).

UCC

Uniform Commercial Code. These are set of standardized laws, adopted by the various states within the United States, governing financial contracts.

UCP

Uniform Customs and Practice for Documentary Credits

eUCP

Supplement to the UCP for Electronic Presentation

Value Date

In transfer of funds transactions, the date upon which a payment is to be effected.

Wire Transfer

The payment of funds by wire, cable, telex, SWIFT, or other electronic means.