Trade Finance
and
Foreign Exchange (TFFE)

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TRADE FINANCE & FOREIGN EXCHANGE (TFFE)

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Foreword

The Institute Of Bankers, Bangladesh (IBB), established in 1973, has been working for developing the professional skills of the employees of all Banks and Financial Institutions operating in Bangladesh. In this regard, IBB conducts the Banking Diploma examination, JAIBB (Junior associate of the Institute Of Bankers, Bangladesh) and DAIBB (Deplomed Associate of the Institute Of Bankers, Bangladesh) usually held twice in a year throughout the country.

The examinations are being conducted under standard syllabus covering various aspects of Banking profession. As banking is ever-evolving discipline, the syllabus for banking diploma examination is also required to be matched with the changing banking conditions. For the same purpose, A committee was formed under the leadership of Dr. Toufic Ahmad Choudhury former Director General, BIBM and comprising of Mr. Md. Ali Hossain Prodhania, Former Managing Director, Bangladesh Krishi Bank, Mr. Abul Kashem Md. Shirin, Managing Director & CEO ,Dutch-Bangla Bank Ltd, Dr. Mohammad Haider Ali Miah, Former Managing Director & CEO, EXIM Bank of Bangladesh Ltd. Dr. Shah Md. Ahsan Habib, Professor, BIBM, Mr. Alamgir Morshed, CEO, IDCOL, Mr. Omar Faruque , CFCC Head, Standard Chartered Bank and Laila Bilkis Ara, Secretary General, IBB for updating and upgrading the syllabus of IBB Banking Diploma examination.

The committee did the splendid job of formulating the new syllabus for both JAIBB and DAIBB, which was later approved by the Academic Council and Chairman of the institute (Honorable Governor, Bangladesh Bank). The same committee has also been entrusted to formulate standard reading materials by the subject matter specialists and practitioners under their (committee members) guidance in order to facilitate the examinees for consulting focused reading materials instead of so many (sometimes also irrelevant) books. This particular reading material on **Trade Finance and Foreign Exchange (TFFE)** has been prepared and compiled by Mr Dr. Shah Md. Ahsan Habib, and Mr. A.T.M. Nesarul Hoque. We extend our gratitude and thanks to their for taking the trouble of writing the reading material.

All the reading materials of (both JAIBB and DAIBB) will be gradually uploaded in the IBB e-library Web portal. The examinees/ readers/users are requested to send their opinion/ suggestion on any reading material and we will consider their opinion with great importance. Besides, the IBB will modify update the reading materials from time to time as per requirements of the examinees.

Finally, the Institute Of Bankers, Bangladesh takes this opportunity to express its gratitude to the learned members of IBB Council, the syllabus and examination review committee and reading material preparation committee for preparing syllabus and reading materials for IBB diploma examinations.

Laila Bilkis Ara
Secretary General

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Abbreviations

ACU	Asian Clearing Union
AD	Authorized Dealer
ADB	Asian Development Bank
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Department
APG	Asia Pacific Group
AWB	Air Waybill
B/E	Bill of Entry
BB	Bangladesh Bank
BC	Bills for Collection
BDT	Bangladesh Taka
BEFTN	Bangladesh Electronic Fund Transfer Network
BEPZA	Bangladesh Export Processing Zones Authority
BFIU	Bangladesh Financial Intelligence Unit
BGAPMEA	Bangladesh Garment’s Accessories & Packaging Manufacturers & Exporters Association
BGMEA	Bangladesh Garment Manufacturers & Exporters Association
BIBM	Bangladesh Institute of Bank Management
BIN	Business Identification Number
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BOE	Bill of Exchange
BPO	Bank Payment Obligation
BPGMEA	Bangladesh Plastic Goods Manufacturers & Exporters Association
BTMA	Bangladesh Textile Mills Association
C&F	Clearing and Forwarding
CCI&E	Chief Controller of Import and Export
CD	Current Deposit
CDCS	Certified Documentary Credit Specialist
CFR	Cost and Freight
CFT	Combating the Financing of Terrorism
CGFS	Committee on the Global Financial System
CIB	Credit Information Bureau
CIF	Cost, Insurance and Freight
CIP	Carriage and Insurance Paid To
CITF	Certificate in International Trade and Finance
COTIF	Convention concerning International Carriage by Rail
CPT	Carriage Paid To
CY	Calendar Year
DA	Documents Against Acceptance
DAP	Delivered at Place

DAT	Delivered at Terminal
DBI	Department of Banking Inspection
DDP	Delivered Duty Paid
DOCDEX	Documentary Instruments Dispute Resolution Expertise
DOS	Department of Offsite Supervision
DP	Documents Against Payment
EDF	Export Development Fund
EPZ	Export Processing Zones
ERC	Export Registration Certificate
ERQ	Exporters Retention Quota
EXP Form	Export Form
EXW	EX Works
FAS	Free Alongside Ship
FATF	Financial Action Task Force
FC	Foreign Currency
FCA	Free Carrier
FCB	Foreign Commercial Bank
FDBP	Foreign Documentary Bill Purchase
FE	Foreign Exchange
FEOD	Foreign Exchange Operation Department
FEPD	Foreign Exchange Policy Department
FERA	Foreign Exchange Regulation Act
FIT	Finance of International Trade
FOB	Free on Board
GFET	Guidelines for Foreign Exchange Transactions
ICC	International Chamber of Commerce
ICC	Institute Cargo Clauses
IDA	International Development Association
IFC	International Finance Corporation
IMP Form	Import Form
IRC	Import Registration Certificate
ISBP	International Standard Banking Practice
ISP	International Standby Practices
ITC	International Trade Center
KYC	Know Your Customer
LC	Letter of Credit
LCAF	Letter of Credit Authorization Form
LDBP	Local Documentary Bill Purchase
LIM	Loan Against Imported Merchandise
LTR	Loan Against Trust Receipt
MFI	Microfinance Institution
MLPA	Money Laundering Prevention Act

MOF	Ministry of Finance
MT	Message Type
NBR	National Board of Revenue
NFCD	Non-Resident Foreign Currency Deposit
OBU	Offshore Banking Unit
OD	On Demand
PAD	Payment Against Documents
PCB	Private Commercial Bank
PI	Pro-forma Invoice
PRC	Proceed Realization Certificate
PSI	Pre--Shipment Inspection
RFCD	Resident Foreign Currency Deposit
RIT	Rationalize Input Template
RMG	Ready Made Garments
RRI	Road Rail and Inland Waterway
SCB	State Controlled Bank
SCF	Supply Chain Finance
SME	Small and Medium Enterprise
SOD	Secured Overdraft
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIN	Tax Identification Number
TM	Travel and Miscellaneous
UCPDC	Uniform Customs and Practice for Documentary Credit
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNSCR	United Nations Security Council Resolution
UPAS LC	Usance Pay at Sight Letter of Credit
URC	Uniform Rules for Collection
URDG	Uniform Rules for Demand Guarantee
URF	Uniform Rules for Forfeiting
URR	Uniform Rules for Bank to Bank Reimbursements under Documentary Credits
VAT	Value Added Tax
WTO	World Trade Organization

Chapter One

International Trade and Foreign Exchange

Chapter One: International Trade and Foreign Exchange

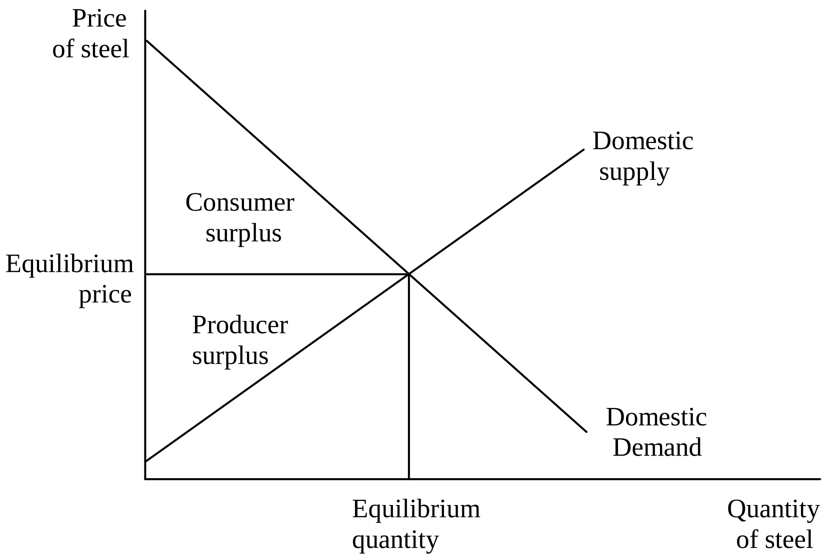
1.1 Concepts of International Trade and Foreign Exchange

International trade is the trade between two countries where traders represent their respective countries. It is the system by which countries exchange goods and services. International trade occurs because there are things that are produced in a particular country that individuals, businesses and governments in other countries want to buy. Trade provides people with a greater selection of goods and services to choose from, often at lower costs than at home. Countries trade with each other to obtain things that are better quality, less expensive or simply different from goods and services produced at home. The goods and services that a country buys from other countries are called imports, and goods and services that are sold to other countries are called exports. Importers and exporters are the core parties in international trade. In terms of international trade, the responsibility of exporter (seller) is to send/deliver the goods and that of importer is to remit/make payments.

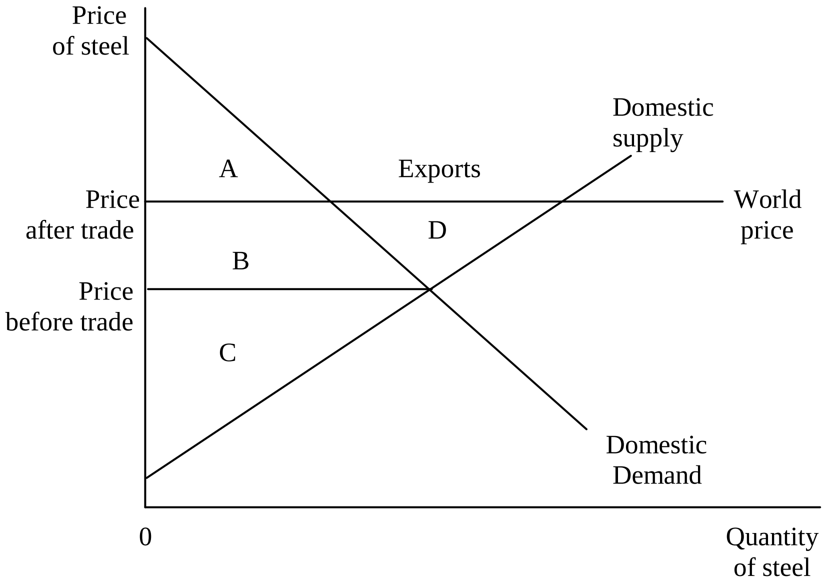
In order to become wealthier, countries want to use their resources—labor, land and capital—as efficiently as possible. However, there are large differences in the quantity, quality and cost of different countries' resources. Some countries have natural advantages, such as abundant minerals or a climate suited to agriculture. Others have a well-trained workforce or highly developed infrastructure, like good roads, advanced telecommunications systems and reliable electric utilities, which help the production and distribution of goods and services. Instead of trying to produce everything by themselves, which would be inefficient, countries often concentrate on producing those things that they can produce best, and then trade for other goods and services. By doing so both the country and the world become wealthier.

International trade brings mutual gains by redistributing product in such a way that both parties end up holding a combination of goods which is better suited to their preferences than the goods they held before. When nation exports, producers are better off and when import consumers' surplus enhanced. But in both cases (export and import), trade raises economic well-being of the nation as a whole. This has been explained below.

Suppose, that a country is isolated from rest of the world produces steel. Domestic price adjusts to balance domestic demand and supply. The sum of consumer and producer surplus measures the total benefits that buyers and sellers receive.



Once trade is allowed and assuming that world market price is higher than domestic market, the country will become an exporter of steel. Domestic producers of steel will like to increase their production because the domestic price moves to the world price. As a result, domestic consumers will have to buy steel at the higher world price. In that case domestic producers of the goods are better off and domestic consumers are worse-off. However, trade raises the economic well-being (producers surplus & consumers' surplus) of the nation as a whole.

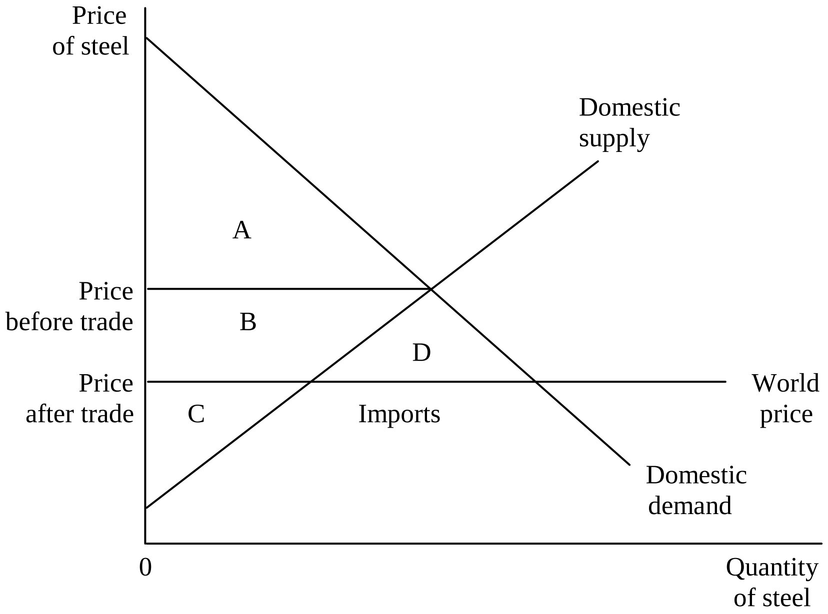


Gains from export may be seen from the following table:

	Before Trade	After Trade	Change
Consumer surplus	A+B	A	-B
Producer surplus	C	B+C+D	+(B+D)
Total surplus	A+B+C	A+B+C+D	+D

The area D shows the increase in total surplus and represents the gains from trade.

If the world price of steel is lower than the domestic price, the country will become an importer of steel, when trade is permitted. Now, domestic consumers will want to buy steel at the lower world price and domestic producers of steel will have to lower their output because domestic price move down to the world trade. As a result, domestic producers of the good are worse off and domestic consumers of the good are better off. However, trade will raise the economic well being of the country as a whole because gains of consumers exceeds the losses of producers. The following diagram and table will explain the above fact.



Gains from export may be seen from the following tables:

	Before Trade	After Trade	Change
Consumer surplus	A	A+B+D	+(B+D)
Producer surplus	B+C	C	-B
Total surplus	A+B+C	A+B+C+D	+D
The area D shows the increase in total surplus and represents the gains from trade.			

Therefore, it is to be recognized that whether a country will engage in export or import depends on the difference between domestic market price (D_{MP}) and world market price (W_{MP}): If –

$W_{MP} > D_{MP} \implies$ country will export

$W_{MP} < D_{MP} \implies$ country will import

1.2 Trade Theories and Trade Barriers

Trade theories evolved over the years explained the rationale behind export and import transactions. The most important way for a nation to become rich and powerful was to export more than it imported, according to the economic philosophy of Mercantilism (from 16th to mid-18th century). The difference would be settled by an inflow of precious metal mostly gold. The more gold a nation had the richer and more powerful it was. Thus mercantilists advocated that the government should stimulate exports and restrict imports.

In 1776, Adam Smith published his famous book. *The Wealth of Nations*, opposed mercantilist view on trade and advocated instead free trade as the best policy for the nations of the world. Smith argued that with free trade, each nation could specialize in the production of those commodities in which it had an absolute advantage (or could produce more efficiently than other nations) and imports those commodities in which it had an absolute disadvantage (or could produce less efficiently). This international specialization of factors in production would result in an increase in world output which would be shared by the trading nations.

Smith explained that if each nation specialized in (or produced more than it wanted to consume domestically) the commodity in which it was more efficient, and exchanged this excess for the commodity in which it was less efficient, the output of all commodities entering trade would increase. This increase would be shared by all nations that voluntarily engaged in trade. Thus, the gains from trade would arise from specialization in production and trade. These gains would be maximized when the government interfered as little as possible with the operation of the domestic economy (laissez faire) and with international trade (free trade).

Ricardo writing after 40 years than Smith stated that even if a nation has an absolute *disadvantage* in the production of all (both) commodities with respect to the other nation, mutually advantageous trade could still take place. The less efficient nation should specialize in the production and export of the commodity in which its absolute *disadvantage* is *less*. This is the commodity in which the nation has a *comparative advantage*. On the other hand, the nation should import the commodity in which its absolute *disadvantage* is *greater*. This is the area of its comparative disadvantage. This is known as the Law of comparative advantage – one of the most famous and still unchallenged laws of economics. Thus, specialization, according to comparative advantage, world lead to increase in world output and the trading nations would gain from trading with each other by exporting the goods in which they specialize. For explaining the specialization and comparative advantage on the part of a trading nation various theories/approaches have been developed such as opportunity Cost Approach, Factor Endowment Approach (Heckscher-Ohlin theory) etc.

Tarde barriers and restrictions of different forms are not uncommon. While all of these seem beneficial, free trade isn't widely accepted as completely beneficial to all parties. These barriers are measures that governments or public authorities introduce to make imported goods or services less competitive than locally produced goods and services. The most common barriers to trade are tariffs, quotas, and non-tariff barriers. A tariff is a tax on imports, which is collected by the government and which raises the price of the good to the consumer. A quota is a limit on the amount of a certain type of good that may be imported into the country. A quota can be either voluntary or legally enforced. While tariffs and quotas are traditional tools for the purpose mainly to protect domestic industries, there are other barriers which have become more important in the world over the years. Several bi-lateral and multi-lateral free trade agreements and World Trade Organization (WTO) are dealing with protectionism like Voluntary export restraints, Technical, administrative, and other regulations, International cartels, Dumping, Export Subsidies etc. Global trend of globalization and trade liberalization are favorable forces for the expansion of trade and foreign exchange transactions.

1.4 Balance of Payments and Currency Convertibility

Balance of Payment (BOP) is a statistical statement designed to provide, for a specific period of time, a systematic record of a country's economic transactions with the rest of the world. The basic convention of a BOP statement is the double entry accounting system in which every transaction is represented by two entries of equal value. A credit-entry records the provision of real resources denoting exports of goods and services and a decrease in holding of foreign financial assets or an increase in foreign financial liabilities. Conversely, a debit-entry records the provision of real resources denoting imports of goods and services and an increase in holding of foreign financial assets or a decrease in foreign financial liabilities. The two major classifications of transactions in the BOP statement: i) current account and ii) capital and financial account. In brief, the current account shows transactions in real resources (goods, services, income) and current transfers; the capital and financial account shows the financing (generally by way of capital transfers or transactions in financial instruments) of real resource flows.

Bangladesh Bank has been following classification system for BOP presentation as per 6th edition of IMF's Balance of Payments Manual (BPM6). The main source documents for compilation of Bangladesh BOP are the records of the Authorized Dealers, supplemented by information obtained from Bangladesh Bank, and Economic Relations Division (ERD) of the Ministry of Finance. To compile export and import data, customs records have been accessed. As per Balance of Payment Manual (BPM6), the standard components incorporated in the Bangladesh BOP statements are grouped under three major categories:

1) Current Account includes: (a) Goods and Services (b) Primary Income and (c) Secondary Income. The Goods and services include general merchandise, non-monetary gold, manufacturing services on physical inputs, maintenance and repair services, transportation, travel, construction services, insurance services, telecommunications etc. Primary Income component is restricted to income earned from the provision of two factors of production viz, labor and capital. Accordingly, income earned from the labour is called compensation of employees while income earned from the capital is called investment income. Secondary Income includes official grants in food and commodity for immediate consumption and technical assistance. It also includes workers' remittances, other gifts and donations.

2) Capital Account includes the acquisition and disposal of non-produced, nonfinancial assets between residents and non-residents and capital transfers receivable and payable between residents and non-residents. Capital transfer consists of transfer of ownership of fixed assets or forgiveness of financial liabilities between residents and non-residents without quid pro quo.

3) The Financial Account is classified mainly by four functional categories: (a) Direct Investment (b) Portfolio Investment (c) Other Investment and (d) Reserve Assets. Direct Investment covers remittances received from foreign direct investors in their enterprises and remittance made abroad by Bangladeshi direct investors for equity participation. Portfolio investment covers remittances received from and paid to on account of equity and debt securities in the form of bonds and notes, money market instrument and financial derivatives. Other investment includes all financial transactions that are not covered in the categories for direct investment, portfolio investment or reserve asset. Under other investment, the instrument classified under assets and liabilities, comprises trade credits, currency and deposits etc.

Foreign exchange reserves are assets held on reserve by a central bank in foreign currencies. These reserves are used to back liabilities and influence monetary policy. The foremost advantage of the forex reserves is in meeting the international finance obligations including sovereign and commercial debts, financing of imports. It helps in boosting the confidence of the market in the ability of a country to meet its external obligations. Monetary authorities frequently use foreign exchange to intervene in market to keep the value of the domestic currency at target level. Common rationales for maintaining adequate level of foreign exchange reserves include international payment obligations, boosting a country's credit worthiness and providing insurance against external shocks. The reserve basket of Bangladesh, like most other countries, consists of different foreign currencies, gold, reserve position in the IMF and special drawing rights (SDR), which are under control of the central bank and readily available for any balance of payments financing.

A specimen copy of BOP statistics of Bangladesh has been given below:

Trends in Balance of Payments

(Million USD)

Item	FY18	FY19	FY20	FY21	FY22
Trade balance	-18178	-15835	-18569	-23778	-33249
Services	-4201	-3176	-2578	-3020	-3870
Primary income	-2641	-2382	-3070	-3172	-3299
Secondary income	15453	16903	18782	25395	21721
Current account balance	-9567	-4490	-5435	-4575	-18697
Capital account	331	239	256	458	181
Financial account	9011	5130	8654	14067	13666
Errors and omissions	-632	-700	-306	-676	-530
Overall balance	-857	179	3169	9274	-5380
Reserve assets	857	-179	-3169	-9274	5380

The following concepts are useful for analyzing the BOP situation of a country:

The Trade Balance (TB), indicates the difference between exports and imports on an FOB basis. Trade surplus represents X-M>O and trade deficit means X-M<O.

The Current Account Balance (CAB) is represented by transactions on goods, services, and primary income plus secondary income. It shows the net change in financial assets arising from an economy's real transactions. This corresponds to current surplus or deficit in the rest of the world sector of the national accounts.

An Overall Balance (OB) is commonly considered as a measure of overall BOP 'performance". It places all current account items, capital movements and errors and omissions "above the line", and changes in reserves "below the line". Thus a surplus in overall balance represents a country's increase in reserves and a deficit in overall balance represents decrease in reserves.

Currency convertibility is the ease with which a country's currency can be converted into another currency. Currency convertibility is important for international commerce as globally sourced goods must be paid for in an agreed-upon currency that may not be the buyer's domestic currency. When a country has poor currency convertibility, meaning it is difficult to swap it for another currency or store of value, it poses a risk and barrier to trade with foreign countries who have no need for the domestic currency. A Currency may be convertible on Current Account which means the current account is substantially open or there are limited restrictions on the transactions of the items of current account of BOP. Capital Account Convertibility indicates limited exchange control on the items of capital account. When only one account is convertible (say current account of BOP) then it is called Partial Convertibility; and when both current and capital accounts are convertible, then it is called Full Convertibility. Bangladesh Taka is convertible on current account since 1994. Bangladesh has been awarded with Article VIII status of IMF since April 11, 1994 in recognition with its current account convertibility.

The convertibility of currencies have been sought by different countries for the following reasons:

a. to make the economy internationally competitive;
b. to integrate the economy with global monetary and financial system;
c. to increase investment and, economic growth.

There are some preconditions which are to be met if convertibility is to be successfully implemented. These are:

a. Internal Financial Balance: it must be established through sound fiscal and monetary policies to avoid excessive inflationary pressures.

b. External Financial Balance: it must be achieved by ensuring the stability of exchange rate.

c. Adequate Level of Reserves: it should be maintained to allow a country to absorb domestic or exogenous shocks.

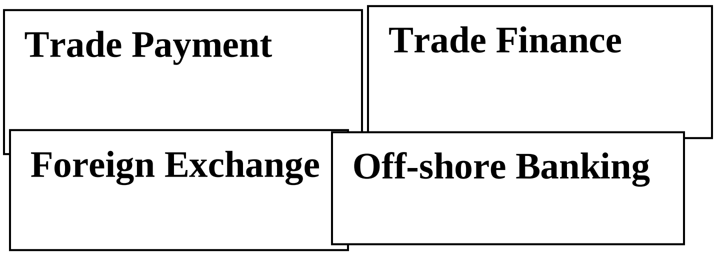
d. Incentives System: it must be liberalized to ensure the positive impact of market forces on resource allocation.

1.4 International Trade and International Banking

International banking comprises cross-border business in any currency and local business in foreign currencies. It consists of cross border trade payment, trade financing and foreign exchange transactions. From a country perspective, any cross-border transactions even in local currencies might be international banking.

In the context of the global economies (especially, developed countries) the currencies might be foreign to any of the transacting nations i.e. where the currency is foreign to either the lender or the borrower but not both. One segment is cross-border lending by residents of a given jurisdiction in their domestic currency. For example, a bank in New York might lend US dollars to a borrower in London or Tokyo. The other segment is also cross-border but involves residents borrowing in their domestic currency from a bank abroad. For example, a company in New York might borrow US dollars from a bank in London. Both of these examples involve a counterparty that is a non-US resident and thus transacts in a foreign currency. Another segment of international banking is the offshore market, which was historically known as the "Eurocurrency" market because it developed first in Europe. The defining characteristic of this market is that business is denominated in a currency that is foreign to both parties. Practically, all these concepts are interlinked and these (broad components) are not mutually exclusive.

Broad Components of International Banking



In a country like Bangladesh, the most common function of international banking is to facilitating international trade. In the international trade, traders have to decide how to settle the transaction and, thereby, how to manage the associated risk. And in many cases traders need financing assistance. To support these needs arisen in trade transaction, banks play a vital role. Banks are important facilitators of international trade. Its role in international trade is to facilitate payment; and to provide finance to exporter and importer. Banks also offer risk management services. The most important element of international banking is country risk, which involves the political, economic, and social conditions of countries where a bank as well as traders have exposure. Globally four international trade payment methods are used. These are: Cash in Advance; Open Account; Documentary Collection; and Documentary Credit. In cash in advance and open account payment methods, banks role is not “active”. They only facilitate the payment by transferring fund from importers account to exporter’s account as per the importer’s instruction. But in documentary collection and documentary credit banks play an active role. Under documentary collection banks act as an agent of exporter to collect payment from importer against delivery of documents. Here bank has no payment obligation. But in documentary credit banks provide irrevocable undertaking to pay against complying presentation. Here bank holds the primary liability to pay. Besides offering payment facility, banks also provide finance to both importer and exporter. Finance or credit provided to the exporters is known as export finance which is generally offered at pre-shipment and post-shipment stage. Importers are provided financing facilities at pre-import and post import stage. Banks shoulder risks for their clients in the process of the facilitation of trade payments and financing services. Moreover, banks offer some foreign exchange and commodity derivatives to minimize different risks associated with international trade transactions.

Indicative Questions

- What is international Trade? Who are the core parties in international trade?
- How BOP and BOT are different?
- Can BOT of a country be positive and BOP of the same country is negative?
- What are the components of current account?
- Define the components of capital account.
- What are the key functional areas of International Banking?
- What is the role of banks in international trade?
- How can you explain country’s positive Balance of Trade (BOT) position in a given period and its impact to the economy?
- How can you explain country’s negative Balance of Trade (BOT) position in a given period and its impact to the economy?
- Why currency convertibility is important for an economy? What disadvantage a country may face due to poor currency convertibility?
- When does this international trade (export or import) happen? What is the gain on-the part of a country in international trade? Who are the losers and to what extent?

Chapter Two

Domestic Regulatory Framework for International Tarde and Foreign Exchange

Chapter Two: Domestic Regulatory Framework for International Tarde and Foreign Exchange

2.1: Domestic Regulatory Framework

In performing international trade and foreign exchange operations, banks are required to follow both a set of domestic regulations and international rules/guidelines. In the context of Bangladesh, importers are to obtain IRC to import from any sources and exporters are to get ERC[1]. In this connection, our exchange control regulation i.e., Foreign Exchange Regulation Act, 1947 (Act No. VII of 1947) currently renamed Foreign Exchange Regulation (Amendment) Act, 2015 is the key domestic regulation in regulating cross-border banking transactions. Banks are also required to follow the trade policies issued by the Ministry of Commerce of Bangladesh. Among the international rules and guidelines, International Chamber of Commerce (ICC) publications are the most relevant. The major relevant domestic regulations followed in performing trade services activities in the country are shown in Table-2.1 below.

Table-2.1: Key Domestic Regulatory Guidelines
- Foreign Exchange Regulations Act 1947 (with latest amendment);
- Bangladesh Bank Guidelines on Foreign Exchange Transactions;
- Export Policy 2018-2021; Import Policy Order 2021-24 etc.

2.1.1 Foreign Exchange Regulation (Amendment 2015) Act 1947

In Bangladesh, Foreign Exchange Regulations Act, 1947 (FERA, –1947) is the most important domestic regulation in the area of international banking. FERA, 1947 has empowered Bangladesh Bank to regulate all kinds of foreign exchange dealings in Bangladesh. Empowered by the Act, Bangladesh Bank issues Authorized Dealers licenses to the selected bank branches for conducting trade payments, financing and other international banking operations. Following the provisions of the Act, Bangladesh Bank issues circulars/guidelines from time to time to regulate trade payment, financing, remittance services etc. activities to be followed by the banks. These guidelines should complement the ICC guidelines for smooth operations of international trade payment and financing activities. The Act has 27 sections and a number of sub-sections which cover an array of issues connected with trade services and foreign exchange. It focuses on the maintenance of the proper accounting of foreign currency receipts and payments.

[1] In practice, importers and exporters are to submit a diverse set of documents like Receipt of the deposited fees, TIN, VAT, Nationality Certificate, Bank Solvency Certificate, Trade License; Certificate from Chamber/ Registered Trade Association, Certificate from Board of Investment, Rent Receipt; Partnership Deed/ Memorandum of Association/ Article of Association, etc. to the CCI&E of the Ministry of Commerce. It is to be mentioned that government ministries do not require IRC for importation.

Bangladesh Bank is responsible for administration, supervision, monitoring as well as framing of different guidelines governing all the transactions denominated in foreign currencies under the Act. The authorized dealers must maintain adequate and proper records for all foreign exchange transactions and furnish the particulars in the prescribed formats in form of regular monthly submission of returns to the Bangladesh Bank. The Act has given Bangladesh Bank the authority to call for information, power to inspect and finally to draft rules based upon which Bangladesh Bank issues circulars/guidelines from time to time to regulate trade payment and international banking activities to be followed by the banks. Section 5, 8, and 12 of the FERA 1947 are specifically important and relevant for trade services by banks.

2.1.2 Guidelines for Foreign Exchange Transactions, 2018

Authorized Dealers are required to follow Foreign Exchange (FE) circulars issued by the Bangladesh Bank being empowered by FERA 1947. In this process, one cannot by-pass the policy decisions and directives of the government in the form of Export Policy and Import Policy Order issued by the Chief Controller of Export and Import of the Ministry of Commerce of the country as empowered by the Imports and Exports (Control) Act, 1950. Bangladesh Bank compiled all the FE circulars in the guideline titled GFET. The current [second edition] issue of GFET 2018 covers regulations upto September 30, 2017. The first volume offers the directives regarding the procedural modalities and the second one contains the details of reporting of FE transactions. From operational banking point of view, the importance of the GFET is imperative and the officials working at different desks of trade services departments in AD branches must know these rules well. Some key regulations for trade facilitation in case of importation and exportation of Bangladesh as per GFET are pointed in box 2.2 and 2.3.

There are 20 chapters in GFET volume one.

- Licensing criteria and basic instructions to the ADs and Money (chapter 1,2,3 &4)
- Inward and outward remittance (chapter 5, 10,11&12)
- Export and Import (chapter 6,7 & 8)
- Foreign Remittance and Foreign Currency Account (chapter 13 & 14)
- Borrowings, Investment, Loans & Advances (chapter 9, 15 & 16)
- Miscellaneous (chapter 17, 18,19 & 20)

Box-2.2: Some -Key Regulations/Rules for Trade Facilitation in case of Importation- into Bangladesh as per GFET
– The ADs must ensure that they deal only with known customers having a place of business in Bangladesh – However,- approval of Bangladesh Bank will not be required for extending validity

of LCAF related to import of capital machinery under long term supplier's/buyer's credit upon approval of BIDA. Revalidation of LCAF will not be required for remittances against import out of fund held in foreign currency accounts of importers maintained under general or special authorization from Bangladesh Bank.

- The ADs will have to obtain confidential report on the exporters in all cases where the amount of LC/contract exceeds USD 10,000 (Ten Thousand) against proforma invoices issued directly by foreign suppliers and USD 20,000 (Twenty Thousand) against indents issued by local agents of the foreign suppliers.
- ADs may allow remittance against discrepant documents/documents received directly by the importers after the goods have been cleared from the customs, on the basis of the relative LCAF, the authenticated copy of the customs bill of entry for consumption or customs certified invoice in the case of import by post/courier and the relative invoices.
- In all cases of remittances for imports into Bangladesh, the importer must submit the relevant authenticated copy of the customs bill of entry within four months from the dates of remittances. In case of imports on suppliers' credit/buyers' term/external credit, the prescribed period shall be calculated from the date of acceptance of import documents.
- ADs may establish letter of credit in foreign currency favoring local contractor to implement work order issued by govt. authorities under international tender

Source*:* BB Guidelines

Box-2.3: Some Key Regulations/Rules for Trade Facilitation in case of Exportation From Bangladesh as per GFET

- All exports, to which the requirement of declaration applies, must be declared on the EXP Form. However, EXP procedure will not be applicable for export undertaken in non-physical form.
- Before issuance of EXP Forms, ADs have to be satisfied about bonafides of the buyers/consignees abroad and their credentials etc. where necessary, Special care is to be taken in case of exportation against contract alone, charter party bill of lading etc.
- The exporters need to submit export documents, EXP Form in particular, to the ADs so that they are able to report to BB within 14 days from the date of shipment.
- General authorization has been accorded to ADs for allowing exports of raw jute and jute goods on up to 360 (three hundred sixty) days usance.
- In case of Receipts of advance remittances against exports, AD should obtain a declaration from the beneficiary on the "Advance Receipt Voucher" certifying the

purpose of the remittance with report to the 'Online ARV Reporting Module'. – If shipments from Bangladesh are lost in transit for which payment has not already been received either by a direct remittance or by negotiation of bills under an LC, the AD must see that an insurance claim is made as soon as the loss is known.
Source: GFET 2018

2.1.3 Import Policy Order 2021-24

The existing Import Policy Order, 2021-24, has been formulated, keeping in mind the market economy ideology for making the easy availability of the commodities to consumers at fair prices through removing the barriers to movement of goods internationally. As noted in the policy document, the major objectives are liberalization of imports in line with WTO and globalization; simplification of imports for export-oriented industries; and improving quality of services to the importers. The present version of the import policy order has got nine chapters that cover relevant definitions, general rules for imports, fees related to imports, miscellaneous rules, and general rules for industrial imports, provisions related to the importers of government sector, import trade control committee, and recognized list of chamber of commerce and industry. –In the Import Policy Order, twenty six commodities have been kept under the restricted list. The import policy has allowed opening of LC for importing capital machinery even without IRC and other flexible measures to keep up with the momentum of rapid industrialization through ensuring required imports. The limit of import without LC has also been changed from LCAF issued date to sales contract execution date. Removing LCAF requirement is one of the notable changes between current version of Import Policy Order to its predecessor. For enhancing easy availability of industrial raw materials and consumer goods at fair prices, some commodities have been declared importable as raw materials. The summary of import policy order is given in Box2.4.

Box 2.4: Some key provisions in Importation as per Import Policy Order (IPO) 2021-24
Import without opening of Letter of Credit (LC): Import may be allowed without opening of Letters of Credit in the following cases: (a) Import of books, journals, magazines and periodicals on sight draft or usance bill basis; (b) In case of import of raw materials and capital machinery by the registered industrial importers for the use in their own factories, irrespective of any price ceiling, and in case of import of any importable item by the commercial importers by making payment from Bangladesh, of maximum 5,00,000 (five lac) US dollar per annum, however, for import from Myanmar:

(i) in case of import of rice, pulse, maize, beans, ginger, garlic, soybean oil, palm oil, onion and fish goods, valued not exceeding 50,000 (fifty thousand) US dollar in a single consignment, and in case of other goods, valued not exceeding 30,000 (thirty thousand) US dollar in a single consignment; and

(ii) in case of import of rice under public sector, valued not exceeding 2.00 (two) million US dollar in a single consignment without LC, and in this case the ceiling of maximum 5,00,000 (five lac) US dollar per annum, shall not be applicable.

(c) import of goods for which there are specific procurement procedures for import under commodity aid, loan and grant without opening any LC; and

(d) Import through bank draft for "international chemical reference" by recognized pharmaceutical industry on the approval of Director, Drugs Administration for the purpose of quality control of their products.

Validity of shipment for goods: Unless, otherwise specified, shipment of goods shall have to be made within 17(seventeen) months, in the case of machinery and spare parts, and in the case of all other goods, 9 (nine) months, from the date of sales contract.

(a) Shipment of goods under commodity aid or grant, and account trade arrangement or counter trade arrangement shall be effected within such time limit as may be notified by the Chief Controller; and

(b) In case where shipment is not possible to be made within the validity period, due to circumstances beyond control of the importer, the Chief Controller may extend the time limit for shipment of goods on the merit of each case.

Time limit for opening of LC: Unless otherwise specified, for import under cash foreign exchange, letter of credit shall have to be opened within the time permitted under sales contract. For import under foreign aid or grant and barter or STA, LC shall have to be opened within such time limit as may be notified by the Chief Controller.

Document required to be submitted along with LCA Form: Importers in both public sector and private sector shall submit to their nominated banks the following documents for opening Letter of Credit:

(a) LC Application Form duly signed by the importer;

(b) Indents for goods issued by Indentor or a Proforma Invoice obtained from the foreign supplier, as the case may be; and

(c) Insurance cover note.

Additional documents to be furnished by public sector importers: In addition to the documents mentioned in sub-paragraph (11), public sector importers shall have to submit the attested photocopy of sanction letter from the administrative Ministry or Division or Authority, as the case may be.

Violation of the requirement of LCA or LC: (a) Shipment must be effected with 24 months from the date of execution of the sales contract for import of spare parts & capital Machinery and for other import, the shipment must be effected within 9 months from the date of execution of sales contract.

IRC Requirement for New Industrial Unit: LC, for import of capital machinery and initial spares for setting up of a new industrial unit, may be opened without any Import Registration Certificate (IRC).

Change of nominated bank: Subject to no objection by both the banks, change of nominated bank may be made within the jurisdiction of any particular Regional office of Controller of Imports and Export; in this case a copy of no objection certificate of both banks have to be submitted to the concerned Import Control Authority.

Joint Importation: In joint importation, the industrial consumers can form one or more groups with other industrial consumers only and the commercial importers can form one or more groups with other commercial importers.

Provisions for Unregistered Importers: Individuals or institutions, not being registered importers, may import permissible goods value up to 10,000 (Ten Thousand) US Dollar for their personal use under cash foreign exchange without any permission. Expatriate Bangladeshi professionals may, import their own necessary professional apparatus and scientific equipment irrespective of any value ceiling out of their own foreign exchange earnings.

Temporary import with conditions for re-exports: Agents and representatives of the foreign manufacturers are allowed to import machinery and equipment on temporary basis of their principal or parent company for display in Bangladesh, subject to the conditions stated below:

(a) Goods brought into Bangladesh for such exhibition or demonstration are to be re-exported within a period of one year; and

(b) The importer shall execute a bond and furnish a Bank Guarantee or a legal instrument to the satisfaction of the Customs Authority at the time of clearance of the goods regarding timely re-export.

Provisions for import of food for human consumption: The shipping documents must be accompanied by radioactivity-test reports from the competent authority of the exporting country and a certificate to the effect that the goods are fit for consumption for

- Import of milk, milk food, milk products, edible oil and other food goods
- Fish feed, poultry feed and animal feed goods

Import by Public Sector Importers: All Ministries and Government Departments except the Ministry of Defense shall first duly submit LC Authorization Form to their nominated

Banks before opening LC for the purpose of import. Import Registration Certificate (IRC) is not required for importers by the public sector.

Compulsory Membership of Recognized Chamber of Commerce and Industry and Trade Association: All importers, exporters and Indenters are to obtain membership from a recognized Chamber of Commerce and Industry or membership from the concerned trade organization formed on all Bangladesh basis representing his own trade.

Requirements for provisional IRC and ERC regarding validity are as follows

- The validity of provisional IRC or ERC is up to the validity of the respective provisional or primary membership.
- Permanent or regular IRC or ERC is issued after getting the provisional one return back.

Source: **IPO 2021-24**

2.1.4 Export Policy 2018-2021

Export Policy 2018-2021 primarily aims at encouraging production of exportable commodities and promoting new exporters and helping the existing exporters. In the policy document, strategies are mentioned to facilitate expansion of trade and taking necessary steps to modernize and simplify the country's trade policy in accordance with WTO obligations and upholding the country's interest. In the document, eight chapters have been included with two annexures. A chapter wise brief introduction of the policy document is summarized in Box-2.5.

Box-2.5: Summary of Export Policy 2018-2021

Chapter one is concerned with title, objectives, strategies, scope and application of the policy. The policy is called as Export Policy 2018-2021.The key objectives of the policy are to raise export earnings to USD 60 billion by 2021, to diversify the export markets and products, to do branding of Bangladeshi products, to increase the stake of services of ICT export by bringing dynamism to export trade utilizing e-commerce and e-governance etc., The policy is issued by Ministry of Commerce in terms of Section 3(1) under Import & Export (Control) Act 1950. The policy is applicable for exports all types of goods and services from Bangladesh. The policy is in force up to 30 June 2021, until the new export policy is enforced. The policy is applicable in all places in Bangladesh except Export Processing Zones (EPZs), Special Economic Zones (SEZs) and Private Economic Zones.

Chapter two covers definitions some key associated with the policy. Definitions of

Sample, gift parcel, Entre-port trade, re-export, buying contract, permits, commercial importer, deemed export, highest priority sector, Sungandhi Rice are given the chapter. According to the policy, Sample means limited quantity of goods easily identifiable and no commercial value, whereas, 'Gift parcel' means gift materials sent by air, by post or courier service. Entre-port trade means that involves export of an imported product to a third country at a price at least 5% higher than the import price without any change in quality, quantity, shape or any other aspect. Products under this trade cannot be brought out of the port area. However, in case of export from another port, products can be transported from one port to another with permission from Ministry of Commerce.

Re-export means the export of an imported product within a specific period of time with a value addition of at least 10% to the imported price by changing either quality or shape or both of the products by means of local processing.

Chapter three covers general provisions of exports. As per the policy, exports of sample mean a maximum of USD 10,000 worth products per exporter (except medicine) annually based on the FOB price Products sent free of cost are treated as samples in case of medicine if a registered exporter sends maximum of USD 70, 000 worth products without export LC or medicine worth 10% of the total value of each LC or a maximum of USD15, 000, whichever is less. Moreover, subject to the prior approval of Bangladesh Bank, 100% export oriented RMG exporters and leather exporters can send maximum of USD 20,000 worth products as sample per year. Gift parcel worth USD 2000 or equivalent BDT is also treated as export of sample. The chapter has also covered the operational provisions for clearance from port and re-exportation of readymade garments returned due to defects, provisions for return of defected fabrics and temporary export for re-import.

Chapter four includes provisions relating to export diversification. Some products are classified as 'highest priority sector' while some other products are treated as 'special developmental sector' based on the level of production and supply, potential contribution to export sector, demand in the international market, and capacity to contribute to the socio-economic development of the country. Provisions relating to benefits and facilities to highest priority sector and special developmental sector are included in the chapter.

Chapter five is concerned with general export facilities. Moreover banks will have to fix exporters' cash credit limit based on the success of export earnings of previous years and bank-client relation. As per the policy, banks cannot charge overdue interest in case of products exported on sight basis under irrevocable letter of credit. Special incentives are to be provided for exporting new industrial products having at least 30% value addition.

Chapter six includes product specific export facilities to be taken or already in place by different departments of government. Product specific export facilities are mainly in Readymade garments industry, leather industry, jute industry, agricultural sector, frozen food an fish product industry, tea industry, Information Technology sector, plastic goods, ship building industry, Light Engineering products, handicraft made from local raw materials, cottage industry, pottery industry, pharmaceutical sector, herbal products, and other sectors.

Chapter seven is concerned with provisions relating to export of services where service sector has been defined in line with Modes 1, 2. 3, 4 of General Agreement on Trade in Services (GATS) of the WTO. Finally, ***chapter eight*** has focused on the various measures for the promotion of export. The policy also includes lists of export prohibited products and conditional exportable items.

Source: Export Policy 2018-2021

2.1.5 Customs Act 2014 and Pre-shipment Inspection Rules 2002

Customs Act 2014 has consolidated the law relating to customs (the levy and collection of customs duties) and to provide for other allied matters. The Act has covered some issues connected with bill of entry and pre-shipment inspection that are related to trade services by banks. Government of Bangladesh circulated a set of rules of pre-shipment inspection known as Pre-shipment Inspection Rules 2002 under the Customs Act 1969. These rules assigned specific responsibilities[2] to the importers and the banks related to pre-shipment inspection.

Module Two: Indicative Questions

- What are the domestic regulations followed for international trade facilitation?
- What is the purpose of FERA 1947?
- Point out some key features is GFET?

[2]Importer must get information about the requirement of PSI for a product and name of the PSI agencies appointed for the purpose for different regions. According to the rules, Issuing Bank must add condition related to (where applicable) pre-shipment inspection in the LC; and must send an attested copy of the LC, insurance cover note, TIN certificate and VAT certificate to the concerned inspection office at Dhaka. In case of import through LCAF (without LC) the copy of the LCAF along with other documents must be sent (PSI Rules 2002).

- What is the rationale behind FERA & GFET?
- Explain some key regulations/rules for trade facilitation in case of importation and exportation of Bangladesh as per GFET.
- What are the key features of the Import Policy Order in force?
- Point out key aspects of the export policy of Bangladesh?
- What risk mitigation measures should a bank take into account for import without LC?
- What are the operational procedures of re-exportation of readymade garments returned due to defects?
- What are the operational procedures of returning of defected fabrics and temporary export for re-import?

Chapter Three

International Tarde Payment Methods/Trade Services Products

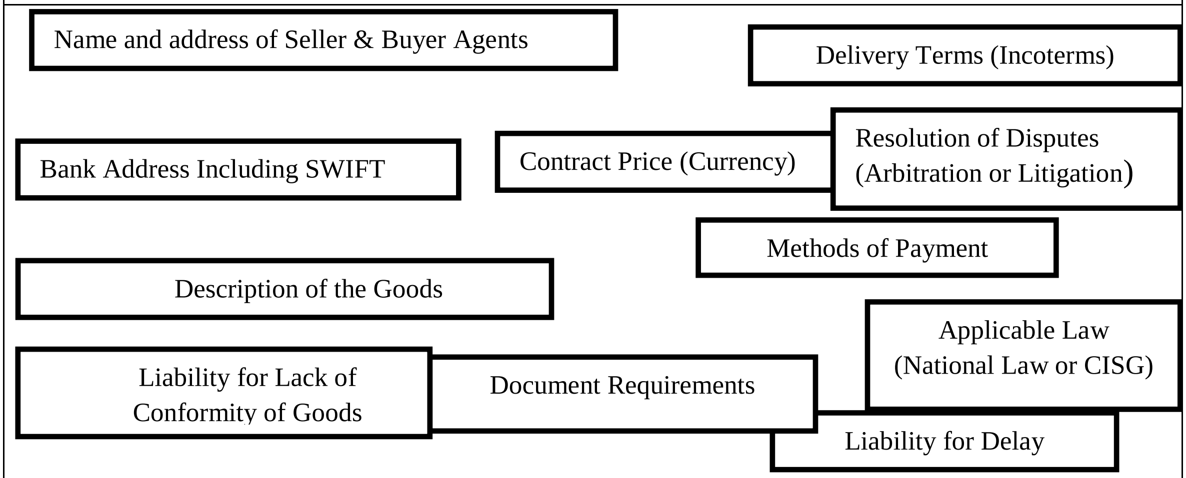
Chapter Three: International Tarde Payment Methods/Trade Services Products

3.1: Purchase/Sale Contract

Purchase/sale agreement is the contract between exporter and importer. Though some common contents[3] are expected in a purchase/sale agreement, there is no doubt that terms and conditions of purchase/sale contract would vary for different products, modes of payment or even sources of imports. In case of three methods of payments (cash in advance, open account and documentary collection), sales/purchase contract is the guiding document.

In Bangladesh, the use of standard sales/purchase contract is not so prominent which may be due to the widespread use of documentary credit. In regard to uniform rules for the contract, the major trading partners of Bangladesh like United States, UK, members of EU, China are among the signatory countries of UN Vienna Convention. However, Bangladesh is yet to sign the treaty, and the country also does not have any national regulation/guideline to cover cross-border purchase/sale contracts. Standard sales purchase contract should contain certain terms and conditions (Box-3.1).

Box-3.1: Key Terms to be included in a Standard Sales/Purchase Contract



[3] A standard purchase/sale agreement should contain name and address of applicant Name and address of applicant, the applicant's bank/ collecting/ presenting/ buyer's bank; Name and address of the beneficiary's bank /nominated/ remitting/ seller's bank; total value and full description of goods; last date of shipment, date of expiry and documents required; Payment terms: method, tenor, trade terms etc.; and warranty/ guarantee/ undertaking; Dispute settlement process (arbitration or litigation and the governing laws); Retention of title; Liquidated damage clause; and force majeure.

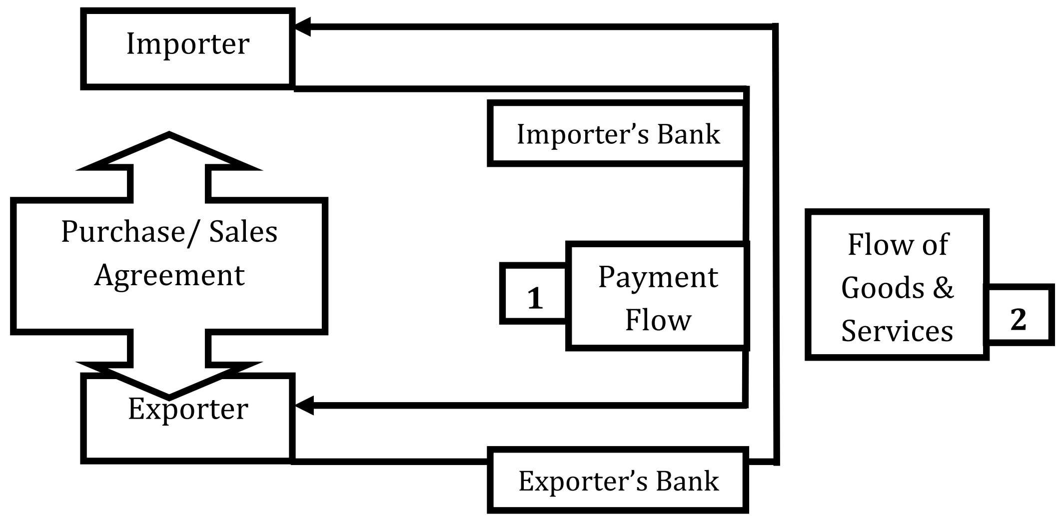
3.2: Trade Payment Methods/Tarde Services Products

Trade services products or services mainly include the products or services related to trade payment and trade finance. There is no doubt that sometimes it is hard to make distinction between trade payment and trade financing. Some commonly used trade services techniques in international trade are cash in advance, open account, documentary collection, documentary credit (LC), standby LC or other bank guarantees, bank payment obligation, supply chain financing, factoring, forfeiting etc.

3.2.1 Cash in Advance

In cash in advance method of payment, the buyer places the funds at the disposal of seller (exporter) prior to shipment of goods in accordance with the sales/purchase contract, which is certainly to be concluded between exporter and importer before the trade transactions (figure-3.1). If the exporter is not sure about the buyer's credit or there are other circumstances which cast doubt on the certainty of getting paid, a last resort is to ask for cash in advance. This may be acceptable to a first-time buyer who trusts seller to deliver the goods. In the long run, however, it may not be competitive and buyers will not want to continue importing goods if they can turn to other suppliers offering better terms. Since this method of payment contains a lot of risks on the part of buyers (because there is no assurance that what they have contracted for would be supplied and received in appropriate manner), they may not be willing to accept such terms of payments.

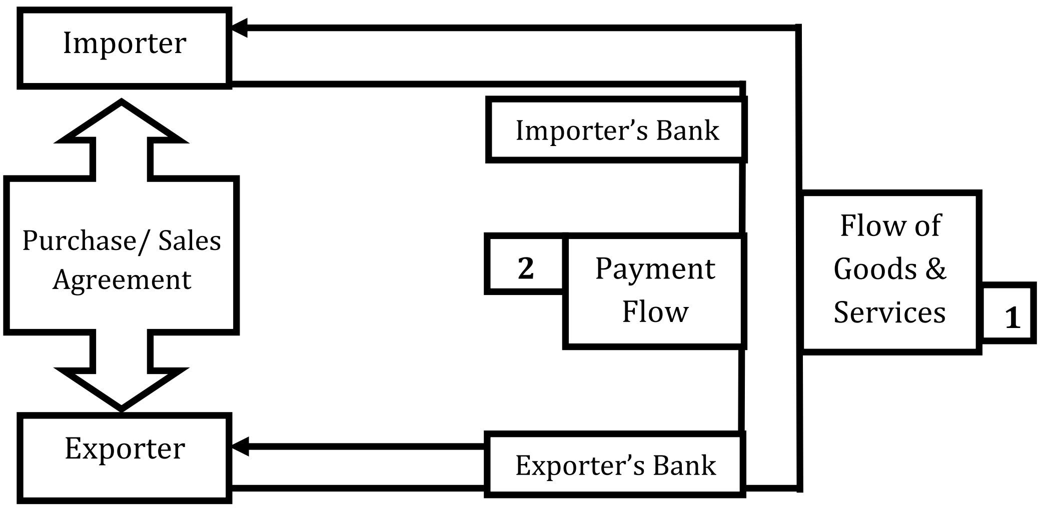
Figure-3.1: Operational Procedure of Cash in Advance



3.2.1 Open Account

Open account is the reverse of cash in advance. This is an arrangement between the buyer and seller (sales/purchase contract) whereby the goods are manufactured and delivered before payment is required. An exporter ships goods to the importer and sends an invoice for settlement at an agreed date or at the end of an agreed period (Figure-3.2). One example would be payment at the end of the month following the month of shipment. The buyer makes payment by methods such as international bank transfer or cheque. The seller must have absolute trust that he will be paid at the agreed date. Though the seller can avoid a lot of banking charges and other costs, but he has no security that he will be receiving payment in due course. For this reason, the exporter may not be willing to accept this sort of mode of payment.

Figure-3.2: Operational Procedure of Open Account



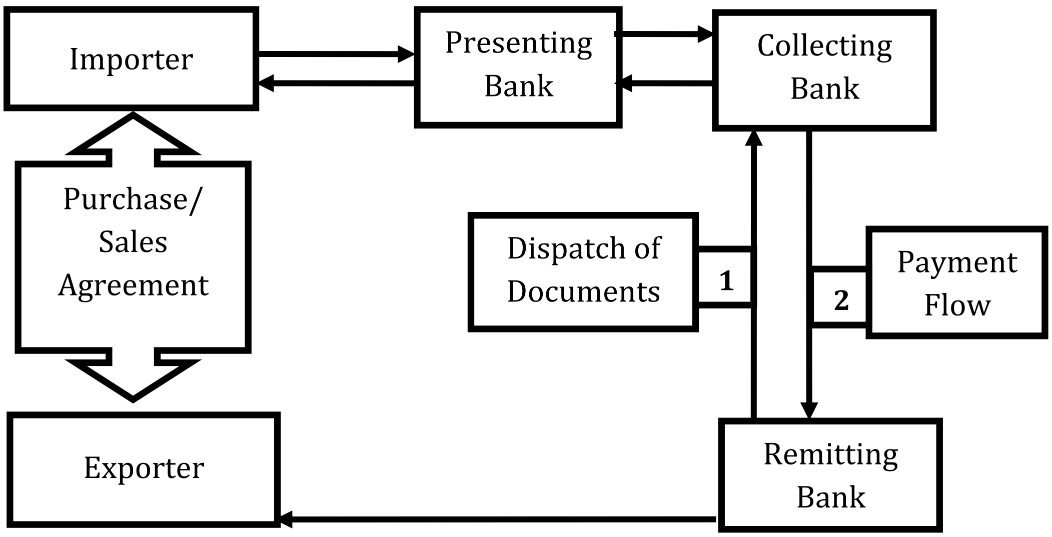
3.2.3 Documentary Collection

Collection method provides a means of payment whereby the exporter can ensure that the buyer should not be able to take possession of the goods until he has paid or given a payment undertaking. In return for this payment or payment undertaking, the importer receives documents allowing possession of the goods. The system is appropriate to cases in which the seller is unwilling to provide the merchandise on open account terms but does not need a bank undertaking such as a documentary credit.

Under the arrangement goods are shipped and the relevant bill of exchange (B/E)/ draft is drawn by the seller (Principal) on the buyer (drawee) and documents are sent to the seller's bank (remitting bank) with clear instructions for collection through one of its correspondent banks (collecting bank) located in the buyer's domicile (figure-3.3). In this method, the exporter hands over the shipping documents (financial documents such as B/E and commercial documents such as transport documents, insurance documents etc.) to his bank and asks it to forward the documents to the buyer's bank, with instructions to release them to the buyer on payment of his invoice. This is called *document against payment (D/P)*. The exporter can also give the buyer trade credit by drawing a bill of exchange on him and requiring him to accept the bill when he collects the documents. This is called documentary collection against acceptance or *documents against acceptance* (D/A) because the buyer will have to accept the bill of exchange before receiving the documents. Under documentary collection, exporter is required to ship the goods without an unconditional guarantee or promise of payment by the buyer. Thus, it may not be preferable to exporter from the point of view of getting trade payment.

However, under collection method of payment, there is another payment method (other than above mentioned documentary collection) known as clean collection where only a draft/BE is drawn and sent for collection to collecting bank for collection.

Figure-3.3: Operational Procedure of Documentary Collection

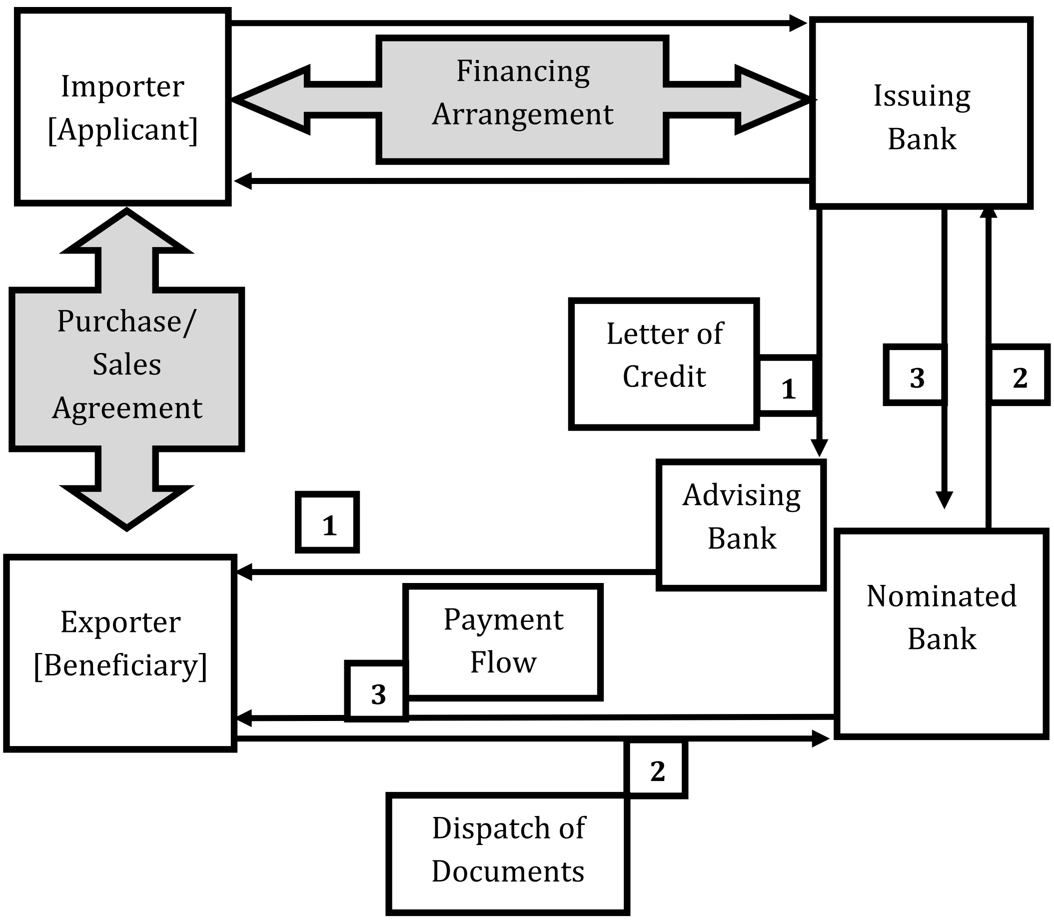


3.2.4 Documentary Credit (Letter of Credit or LC)

Documentary Credit is a classic form of international trade payment method that substantially reduces risks for both exporter and importer. This is an arrangement whereby the importer's or buyer's bank is committed to pay an agreed sum of money to the exporter/ seller under some agreed conditions. Documentary credit or LC is an undertaking or commitment issued generally by a bank to pay the exporter a certain amount provided that the terms and conditions of the documentary credit are complied with (figure 3.4). The conditions are about submission of certain documents in certain form. Documents must be in order to receive payment. Documentary Credit is guided by a classic form of set of rules known as Uniform Customs and Practice for Documentary

Credits [UCPDC] published by ICC. In the payment mechanism of LC, banks have a very active role to play (Figure-3.4).

Figure-3.4: Operational Procedure of Documentary Credit



In the payment mechanism of L/C, banks have a very active role to play and the banks deal with documents only. Hence the payment, acceptance or negotiation under documentary credit is made upon presentation by the seller of all stipulated documents. These documents (e.g., bill of lading, invoice, inspection certificate etc.) provide a basic level of proof that the right merchandise has been properly sent to the importer- although, of course, there is always the chance that the documents may prove inaccurate or even fraudulent. Although one of the costliest, it is often considered as the most secure because the buyer is assured that the seller will be paid only when the documents representing goods have been delivered. Conversely, the seller is assured that the buyer will receive the documents for ultimate delivery of the goods only when payment has been made. The security of the transaction is assured by one or more third parties.

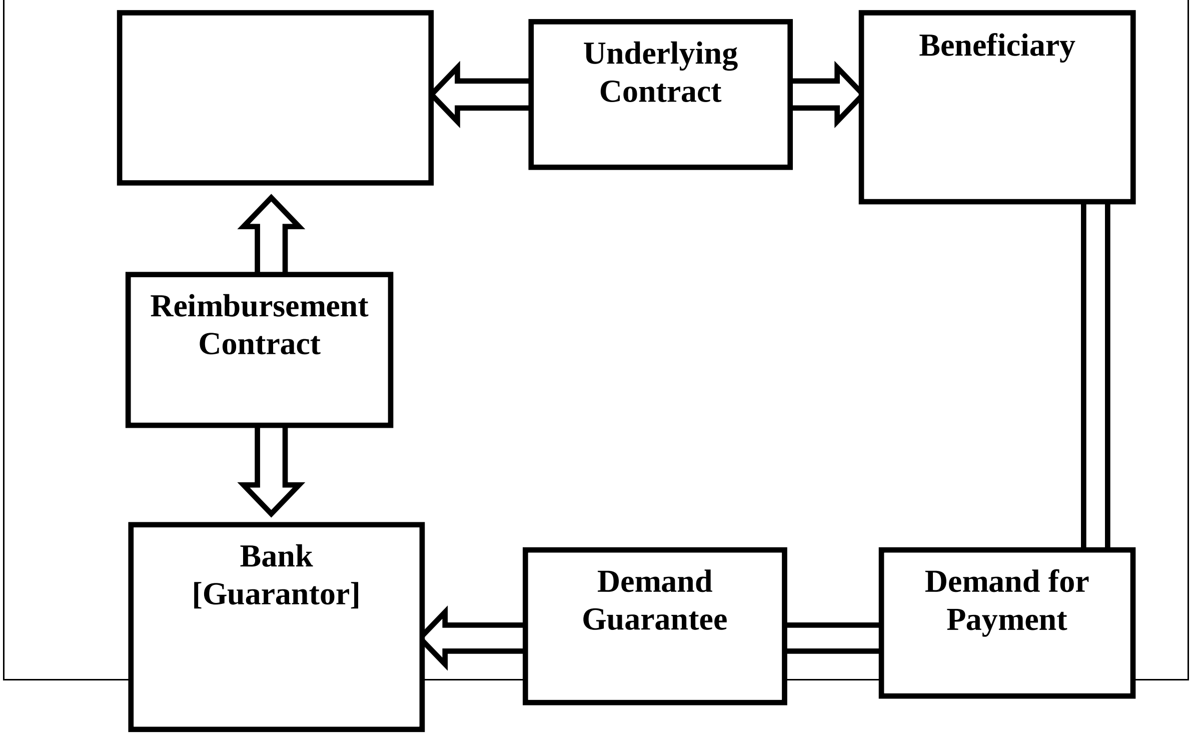
3.2.5 Standby LC

The standby credit is to be distinguished from the other types of letters of credit in that the primary function of the standby is to serve as a security or guarantee rather than as a trade payment mechanism. Under a typical standby, the beneficiary will claim payment in the event that the contract partner has failed to perform or fulfill certain obligations. The Standby Credit is a Documentary Credit or similar arrangement, however named or described, which represents an obligation to the Beneficiary on the part of the Issuing Bank to (a) repay money borrowed by the Applicant, or advanced to or for the account of the Applicant; (b) make payment on account of any indebtedness undertaken by the Applicant; or (c) make payment on account of any default by the Applicant in the performance of an obligation. In a typical commercial transaction, where the seller is willing to supply the goods either in open account or documentary collection but wants to secure buyer's default risk from a bank, Commercial Standby is commonly used. Most of the Standby are generally issued subject to ISP -98.

3.2.6 International Bank Guarantees

International Bank Guarantees are availed for commercial and non-commercial purposes. Commercial guarantees are related to commercial contract between the supplier and the customer. Non-commercial guarantees are not directly related to commercial contracts but those are obligatory to be able to make a business. The demand guarantees may serve several purposes from indefinite range of payment, performance or non-performance obligation. Considering the structure, two types of guarantees are issued: direct (F~~f~~igure~~-~~3~~2~~.5) and indirect (Figure-3.6). A demand guarantee, as defined by the URDG, involves a minimum of three parties: the applicant; the guarantor and the beneficiary. Normally, the guarantor in the three-party structure is the applicant's bank and conducts business in the same country as the applicant, while the beneficiary conducts business in a foreign country. Such three-party demand guarantees are known as 'direct guarantees', because the guarantee is issued directly by the applicant's bank and not by a local bank in the beneficiary's country. In some instances, the applicant, the party should be appeared in the guarantee text as the applicant, is not the customer of the guarantor. In such circumstance, the instructing party (the customer of the guarantor) instructs the guarantor to issue guarantee in the name of the applicant and securing reimbursement to the guarantor for any payment under the guarantee. Although, the direct guarantee, is typically three-party arrangement, the guarantor has primary obligation to pay under complying demand according to URDG-758.

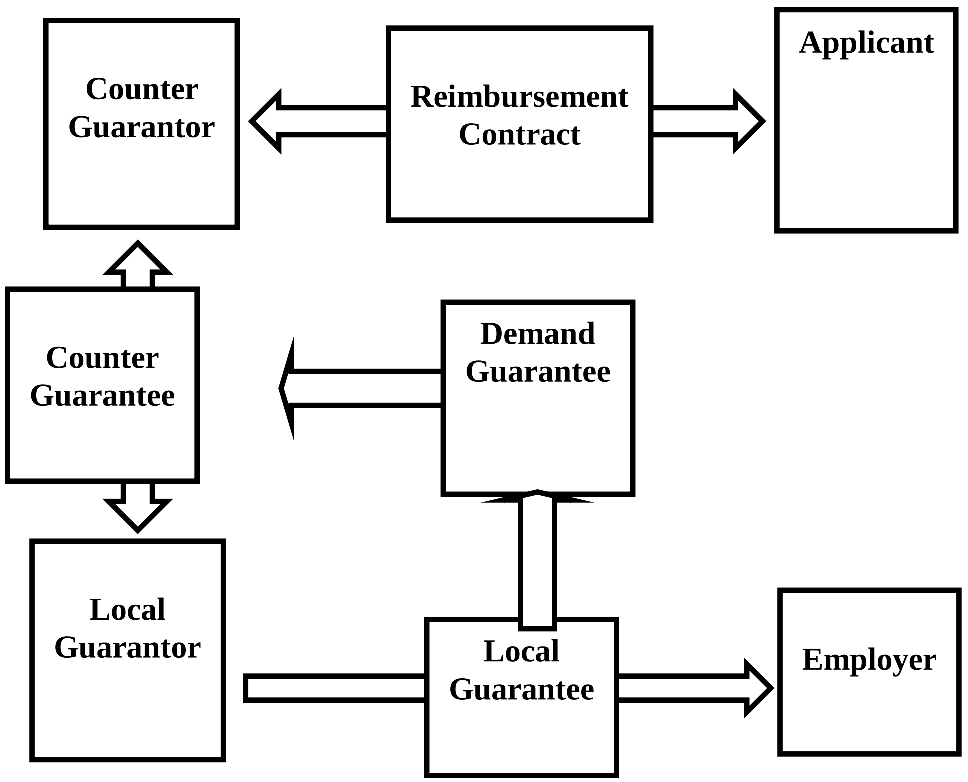
Figure-3.5: Operational Procedure of Demand Guarantee: Direct



An indirect guarantee is a four-party demand guarantee, and there is an additional contract, that is, the contract between the counter guarantor (applicant's bank) and the guarantor (local bank in the country of the beneficiary). This contract has two aspects: one, the mandate from the counter guarantor to the guarantor regarding the instruction to issue the demand guarantee, which the guarantor as mandatory must comply with if he accepts the instruction; and two the counter-guarantee (or counter-indemnity) that the guarantor requires from the counter guarantor as a pre-condition for issuing the guarantee and that is distinct from the mandate. In indirect transactions the principal's contract (mandate) is with the instructing party, not with the guarantor.

Due to local laws requirement, local employer wants local guarantee as a pre-condition to participate in any contract. Interested foreign companies, in such a circumstances, arranges a counter guarantee from his bank abroad favoring local guarantor and then local guarantor issues guarantee favoring employer. Sometime, this arrangement is called indirect guarantee. Technically speaking, although the local guarantee is issued based on the counter guarantee, both guarantees are independent from each other. URDG-758 is the guiding document for the demand guarantee.

Figure-3.6: Operational Procedure of Demand Guarantees: Indirect



3.2.7 Bank Payment Obligation (BPO) and Supply Chain Finance (SCF)

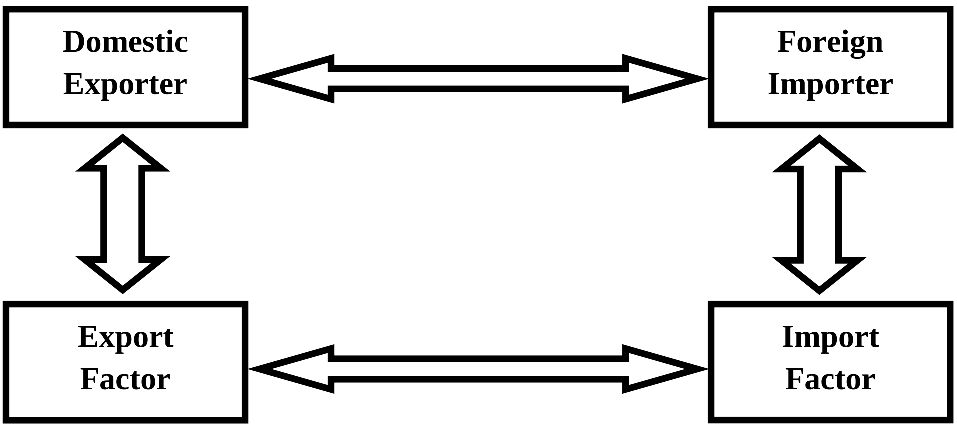
BPO is a payment tool offering a level of security similar to that of a letter of credit. The BPO is an irrevocable undertaking on the part of an obligor bank (typically that of a buyer) to recipient bank (typically that of a seller) to pay a specified amount on agreed date on condition of a successful matching of electronic data according to rules adopted by the ICC.

Using SCF banks provide technology and other services to facilitate payments and financing within supply chain of enterprises. The services within a SCF platform include typical elements of financing for international trade (like pre-shipment and post-shipment financing, purchases and discounting of receivables, etc.) but not LCs. The objective of such a platform is to bring within a single unit of bank financial services related to supply, storage, cross-border relations between sellers and buyers, distribution, and final sales to customers.

3.2.8 Factoring and Forfaiting

International factoring is the sale of assignments of short-term accounts receivable arising from an international sale of goods or services. The technique is associated with handling risk in open account trade. The international factoring business involves networks similar to the use of correspondents in the banking industry (Figure-3.7).

Figure--3.7: Operational Procedure of Factoring



Forfaiting is used to denote the purchase of obligations falling due at some future date, arising from deliveries of goods and services. Factoring is suitable for financing smaller claims for consumer goods, whereas forfaiting is used to finance capital goods exports.

3.2.9 Buyers' Credit and Suppliers' Credit

Buyer credit is where the seller's bank makes money available for the buyer to pay the seller. It can in the form of a direct loan to the buyer or a loan via an intermediary organization in the buyer's country. This type of finance is usually without recourse to the seller, as it is the buyer that borrows the money. The seller also avoids the need to pay interest, as the loan is made to the buyer. Buyer credit facilitates benefit both parties to the transaction: the seller receives cash on delivery or acceptance of the goods or service; and the buyer has affordable medium- or long-term finance that may not have been readily available in its own country. Suppliers' credit applies when the exporter's bank lends the money direct to the seller. It is a form of post-shipment finance.

Chapter Three: Indicative Questions

- What are the main components of a Purchase/Sale Contracts?
- How many trade payments methods are available globally? Name these.
- Under cash in advance, exporter’s risk is completely protected. Justify.
- What is role of banks under documentary collection?
- How many parties are there in documentary collection? Name these.
- Documentary Credit offers protection to both exporters and importers. How?
- Stand by LC is related to Non-Performance. What does it mean?
- Show the flow chart of Documentary Credit.
- How many payment terms are available under documentary collection? Name these.
- What are the uses of international bank guarantee?
- Which trade payment method is most preferable in the context of the global trade market?
- How many parties are commonly engaged in international bank guarantees? Name these.
- Distinguish between direct bank guarantee and indirect bank guarantee.
- What is factoring? How it is different from forfaiting?
- What is the risk ladder for an exporter in regards to various trade payment methods?
- What is the risk ladder for an importer in regards to various trade payment methods?
- Please explain with an example how standby or demand guarantee can be useful tool for commercial import and export?
- What is your opinion regarding prospect of internal factoring for export under open account considering FE circular 25, June 30, 2020?
- Please explain positive and negative impact of buyer’s credit facility for the good import into Bangladesh?

Chapter Four

Documents in Trade Services

Chapter Four: Documents in Trade Services

4.1 Documents Commonly Used in Trade Facilitation

Documents are key elements of international trade facilitation that are commonly used for serving certain proposes to the trade parties and for releasing goods. The documents incomplete, faulty or not given to the authorities on time may give rise to some risks in the products' delivery or during collection of the product costs. This will generate a prudential risk for the bank's business. Considering the need globally documents are categorized in five groups (Table- 4.1).

Table- 4.1: Documents in International Trade Transactions

Category	**Why we need it**	**Examples of Documents**
Transport Documents	Evidence of shipment	Bill of Lading, Airway Bill, Truck Receipt, Courier Receipt etc.
Insurance Documents	Cover against risk to the goods during their carriage	Insurance Policy, Insurance Certificate, Declaration under open Cover etc.
Financial Documents	Evidence of financial claim	Bill of Exchange, Cheque, Promissory Note etc.
Commercial Documents	Describing the goods	Commercial Invoice, Inspection Certificate, Packing list, Weight List
Official Documents	Evidencing compliance with the requirements of the country of export or the country of import	Certificate of Origin, Legalized Invoice, Radiation C~~c~~ertificate, Export License etc.

In documentary collection and documentary credit payment methods, banks are directly related with documents. Under documentary collection, documents are two types; Commercial Documents and Financial Documents. Under financial documents, documents which show the financial claim are included like Bill of Exchange, Cheque, and Promissory Note etc. And under commercial documents all documents except the financial documents are included like Bill of lading, Insurance Policy, Commercial

Invoice, Certificate of Origin etc. On the other side in documentary credit, documents are divided in four groups; Transport Documents, Commercial Invoice, Insurance Documents and Other Documents. The requirements and nature of documents depend upon purchase/sale agreement. In case of LC, these documentary requirements are noted in the LC itself.

4.1.1 Commercial Invoice

The invoice/commercial invoice, in ultimate sense, is the seller's bill for the merchandise. Invoice shows the description of shipped goods. Commercial invoice cannot be replaced by pro-forma invoice or provisional invoice, as these two show the description of offered goods.

The importer may require several copies of the invoice to satisfy his own needs and also those of customs and other authorities in his country. The authorities may also require the invoice to bear other details such as the name of the vessel/carrier, the ports of dispatch and destination, freight, insurance, origin of goods etc. There is no standard form for commercial invoice. Each exporter designs its own commercial invoice form. A basic requirement of an invoice is explained in Table-4.2.

Table-4.2: Basic Requirements of an Invoice as per UCP 600 and ISBP 745	
Issuer	An "invoice" is to appear to have been issued by the beneficiary or, in the case of a transferred credit, the second beneficiary. When the beneficiary or second beneficiary has changed its name, and the credit mentions the former name, an invoice may be drawn in the name of the new entity provided that it indicates "formerly known as (name of the beneficiary or second beneficiary)" or words of similar effect.
Issued to whom	Must be made out in the name of applicant (except as provided in sub-article38(g)). In case of transferred credit, the second beneficiary made its invoice in the name of the first beneficiary.
Title	When credit requires presentation of an "invoice" without further description, will be satisfied by any type of invoice presented except pro-forma invoice and provisional invoice.
Currency	Must be made out in the same currency as the credit.
Sign and Date	Need not to be signed and dated. However, as per our regulation, commercial invoice needs to be signed.
Goods description	Must correspond with that appearing in the credit but not the mirror image.
Advance Payment,	An invoice may indicate a deduction covering advance payment,

Discount, Charges, Cost	discount, etc., that is not stated in the credit. Additional charges and costs, such as those related to documentation, freight or insurance costs, are to be included within the value shown against the stated trade term on the invoice.
Trade Terms	Invoice must reflect the trade term mentioned in the LC. Source of trade term is also important. If it is mentioned in LC, invoice must reflect it.

4.1.1.1 Forms of Invoice

Some other forms of invoice are in use in global trade transactions. These include Consular Invoice, Customs Invoice, Certified Invoice, Tax Invoice, and Legalized Invoice.

Consular Invoice: Consular Invoice is required by some countries for their imports. It is made out on a prescribed format certified by the consulate of the importing country stationed in the exporter's country. It serves the purpose of authenticating the particulars of the goods that are to be imported into their country. But in some cases, it is also seen that exporter's own invoice are authenticated by the embassy or consulate (instead of issuing consular invoice), then these invoices are to be called 'Legalized invoices'.

Customs Invoice: Some countries require custom invoices. These are the specific forms supplied by the consular office of the respective importer, duly filled and signed by the shipper and serve the purpose of making easy entry of the merchandise into the importing country usually at preferential tariff rates.

Certified Invoice: An importer may require a certified invoice, which an invoice, bearing a signed statement by someone in the importer's country who have inspected the goods and found them in accordance with those specified in the contract.

Legalized Invoice: It is issued by the beneficiary/ exporter, in terms similar to a commercial invoice and in terms of the documentary credit. In addition, the invoice must show that it has been legalized by the embassy or consulate of the country of import in the country of export or as specified in the documentary credit, or notarized by a notary public.

Tax Invoice: A tax invoice is an invoice issued by a registered dealer to the purchaser, showing the amount of tax payable.

4.1.2 Transport Documents

Transport documents give proof of shipment/carriage of goods from port of loading/place of receipt to port of discharge/place of destination. Usually, transport documents are the documents of title of goods and act as the evidence of contract for the carriage or transportation of the goods between the shipper and the carrier. A full-fledged transport document should carry certain information that noted in Box-4.1.

Box-4.1: Common Contents of a Transport Document
- Name of the carrier and be signed - On board notation - Place of receipt, port of loading, port of discharge and place of delivery - Description of goods consistent with that in the credit - Identifying marks and numbers (if any) - The name of the carrying vessel or the intended carrying vessel - The names of shipper, consignee (if not made out `to order') and the name and address of any `notify' party - Whether freight has been paid or is still to be paid - The number of originals issued to the consignor if issued in more than one original - Terms and conditions of the carriage - Date of issuing the documents

4.1.2.1 Types of Transport Documents

Usually a transport document assumes the form of either:

-Single Modal Transport Document

-Multimodal /Combined Transport Document.

The former is that type of transport document which is normally applicable to a carriage of goods only by one mode (such as air, rail, waterway etc.). The Multimodal Transport document is applicable for the carriage of goods by more than one mode of transport. This document may indicate either dispatch or taking in charge of the goods or loading on board as the case may be. Transshipment is normally allowed for multimodal transport document. The various forms of Single Modal Transport Documents are the following:

- Marine/Ocean B/L
- Charter Party B/L
- Air Transport Document
- Road, Rail or Inland Waterway Transport Document
- Courier and Post Receipts.

Some documents commonly used in relation to the transportation of goods, namely, Delivery Order, Forwarder's Certificate of Receipt, Mate's Receipt etc. do not reflect a contract of carriage and are not transport documents according to UCP-600 rules (19-25).

4.1.2.2 Determination of Shipment Date- Rationale and Process

One must be very careful about the date of issuance of transport document/ date of shipment which is very important for a number of reasons, namely.

- To determine the acceptability of insurance documents, that must be dated not later than the date of shipment (Article 28e, UCPDC).
- To meet the requirements that the documents must be presented to the banks within 21 days after the date of shipment but not later than expiry date of L/C (Article 14c UCPDC).
- To determine the date of shipment within the stipulated latest date for shipment in the credit, if date of issuance of transport document is taken to be the date of shipment.

The date of shipment in case of various transport documents is determined in the following ways as per UCP 600 (Table-4.3).

Table-4.3: Determination of Date of Shipment as per UCP 600

Name of TD	**Date of Shipment**
Multimodal /Combined TD (Art.19)	Date of dispatch /Taking in Charge/ Shipped on Board, otherwise date of issuance.
Bill of Lading (Art. 20, 21, 22)	On Board Notation date, otherwise date of issuance
Air Transport Document (Art. 23)	A specific notation of actual date of shipment, otherwise date of issuance.
RRI Transport Document (Art. 24)	Either Indicate the date of shipment or the date goods have been received for shipment/dispatch/carriage, otherwise date of issuance.
Courier Receipt (Art. 25)	Date of pick-up or receipt.
Post Receipt/Certificate of Posting (Art. 25)	Stamped as signed date evidencing receipt of goods for transport.
If the presentation consists of more than one TD (same means of conveyance and same journey, and same destination, but different dates of shipment), the latest date of shipment is the date of shipment~~.~~ (Art. 31).	
If the expression “on or about” is used in regard to date of shipment, it indicates shipment is to be made during a period of five calendar days before to five calendar days after the specific date, both start and end days included~~.~~ (Art. 3).	

4.1.2.3 Transshipment

Transshipment generally means unloading and reloading from one mode of transport to another mode of transport. The UCP definition of transshipment for various transport documents are stated below in Table- 4.4.

Table-4.4: Transshipment of Different Transport Documents under UCP 600	
Transport Document	**Transshipment**
Combined/Multimodal T/D	From one means of conveyance to another means of conveyance whether or not in different modes of transport stipulated in the credit.
Bill of Lading	From one vessel to another vessel within same mode of transport stipulated in the credit.
Charter Party B/L	No mention.
Air Transport Document	From One aircraft to another aircraft within same mode of transport stipulated in the credit.
RRI T/D	From one means of conveyance to another means of conveyance within the same mode of transport stipulated in the credit.
Courier /Postal Receipt	No mention.

A transport document indicating that the goods will or may be transshipped is accepted provided that the entire carriage is covered by one and the same T/D. Moreover, even after prohibiting transshipment under B/L, a transshipped B/L is acceptable, if the goods are shipped in a container, trailer or LASH barge.

4.1.2.4 Examinations of Documents: Common Discrepancies in Transport Documents

- Late shipment;
- Late presentation;
- Ports of loading / dispatch / taking in charge are not as per the documentary credit;
- Ports of discharge / final destination are not as per the documentary credit;
- Transport document shows an intended vessel / intended port of loading but an on-board notation does not additionally evidence the named vessel or actual port of loading;

- Transshipment is effected when the documentary credit specifically prohibits it and excludes sub-articles 20(c)(ii), 21(c)(ii) or 23(c)(ii);
- Absence of an on-board notation on the bill of lading;
- On-board notation is not dated;
- Goods are shipped on deck;
- Full set of transport documents not presented as required by the documentary credit;
- Claused bills of lading presented, showing defective condition of the packages or goods;
- Transport documents do not identify the name of the carrier;
- Not signed in accordance with the respective UCP article;
- Bills of lading made out to order of shipper or to order and not endorsed in blank;
- Data content in conflict with that shown on other stipulated documents;
- Unauthenticated alteration to the transport document;
- Goods covered by more than one set of bills of lading;
- Notify party details are incorrectly shown.

4.1.3 Insurance Document

International trade is very much risk ridden. So, it is necessary to insure the goods against the risks of loss or damage. Insurance is a contract whereby the insurer is undertaking to indemnify the assured to the agreed manner and extent against fortuitous losses. Insurance is, therefore, a contract of indemnity.

The document is which contract of indemnity (or, insurance) is embodied is called a policy. The man (or firm) who undertakes to insure is called insurer. When the insurer will subscribe his name in the policy then he will be called an underwriter. The owner of the goods (which are insured) is called assured. The thing or property insured is called the subject matter of insurance. The interest which the assured has in the subject matter is known as his insurable interest. The payment for which insurer undertakes to indemnify is termed as premium. An insurance document should carry certain information that is noted in Box-4.2.

Box-4.2: Certain Contents of Insurance Documents
- the name of the insurer or his agent, - the name of the ship/carrier, - the name of assured, - the subject matter of insurance, - the time and/or voyage insured, - the peril(s) insured against, - the date and subscription, - the valuation, - Coverage date

-	Coverage journey
-	the stamp etc.

Examination of insurance documents by the bankers is relevant under LC process. Major requirements of insurance documents (according to UCP 600 and ISBP) under LC operations are shown in Table-4.5.

Table-4.5: Major Requirements of Insurance Documents under UCP 600 and ISBP 745	
Appropriate Document	According to UCO 600 there are three documents. - Insurance policy - Insurance Certificate - Declaration under open cover Insurance policy is the superior document. Cover note is not an insurance policy under UCP 600.
Signing capacity	- Insurance company - Underwriter - Agent of Insurance company or Underwriter - Proxy of Insurance company or Underwriter
Journey	Minimum coverage LC journey.
Date	Insurance coverage date must have to cover shipment date. If date of issuance is later than the shipment date, there must be an effective date which satisfies the shipment date. Ware house to warehouse clause will be disregarded.
Risk	There are three types of risks - ICC A - ICC B - ICC C LC needs to mention the coverage of risk. Exclusion of risk is permitted. But the risk specifically mentioned under LC, cannot be excluded. ICC (A) is the superior. If LC mentions ""All risk"", document may show ICC A. but vice versa is not acceptable. An insurance document will be accepted without regard to any risks that are not covered if the credit uses imprecise terms such as "usual risks" or "customary risks".
Amount	- Under LC, the insurance coverage amount needs to be mentioned. - If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods. - When the CIF or CIP value cannot be determined from the documents, the amount of insurance coverage must be calculated on the basis of the amount for which honor or negotiation is requested or the gross value of the goods as shown on the invoice, whichever is greater.

Currency	LC currency needs to be satisfied.

4.1.3.1 Examination: Common Discrepancies in an Insurance Document

- amount of insurance;
- name of insurance company, agent or proxy that issued the document;
- type of insurance document presented when compared to that required in the documentary credit and whether it has been correctly signed;
- insured party;
- endorsement or countersignature of the insured, if appropriate;
- date of issue;
- whether an expiry date has been inserted for submission of any claim;
- party to whom claims are payable and where such claims are payable;
- risks covered (examine the document against the specific requirements in the documentary credit);
- description of goods;
- port / airport of loading / discharge / place of taking in charge/ place of delivery are in accordance with those stated in the documentary credit;
- Whether the number of originals stated on the document have been presented (if applicable).
- The currency of the insurance document is not that of the documentary credit
- The goods description does not correspond to or is not quoted in general terms when compared with that shown in the documentary credit.

4.1.4 Bill of Exchange

Bill of exchange is a legal document evidencing claims for amounts owed. In some countries, there is a distinction between bills of exchange in connection with the settlement of debt within a country (inland bills) and bills of exchange in connection with the settlement of debt between a buyer in one country (importer) and a seller (exporter) in another country (foreign bills).

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer. Primarily, there are three parties
Drawer: The Drawer is the person who draws the bill and he stands as the creditor to whom the bill is drawn. By drawing the bill, the drawer engages himself to redeem the bill and pay to the owner or holder of the bill
Drawee: The Drawee is the person (or firm) on whom the bill is drawn. That is, he is the person on whom the payment order is addressed
Payee: The Payee is the person to whom the bill is payable. The bill can be drawn payable to the drawer or to his bank

In the context of a documentary credit, the elements may be shown as follows:

- The person giving it is the beneficiary of the documentary credit (the drawer).
- The person to whom it is addressed is the issuing bank, nominated bank or reimbursing bank (the drawee).
- To pay on demand or at a fixed or determinable future time means: − at a fixed period after the date of the bill of exchange or at sight of the bill of exchange;
- A sum certain in money is the amount shown in words and figures, inclusive of any interest clauses or other term on the bill.

Basic requirements of bill of exchange under LC process can be observed in UCP and ISBP frameworks (Box--4.3 and Table- 4.6).

Box-4.3: Bill of Exchange under Documentary Credit Process
Usually, the first documentary requirement seen is that for a bill of exchange or draft. This requirement, by way of example, may be shown on a SWIFT MT700 message as follows: Field 42C: Drafts . . . - at sight; - at xxx days' sight; - at xxx days' date; - xxx days after bill of lading date; - xxx days after invoice date; - at fixed date. Field 42a: Drawee (name of the bank on whom the draft is to be drawn) - Issuing bank; - Confirming bank; - Nominated bank; - Reimbursing bank

Table-4.6: Basic requirements of Bill of Exchange under ISBP 745	
Drawer	A draft is to be drawn and signed by the beneficiary. When the beneficiary or second beneficiary has changed its name, and the credit mentions the former name, a draft may be drawn in the name of the new entity provided that it indicates "formerly known as (name of the beneficiary or second beneficiary)" or words of similar effect.
Drawee	Must be drawn on bank. If drawn on applicant, it will be treated as other document and will be examined under 14 (f).
Date of Issuance	Must
Amount	To be drawn for the amount demanded under presentation. The amount in words is to accurately reflect the amount in figures When Both are shown and indicate the same currency as stated in the credit. When the amount in words and figures are in conflict, the amount in words is to be examined as the amount demanded.

Tenor	To be in accordance with the terms of the credit.
Correction and Alteration	Any correction of data on a draft is to appear to have been authenticated with the addition of the signature or initials of the beneficiary. When no correction of data is allowed in a draft, an issuing bank should have included a suitable stipulation in its credit.
Maturity date Calculation	Tenor Based Draft is two types; Actual date i.e.60 days from the date of B/L and Other Than Actual date i.e.60 day sight. When a credit requires a draft to be drawn at a actual date basis, it must be possible to establish the maturity date from the data in the draft itself. And for other that actual date, the maturity date depends on the compliance of the documents.

4.1.5 Other Documents as per UCP 600

'Other documents' indicate the documents required in documentary credit operation other than the transport documents, insurance documents and invoice. These are may be of different types and natures depending on the objective conditions of the credit. A credit should stipulate the name of issuer and / or data contents of other document. However UCP-600 (Article-14f) says, if a credit requires presentation of "other document", without stipulating by whom the document is to be issued or its data contents, banks will accept the document as presented if its contents appear to fulfill the function of the required document. Some of the common 'other documents' are discussed below:

Weight list/ packing list: It is a document evidencing the weight of the goods to be carried to the destination of importer by the carrier. It is mainly required in case of transportation other than by sea. Weight list can be evidenced either by means of a separate document, or by a weight stamp/declaration of weight superimposed on the transport document by the carrier or his agent. It can take the form of 'weight list' and /or 'packing list'. The former is the list of the weights of the individual parcels and the latter is the list showing details of the goods contained in each case or packet. Sometimes, measurement list' is also required which is the list of the dimensions of the individual loaded cases.

Certificate of Origin: For goods imported into some countries, especially those which have a reciprocal tariff agreement with the exporter's country, a certificate of origin is required. This certifies that the goods are produced in a particular country and may thus be eligible for a preferential rate of duty or no duty at all (Generalized System of Preference). Sometimes a 'certificate of manufacture' is required which is the confirmation of a producer that the goods have actually been produced by him in his factory.

Similar Certificates but requiring additional information (than certificate of origin) are often required where there is conflict between countries and imports from the enemy country (ies) are 'blacklisted'. 'Blacklist Certificates' give evidence that all parties involved, including the bank and shipping line, are not Blacklisted and that the ship will not call at enemy ports.

***Health Certificate/Phyto Sanitary Certificate/Certificate of Analysis*:** It is often necessary for shipping documents to contain something more than a certified invoice as evidence of quality in order to meet health requirements in the country of destination or to satisfy the importer about the precise strength or chemical composition of the goods. A 'health certificate' may be required in respect of live animals, meat, hides etc.; while a 'Phytosanitary certificate' is required for perishable items such as vegetables and a 'certificate of analysis' may be required concerning the strength of metals or chemical content of some particular types of goods such as drugs.

***Inspection Certificate*:** It is a confirmation that the goods have been inspected prior to shipment and found as per requirement of the client (importer) and generally issued by a neutral organization. It is also called survey report (unlike the insurance survey report to assess the loss of goods).

4. 2. Documents in Use in International Trade in Bangladesh

Commercial invoice, transport documents, insurance documents, bill of exchange etc. are the most commonly used documents in trade transactions. The requirements and nature of documents depends upon purchase/sale agreement. In case of LC, these documentary requirements are noted in the LC itself. For selecting right documents, the trading parties should consider both domestic and international regulations carefully. In practice sometimes, commercial invoice may not be signed. UCP 600 does not require a commercial invoice to be signed. But as per the domestic requirement of Bangladesh, commercial invoice has to be signed. Bill of lading is the most commonly used transport document or in case of multimodal transport document ocean mode is the base. As per domestic rules of Bangladesh, importable is to be released to the order of a bank. Blank-back or short form transport documents are not accepted in the country. As per the domestic requirement of Bangladesh, insurance coverage is to be given by domestic insurance companies for imports. Traders are very familiar with the bill of exchange and its format. In Bangladesh, traditionally customs authority asks for bill of exchange at the time of releasing of goods. Under the Stamp Act[4] the amount accepted in the bill of exchange for usance payment is dutiable. Considering the practice of Bangladesh, other documents may include certificate of origin, PSI certificate, weight list, phyto-sanitary certificate, health certificate, fumigation certificate, radiation certificate, quarantine certificate etc. In case of import to Bangladesh, barring a few exceptions[5] obtaining

[4] ….every bill of exchange payable otherwise than on demand or promissory note drawn or made out of Bangladesh on or after that day and accepted or paid, or presented for acceptance or payment, or endorsed, transferred, or otherwise negotiated, in Bangladesh….. [Chap II, section 3 (b) Stamp Act 1899].

[5] Import of lime stone, coal and 100 percent export oriented industries.

certificate of origin is a regulatory requirement. The mandatory PSI requirement for importation has been withdrawn since mid-2013. Phyto-sanitary or health certificates are commonly required in connection with importation of foods.

Chapter Four: Indicative Questions

- What are the different types of Transport documents?
- What are the common requirements of Bill of Lading under UCP 600?
- What are the types of documents under documentary collections?
- What are the types of documents under documentary credit?
- What do you mean by Commercial Invoice, Bill of Exchange, Packing List, Weight List?
- What are the major requirements of Insurance Document as per UCP 600?
- How to determine Shipment Date in case of Bill of Lading as per UCP 600?
- Interpret Transshipment of different transport documents as per UCP 600?
- A documentary credit available with a nominated bank by negotiation. The beneficiary presented documents to the nominated bank and that nominated bank forwarded documents to the issuing bank. How the issuing bank decides a presentation is late?
- What do you mean by "data need not to be identical to but must not conflict with" in article 14 (d) of UCP 600?
- What do you mean by the concept "fulfil function" under article 14 (f) of UCP 600?
- What is the general rule of UCP 600 for description of the goods on bill of exchange, commercial invoice, bill of lading, certificate of origin and packing list?
- What is the minimum percentage requirement of an insurance documents under UCP 600 article 28: (a) when the credit silent as to the coverage? And (b) when the credit specify the requirement of the percentage of insurance coverage?
- Please elaborate with an example the requirement of invoice to mention description of the goods in the invoice must correspondent with the description of the goods in the credit?

Chapter Five

Documentary Credit

Chapter Five: Documentary Credit

Documentary Credit or LC is a commitment or undertaking, generally by a bank, either on behalf of an applicant or on its own behalf, to the exporter (beneficiary), about the payment of certain amount subject to the complying presentation of documents. Though, Importer, Exporter, and Issuing Bank are the main parties of LC (as per the definition), it also involves several other parties:

Importer (Buyer/ Applicant)*:* Importer is the person who submits an application to the issuing bank to open a letter of credit and thereby creates an account relationship with the bank.

Exporter (Seller/ Beneficiary/ Shipper/ Consignor): Seller is the party in whose favour the L/C is established. The seller will ship the goods and receive payments from the nominated bank after submission of compliant documents.

Issuing Bank: The bank that issues L/C as per request/instructions of the applicant. The issuing bank is generally, but not necessarily located in the importer's country.

Advising Bank: A bank that notifies or advises the exporter that a credit has been opened in exporter's favour. The advising bank does not take any further risk, and has the only responsibility of taking reasonable care that the credit is an authentic one.
Confirming Bank: The bank which adds its own undertaking (known as confirmation) in addition to that given by the issuing bank at the request of the issuing bank.

Nominated Bank: The bank at the counter of which the credit is available in addition to the counter of an Issuing Bank;

Reimbursing Bank: This is the bank, which would honor claim by the claiming bank (usually the nominated bank). It is to be nominated by the issuing bank.

Documentary Credit can broadly be divided into Revocable Credit and Irrevocable credit. A revocable credit is a credit, which can be amended or cancelled by the issuing bank at any time without prior notice to the seller or beneficiary. An irrevocable credit constitutes a definite undertaking of the issuing bank, provided that the stipulated documents are presented and the terms and conditions are satisfied by the seller. An irrevocable letter of credit cannot be amended nor cancelled without the consent of all concerned parties. In UCP 600, LC means irrevocable LC. There are some special types of credits that are in use (Box-5.1).

Box- 5.1: Different Forms of Commercial Letter of Credit

Revolving Credit: The revolving credit is one, which under the terms and condition thereof provides for restoring the credit to the original amount after it has been utilized. If the importer is a regular customer of the exporter, the parties may wish to arrange for a revolving credit. In may revolve in relation to time and value. The revolving credit may be either cumulative or non-cumulative. Under the former, any sum not utilized during first period is carried over to subsequent period, but unutilized sum is not carried over to subsequent period in case of non-cumulative.

Confirmed Documentary Credit: A confirmation of a documentary credit by a bank (confirming bank) upon the authorization or request of the issuing bank constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank, provided that the stipulated documents are presented to the confirming bank or to any other nominated bank on or before the expiry date and the terms and conditions of the documentary credit are compiled with either to honour or to negotiate.

Transferable Credit: Transferable credits are generally used in 'Middleman' situations, where an export merchant or agent plays the role of an intermediary between an actual supplier and the importer. A transferable credit is one that can be transferred by the original beneficiary either in full or in part to one or more subsequent beneficiaries. Such credit can be transferred once only, unless otherwise specified. ***Transferred credit*** means a credit that has been made available by the transferring bank to a second beneficiary.

Back-to-Back Credit: The back-to-back credit is a new import credit opened on the basis of an original export credit in favour of another beneficiary. Under a back-to-back credit, a beneficiary uses the export LC as security for opening a second, separate import credit in favour of supplier. The beneficiary of the back-to-back credit may be located inside or outside the original beneficiary's country.

Red Clause Credit**:** A red clause credit allows pre-shipment advances to be made to the exporter at the risk and expense of the applicant. This is a credit with a special condition incorporated into it that authorizes the Confirming Bank or any other Nominated Bank to make advances to the beneficiary before presentation of the documents. Under the above credit, the opening bank is liable for the pre-shipment advances made by the negotiating bank, in case the beneficiary fails to repay or deliver the documents for negotiation. Originally, the clause specifying advance payment in a credit is actually printed or typed in red ink, hence the name.

The operational procedures of documentary credit followed in Bangladesh (steps involved) are elaborated in Figure-5.1 (import) and Figure-5.2 (export). Trade services departments also offer services related to issuance and settlement of local LC. These are mainly connected with commodity trade within the national boundary. Domestic regulations on LC in Bangladesh are noted in Box-5.2

Figure-5.1 Operational Procedure of Import using Documentary Credit in Bangladesh

Step-1: Purchase/Sale Agreement[6]

↓

Step-2: Financing Arrangement between the Importer and the Bank[7]

↓

Step-3: Importer approaches to Issue LC[8]

↓

Step-4: Issuance of letter of credit[9]

↓

[6] Obtaining PI/ quotations; negotiating the terms & conditions of the agreement; signing the sales/purchase agreement; verification of quoted prices by the banks

[7] Opening of CD account and an FC account, if and when necessary; obtaining CIB report from Bangladesh Bank.; obtaining bank's internal approval regarding opening of LC, margin requirement, financing option for retirement etc.

[8] Approaching bank by the importer to open LC along with the following documents: duly filled up LCAF, LC application form, Imp form, proforma invoice or indent, insurance cover note, valid IRC, valid trade license, up to date TIN certificate, membership of relevant trade association/ certificate from chamber of commerce, declaration from the importer regarding income tax submission and any other permission like import permit etc.; obtaining of credit report of the supplier

[9] Issuance of LC according to PI or indent

Step-5: Lodgment and Retirement[10]

Step-6: Reporting to Bangladesh Bank[11]

Figure-5.2 Operational Procedure of Export using Documentary Credit in Bangladesh

Step-1: Purchase Sale Agreement[12]

Step-2: Advising and Lien of export LC[13]

Step-3: Shipment and EXP Issuance[14]

Step-4: The Exporter submits export documents after shipment[15]

Step-5: Reimbursement from the issuing Bank[16]

[10] Intimation about the receipt of document to the customer; effect payment through creation of PAD; retirement of documents through adjustment of PAD as per arrangement

[11] Submitting LCAF, IMP form, proforma invoice and commercial invoice to the Bangladesh Bank along with monthly return

[12] Sending PI/ quotations; negotiating the terms & conditions of the agreement; signing the sales/purchase agreement

[13] Receiving the export LC by a bank, sending a notification letter to the exporter and advising the same accordingly; bank lien marks the respective export LC being requested by the exporter

[14] Issuing EXP by bank when the shipment takes place; submitting the EXP by the exporter or its C & F agent along with other documents to the Customs for clearance of goods for export; issuing shipping bill/bill of export by the customs after assessment and verification of EXP

[15] Submits documents by the exporter along with EXPs to the bank; negotiation or forwarding of submitted documents for collection of export proceeds

[16] Arranging provisioning of the back to back liabilities as well as adjusts other pre-shipment liabilities by the bank after receiving export proceeds; remaining amount encashed and credited to customer CD account

Step-6: Reporting requirement to Bangladesh bank[17]

Box-5.2: Domestic Regulations for Documentary Credit in case of Importation
- All LCs and similar undertakings covering imports into Bangladesh must be documentary LCs and should provide for payment to be made against full sets of onboard (shipped) bills of lading, air way bills, railway receipts, truck receipts, post/courier parcel receipts showing dispatch of goods covered by the credit to a destination in Bangladesh. - All LCs/similar arrangements must specify submission of signed invoices and certificates of origin. If any particular LCAF requires submission of any other document or the remittance of exchange at certain periodical intervals or in any other manner, the LC/similar arrangement should incorporate those instructions of the LCAF. - It is not permissible to open clean or revolving LC or LC with realisation clause (except EPZ/EZ companies) - The ADs may open transferable LCs for imports into Bangladesh under cash LCAF - It is not permissible to open import LCs in favor of beneficiaries in countries from which imports into Bangladesh are banned by the competent authority - Before opening of LC or issuing LCAF, the AD will have to ensure the exporting country is the usual exporter of the goods concerned and the price of the goods concerned is competitive in terms of prevailing price in the international market on the date of contract and/or similar imports in contemporary period. ADs are advised to verify the above, if needed, with the help of concerned Bangladesh Mission abroad. - AD should, before opening an LC, see documentary evidence that a firm order for the goods to be imported has been placed and accepted. While opening an LC, the AD should ensure that full description of the goods to be imported are given in each credit along with the unit price of the merchandise.
Source: GFET

Operational procedures of documentary credit in importation through land port is different a bit in the country where in almost every cases goods are cleared against delivery order

[17]Submitting the copies of EXP to Bangladesh Bank along with invoice and short shipment certificate if any

before receiving the documents by the issuing bank through banking channel. The operational procedure of the LC operation through land port in the country is elaborated in Figure-5.3 and Figure-5.4. Domestic regulations for documentary credit in case of importation through land port is given in Box-5.3

Figure-5.3 Operational Procedure of Import using Documentary Credit through Land Port in Bangladesh

Step-1: Purchase/Sale Agreement[18]

↓

Step-2: Financing Arrangement between the Importer and the Bank[19]

↓

Step-3: Importer approaches to Issue LC[20]

↓

Step-4: Issuance of letter of credit[21]

↓

Step-5: Send Copies of LC to Land Port

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[18]Obtaining PI/ quotations; negotiating the terms & conditions of the agreement; signing the sales/purchase agreement; verification of quoted prices by the banks

[19]Opening of CD account and an FC account, if and when necessary; obtaining CIB report from Bangladesh Bank.; obtaining bank's internal approval regarding opening of LC, margin requirement, financing option for retirement etc.

[20]Approaching bank by the importer to open LC along with the following documents: duly filled up LCAF, LC application form, Imp form, proforma invoice or indent, insurance cover note, valid IRC, valid trade license, up to date TIN certificate, membership of relevant trade association/ certificate from chamber of commerce, declaration from the importer regarding income tax submission and any other permission like import permit etc.; obtaining of credit report of the supplier

[21]Issuance of LC according to PI or indent

Step-6 Issuance of Delivery order as per customer request.[22]

Step-7: Lodgment and Retirement[23]

Step-8: Reporting to Bangladesh Bank[24]

Figure-5.4 Operational Procedure of Export using Documentary Credit through Land Port in Bangladesh

Export

Purchase Sale Agreement[25]

Advising and Lien of export LC[26]

EXP Issuance and Shipment[27]

The Exporter submits export documents after shipment[28]

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[22] Issuing Bank issue delivery order as per customer request along with duly certifies commercial invoice, packing list and truck receipt. Custom purpose LCAF copy, Proforma invoice, Insurance Cover note, Money receipt and copy of LC may also require taking delivery of goods from land port authority.

[23] Intimation about the receipt of document to the customer; effect payment through creation of PAD; retirement of documents through adjustment of PAD as per arrangement

[24] Submitting LCAF, IMP form, proforma invoice and commercial invoice to the Bangladesh Bank along with monthly return

[25] Obtaining PI/ quotations; negotiating the terms & conditions of the agreement; signing the sales/purchase agreement; verification of quoted prices by the banks

[26] Receiving the export LC by a bank, sending a notification letter to the exporter and advising the same accordingly; bank lien marks the respective export LC being requested by the exporter

[27] Issuing EXP by bank when the shipment takes place; submitting the EXP by the exporter or its C & F agent along with other documents to the Customs for clearance of goods for export; issuing shipping bill/bill of export by the customs after assessment and verification of EXP

⇩
Reimbursement from the Issuing Bank[29]
⇩
Reporting to Bangladesh Bank[30]

Box-5.3: Domestic Regulations for Documentary Credit in case of Importation through Land Port
- Only one port of entry (land port) is to be mentioned specifically in the LC/purchase contract (as the case may be) - ADs shall have to send copies of LC and subsequent amendments(s) if any, including other relevant information to the land port authority - specimen signatures of the officials working in the import-export desks of the concerned AD bank, contact phone and fax nos. of the ADs are to be sent to all the land ports - ADs through their agents or representatives shall collect certified invoices and bill of entries evidencing entry of goods into Bangladesh from the concerned land ports; - LCs/purchase contracts shall contain inter alia the following payment terms instead of reimbursement authority/debit authority: - "Upon receipt of documents complying with credit terms, we shall effect payment as per instructions of Negotiating Bank/Collecting Bank"; - LC covering value more than USD 5000(USD 10,000 in case of coal import) or equivalent should be sent through SWIFT or other similar arrangements to the advising bank; - NOC (if any) shall contain name of the officials along with P.A. nos. and official seal.
Source: GFET, BB

[28] Submits documents by the exporter along with EXPs to the bank; negotiation or forwarding of submitted documents for collection of export proceeds

[29] Arranging provisioning of the back to back liabilities as well as adjusts other pre-shipment liabilities by the bank after receiving export proceeds; remaining amount encashed and credited to customer CD account

[30] Submitting the copies of EXP to Bangladesh Bank along with invoice and short shipment certificate if any

Different types of LC are there in practice that includes transferable, confirmed, back-to-back, revolving, red clause and standby letter of credit. Of the different types, transferable and back-to-back are commonly observed in Bangladesh. Back-to-back is basically a financing technique. The eligibility to open Back to Back LC and its special features are explained in Box-5.4 and Box-5.5

Figure-5.5: Operational Procedure of Back to Back LC in Bangladesh
Purchase Sale Agreement[31]
Advising and Lien of export LC[32]
Issue Back to back LC[33]
The Exporter of BTB LC submits documents after shipment[34]
Reimbursement from the Issuing Bank[35]
Reporting to Bangladesh Bank[36]

[31] Buyer and seller make a contract to do international trade. Buyer (Applicant) requests to its bank (Issuing Bank) to open an LC in favor of the exporter (Beneficiary) if the method of payment is documentary credit. Buyer's bank (Issuing Bank) issues LC, usually this is known as Master Export LC, in favor of the beneficiary.

[32] Advising bank advises Master LC to beneficiary. Beneficiary of Master Export LC requests to its bank to open an LC, for execution of export order, in favor of the suppliers of the yarn and accessories. If exporter gets contract instead of LC, exporter's bank verifies the genuineness of the contract by following bank's internal operational guidelines.

[33] Beneficiary's bank scrutinizes the request of exporter regarding credit limit, terms and conditions of master export LC or contract. To open LC, bank gives lien mark on the master export LC or contract. After being satisfied, bank issues an LC, which is known as Back to Back LC, in favor of suppliers of yarn and accessories

[34] Suppliers of yarn and accessories submit documents to the issuing bank of Back to Back LC. Issuing Bank of Back to Back LC examines documents and gives the maturity date to the beneficiary of the Back to Back LC.

[35] Exporter of the master export LC or contract arranges shipment, prepares documents and submits documents to its bank, which has issued Back to Back LC. Issuer of Back to Back LC forwards documents to the issuing bank of the master export LC or contract. When export proceeds are realized from the master export LC, issuing bank of the Back to Back LC makes payment to its suppliers of yarn and accessories.

[36] Submitting the copies of EXP to Bangladesh Bank along with invoice and short shipment certificate if any

Box--5.4-: Units eligible to open back to Back LC in Bangladesh
• Only recognized export oriented industrial units operating under bonded warehouse system will be allowed the back to back LC facility. • Inland back to back LCs denominated in foreign exchange may be opened in favor of local manufacturer-cum- suppliers of inputs, against master export LCs received by export-oriented manufacturing units operating under the bonded warehouse system • Back to back LC may in turn be opened for import of necessary inputs, against inland back to back LC in favor of a local manufacturer- cum- supplier operating under the bonded warehouse system.
Source: GFET

Box--5.5: Special Features of Back to Back LC in Bangladesh
• The back to back import LCs shall be opened on usance basis for a period not exceeding 180 days. • Back to back LCs opened against (a) Export Development Fund (EDF) administered by Bangladesh Bank and/or against (b) balances on Non-Resident Foreign Currency Deposit (NFCD) Accounts may be on sight basis subject to relevant instructions in this regard. • Back to back import LC should not be opened against LCs received for export under Barter/STA, without prior approval of Bangladesh Bank. • Payment abroad in settlement of usance bill against the back to back import LCs shall be made at maturity, out of proceeds of the relative export repatriated in foreign exchange. • Issuance of back to back LC in foreign currency for procuring inputs from local traders or suppliers is not acceptable.
Source: GFET

Of the different types of LC, transferable LC is a very common payment technique in Bangladesh. In connection with the operation of transferable LC, Bangladesh has an unusual practice. It is mainly connected with the practice of 100 percent transfers to the second beneficiaries in Bangladesh[37]. This is an indigenous exercise generally not

[37]As per UCP 600, article 38 (k), the documents presented by the second beneficiaries must be submitted at the counter of transferring bank for substitution. For 100 percent transfer, it is not needed. Later on, the commentary of UCP 600 released by ICC came up with some solution according to which First Beneficiary/Transferring Bank should inform second beneficiary and Issuing Bank that the documents can directly be sent to the counter of Issuing Bank in case of 100 percent transfer. ICC already published an opinion on the issue [official opinion R-653].

common in other economies. Operational procedure of – transferable LC is depicted in Figure-5.6).

Figure -5.6: Operational Procedure of Transferrable LC in Bangladesh

Step-1:	Purchase/Sale Agreement between First Beneficiary and Applicant
Step-2:	Financing Arrangement between the Importer and the Bank
Step-3:	Issuing of transferrable letter of credit
Step-4:	Transferring the LC to the Second Beneficiary[38]
Step-5:	Transferring Bank Issues transferred Credit to the Second Beneficiary
Step-6:	Shipment and Submission of Documents[39]
Step-7:	Replace Invoice and Draft, if necessary[40]
Step-8:	Transferring Bank Sends documents to the Issuing Bank
Step-9:	Issuing Bank Examines Documents and if Complying makes Payment
Step-10:	Retirement of LC after Handing Over Documents to the Applicant

In connection with the operation of transferable LC, banks of Bangladesh and exporters have been facing some difficulties. It is mainly connected with the practice of 100 percent transfers to the second beneficiaries in Bangladesh[41]. This is an indigenous practice generally not common in other economies. In a few cases, confirmed LC is issued from

[38] First Beneficiary Approaches to Nominated Bank and/or Transferring Bank for Transferring the LC to the Second Beneficiary

[39] After shipment, Second Beneficiary Submits Documents at Transferring Bank's Counter

[40] First Beneficiary may Replace Invoice and Draft at Transferring Bank's Counter

[41] As per UCP 600, article 38 (k), the documents presented by the second beneficiaries must be submitted at the counter of transferring bank for substitution. For 100 percent transfer, it is not needed. It simply lengthens the settlement process. Later on, the commentary of UCP 600 released by ICC came up with some solution according to which First Beneficiary/Transferring Bank should inform second beneficiary and Issuing Bank that the documents can directly be sent to the counter of Issuing Bank in case of 100 percent transfer. ICC already published an opinion on the issue [official opinion R-653].

Bangladesh. There are also some instances of receiving LC issued by reputed corporates (corporate LC). These are very much within the framework of UCP. A bank is commonly involved in the process of transmitting LCs, documents and payments on behalf of an issuing corporate. J C Penny is one of such issuers of corporate LC to Bangladesh.

Examination of Documents with Reference to the Documentary Credit

Examination is a process of determination of compliance under documentary credits operation. It is crucial and critical phase of documentary credit cycle. Under a documentary credits operations, the issuing bank, confirming bank, if any and the nominated bank are authorized to examine the presentation upon receive from the presenter[42]. The presenter may be the beneficiary, bank or any other person. Banks have maximum of five banking days following the day of presentation to determine whether a presentation is complying or not. If the presentation is complying, the issuing bank must honour the presentation. However, if the presentation doesn't comply, the issuing bank may, on its sole discretion, approach the applicant for waiver of discrepancy. If the applicant waives the discrepancies and the issuing bank agrees to accept, the issuing bank may honour the presentation, even though the presentation doesn't comply. However, if the issuing bank decides to refuse the presentation, it must give a single notice to the presenter. This notice is called notice of refusal. The notice of refusal must strictly adhere to the provision of UCP 600 article 16 (c) while serving notice of refusal. The notice of refusal must be sent though telecommunication (SWIFT) or, if that is not possible, any expeditious means within close of fifth banking days following the day of the presentation. However, if the issuing bank fails provide notice of refusal according to the provision of UCP 600, the issuing bank shall be precluded to claim that the presentation doesn't constitute complying presentation.

Box-5.6: Domestic Regulation for Examinations of Documents

- Commercial Invoice must be signed
- Insurance coverage is to be given by domestic insurance companies for imports.
- AD must compare the signatures appearing on the bills of lading with the specimen signature in case of export from Bangladesh.

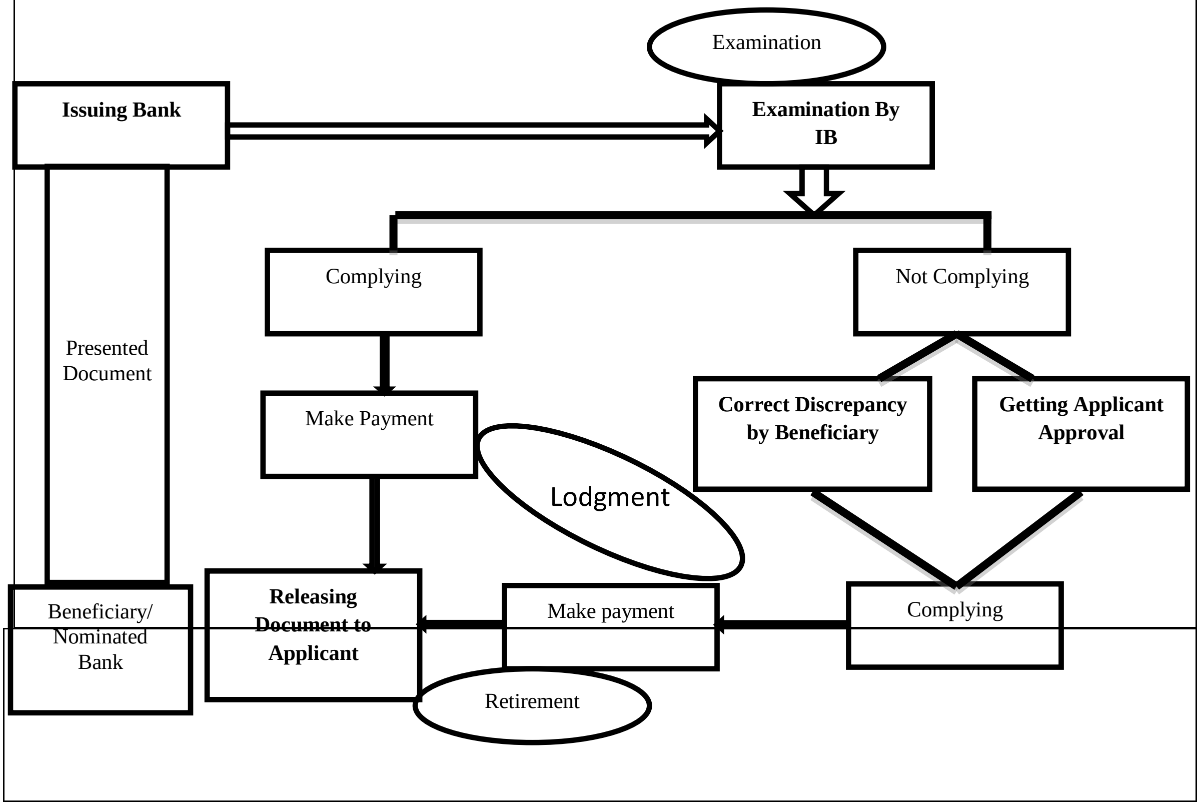
[42] The Banker's Guide to Examination under Documentary Credits by ATM Nesarul Hoque and Kim Sindberg.

Lodgment and Retirement

After examining the documents, if banks find documents complying, it goes for lodgment. Lodgment means a process through which issuing bank effects payment or fulfills its commitment of import bill. The process includes entry into PAD and LC registrar; related LC authorization form is to be endorsed; IMP form to be signed by the importer; and accounting entries are ensured.

After lodgment banks go for retirement. It means the process through which the importer gets all necessary documents from the issuing bank for releasing the goods from customs. The process include interest calculation and charges determination on the part of the bank; preparation of cost memo on account of the customer; endorsement of documents; and marking details of payment on the respective import documents. A flow chart (Figure-5.7) depicts the examination, lodgment and retirement process by a trade service providing bank.

Figure--5.7: Examination, Lodgment and Retirement of Documents



Chapter Five: Indicative Questions

- Documentary Credit offers protection to both exporters and importers. How?
- Why LC needs confirmation? Name the core parties of Confirmed LC?
- What are the roles of an advising bank?
- Confirming bank's liability is secondary. Is it true? Explain.
- Differentiate between transferrable LC and transferred LC.
- What is a back to back LC? Why back to back LC could be risky?
- Stand by LC is related to Non-Performance. What does it mean?
- Depict the flow chart of Documentary Credit in Bangladesh's context.
- What are the roles of a reimbursement bank in LC process?
- Red Clause LC is also a financing technique for the exporter. How?
- Describe examination of documents in documentary credit.
- When should the issuing bank use second advising bank?
- What are the essential elements for a notice of refusal?
- Please explain "applicant waiver process" of UCP 600 article 16 with example?
- Please explain with an example what do you mean by "An issuing ban undertaking to reimbursement the nominated bank is independent from the issuing bank's undertaking to the beneficiary"?
- Please elaborate when any amendment enforces to the issuing bank, confirming bank and the beneficiary?
- Please explain when a nominated bank may have to refund with interest to the issuing bank?
- Can you please explain with an example how reimbursement undertaking process of URR 725 works in international trade?
- When should an issuing bank return a discrepant presentation? And what process should the issuing follow for returning documents?

Chapter Six

International Regulations for Tarde Services

In performing international trade services operations, banks are required to follow both a set of domestic regulations and international rules/guidelines. Among the international rules and guidelines, International Chamber of Commerce (ICC) publications are the most relevant. The major relevant regulations followed in performing trade services activities in a country is shown in Table 6.1 below.

Table-6.1: International Regulations of International Trade Services
• United Nations Vienna Convention on Contract of Sale of Goods 1980 • Uniform Customs and Practice for Documentary Credit (UCP 600 including e UCP version 2.0); • Uniform Rules for Collections (URC 522 including eURC Version 1.0); • Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR 725); • International Standard Banking Practice (ISBP 745); • The Incoterms ® 2020 Rules, • International Standby Practices [ISP-98], • Uniform Rules for Demand Guarantees [URDG 758], • General Rules for International Factoring(GRIF) and • Documentary Instruments Dispute Resolution Expertise Rules (DOCDEX). • UNCITRAL Model Law on Electronic Transferable Records (MLETR)

6.1 The United Nations Convention on Contracts for the International Sale of Goods [CISG]

The CISG, which is popularly known as Vienna Convention provides a uniform framework for contracts of sale of goods. The CISG was developed by the United Nations Commission on International Trade Law [UNCITRAL], and was signed in Vienna in 1980. The CISG allows exporters to avoid choice of law issues, as the CISG offers acceptable substantive rules on which contracting parties, courts, and arbitrators may rely. As of early 2018, it has been ratified by 89 countries, which account for a significant proportion of world trade. Under the treaty, the parties, which come from all legal traditions, having different economies together account for over two thirds of global commercial exchanges.

6.2 Uniform Customs and Practice for Documentary Credits (UCP 600)

The current version of UCPDC, UCP 600, is the collection of rules governing the issuance and execution of letters of credit both for domestic and– cross border exportation and importation in the global economy. The rules of the UCP have been formulated in a manner that has almost equally protected the interests of both the exporters and importers. UCP, the popular title of UCPDC, compiles the best documentary credit practices that came into effect from July 01, 2007 and is the sixth revision of the rules since they were first promulgated in 1933. The 39 articles of UCP 600 mainly cover the liabilities and responsibilities of different parties engaged in the process of LC which is meant for traders and bankers. Article 1[43] of UCP permits the user to modify or exclude any of the provisions of the rules by stating on the face of the credit. It offers flexibility of accommodating local regulations and necessary changes in the rules. Considering the contents, the articles in UCP 600 may be divided into seven broad heads: General Provisions and Definitions (articles 1-6); Undertakings and Liabilities (articles 7-13); Examination (article 14-16), Documents (articles 17-28), Miscellaneous Provisions (articles 29-33); Disclaimers (article 34-37), Transferable and Assignment (articles 38-39). UCP 600 assigned specific articles for commercial invoice (article 18), transport documents (articles 19-25), and insurance documents (article 28). It asserts generic provisions for other documents. UCP focuses particularly on uniformity in the examination of documents by banks. Here matters of particular interest to the cross-border trade include the basic responsibilities of banks when examining documents tendered for payment under documentary credit governed under UCP 600, and the requirements pertaining to different types of documents. UCP 600 defined the term 'Complying Presentation'[44] in article 2 that obligates bankers to consider LC terms, rules noted in UCP 600 and 'International Standard Banking Practice' while examining documents. Article 14 also identifies some specific issues connected with standard for examination of documents. The universal acceptance of the UCP by practitioners in countries with widely divergent economic and judicial systems is a testament to the rules' success. In Bangladesh, LC can only be opened and received within the framework of UCP 600 since July 2007(summary of UCP 600 is given in appendix table-1). This electronic supplement (eUCP) came into force on April 1, 2002. The eUCP, when used in conjunction with the UCP, will provide the necessary rules for the presentation of the electronic equivalents of paper documents under letters of credit.

6.3 International Standard Banking Practice (ISBP)

[43]…….. They are binding on all parties thereto unless expressly modified or excluded by the credit (UCP 600, ICC, 2007).

[44] …….Complying presentation means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and international standard banking practice (UCP 600, ICC, 2007).

The ISBP is an ICC publication which provides important guidance to documentary credit examiners and practitioners relating to the examination of documents presented against Letters of Credit. It is important to note that the ISBP cannot in any way change the UCP 600 rules which apply to Letters of Credit, but the ISBP is a valuable supplementary guide to UCP.As of July 2013 International Standard Banking Practice - ISBP 2013 is the latest and the most comprehensive guide to handling and examining trade documents under letters of credit. ISBP 2013 published by ICC with the ICC Publication No. 745. The first draft was produced in May 2011 through to the 5th draft in November 2012. Approval was finally achieved for the revised publication in April 2013, with the ICC publishing the guide in June/July 2013. This revised guide is a substantial update to the former version and includes a number of new interpretations and new chapters, so it is an absolutely essential publication for anyone who is involved in Letters of Credit. There are now 15 sections/chapters in the revised version of ISBP that covers preliminary considerations, general principles, drafts and calculation of maturity date, invoices, transport documents covering at least two different modes of transport, Bills of Lading, Charter Party Bill of Lading, Air Transport Document, Road, Rail or Inland Waterway Transport Documents, Insurance Document and coverage and Certificate of Origin with new sections relating to guidance on practices relating to Non-Negotiable Sea Waybill, Packing List, Note or Slip, Weight List, Note or Slip, Beneficiary's Certificate, Analysis, Inspection, Health, Phytosanitary, Quantity Quality and Other Certificates (summary of ISBP 745 is given in appendix table-2) .~~–~~Use of ISBP has significantly reduced discrepancies for documentary credits and is regularly used by banking, logistics, insurance, legal and corporate professionals and academics worldwide.

6.4 Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR 725)

In most cases under LC, reimbursement by the issuing bank is made using the service of a third bank known as 'Reimbursing Bank'. And the process of making reimbursement using the service of the Reimbursing Bank is known as Bank-to-Bank Reimbursement Arrangement. It has been referred to in article 13 of UCP 600; however, the process is guided by a separate ICC set of rules titled, The Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits, (ICC publication No 725) which came into effect from October 1, 2008 containing 17 articles. To get coverage of the rules, it must be stated on the face of reimbursement authorization issued by the Issuing Bank. As in the case of UCP 600, the URR 725 permits modification and exclusion of any provision of the rules. URR suggests two ways of making reimbursements: one, simply by authorizing Reimbursing Bank to make reimbursement to the Claiming Bank; and two, by authorizing Reimbursing Bank to issue a reimbursement undertaking to the Nominated Bank. The first one is revocable whereas the second one is irrevocable. Reimbursement undertaking offers greater security to reimbursement to the Nominated Bank and thus to the exporter.

The rules of URR assign liabilities and responsibilities of different parties involved in the process of reimbursement (summary of URR 725 is given in appendix table-3).

6.5 Uniform Rules for Collections (URC 522)

Some of the main international rules and practices applicable to documentary collection operations have been codified by the international chamber of commerce (ICC). These are published in the form of the Uniform Rules for Collections (URC) and banks in countries across the world incorporate them by reference in collection transactions. The latest version of the URC was drawn up in 1995. To get coverage under ICC URC 522, in the operation of documentary collection, it is to be stated on the collection instruction that the payment is as per Uniform Rules for Collection 522. The URC has 26 articles that are divided under seven broad heads: General Provisions and Definitions; Form and Structure of Collection; Form of Presentation; Liabilities and responsibilities; Payment; Interest, Charges and Expenses; and Other Provisions. Different articles have asserted the provisions and requirements of the documentary collection procedure; identified different forms of documents and their release; and described roles of different parties [principal/exporter, remitting bank, collecting bank, presenting bank, drawee/importer] involved in the documentary collection process (summary of URC 522 is given in appendix T~~t~~able-4) .

6.6 International Standby Practices (ISP98)

ISP 98 was designed specifically as a stand-alone set of Rules for standby letters of credit. However, UCP is valid and still applies to standbys. Since ISP and UCP coexist and may be applicable to standbys by incorporation, applicant, beneficiaries, and issuers have a choice. ISP98 covers general rules for independent undertakings, recognizing that parties wishing to provide for payment of the purchase price against documents evidencing the sale and shipment of goods (summary of ISP 98 is given in appendix table-5). It recognizes the critical distinction between undertakings that are 'independent' and ordinary promises and guarantees that are not. In performing various rules, ISP98 is advantaged by its focus on payment against all types of documents as distinguished from UCP's focus on payment against documents evidencing the sale and shipment of goods.

6.7 Uniform Rules for Demand Guarantees (URDG 758)

Uniform Rules for Demand Guarantees (URDG 758) is the guiding framework applicable to the demand guarantee and counter –guarantee practices. The URDG help leveling the playing field among demand guarantee issuers and users regardless of the legal, economic and social system in which they operate. URDG 758 came into force on 01–July 2010, whereupon a considerable number of demand guarantees and counter guarantees started being issued all over the world subject to the new URDG 758. The new URDG 758 do not merely update URDG 458; they are the result of an ambitious process that seeks to bring a new set of rules for demand guarantees into the 21st century: rules that are clearer, more precise and more comprehensive. The summary of URDG 758 is given in appendix T~~t~~able-6.

6.8 Incoterms® 2020 Rules

From the 1st January 2020, the ICC's Incoterms® 2020 came into force. This is the ninth revision of the Incoterms Rules, with the last revision dating back to 2010. The introduction to the new Incoterms® 2020 rules stresses the need to use the terms appropriate to the goods, to the chosen means of transport and to whether or not the parties intend to impose additional obligations on the seller or buyer. In addition, there are Guidance Notes (and a diagram) at the front of each Incoterms Rule containing information to assist in making a choice on which Rule to use. The new Rules have been separated into two classes: Rules for use in relation to any mode or modes of transport; and Rules for sea and inland waterway transport, where the point of delivery and the place to which the goods are carried to the buyer are both ports. Incoterms® 2020 has 11 terms. In Incoterms® 2020 Rules, DAT has been replaced by DPU. Two important notable changes that took place in the current incoterms® 2020 rules are:~~.~~ (a) Under FCA trade terms, there is an option to use FCA trade terms with on board bill of lading option. This new addition is an attempt to bring consistence between documentary credits practice (which required on board bill of lading as opposed to receive for shipment bill of lading) under FCA trade term and (b) under CIP trade term, the exporter need to furnish ICC (A) insurance coverage instead of minimum insurance coverage ICC(C) requirement under the Incoterms® 2010 rules.

6.9 Uniform Rules for Bank Payment Obligation (URBPO)

This is the first ever set of rules to facilitate open account trade. URBPO has been launched as the standard for supply chain finance that is expected to facilitate international trade. The rules were developed by the ICC with a partnership established with financial messaging provider SWIFT to take into account the legitimate expectations of all relevant sectors. The URBPO provides the benefits of a letter of credit in an automated and secured environment, and enables banks to offer flexible risk mitigation and enhanced financing services to their corporate customers.

6.10 DOCDEX Rules and ICC Arbitration

The purpose of the ICC DOCDEX Rules is to provide parties with a specific dispute resolution procedure that leads to an independent, impartial and prompt expert decision for settling disputes involving the UCP, URDG, URR and URC. The ICC Court is the leading international arbitration institution in the world. ICC and Committee Maritime International (CMI) offer separate arbitration rules to meet the special requirements of maritime users. A committee for revision of existing DOCDEX rule is formed in 2013. A committee for revision of the last DOCDEX rule was formed in 2013 and a new version of DOCDEX rules was finalized in April 2015 that came into effect from May 1, 2015.

6.11 Uniform Rules for Forfaiting & General Rules for International Factoring (GRIF)

In the area of guiding trade services, Uniform Rules for Forfaiting (URF 800); and General Rules for International Factoring (GRIF) are relatively recent developments. ICC URF 800 details how forfaiting facilitates the provision of finance to the international trade community. ICC and the International Forfaiting Association (IFA) have joined forces to provide the business community with the first ever Uniform Rules on Forfaiting. The GRIF is a uniform set of rules and regulations issued by FCI to govern transactions amongst FCI members. It is used when transacting two factors cross border factoring, and adopted by all members of Factors Chain International. GRIF have eight sections as follows:

- ✓ Section-I: General provisions
- ✓ Section-II: Assignment of receivables
- ✓ Section-III: Credit Risk
- ✓ Section-IV: Collection of receivables
- ✓ Section-V: Transfer of funds
- ✓ Section-VI: Disputes
- ✓ Section-VII: Representations, warranties and undertakings
- ✓ Section-VIII: Miscellaneous

6.12 Laws of International Carriage of Goods

International carriage has also been the subject of much discussion over the years. The world-wide nature of international trade and the necessity for efficient transport have led to a series of rules, covering carriage by sea, by road, by rail and by air. The Hague Rules of 1924, and The Hague-Visby Rules of 1968, together with the Hamburg Rules 1978, now provide the basis for carriage of goods by sea. The Warsaw Rules 1929 exist for air transport and there have been variations, most notably in Montreal rules adopted in 1975. Since rail/road does not link the continents, as do sea and air transport, it should not be surprising that rail/road transports lacks a global, multilateral set of rules. Nonetheless, in Europe and in certain contiguous countries linked to European rail network, rail transport is governed by the 1980 Convention concerning International Carriage by Rail (COTIF), which entered into force in 1985 and applies in around 40 countries. Similar to the rail transport, a number of countries-mostly European- have signed CMR 1956 convention on the Contract for the International Carriage of Goods by Road. Other than these, UN Convention on the International Multimodal Transport of Goods (1980) covers multimodal transport.

6.13 UNCITRAL Model Law on Electronic Transferable Records (MLETR)

The effort towards digitalization of trade is huge. Banks, shipping line, Tech giant, Fintech are clubbed together and make several consortium to enable trade in complete digitalized platform (paperless). While commercial efforts are leaving no stone unturned,

One key roadblock in the transition to paperless trade is the lack of recognition in domestic legal systems of electronic transferable records (ETRs). Moreover, Covid-19 pandemic exposed the global trading system's continued reliance on physical paper documents. It is because of this reason, we have seen global trading nations are seriously looking into the MLETR codification as basis for their own legal framework to accept electronic transferable records tantamount to paper documents. Bahrain, Singapore, UAE, Abu Dhabi has already legalized electronic transfer records and step forward towards digitalization of trade. Major trading hub UK is also in the process of developing their own law towards this direction. With this development, we can reasonably infer that very soon, most of the nation will have their own law to accept electronic transfer record, which ultimately leapfrogs commercial trade digitalization effort.

International Chamber of Commerce (ICC) has designed a set of rules i.e. The Uniform Rules for Digital Trade Transactions (URDTT) to be compatible with UNCITRAL Model Laws, including those on Electronic Commerce, Electronic Signatures and Electronic Transferable Records.

Chapter Six: Indicative Questions

- What are the key international regulations associated with LC?
- Point out key features of UCP 600?
- What is the purpose of ISBP?
- Distinguish between Reimbursement Authorization and Reimbursement Undertaking as per URR?
- Write a Note on GRIF.
- What are the new addition in Incoterms 2020?
- Write a short note on MLETR.

Chapter Seven

International Trade Finance

Chapter Seven: International Tarde Financing

Exporters and importers need financing facilities to accomplish their cross-border purchase and sale. At different stages of production and payment, traders obtain financing facilities from banks. Financing pattern also varies in different methods of payments. Financing to the exporters can be grouped under pre-shipment and post-shipment financing; and financing to the importers can be categorized into pre-import and post-import.

7.1 Funded and Non-Funded Credit Facilities by Banks in Bangladesh

Exporters and importers need financing facilities to accomplish their cross-border purchase and sale. At different stages of production and payment, traders obtain financing facilities from banks. Financing pattern also varies in different methods of payments. Financing to the exporters can be grouped under pre-shipment and post-shipment financing; and financing to the importers can be categorized into pre-import and post-import. Available funded and non-funded products in trade finance are categorized in Box-7.1.

Box-7.1-: Funded & Non-Funded Products in Trade Finance

Funded Trade (Import and Export) Financing	Non-Funded Trade (Import and Export) Financing
• Payment against Documents (PAD) • LIM (Loan against Imported Merchandise) • LTR (Loan against Trust Receipt) • IBP/LDBP (Local Bills Purchase) • FBP/FDBP (Foreign Bill Purchase) • PC (Packing Credit) • Export Cash Credit (ECC) • FL (Forced Loan)	• All Type of LC (BTB LC (Foreign/Local LC, LC for EDF, etc.) • All Types of Guarantee (-Bid Bond, Performance Bond, Advance Payment Guarantee etc.)

7.2 Pre-Shipment and Post Shipment Export Credit to Traders

7.2.1 Pre-Shipment Credit to Exporters

Pre-shipment credit is obtained to meet expenses on purchasing raw materials, processing, transportation, insurance etc. These cash credit facilities are commonly provided against hypothecation, and against pledge. Packing credit, the most popular form of pre-shipment credit, is extended against transport documents evidencing transportation of goods. Banks also provide Export Cash Credit (ECC) to exporters for execution of export orders in the form of BDT loan. Back-to-Back Letter of Credit is a financing arrangement between bank and exporter commonly to import raw materials for preparing exportable. Under this arrangement, the bank finances export by opening a letter of credit on behalf of the exporter who has received a letter of credit/ sales and purchase contract from the overseas buyer. The bank's credit in the name of back-to-back L/C is realized subsequently from export proceeds. The technique is very common in Bangladesh.[45]

'Assignment of proceeds' is another method of repaying the lending bank from export proceeds under documentary credit arrangement. However, it is not practiced in Bangladesh. There is restriction on opening revolving LC for import. Exporter obtains Export Development Fund (EDF)[46] facilities to meet foreign currency requirements mainly to import raw materials under back-to-back arrangement. The EDF facility is also available for bulk raw materials (such as cotton) import by the deemed exporters.

7.2.2 Post-Shipment Credit to the Exporter

Post-shipment credit refers to the credit facilities extended to the exporters by the banks after shipment of the goods against export documents. Necessity for such credit arises as the exporter cannot afford to wait for a long time without paying manufacturers/suppliers or remain out of fund for long. Before extending such credit, it is necessary for banks to look carefully into the financial soundness of exporters and importers/buyers as well as other relevant documents connected with the export in accordance with the rules and regulations in force. Banks in our country extend post-shipment credit to the exports through negotiation of documents under LC both sight and usance bills.~~–~~ In case of documentary collection, documents submitted under DA or DP basis is also purchased by banks (remitting bank).~~–~~ In both of the cases, b~~B~~anks generally advance fund on with recourse basis. However, there is also few instances, banks offer post shipment finance to the exporters under LC on without recourse basis.

[45] In Bangladesh, back-to- back LCs are used chiefly in the RMG Sector. Like most LCs, back-to-back LCs is used both for domestic and international transactions. As supported by the domestic regulatory framework, there are also provisions of opening back-to-back LCs even against sales/purchase contracts (export).

[46] To promote non-traditional manufactured items export business of Bangladesh, International Development Association (IDA) in 1989 arranged an Export Development Fund (EDF) initially with US$ 31.2 million and the present balance of EDF is US$800.00 million (as of January 2013). The main objectives of creating an Export Development Fund (EDF) at the Bangladesh Bank is assure a continuous availability of foreign exchange to meet the import requirements of non-traditional manufactured items.

Under post shipment export financing banks mainly use FDBP for foreign export bills purchase against documents for direct exporters, -or use inland documentary bill purchase (IDBP) for deemed exporters.

7.3 Import Financing to the Traders

For importation, banks have been offering credit facilities to the importers both at the pre-import and post import stage. LC is a financing technique for importers under which banks offer undertaking to make payment on behalf of importers. In Bangladesh the popular post-shipment import financing techniques are termed as PAD, LIM and LTR. Under PAD or Payment against Documents, an issuing bank makes payment against documents on behalf of importer. –Bank extends credit facility to the importer for retirement and clearance of the consignment known as Loan against Imported Merchandise (LIM). Advances against a Trust Receipt or LTR obtained from the customer are allowed to only first class tested parties when documents covering an import shipment of other goods pledged to the Bank as scrutiny are given without payment. The Advance allowed against Trust Receipt must be adjusted within the stipulated period. Practice of LTR as an import financing technique through ocean mode has now become very popular. Banks also offer shipping guarantee/ delivery order/airway releases to facilitate releasing of goods when goods arrived prior to the documents.

7.4 Export Development Fund

Established in 1989, the EDF is intended to facilitate access to financing in foreign exchange for input procurements by manufacturer-exporters. Authorized Dealer (AD) banks can borrow US Dollar funds from the EDF against their foreign currency loans to manufacturer-exporters for input procurements. Some provisions, as per master circular and subsequent amendments on EDF dated 31 December, 2017, FEPD are given in Box-7.2.

Box--7.2: Recent Circulars related to EDF
- Given the ongoing situation due to Covid-19, Interest rate on EDF loans at 1.75 percent p.a is chargeable to eligible borrowers; for disbursements until March 31, 2021. In accordance with the decision, ADs are to make interest payments to Bangladesh Bank at 0.75 percent p.a ; the remainder 1.00 percent p.a as before will be retained by ADs as their interest income. As per current circular, Interest rate on EDF at 3.00% p.a.. In accordance with the decision, ADs are to make interest payments to Bangladesh Bank t 1.5% pa and the reminder 1.5% p.a. will be retained by the respective ADs.

- EDF loans are repayable upon receipt of proceeds of the relative exports (except in case of loans for bulk imports by member mills of eligible associations against past export performance); within 180 days from dates of disbursement, extendable by Bangladesh Bank up to 270 days upon application.
- Value addition criteria as per IPO, no overdue export bill, single borrower exposure limit etc. are to be complied for EDF financing.

7.5 International Factoring in Bangladesh

To bring easy access to finance by exporters, exporters are allowed to ship goods on sales contracts under open account credit terms within the statutory period In terms of FE Circular No. 25 dated 30 June 2020. The key features of the circular in the following b~~B~~ox :

Box-~~—~~7.3: Key Features of Exports Under Open Account Against Payment Undertaking or Payment Risk Coverage

- Exports are to be executed against payment undertaking or payment risk coverage for settlement of export bills/receivables within the permissible statutory period by international factoring companies/foreign banks/foreign financial institutions/trade financiers/insurance entities (hereinafter referred to as designated institutions) arranged in association with importers and/or exporters.
- Payment undertaking/payment risk coverage from designated institutions abroad may contain option for early payment arrangement before maturity against the relative export bills/receivables on non-recourse basis.
- Expenses to exporters for guarantee commission against payment undertaking/payment risk coverage, and interest with relevant charges for early payment against export bills/receivables shall not exceed 6-month USD LIBOR plus 3.50 percent annually. These will, however, not include normal bank charges required for transactions.
- ADs may allow transport documents to be issued in accordance with underlying arrangements among the parties.
- Export invoices/bills/documents can be sent abroad through banking channel/electronic platform/suitable arrangements directly to designated institutions/importers/other relevant parties as per requirement of the underlying arrangements

The operational process flow of international factoring is given in Figure-7.1:

Figure-7.1: Operational Procedure of International Factoring

Step-1:	Purchase/Sale (Open Account) Agreement between Exporter and Importer
Step-2:	Export Factoring Agreement between Exporter and Bank (Export Factor) for Payment Guarantee
Step-3:	Obtaining Payment Guarantee from Import Factor
Step-4:	Issuance of EXP Form and Delivery of Goods
Step-5:	Processing Export Documents as per arrangement and Certificate Of Authorized Dealer To Carrier Company
Step-6:	Purchase of the Receivable by Bank without Recourse
Step-7:	Payment Collection by Import Factor from Importer and Remitting Fund to Export Factor
Step-8:	Payment from Import Factor to Bank (Export Factor) in case of non-payment from importer

International Bank Guarantee and Standby LC in Bangladesh

International bank guarantees and standby LCs are financing techniques to support cross border trade. Demand guarantees, standby letters of credit and commercial letters of credits are all treated as autonomous undertaking whose operation should not be interfered on grounds immaterial to the guarantee or credit. However, these instruments have distinctive features in terms of operational efficiency, use, preference and regulatory environment. There are growing instances of offering international demand guarantee services by banks, and a few instances of standby LC in the country. Constant growth of business activities and complexity of business connections between distant clients results in a growing use of the instruments for securing receivables and unstable business. This is true for Bangladesh as well as most of the other economies of the world. In Bangladesh, most of bank guarantees received are indirect or counter guarantees as because the contractor are generally non-resident and local regulations requires guarantee from the local banks. However, Demand guarantee used as security to cover commercial transaction such as export, we often receive direct guarantee from the bank abroad.

In regard to the operational procedures, the following process flow figures reveal different steps in case of both direct and indirect bank guarantees (Figures-7.2 to Figure-7.3).

Figure--7.2: Process Flows of Direct and Indirect Bank Guarantees Received in Bangladesh

	Direct	Indirect
S-1	Receiving Bank Guarantee from abroad[47]	Receiving Counter Guarantee[48]
	↓	↓
S-2	Advising or authentication, of guarantee [49]	Advising the Counter Guarantee[50]
	↓	↓
S-3	Receiving Amendment (if required)[51]	Issuance of Guarantee[52]
		↓

[47] Receive appropriate Bank guarantee or as required by the Bank either directly or advised by another bank in Bangladesh.
[48] Counter Guarantee Received: Directly through SWIFT; or Indirectly from other Local Bank
[49] Advice in case of Guarantee received by exporter's bank; Ensure authentication in a case guarantee advised by bank other than exporter's bank.
[50] Advise the Guarantee to the beneficiary [in case of counter Guarantee Received directly]
[51] Advice in case of amendment received by exporter's bank; Ensure authentication in a case amendment advised by bank other than exporter's bank
[52] Applicant request; Verifying the authenticity, in case of Counter Guarantee is advice by another Bank; Checking terms and conditions of Counter Guarantee and compare it with propose guarantee Text., If complying; Approval of Credit Limit for issuance Bank guarantee

S-4	lodging Claim, if any[53]	Amendment of guarantee[54]
	⇩	⇩
S-5	Record Keeping and Reporting [55]	Guarantee Claim and counter Guarantee Claim[56]
		⇩
S-6		Record Keeping and Reporting [57]

Figures-7.3: Process Flow of Bank guarantees Issued from Bangladesh

	Direct	**Indirect Bank guarantees**
S-1	Pre-issuance Phase[58]	Issue Counter Guarantee[59]
	⇩	⇩
S-2	Issue and transmit the guarantee[60]	Amendment of Counter Guarantee [61]
	⇩	⇩
S-3	Issue Amendment[62]	Issuance of guarantee by guarantor[63]
	⇩	⇩
S-4	Received Loan or Advance Payment[64]	Claim received by guarantor, if any[65]
	⇩	⇩
S-5	Received Claim[66]	Record Keeping and Reporting [67]
	⇩	

[53] Lodge claim, in case of payment not received under documentary collection or open account
[54] If required, amend the guarantee
[55] Preservation of data, record related to FBG; Reporting to HO and BB
[56] If any complying claim received from Beneficiary, effect payment and; Claim the same from Counter Guarantor; Receive payment and adjust the loan account.
[57] Preservation of data, record related to FBG; Reporting to HO and BB
[58] Obtain Bangladesh Approval, If required; Obtain Govt. Approval , if required; Obtain Management Approval; Checking the terms and conditions, where the text of the guarantee is prescribe format of the counterpart
[59] Approval of Credit limit; Checking all required information and documents; Permission from Bangladesh Bank; Permission from Govt. Authority , if required; Issuance of Counter guarantee, in favor of bank abroad
[60] Issue & Transmit the Guarantee through SWIFT
[61] Received amendment request, if any from Guarantor; Issue amendment
[62] Issue and transmit amendment if required
[63] Issued guarantee in favor of the beneficiary either directly or through advising bank
[64] Received loan or Advance payment for export according to MOA or sales contract
[65] Received complying claim from the beneficiary and paid
[66] Receive claim against guarantee through presentation
[67] Preservation of data, record related to FBG; Reporting to HO and BB

S-6	Examine and effect payment[68]	
S-7	Adjustment of loan[69]	
S-8	Record Keeping and Reporting [70]	

Offshore Banking in Bangladesh-UPAS

Offshore banking units are allowed to offer services in foreign currencies. The banking unit opened up banking facilities for the Type –A, industry situated at EPZ/EZs area and extending discounting facilities to the ADs in order to meet up their obligations abroad at relatively lower interest rate. However, enterprise in the country may also enjoy foreign currency loan from the Offshore Banking Unit at lower interest rate subject to the approval of the Board of Investment. Under section 14, of the Bangladesh Export Processing Zones Authority (BEPZA) Act, 1980, Bangladesh bank provides offshore license to the banks in Bangladesh. Practically, the major lending function as a part of core banking activities are basically captured by the OBUs belonging to foreign banks due to availability of low cost fund and global network. OBUs of the local banks are basically concentrating on discounting business of its different ADs import bills under UPAS credit arrangement.

UPAS (Usance Pay at Sight) transactions for the importers expanded remarkably since early 2013. The Central Bank allowed (FE Circular)[71] bill discounting in foreign currency of direct and deemed exports using UPAS arrangement though their respective ADs. For discounting, the foreign currencies may be obtained from a bank's own OBUs or foreign correspondent banks located outside, or other international financial institutions. The expenditure on discounting must not exceed 6 percent for the clients. The transactions are required to be reported by the ADs to the Bangladesh Bank. It has been observed that circular (of February, 2013) has been interpreted differently by the practitioners that affected the OBU transactions in two ways: OBU itself discounting the bills on request of the onshore; and AD's discounting the Bill by borrowing fund from the OBU. However, UPAS facility can also be obtained from foreign bank abroad with or without confirmation to the letter of credit.

[68] if presentation complying, effect payment
[69] Adjustment of loan through reimbursement from the applicant
[70] Preservation of data, record related to FBG; Reporting to HO and BB

Chapter Seven: Indicative Questions

- Distinguish between funded and non-funded trade finance products?
- Elaborate Pre-shipment trade financing products in Bangladesh.
- Write a Note on EDF.
- Describe process flow of International Factoring.
- Depict process flow of International Bank guarantees in the context of Bangladesh.
- What are the key functional areas of offshore banking in Bangladesh? What is UPAS?
- Please comment on "Impact of offshore Banking business in Bangladesh"?
- Please comment on "Impact of EDF facility" in our export?

Chapter Eight

Foreign Exchange Market Fundamentals and Exchange Rate

Chapter Eight: Foreign Exchange Market Fundamentals and Exchange Rate

8.1: Foreign Exchange Market

Foreign exchange market is the organizational framework where the various national currencies are bought and sold. Practically it is a worldwide market, which is made up of individuals, commercial banks and other authorized agents. The foreign exchange market performs some important functions:

- Foreign exchange market transfers funds or purchasing power from one nation and currency to another.
- Foreign exchange market facilitates financing of International trade.
- Foreign exchange market facilitates avoiding foreign exchange.

Table--8.1: Market Participants and Nature of Transactions in the Foreign Exchange Market

Market Participants	Nature of Transactions
Arbitragers	Arbitrage
Hedgers	Hedging
Speculators	Speculation

Arbitragers aim to make a risk less profit from transacting in the foreign exchange market (like purchasing of foreign currency where it's price is low and selling it where the price is high). This is also called currency arbitrage. Arbitrage may be due to interest rate differences in two financial centers, which is known as interest arbitrage.

Hedgers enter the foreign exchange market to protect themselves against exchange rate fluctuations, which entail foreign exchange risk.

Speculators operate in the foreign exchange market with the hope to make profit by accepting foreign exchange risk.

8.2: Foreign Exchange Market Products/Transactions

Foreign exchange market products/transactions include a basic product and a set of derivative products (Table-8.2). Derivative products are basically financial engineering tools that are derived from the basic products.

Table-8.2: Foreign Exchange Market Products
Basic Product/Transaction
Spot: Spot is the basic product which means foreign currency transactions on the spot.
Derivative Products/Transactions
Forward: Forward means agreement signed in the present period and transactions take place in some future date. This is an Over the counter product (OTC). Forward offers both right and obligation.
Future: Future means agreement signed in the present period and transactions take place in some future date in an standardized setup. This is an exchange traded product.
Option: Options offer only right but no obligation. There might be right to buy foreign currency (call option) or right to sell foreign currency (put option).
Swap: Swap transactions are associated with exchange of assets or liabilities. Foreign Exchange Swap is the combination of Spot and Forward transactions.

In Bangladesh, foreign exchange derivative products are used in the bank to settle the foreign currency demand and supply. Export earnings and remittances are the major source of foreign currency for the banks. Banks use spot, forward and swap products to deal in foreign exchange. Inter-bank foreign exchange market of Bangladesh is still at its rudimentary stage. The market is oligopolistic and it is dominated by a few relatively large banks, which have remained only as dealers instead of developing themselves into buyers or sellers. The most widely used practice is spot transaction. While there is no restriction for interbank participants to transact in BDT against foreign currencies, clients can only transact for valid commercial transactions.

Commodity derivatives markets have been in existence for centuries, driven by the efforts of commodities producers, users and investors to manage their business and financial risks. In 2008, BB allowed hedging the price risks of commodities in Bangladesh. Banks can hedge the price risk of commodities that are traded on exchanges or over-the-counter (OTC) of their customers through standard exchange traded futures/options and OTC derivatives on commodities subject to prior approval of Bangladesh Bank. The use of commodity derivatives will only be permitted when customers have genuine underlying commodity price risk exposure(s). This can be monitored by the Banks through checking of the underlying risk exposure documents. Any kind of speculation through the use of commodity derivative instruments will not be permissible by domestic regulators. Banks must completely hedge the commodity price risk arising from the commodity hedge transactions by booking back to back transactions with banks having international standing or their branches operating in Bangladesh.

8.3: Exchange Rate Basics

The exchange rate is the price of one country's money in terms of another country's money. This is the rate at which two national currencies are exchanged. The exchange rate is determined by the intersection of the market demand curve and supply curves of foreign currency. The demand for foreign exchange arises primarily in the course of importing goods and services from abroad and making foreign investments and loans. The supply of foreign exchange arises in the course of exporting goods and services and receiving foreign investments and loans. The "spot" exchange rate is the price for immediate exchange. (Immediate usually means within two working days. Banks normally quote a "two way price" in the currency i.e. both buying (bid) and selling (ask or offer). The exchange rate is determined by the intersection of the market demand curve and supply curves of foreign currency. Some basics in foreign exchange market are given in Table-8.3.

Table-8.3: Some Basics in Foreign Exchange Market		
Spot Exchange Rate	**:**	the price for immediate exchange. Immediate usually means within two working days
Cross Rate	**:**	an exchange rate that is calculated from two other rates
Forward Exchange Rate	**:**	the price for exchange to take place at some specific time in the future
Swap Transactions	**:**	both a spot exchange of two currencies and a contract to the reverse forward exchanges a short time later

Base Currency	:	currency that is fixed in an exchange rate quotation
Quoted Currency	:	currency that is variable in an exchange rate quotation
Direct Quotation	:	Base Currency is the Foreign Currency and the Quoted Currency is the Domestic Currency
Indirect Quotation	:	Base Currency is the Domestic Currency and the Quoted Currency is the Foreign Currency
European Quotation	:	number of currency units per dollar
American Quotation	:	number of dollars per currency unit

Exchange Rate

The exchange rate can be given as the price of the foreign currency in terms of the domestic currency—this is the usual way, and the way we'll use in this session or as the price of the domestic currency in terms of the foreign currency. **Exchange Rate** is the rate at which one currency is exchanged for another or it is the price of one currency in terms of another. Banks normally quote a "two way price" in the currency i.e. both **Buying** (bid) **and Selling** (ask or offer) **Rates.** The maxims for finding out buying and selling rates in two different quotation systems are different: For Direct: Buy Low, Sell High; and for Indirect: Buy High, Sell Low.

Exchange Rate Quotation

In foreign exchange literature we come across a variety of terminology to indicate methods of expressing or quoting exchange rates. Sometimes exchange rate spot quotations are grouped as **Direct** and **Indirect** quotations. In case of **Direct Quotation** domestic currency is expressed in variable units for a fixed unit of foreign currency; and in **Indirect Quotation** foreign currency is expressed in variable units for a fixed unit of the domestic currency. Quoted Currency means the currency that is variable in an exchange rate quotation. Base Currency means the currency that is fixed. In Direct Quotation Base Currency is the Foreign Currency and the Quoted Currency is the Domestic Currency. In Indirect Quotation Base Currency is the Domestic Currency and the Quoted Currency is the Foreign Currency.

Quotations sometimes also defined as **European Terms** and **American Terms**. **European Quotation** is expressed as number of currency units per dollar, and **American Quotation** is expressed as number of dollars per currency unit. In American Terms Base Currency is any Currency other than USD and the Quoted Currency is USD.In European Terms Base Currency is the USD and the Quoted Currency is any Currency other than USD.

Depending upon the time elapsed between the transaction date and the settlement date, foreign exchange transactions can be categorized into **Spot Transactions** (spot market) and **Forward Transactions** (forward market). A third category called **Swap Transaction** is generally a combination of a spot and a forward transaction.

Spot Transaction

Spot transaction generally mean foreign exchange transaction on the spot, and spot exchange rate is the quotation between two currencies for immediate delivery. However, practically the situation is different. A foreign exchange trade is an exchange of two currencies. When the deal has been agreed upon, the parties to the deal arrange settlement. The term settlement country will refer to the country where the actual transfer of funds is made. Where the deal is made – the dealing center – need not be in one of the settlement countries. A spot foreign exchange deal is one made for settlement in two working days' time.

Spot Rate

Exchange rate for spot transaction is known as Spot Rate. While quoting spot rate for customer, banks consider the exchange rate of the wholesale market, and a margin. The underlying theory is that the currency sold to (bought from) a customer is simultaneously bought (sold) in the wholesale market, the margin representing transaction costs (overheads, brokerage, etc.) and profit for the banks' authorized dealers.

Transactions Costs Bid-Ask Spread: used to calculate the fee charged by the bank

Bid = the price at which the bank is willing to buy

Ask = the price it will sell the currency

Percent Spread Formula (PS)

$$PS = \frac{Ask - Bid}{Ask} x100$$

Cross Rates A cross-rate may be defined as an exchange rate that is calculated from two other rates. In practice, cross-rate is the exchange rate between 2 non - US$ currencies.A cross-rate may be defined as an exchange rate that is calculated from two other rates. The practice in the world foreign exchange market at present is that currencies are mainly dealt against the US dollar. If bank A asks bank B for its deutsche mark rate, the rate is quoted against the US dollar unless otherwise specified. Thus a bank asked to quote GBP/EUR would normally calculate this rate from the GBP/USD and USD/EUR rates. So some times, an exchange rate between two currencies, neither of which the US dollar is, referred to as a cross-rate.

Calculating Cross Rates

In calculating cross rate one has to consider three cases: both exchange rates quoted are Direct (or American); both -Indirect (or European); and the case where one is direct and the other is indirect (or one is American and another is European). If both currencies involved in the cross transaction are quoted in the same form (direct or indirect) or terms (American or European), divide the spot rate of one currency by the spot rate of the other currency. If one currency is quoted in one form and the other currency is quoted in another form, multiply the spot rates.

If both currencies involved in the cross transaction are quoted in the same form (American or European) divide the spot rate of one currency by the spot rate of the other currency.

Forward Rates

It is an ER for the transaction to be happened at some future date, but agreement for the transaction is to be done today. Forward rate is quoted either at premium (+) or at discount rate (-) over spot rate. In case of direct quotation, premium will be added to and discount will be subtracted from spot rate. The reverse is for indirect quotation.

Quotation of Forward Rates

Forward at Premium (pm)

Forward at Discount (dis)

Forward at ‘par’ meaning the Forward Rate at Parity with the Spot Rate.

Premium and Discount

The quoted currency is said to stand at a premium in the forward market if it is more expensive in the future than it is now in terms of the base currency. Conversely, the base currency may be said to stand at a discount relative to the quoted currency.

8.4 Applicable Foreign Exchange Rate in Trade Services

Some operational exchange rates are in use in facilitation of trade services. For inward remittance, bank use TT clean buying rate. This rate is only used for the private remittance i.e. worker’s remittance. But for outward remittance TT and OD selling rate is used. For all import payment, banks use BC selling rate. In the case of export, for contract based receipts, like cash in advance, open account and documentary collection, TT DOC buying rate is applied for proceeds realization. For sight export LC, banks apply OD Sight buying rate. But in case of purchasing usance export LC, different bank group exercise different interest rates. Where SCBs charge around 7 percent, some PCBs use more than 10 percent. Moreover some FCBs apply commercial rate in this purpose. According to our export policy 2012-15, in all export financing, lower interest rate should be applied. But there is a lack of uniformity in applying interest rate in purchasing usance export LC by different banks. The range of exchange rates of sample banks in different trade services are shown in the Table-8.3.

Table-8.3: Exchange Rate used in Trade Facilitation in Bangladesh	
Purpose	**Rate**
Outward Remittance	TT&OD Selling
Cash in Advance Export	TT DOC Buying
Cash in Advance Import	BC Selling
Open account Export	TT DOC Buying
Open Account Import	BC Selling
Documentary Collection Export	TT DOC Buying
Documentary Collection Import	BC Selling
Documentary Credit Export	OD Sight Buying
Documentary Credit Import	BC Selling

Source: Bank Source

8.5 Treasury Operations for Trade Facilitation

Foreign exchange market participation is one of the major tasks in international banking that are executed as part of treasury activities of banks. And the treasury department of a bank deals with the foreign exchange risk in international banking with some different foreign exchange products. The greatest volume of currency is traded in the interbank market. By using effective strategies to manage foreign exchange, bank can help itself to mitigate risks and expand opportunities. The most common cause of foreign exchange (FX) risk arises from making overseas payments for your imports that are priced in a foreign currency and Receiving foreign currency for your exports. Besides this banks can participate in the foreign exchange trade for speculative motive. The major activities of treasury in international trade are given in Box-8.1

Box-8.1: Role of Treasury in International Trade in Bangladesh

- Adequate FX positions
- Forward cover facility for Importer / Exporters
- Market based pricing
- Spot sale for Import payments
- Spot purchase for export receipts
- Up to date Nostros reconciliation
- Prompt facilitation of transactions to & from foreign banks through Nostros / Vostros

Chapter Eight: Indicative Questions

- Name foreign exchange market participants and transactions.
- Point out the pre-shipment export financing in Bangladesh.
- What are the major foreign exchange market products?
- How forward and future are different?
- Option offers only right but no obligation- how?
- Write a note on UPAS.

Chapter Nine

Foreign Remittance and Foreign Currency Accounts

Chapter Nine: Foreign Remittance and Foreign Currency Accounts

9.1: Foreign Remittances

Foreign remittance means remittance of foreign currencies from one place/person to another place/person. In broad sense, foreign remittances include all sale and purchase of foreign currencies on account of Import, Export, Travel and other purposes. However, specifically Foreign Remittance means sale and purchase of foreign currencies for the purposes other than export and import. And these can be categorized into private, official and commercial remittances that include family remittance facility, education, membership fees, travel quota, quota for official visits, technical fees etc. All foreign remittances are grouped into two broad categories and guided by the Foreign Exchange Regulation Act, 1947 and guidelines for Foreign Exchange Transactions of Bangladesh Bank: Foreign Inward Remittance; Foreign Outward Remittance.

Remittances – a portion of the wages of migrant workers earned in foreign countries and sent back to their home country - are a strong source of foreign exchange for labor sending countries used to pay import liabilities; improve the balance of payments; build foreign exchange reserves; service external debt; and enhance the viability of the recipient countries' external sector. On the domestic front, remittances increase the household incomes of migrants' families; improve living standards; enhance savings; generally contribute to national economic growth. Several modes are used for inward and outward remittances: Telegraphic transfer; Mail Transfer; Foreign Draft; Payment Order; Travelers Cheque; and foreign currency notes. However, in modern day's use of mail transfer, traveler's cheque are not used at all. Use of foreign draft is also not seen frequently in the market. However, sometime pension fund or any other service benefit are paid by the foreign employer in foreign draft. Now a days, almost all remittance are transmitted through SWIFT.

In Bangladesh, three types of drawing arrangements are available in the banking system to channelize the remittance from abroad. These are Taka Drafts Drawing Arrangement; Electronic Fund Transfer Arrangement; and PIN Code System. Out of these, the first one is obsolete and it is not used any more. The second one is electronic fund transfer which done through banking channel. In this method the fund is transferred through the banking channel and beneficiary can receive the money either in cash form or the money can be credited in their bank account. In the third method is actually transferring fund through money transfer organization where the beneficiary can collect the money only in cash form. In addition to that remittance can also now credited to mobile wallet of the beneficiary as well.

As part of the remittance collection different exchange houses (more than 250 companies) are channeling fund to Bangladesh. Among these, 29 exchange houses are owned by Bangladeshi banks which collect 10 percent of the total market share of remittance. The charges of sending remittance through these exchange houses are the lowest among the legal channels. 1184 drawing system has been working currently with more than 220 international money transfer companies including Western Union, and Money Gram worldwide. Apart from the banking channels, branch offices of 26 NGOs and post offices are working for the distribution of remittances. Again, 24 banks have already given the permission to distribute remittance by Mobile Financial Services (MFS) for strengthening remittance distribution network and 19 have already started their operation. Singer Bangladesh is also providing the remittance service through their outlet across the country.

The government and banks have created a number of bonds and special saving accounts aimed at migrants. Bangladesh bank made vigorous efforts for preventing flow of remittances through unofficial channels. These include- expansion of activities of drawing arrangements; review of statements received from foreign banks/exchange houses; close monitoring and supervision of banks etc. Besides, the concerned scheduled banks had ensured quick delivery of remittances by reducing lead-time to the beneficiaries in Bangladesh, which brought substantial development in the delivery system. Drawing arrangements have been made between Bangladeshi banks and around 300 foreign banks/exchange houses situated throughout the globe. Some certain rules and provisions are prescribed for remittance services (Box-9.1)

Box-9.1: Certain Rules and Provisions are prescribed for remittance services

- As per Guidelines for Foreign Exchange Transactions of Bangladesh Bank, the term ‘Inward Remittances’ includes remittance by TT., MT, Drafts etc., but also purchase of bills, drafts, Traveler's cheques and foreign currency notes and coins, Cheques issued on foreign banks in favour of beneficiaries in Bangladesh etc. The ADs may freely purchase foreign currencies; Remittances more than USD 10000 or its equivalent should be reported on Form C attached to the appropriate schedule; however, declaration on Form C by the beneficiary is not required against remittances sent by Bangladesh nationals working abroad; the purpose of remittances should be clearly stated on the Form C.
- Only authorized Dealers and authorized moneychangers may freely buy foreign currency notes, coins and T.Cs from the incoming passengers regardless of nationality and regardless of whether or not a declaration on Form FMJ is produced at the time of encashment; If this Form is produced, the amount encashed should be endorsed on it; The ADs may also purchase foreign currency notes, coins and other travel instruments freely from Authorized moneychangers without the production of Form FMJ.

- Incoming passengers may bring in any amount of foreign exchange with declaration in FMJ at the time of arrival; no declaration is necessary for amounts up to USD 10000; for non-resident, the entire amount brought in with declaration or up to USD 10000 brought in without declaration may be freely taken out at the time of departure or may deposit the amount in F.C Account or NFCD Account subject to submission of Form FMJ for excess of USD 10000 or equivalent.
- The ADs are permitted to dispose of foreign currency notes etc. by way of sale to other ADs and general public in accordance with the instructions of the Bangladesh Bank; they may also dispatch to agents or correspondents abroad for credit to their Foreign Currency Accounts with the approval of the Bangladesh Bank. Application for Bangladesh Bank's permission should be made in duplicate; Bangladesh Bank's permission will be given in the duplicate copy.
- In addition to normal purchases from the public, authorized moneychangers and other authorized dealers, an AD may supplement their holdings of foreign currency notes from abroad with approval from the Bangladesh Bank.

Source: Based on BB Guidelines and Circulars.

All the foreign exchange transactions of each month on inward remittances have to be reported to Bangladesh Bank through statements along with schedules before a stipulated date. All authorizations (excepting TM forms approved by the Bangladesh Bank) by the ADs on behalf of the Bangladesh Bank remain valid for a period of not exceeding 30 days from the date of approval unless they are expressly stated as valid for a specified longer period or unless they have been revalidated for a further period. TM Form approved by the Bangladesh Bank will, however, remain valid for a period of three calendar months from the date of approval by the Bangladesh Bank.

9.1.1 Schemes and Savings Facilities Offered by BB to Migrants

Wage earners' Development Bond (WEDB): Any Bangladeshi migrant can invest the Taka counterpart of their foreign currency in this Taka denominated bond. Interest earned 12 percent per annum and is tax-free. Bonds are convertible to foreign exchange and proceeds are transferable abroad. Expatriate Bangladeshi Wage Earners may invest their hard earnings in five years WEDB on renewable basis for denomination of Taka 25,000/-, BDT 50,000 and BDT 100,000 or any multiple of these amounts at attractive rate of interest and the accrued interest is tax free in Bangladesh.

US Dollar Investment Bond and US Dollar Premium Bond**:** The Government of the People's Republic of Bangladesh has introduced US Dollar Investment Bond and US Dollar Premium Bond to facilitate investment of hard earned foreign currency by the non-resident Bangladeshis. Non-resident Bangladeshis are eligible to purchase US Dollar

Investment Bond and US Dollar Premium Bond with the foreign currency sent to his F. C. account or with the cheque/draft in foreign currency (after collection of cheque/draft)

Common facilities of both USD Investment and Premium Bonds: Period: 3 years; Interest is payable on 6 months basis; Principal amount is repatriable abroad or may be re-invested for further one term; Both interest and principal amount is income tax free in Bangladesh; Commercially Important Person (CIP) facility to the purchaser of Bonds for USD.10, 00,000/- (One million); Duplicate Bond will be issued in case of lost, stolen and destroy of original Bonds ;Non-resident Bangladeshis may purchase Bonds for any amount in multiply of USD.500.

Use of ICT in the remittance flows has brought notable changes in the remittance services of banks. Other than the branch networks, a number of banks use online network, mobile network, and money transfer organizations in the process of faster channeling funds to the rural areas. Over the years, the banks have improved their efficiency in channeling remittances by collaborating with exchange houses, MTOs, local branches, MFIs, and MFS in terms of speed, cost, and quality of services. Published global data on the cost of remittances show the fact that the country's remitters avail remittance services at a much lower cost, in general, using formal banking channel. In recent time, cost of sending remittances through formal channels even decreased further. The current average cost of sending remittances for the amount of USD 200 in the country is not vary far from the SDG target to be attained 2030. Thus cost apparently is not a big issue; rather it is the formality, documentation and compliance requirement in using formal channel that is coming up with the biggest challenge to the remitters, as observed in the BIBM survey.

9.2 Maintenance of Foreign Currency Accounts by Banks

ADs are given general authorization to open and maintain different foreign currency accounts without prior approval of Bangladesh Bank. ADs while maintaining the accounts are to comply with instructions stipulated in GFET Chapter 13 and 14. Most of FC accounts are demand deposits while some others are term deposits. Some FC accounts are interest bearing while others are not. As per GFET, the FC accounts can be opened without permission from BB.

- Private Foreign Currency Account
- FC Accounts of Non-resident Bangladeshis
- FC Accounts of Diplomatic Bonded Warehouse
- FC accounts of local and joint venture contracting firms

- FC Accounts of resident Bangladesh nationals working with foreign/international bodies
- Non-Resident Foreign Currency Deposit Account
- Resident Foreign Currency Deposit Account
- Exporters' Retention Quota (ERQ) Account
- Foreign Currency Accounts For The EPZ Companies
- Foreign Currency Accounts for Initial Public Offerings (IPO)
- Foreign Currency Accounts for Ship Builders (Exporters)
- Foreign Currency Accounts of shipping companies, airlines and freight forwarders
- Convertible And Non-Convertible Taka Accounts
- Private Non-Resident Taka Accounts
- Non-Resident Blocked Taka Accounts
- Non-Resident Investor's Taka Accounts (NITA)

9.2.1 Private Foreign Currency (PFC) Account

ADs are authorized to open private foreign currency account for Bangladesh nationals residing abroad, foreign nationals residing abroad or in Bangladesh and also foreign firms registered abroad and operating in Bangladesh or abroad. Foreign missions and their expatriate employees are allowed for the account.

***Credits to the Private FC Account*:** Credits to the foreign currency account may be made against inward remittance of foreign exchange in any form or transfer from another foreign currency account or non-resident Taka accounts of banks abroad. Bills of the local contractors of the foreign missions in Bangladesh may also be settled in foreign currency from the balances of the foreign currency accounts of such missions. As per FEPD Circular No. 47 dated 5 December, 2019, net income of foreign nationals employed in branch offices/liaison offices of foreign companies duly approved by BIDA may be credited to their FC accounts.

Debits to the Private FC Account: Payments may be made freely abroad from these foreign currency accounts to the extent of balances lying therein. Local disbursements may also be made freely in Taka from such foreign currency accounts. In terms of FEPD Circular Letter No. 18, dated 17 July 2019, funds from Private Foreign Currency accounts may be used for payment of admissible imports in terms of Import Policy Order in force. Payment for legitimate services is also admissible, subject to compliance of regulations on taxes deduction. Balances held in this accounts may also usable for payment in advance against import of legitimate goods and services. The clarification as stated herein shall be in force provided that no restrictions are imposed by other authorities.

Interest on the Account: The ADs maintaining foreign currency accounts under this authority can pay interest on such accounts being maintained in the form of term deposits for the period of one/three/six/twelve months at the prevailing Eurocurrency deposit rates for balances not less than USD 1000(one thousand), Pound Sterling 500 (five hundred) or equivalent in other currency lying in the accounts for one month or longer period.

9.2.2 FC Accounts of Non-resident Bangladeshis

FC accounts for Non-resident Bangladeshis are mainly applicable for the Bangladesh nationals working and earning abroad including self-employed Bangladeshi migrants proceeding abroad on employment even without initial deposits. They may operate the accounts themselves or nominate other persons in Bangladesh for this purpose.

Credits to the Account: FC accounts for non-resident Bangladeshis are to be ordinarily credited funds from remittances by account holders themselves or funds sent by other wage earners may also be placed to the credit of such accounts. ADs may also raise credits to such accounts with the proceeds of convertible foreign exchange viz. currency notes, travellers' cheques, drafts etc. brought into Bangladesh by the account-holders while on temporary visit to Bangladesh. Foreign currency brought in by NRBs may be deposited to such FC accounts through bank booths operating in airports.

Debits to the Account: Payments may be made freely abroad from these foreign currency accounts to the extent of balances lying therein. Local disbursements may also be made freely in Taka from such foreign currency accounts. Funds lying to the credit of FC accounts of Bangladesh nationals can be utilized for import of goods and commodities as per instructions issued by the CCI&E and Bangladesh Bank.

***Interest on the Account*:** The ADs maintaining foreign currency accounts under this authority can pay interest on such accounts being maintained in the form of term deposits for the period of one/three/six/twelve months at the prevailing Eurocurrency deposit rates. for balances not less than USD 1000(one thousand), Pound Sterling 500(five hundred) or equivalent in other currency lying in the accounts for one month or longer period.

9.2.3 FC Accounts of Diplomatic Bonded Warehouse

ADs may open foreign currency accounts in the names of the Diplomatic Bonded Warehouse (Duty free shops) licenced by the Custom Authorities.

Credits to the Account: Convertible foreign currency received only on account of sale of merchandise can be credited to these accounts.

Debits to the Account: Foreign exchange may be remitted abroad only for the purpose of import of merchandise by the bonded warehouse. For the same purpose, foreign exchange may also be transferred from such accounts to foreign currency accounts maintained with other ADs. For meeting local expenses, foreign exchange from these accounts may be encashed freely at current exchange rate.

9.2.4 FC accounts of local and joint venture contracting firms

ADs are authorized to open foreign currency accounts in the names of local and joint venture contracting firms employed to execute projects by foreign donors/international donor agencies as per terms of the approved contract with the government authority.

Credits to the Account: Only foreign exchange received from the donors/donor agencies to meet expenses of the project can be credited to these accounts.

Debits to the Account: All expenses in foreign exchange as per relevant contract may be met from these accounts. These accounts should be closed as soon as the transactions relating to the project are concluded.

9.2.5 FC Accounts of resident Bangladesh nationals working with foreign/international bodies

ADs can open foreign currency accounts in the names of resident Bangladesh nationals working with the foreign/international organisations operating in Bangladesh provided their salary is paid in foreign currency.

***Credits to the Account*:** Only foreign currency portion of the salary and consultancy fees/honoraria received in foreign currency by the above mentioned category of residents can be credited to these accounts.

***Debits to the Account*:** Such accounts can be debited for all approved current transactions like cost of travel, education for children, treatment etc. Local disbursements may also be made freely in Taka from such foreign currency accounts.

9.2.6 Non-Resident Foreign Currency Deposit Account (NFCD)

NFCD accounts can be opened for all non-resident Bangladesh nationals and persons of Bangladesh origin including those having dual nationality and ordinarily residing abroad. NFCD account is interest bearing time deposit accounts. Bangladesh nationals serving with Embassies/High Commissions of Bangladesh in foreign countries and also the officers/staff of the government/semi-government departments/nationalized banks and employees of body corporate posted abroad or deputed with international and regional agencies like IMF, World Bank, IDB, ADB etc. during their assignments abroad may open such accounts. Crew members of the Bangladeshi shipping companies are not entitled to open such accounts, but shore staff posted abroad may open such accounts. Accounts may also be opened with funds transferred from existing foreign currency accounts maintained by the wage earners with the ADs in Bangladesh. Moreover, foreign nationals and companies/firms registered and/or incorporated abroad, banks, other financial institutions including institutional investors and 100(hundred) percent foreign owned (A-Type) industrial units in the EPZs/EZs in Bangladesh, are also allowed to open and maintain NFCD accounts with the ADs. The minimum amount of time deposits in such cases should be USD 25,000 (twenty five thousand) or its equivalent

Credits to the Account: NRBs may, after their return to Bangladesh, can credit also their retirement benefits, periodical pensions, superannuation benefits etc. as per employment agreement with employers while on service abroad.

Debits to the Account: The balances held in the accounts may be used for settlement of legitimate payment abroad. The account holder can freely repatriate the balance and the interest accrued thereon in foreign exchange to the country of his residence or anywhere he chooses and may at his option, convert the balance into local Taka at the prevailing exchange rate. The ADs may utilize 50 (fifty) percent of the balances of NFCD accounts for (i) discounting of usance export bills of Type A and Type B units of EPZs/EZs and (ii) payment of back to back LC opened on sight basis.

Interest on the Account: The ADs are to pay interest on deposits into the accounts at the Eurocurrency deposit rates. In case of premature repayments, the interest amount will be forfeited to the depositing AD.

9.2.7 Resident Foreign Currency Deposit (RFCD) Account

ADs can open RFCD accounts for the persons ordinarily resident in Bangladesh with foreign exchange brought in at the time of their return from travel abroad.

Credits to the Account: Any amount brought in with declaration to Customs Authorities in form FMJ and up to USD 5000 (five thousand) brought in without any declaration, can be credited to such accounts.

Debits to the Account: Balances in these accounts shall be freely transferable abroad. Fund from these accounts may also be issued to account-holders for the purpose of their foreign travels in the usual manner.

Interest on the Deposit of the Account: Interest in foreign exchange is payable on balances in such accounts if the deposits are for a term of not less than one month and the balance is not less than USD 1000(one thousand) or Pound Sterling 500(five hundred) or its equivalent on Eurocurrency rate.

9.2.8 Exporters' Retention Quota (ERQ) Account

Retention quota for merchandise exporters: Merchandise exporters are entitled to a foreign exchange retention quota of 60 (sixty) percent of **repatriated** FOB value of their exports. However, for exports of goods having high import content (low domestic value-added) like POL products including naphtha, furnace oil and bitumen, readymade garments made of imported fabrics, electronic goods etc. the retention quota is 15 (fifteen) percent of the repatriated FOB value.

Retention quota for deemed exporters: Retention quota account may also be opened and maintained in the names of deemed exporters- for supplying inputs against inland back to back letter of credit denominated in foreign currency. While opening this account, ADs are obliged for the meticulous compliance of (i) the total amount credited to the direct exporter's retention quota account together with foreign exchange paid to the deemed exporter against supply of input must not exceed the net repatriated FOB export value of the direct exporter; and (ii) the foreign exchange shall be credited to the retention quota account of the deemed exporter only after settlement of the amount against back-to-back LC for deemed export.

Retention quota for export of software, data entry/processing and other ICT related services: Exporters of software, data entry/processing and other ICT related services may retain 70(seventy) percent of net export earnings repatriated in foreign exchange in ERQ accounts.

Retention quota for other service exporters: Service exporters other than ICT related services above may retain 60(sixty) percent of their repatriated export receipts in ERQ accounts against service rendered in non-physical form**.** However, foreign exchange earnings on account of indenting commission or agency commission for export from Bangladesh cannot be credited to such accounts since these incomes originate from Bangladesh sources.

Credits to the ERQ Accounts**:** ERQ accounts can be credited amounts out of export earnings only as per the stated percentage.

Debits from ERQ Accounts: Balances in these accounts may be used by the exporters for bonafide business purposes, such as business visits abroad, participation in export fairs and seminars, establishment and maintenance of offices abroad, import of raw materials, machinery and spares, repayment of authorized foreign loan etc. without prior approval of Bangladesh Bank. In addition, ADs on request by the IT/Software exporting firms can remit international alliance/software registration fee, domain registration/hosting fee, server maintenance fee, account verification/remittance test fee, etc. fund from ERQ accounts of the exporters may be used- for settlement -of import liability and repayment of authorized foreign loan of their– subsidiaries/sister concerns. ADs may effect advance payment not exceeding USD 25,000_(twenty five thousand) or its equivalent from the ERQ account against bonafide business purposes

Interest on the Deposit of the Account: Foreign exchange out of ERQ accounts may also be kept as interest bearing renewable term deposits with minimum balances of USD 2,000(two thousand) or its equivalent. Periods of such term deposits may be determined in accordance with normal banking practices/normal banking considerations. Interest on such deposits may be allowed at rates comparable to the prevailing euro deposit rates for the relevant currency.

9.2.9 Foreign Currency Accounts for the Export Processing Zones (EPZs), Economic Zones (EZ) and High -Tech Park Companies

Credit to the FC Account for Type A Industrial Unit: 100 (hundred) percent of repatriated export proceeds of a Type A industrial unit in EPZ may be –retained in FC account in the name of the unit with an AD or OBU in Bangladesh. Equity from foreign shareholders of Type A and authorized loan received in foreign currency by Type A enterprises may also be credited in FC accounts of enterprises of EPZs.

***Debit from FC Account for Type A Industrial Unit*:** Balances in the FC account may freely be used to meet all foreign payment obligations including import payment obligations of the unit and payment obligations in foreign exchange to BEPZA. Balances from the FC account will also be freely encashable for local disbursements or for crediting Taka account maintained with an AD for meeting Taka payment obligations like wages, rents, rates, taxes etc. As per FEPD Circular no. 4 dated 9 January 2019, balances held in FC accounts of Type A industrial enterprises of EPZs/EZs may be used for purchase of shares in zone areas or outside zone areas in Bangladesh.

Credit to the FC Account for Type B and Type C Industrial Unit: Upto 80 (eighty) percent of the repatriated export proceeds of Type B and Type C units other than those in the garments sector may be retained in FC Accounts maintained in the names of the units with their ADs; for a Type B or Type C unit in the garments sector, up to 75 (seventy five) percent of the repatriated export proceeds may be credited to FC account maintained in the name of the unit with an AD. The remainder of the export proceeds should be encashed to taka at the prevailing exchange rate. Besides, Taka accounts of Type B & Type C industrial units may also be credited with authorized payment received in Taka. Equity from foreign shareholders of Type B enterprises and authorized loan received in foreign currency by B & C enterprises may be credited in FC accounts of enterprises of EPZs.

Debit from FC Account for Type B and Type C Industrial Unit: All foreign payment obligations of Type B and Type C units including import payment and repayments of foreign loans may be met out of the balances in their FC accounts; payment obligations in foreign exchange of a type B unit to the BEPZA may also be settled from balances in its FC account. Balances in the FC accounts of the Type B and Type C units are freely encashable to Taka for local disbursements.

Moreover, FEPD Circular Letter 28 dated 17 November 2019, ADs may also credit legitimate receipts against short weight claim, quality claim, freight charge of sample, insurance claims, reimbursement of expenses for samples from buyers or parents etc. received in foreign currency or local currency accounts of the enterprises. ADs will have ensure due diligence in compliance with KYC, AML/CFT standards while crediting accounts under the above mentioned grounds based on documentary evidences.

9.2.10 Foreign currency accounts for Initial Public Offerings (IPO)

ADs may open foreign currency accounts titled 'FC Account for IPO' in the name of issuing company only to collect subscription for IPO from non-resident Bangladeshis. In maintaining this account, The AD will have to preserve the copy of the approval of BSEC for floatation of shares and will immediately inform opening of such account to the Foreign Exchange Investment Department, Bangladesh Bank, Head Office. In the event of over-subscription, excess amount should be refunded back in the same currency. Such accounts should also be closed immediately after the remittance is made.

9.2.11 Foreign currency accounts for ship builders (exporters)

Export oriented shipbuilders in Bangladesh are allowed to open and maintain FC accounts in ADs for retaining advance remittances from abroad against ship exports. Balances of these accounts may be used for payment of input procurements. Separate FC accounts may be opened for each ship for receiving and payment on per ship basis. Such account opened for one ship shall have to be closed within one month of delivery of the ship to the foreign buyer by transferring the balance of the account in usual retention quota account or by converting the balance into Taka.

9.2.12 Foreign currency accounts of shipping companies, airlines and freight forwarders

Shipping companies/airlines/licensed freight forwarders handling FOB export cargo from Bangladesh receive payments in foreign currency in settlement of costs incurred by them locally towards internal transportation, sea freight/air freight, and related other handling charges. Likewise they have to pay abroad in foreign currency for similar costs and charges incurred on FOB imports into Bangladesh. To facilitate these payments in foreign currency for handling of FOB imports from their receipts in foreign currency against handling of FOB exports, shipping companies, airlines and multimodal transport operators licenced as freight forwarders by Customs Authorities can open and maintain accounts in USD or other freely convertible currencies with ADs in Bangladesh. *Eligible credits to these accounts:* Accounts can be credited by accepting freight on FOB exports in FC and freight on FOB imports in FC

Eligible Debits from the Account: The account can be debited for the encashment to Bangladesh Taka for meeting local expenses; foreign currency payable abroad towards costs and charges relating to handling of FOB imports into Bangladesh. Foreign currency deposited in foreign currency accounts of shipping companies/airlines may be used for outward remittances on account of surplus earnings. Balances held in foreign currency accounts shall first be used for outward remittances before use of local currency fund. However, AD Banks shall get themselves ensured of the encashment of adequate foreign currency by the shipping companies/airlines to meet local expenses in case of shortfall in local currency funds and submit the encashment certificates with the statements.

9.2.13 Convertible and Non-Convertible Taka Accounts

Convertible Taka Accounts: ADs may open convertible Taka accounts in the names of foreign organizations/nationals viz., diplomatic missions, UN organizations, non-profit international bodies, foreign contractors and consultants engaged for specific projects under the Govt./Semi Govt. agencies and the expatriate employees of such missions/organizations who are resident in Bangladesh. To open such accounts the above mentioned organizations/individuals except diplomatic missions, UN organizations, non-profit international bodies will have to submit the copy of permission letter obtained from BIDA or other competent authorities like BEPZA, BEZA or other Specialized Zones Authorities under Section 18(B) of the FER Act, 1947 and Section 14(2) of BIDA Act, 2016 to the ADs.

Credits to Convertible Taka Account: These accounts may be credited with foreign currency brought in or remitted from abroad or transferred from a foreign currency account or another convertible Taka account. For transfer from another convertible Taka account, the Taka amount from the transferor's account would be converted into foreign currency for transfer and credit to the recipient account by reconversion into Taka.

Debits to Convertible Taka Account: A convertible Taka account may be debited for payments in foreign currency abroad, for local expenses, for transfers to foreign currency accounts or other convertible Taka accounts or for credits to a non-convertible Taka account.

Non-convertible Taka Account: Foreign organizations/their expatriate personnel may maintain non-convertible Taka accounts with ADs without prior BB approval.
Credits to Non-Convertible Taka Account: These accounts may be credited with funds from convertible Taka accounts, with remittances from abroad, and with Taka received from authorized sources including interests from STD accounts.

Debits to Non-Convertible Taka Account: These accounts may freely be debited for local expenses. No remittance abroad or transfer to an foreign currency account/convertible Taka account may be made by debit to a non-convertible Taka account.

9.2.14 Private Non-Resident Taka Accounts

The accounts of individuals, firms or companies resident outside Bangladesh are designated as
Non-resident accounts. Debits and credits to the Non-Resident Taka Accounts are to be made as per the GEFT Vol I Chapter 14 Section II.
***Debits to the account*:** Debits to the accounts are like payments on account of insurance premium, club bills or other payments in Bangladesh of a regular nature for which the ADs hold standing instructions from their customers provided the payments are supported by bills and vouchers. Debits can be made for the payments in Bangladesh for cost of passages by air or by sea. Debits can be made for purchase of shares of public limited companies and/or securities of the Government of the People's Republic of Bangladesh provided such shares/securities are purchased and retained by the ADs themselves for and on behalf of the account holder

Credits to Convertible Taka Account: Credits to the account mainly include receipts on account of salary, allowances, bonus, commission, dividend and interest income on investments in shares and securities, income from landed property and agricultural rent etc.,

9.2.15 Joint account of residents and non-residents

An account held jointly by a resident and a non-resident should be treated as a resident accounts if it is operated solely by the resident or jointly by the resident and the non-resident. If the joint account is to be operated by the non-resident only, it is to be treated as non-resident account.

9.2.16 Non-Resident Block Taka Account

A blocked account means an account opened as a blocked account at any branch or office in Bangladesh of a bank authorized in this behalf by the Bangladesh Bank or an account blocked by the order of the Bangladesh Bank. A blocked account may not be opened in the name of a resident of Bangladesh unless it is held jointly with a non-resident. No blocked account may be opened by an AD or an existing "free" account blocked except under directions from the Bangladesh Bank. Operations of blocked account is to be conducted as per GEFT Vol I Chapter 14 Section III.

9.2.17 Non-Resident Investor's Taka Account (NITA)

Expatriate Bangladeshis may invest their hard earned money in the Stock Exchange for purchase of Bangladeshi shares and securities. For this purpose, the expatriates may open NITA account with any authorized dealer branches. Profits/dividends/gains can be deposited in this account and are tax-free in Bangladesh. Balance of NITA account is repatriable abroad at the prevailing rate of exchange. The nominee may operate NITA account. The account holders may nominate concerned Bank to act as nominee also. The NITA can be operated by the account-holder himself or by a nominee, including the AD itself. Purchase and sale of shares/securities listed in a stock exchange in Bangladesh shall be made only through a member/registered broker of the exchange.

9.2.18 Foreign Currency Account for International Gateway (IGW) Operators

In terms of FEPD Circular No. 20, dated, 9 May 2019, ADs are authorized to open Foreign Currency Account for International Gateway (IGW) Operators having valid operator licence issued by BTRC

***Credit to the Account*:** The account can only be credited by foreign currency received only from International Carrier for international incoming calls.

***Debit from the Account*:** Balances of these accounts may be used to pay to International Carrier for international outgoing calls and to IGW Operator Switch or other IGW Operators for international incoming calls against invoices. Balances of these accounts are freely encashable to taka. ADs will have to ensure deduction of applicable VAT & Taxes and deposit of the same to the Government Treasury.

9.2.19 Temporary non-resident Taka account (NRTA) for foreign investors

ADs are also authorized to open temporary non-resident Taka account (NRTA) for foreign investors. Moreover, in terms of FEPD Circular Letter No. 9 dated 7 May 2019, NRTA may also be opened by scheduled bank branches apart from Authorized Dealers for the same purposes. In this case, banks branch will have to make suitable arrangement with ADs/Central Processing Centers (CPCs) to receive the foreign exchange in their nostro accounts abroad.

Chapter Nine: Indicative Questions

- Who can open RFCD accounts, NFCD accounts, ERQ accounts and NITA?
- What are the rules associated with Foreign Remittances in Bangladesh?
- What are the different foreign currency accounts allowed in Bangladesh?
- What is ERQ Account?
- Write a note on RFCD account.
- Do you think extending inflow of wage earners remitting through mobile financial service (MFS) will have positive impact to the economy?

Chapter Ten

Malpractices in Tarde and Foreign Exchange

Chapter Ten: Malpractices in Tarde and Foreign Exchange

History of fraud in international cross-border transaction is very old. Malpractices in cross-border transactions developed hand in hand with the increase in trade and cross-border transactions among nations. Till many years, such malpractices remained both local in origin and effect, however, now trade has expanded worldwide, and the trade patterns have shifted, the problems and incidents of fraud have also become more complex and international in nature, the ICC publication adds.

In facilitating cross-border trade and financing, banks encounter two types of fraud; one, presentation of genuine documents but with subsequent fraudulent action by a third party with respect to the goods; and two, presentation of fraudulent documents for inferior goods or non-existent goods. In both cases, the documents could be presented either under documentary credit or documentary collection. Whatever may be the methods of payment, to avoid fraud, adequate inquiry should be made before entering into a purchase-sale agreement. According to the UNCTAD (2003) report, four kinds of LC frauds have been popular: one, where the cargo is non-existent, the documents are falsified by the beneficiary in order to obtain payment from the bank; two, where the goods are of inferior quality or quantity; three, where the same goods are sold to two or more parties; and four, where bills of lading are issued twice for the same goods.

During the mid-1980s, documentary fraud in the shipping of goods was overwhelming, and technological developments which were intended to facilitate ordinary commercial transactions, at the same time provide fraudsters advantageous opportunities to commit fraud (Demir-Artz 2002). The study added, LC fraud is not only widespread, but it is a big business too, and its tentacles have spread throughout the world. There are several experiences of frauds under documentary credit in different countries that has resulted in remarkable costs of the different concerned parties. It has been seen that in the most common LC fraud scheme, the victims are the buyers. Barnes and Byrne (1996) reported that in the USA losses due to LC fraud reached 0.5 billion US dollars in 1995. The loss as a result of fraud was 2.4 billion Hong Kong dollars (around 0.3 billion US dollars) in 1998, 1.1 billon Hong Kong dollars (around 0.15 billion US dollars) in 1997 and 21 cases were related to LC frauds (Gu and Ni 2005). Since the UCP was accepted in the mainland of China, the LC has been widely used in China's foreign trade. Several LC fraud cases have astonished the world in recent years, and the amount involved has become greater than in the past. Someone even predicted that the amount of losses in LC fraud cases in mainland China is astronomical.

The most significant reason for why LC fraud takes place is argued to be the exclusive use of documents in international LC transactions (Chen and Liu 2007). LC by its nature is based on a system of documents. There is nothing else besides documents for the banks to consider when examining the presented documents and deciding to pay or not. The heart of such a documentary system is that when the beneficiary submits documents that conform to the stipulated requirements in the LC, the bank is obligated to pay; this documentary character makes the LC easy to be abused by the unscrupulous fraudsters (Zhang 2011).

10.1: Challenges Associated with Trade Services-Global Context

Huge Surge in Freight Charge: Challenges associated with trade logistics and associated costs have notable implications for trade services. Shipping rates are a major component of trade costs, and the new hike in the rates poses an additional challenge to the world economy as it struggles to recover from the worst global crisis. The impact on freight rates has been greatest on trade routes to developing regions, where consumers and businesses can least afford it. For example, by early 2021, freight rates from China to South America jumped 443%, and 63% on the route between Asia and North America's eastern coast (unctad.org).

Trade Finance Gap Worsened for SMEs: Before the uncertainty caused by the Covid-19 pandemic, the trade finance gap facing SMEs was an estimated USD 1.5 trillion; and the World Economic Forum estimates this gap could reach USD 2.5 trillion by 2025 (Gamser, 2020). The MSME finance gap in developing countries is estimated to be approximately USD5 trillion - 1.3 times the current level of MSME lending; and womenowned firms fared the worst when accessing trade finance (Trade Finance Global, 2020). There is evidence that the situation worsened during the crisis period.

Trade Based Money Laundering Reshaped: TBML took different shapes in the Covid-19 situation. Reporting from FATF members, observers, and open sources indicate that criminals have attempted to profit from the Covid-19 pandemic through increased fraudulent activities associated with international trade (FATF, 2020). There was a significant increase in seizures of counterfeit and unauthorized face masks and hand sanitizers during a collaborative enforcement effort by the WCO, Interpol, Europol, customs administrations, police forces and other law enforcement agencies (WCO, 2020). In this context, FATF and Egmont Group released a new publication 'Trade Based Money Laundering-Risk Indicators' in March 2021.

High and Growing Regulation and compliance requirements and Capacity Divide: In response to these increasing regulatory and compliance requirements, "decrease in the trade finance businesses" is the most common concerns revealed by the banks. The ICC (2020) survey found, 56% of survey respondents indicated that their banks were significantly concerned both by understanding and implementing compliance procedures, and with capital and regulatory requirements. While there was widespread similarity across banks on capital and regulatory requirements, there was a more pronounced divide between different types of banks in respect of compliance.

Digital Divide: While digitization is widely seen as very important, a survey by the Global Trade Finance (2020) shows a clear divide between banks that have the vision, capacity and commitment: "While 83% of global banks have a digital strategy, only 46% of local banks have; only 17% of respondents have successfully implemented digital solutions, with a surprising one in five not yet seeing any tangible benefits; 22% of banks said that they have tried to implement technology solutions but that it has been imperfect, while a further 19% are currently struggling to even match that". The survey also finds, "the volume of zero-touch trade finance processing remains limited: import and export LC 7-8%; export-import loans-9%; performance guarantee 6%".

Inadequacy of the Supportive Regulation for Tarde Digitization: According to the ICC survey (2020) for most trade documentation, over 50% of respondents mentioned that documentation was no longer mandated to be paper-based in the context of trade financing; and there are evidences that local regulations and requirements remain a barrier to paperless trade in several instances (ICC, 2020). A Finastra survey (2020) of over 700 financial institutions and banks around the world highlights the problem of regulatory barriers to growth; almost half of the respondents believe regulations are holding back innovation (Trade Finance Global, 2020).

10.2: Trade Based Money Laundering- A Growing Concern

Now a days, the banking industry is coping up with the changing trade scenarios with newer approaches, channels, products and challenges. The regulatory provisions for international trade facilitation in Bangladesh expedite greater involvement of the trade services departments with greater risks and greater opportunities to earn. With the growing business complexities, technological changes, market expectations and financial crimes, trade services are becoming increasingly challenging to the banks and financial institutions in the country, as in the other trading countries of the globe. Especially, addressing TBML is the upcoming and evolving approach to be adopted for the safe and sound trade services in the country.

It is commonly believed that the potential is vast for criminal organizations and terrorist groups to exploit the international trade system with relatively low risk of detection. According to FATF, key characteristics of the international trade system have made it both attractive and vulnerable to illicit exploitation; and vulnerabilities include the following: *one*, the enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminal organizations to transfer value across borders; *two*, the complexity associated with (often multiple) foreign exchange transactions and recourse to diverse financing arrangements; three, the additional complexity that can arise from the practice of comingling illicit funds with the cash flows of legitimate business; four, the limited recourse to verification procedures or programs to exchange customs data between countries; and five, the limited resources that most customs agencies have available to detect illegal trade transactions (FATF, 2006).

Detection of TBML is relatively difficult since volumes of trade flows are massive and because TBML can take complicated forms. Greater capacity building and more effective cooperation on information sharing is especially necessary for the prevention of TBML. FATF has published two separate guidance papers to address concerns related to TBML. A related paper was published by the Asia/Pacific Group (APG) on Money Laundering, which is a FATF-style regional body for the Asia-Pacific region. Several other international organizations are working to support emerging economies to address TBML. As a global trade platform linking emerging market banks with international banks, IFC (International Finance Corporation) recently prepared a guideline for the benefit of emerging market respondent banks, a group that relies on cross-border correspondent banking services to support the development of their clients and countries; presents an overview of AML/CFT and CDD requirement, particularly as it pertains to those involved with trade finance.

Certain red flags are identified and used as the danger or warning signs for the banks and other stakeholders as part of the process of identifying TBML. Most of these are developed by the international bodies. A consolidated set of red flag from three key documents titled Trade based money laundering (FATF 2006); Best Practices on Trade Based Money Laundering; APG Typology Report on Trade Based Money Laundering (APG, 2012) may be consolidated as follows.

Box--10.1 : Consolidated Red Flags for Identifying TBML of FATF and APG

- Significant discrepancies appear between the description of the commodity on the bill of lading and the invoice
- Significant discrepancies appear between the descriptions of the goods on the bill of lading (or invoice) and the actual goods shipped
- Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity's fair market value
- The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities
- The type of commodity being shipped is designated as "high risk" for money laundering activities
- The type of commodity being shipped appears inconsistent with the exporter or importer's regular business activities
- The shipment does not make economic sense
- The commodity is shipped to or from a jurisdiction designated as "high risk" for money laundering activities
- The commodity is transshipped through one or more jurisdictions for no apparent economic reason
- The method of payment appears inconsistent with the risk characteristics of the transaction
- The transaction involves the receipt of cash (or other payments) from third party entities that have no apparent connection with the transaction
- The transaction involves the use of repeatedly amended or frequently extended letters of credit
- The transaction involves the use of front (or shell) companies
- Unusual deposits of cash or negotiable instruments in round denominations

• Inward remittances in multiple accounts and payments made from multiple accounts for trade transaction of same business entity. Such use of multiple accounts for foreign exchange flows may indicate the possibility of TBML • In the case of merchanting trade, the trade finance mechanism is not in place for both legs of the trade. For example, if a letter of credit is provided for only the import leg of the transaction and not for the export leg, this indicates a possibility of TBML • Presence of free trade zones, or special economic zones • Circuitous route of shipment, financial transaction, or order for the goods is placed by entities in countries other than the jurisdiction of the stated end user • Transaction involves shipment of goods inconsistent with normal geographic trade patterns • Numerous companies set up by seemingly unrelated people (proxies) are found to be controlled by the same group of people • Trade transaction is a related party transaction
Source: Based on FATF and APG Publications

10.3: Challenges and Fraudulent Activities of Trade Services in Bangladesh- Cases

As a whole, data indicate very low NPL in trade financing in global and Bangladesh context. However, sometimes these data could mislead. The classified data are commonly shown as the term loans. In several instances banks had to create forced LIM and LTR due to the non-compliance of the importers. By issuing back-to-back LC, banks finance exporters. Non-compliance on the part of exporters resulted in NPL in some cases.

Regulatory requirements are designed to mitigate the risk of financial crimes have resulted in unintended consequences in all economies. Anti-Money Laundering/Know Your Client (AML/KYC) due diligence requirements were significant impediments to their provision of lines of credit, as observed in case of almost all developing countries. As in other countries, over the years, the regulatory and compliance requirements impacted banks in the country. Moreover, in several instances banks do feel regulatory pressure due to the compliance on the part of the traders.

In a number of instances, major global banks are heavily fined by the US regulators in recent past. Consequently, global banks have started to revisit its correspondent banking relationships and invest enormously on compliance. Afterword, Global banks took a decision to cut down relationship in terms of cost and revenue strategy. The ultimate impact is cut down correspondent relationships with banks with low capital base. There are also instances when one global bank withdrawn its correspondent relationship from entire country. Such massive decision has huge impact on trade fiancé and its automatically closed down the confirmation and discounting line. In response to the scenario given, correspondent banking has now made a paradigm shift. Correspondent banking is now become a regional banks product instead of global bank’s portfolio. There are now more regional banks in Bangladesh market who are actively engaged in trade finance business of the country. In addition to that, recently, few third parties are also plays very important role through intermediate between banks and earning fees and commission. Some local banks are already facing the difficulties.

Practices unveiled several instances of malpractices in the practices of obtaining credit reports on foreign counterparts. There were occasions when transactions started (LC opened/EXP certified) before obtaining the report. There are instances of obtaining credit report by the exporters or importers; and in several cases transactions were executed with a report having simple comment regarding satisfactory accounts holders from the correspondent banks. Moreover, transactions were executed by banks based on credit report with adverse credit report such as poor rating, inconsistent line of business, old financials etc.; and in a few cases transactions were done with the remark ‘unable to locate’. Sometimes banks are engaged in poor drafting of LC to comply with the requirement. These are clear instances of malpractices in complying with the requirements.

Environmental and social criteria are receiving growing importance in all types of financing activities of banks including trade financing. In the context of Bangladesh, environmental and other compliance issues imposed on the exporters (mainly of developing countries) by the importers are also affecting trade and thus trade financing activities. Especially, following Rana Plaza incident, compliance issues became a core concern for the garments traders and financing banks.

Following cases depict the nature of trade services frauds in the context of Bangladesh.

Mini Case -10.1: Challenge of Non-Performance against Back to Back LC under contract

A bank opened a deferred back to back LC under contract to import raw materials for one of his existing exporter. Bank received the documents of the back to back LC and gave acceptance to the supplier. After that the bank released the documents to the exporter. Consequently exporter released the goods from the customs. But exporter did not make the shipment against the contract. When the maturity of the back to back was due, bank made the payment from its own account by creating a forced loan at the exporter's name. In the meantime bank officials tried to communicate the exporter but the client was unavailable. Ultimately forced loan became classified.

Source: Habib et.al (BIBM Review)

Min Case-10.2: Exporter became NPL due to this overtrading and nonprofessional treatment on the part of Bank

Capacity of an Exporter was USD150000 per Months considering 80 percent production capacity of the Machinery. Since performance of the client was satisfactory Branch accepted Master L/C for $20,00,000/-. Shipment validity of the Export order was for 6 months. Bank –A opened Back to Back L/C for USD 15,60,000/- at time at 120 days usance basis. Upon maturity of the Back to back Bills, Bank-A found that no F.C remains in the Exporter's "F.C Held against Back to Back L/C. On scrutiny it revealed that the client mistakenly approached for full quantity of raw materials at time. Now they are behind the schedule, while validity for shipment still 2 (two) months left. Exporter requested the Beneficiary of BB L/C to allow maturity date extension, they agreed upon, But while Issuing Bank communicated to the Nominated Bank for extension of the maturity date, they rejected the same. As a result, Branch had to create SOD / Baim BB Bills liability for making payment of BB L/C for USD 15,60,000/-. Here allowing -Back to Back L/C for USD 15,60,000/- at time was a mistake for the Bank-A. On the other hand Exporters production capacity for 6 (six) months was USD 9,00,000/- but branch accepted their export order for USD 20,00,000/- as a result, to maintain shipment schedule they shifted a good amount of Order to other factories on Su-Contract basis for producing Garments. Due to taking over order Exporter had to make Air –Shipment which incurred huge amount of Air Freight. Again due to inferior quality of Sub-Contract work, a good number of Garments were rejected by the pre-shipment inspection team. After few months later total liability of the Exporter became NPL due to this overtrading and non-professional treatment on the part of Bank-A.

Source: Habib et.al (BIBM Review)

Mini Case-10.3: Under Cash in Advance, banks face Compliance Challenge

One garment trader received cash in advance through Bank A. Due to the non-shipment by our exporter, foreign buyer made written complains to the Bangladesh Bank. In response to that, BB asked the local bank to return the advance payment or to make the exporter to export. Then Bank A replied to central bank in written that export performance against advance payment is not the bank's responsibility.

Source: Habib et.al (BIBM Review)

Mini Case -10.4: Termination of Nostro Accounts of Local Banks in Bangladesh

Some multi-national banks have undergone severe regulatory pressure in recent years. Banks are to comply with their own banks' internal operational procedures as well as their countries' domestic regulations. To comply with those regulations, it has been observed that some banks are terminating correspondent banking relationships with some local banks. This brings a challenge to local banks in creating credit lines with different foreign banks to satisfy customers' needs of local banks.

Source: BIBM Review, 2018

Mini Case--10.5: Compliance Issues in Garments following Rana Plaza

After the incident of Rana Plaza, international buyers of Bangladeshi garments formed the two bodies, Accord and Alliance that entered into a contract with garment manufacturers to improve working conditions and safety standards. The Bangladesh Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety has carried out inspections of the factories which their member companies source from. They began work in 2013 for a contract term of five years. Under this inspection, they divided the garments factory under three groups; one who already have the compliance, second who are under remedial plan and three who are excluded from the compliance list. Garments industry holds the major share of the trade finance in Bangladesh. Many Garments clients may not be availed the trade finance facility provided by banks as they have lost the access to international buyer market due to this compliance issues.

Source: Habib et.al (BIBM Review)

Mini case--10.6 : Huge fraudulence by a non-existent British company due to Negligence in Meeting Regulatory Requirements
Two local garment buying houses placed export orders to different Bangladeshi garment exporters with a special requirement to use the raw materials from selected suppliers in China. After getting the export orders, the exporters approached to different banks in Bangladesh to open back to back LC for importing raw materials from China. Bankers asked for credit report. Some credit report of the foreign buyer showed 'Unable to Locate' and some shown high risk to failure in payment. With such report some banks were unwilling to open back to back LC. But some banks opened LCs on the credibility of the local exporters. After final shipment to UK, no payment was received even after fifty days of sending documents. A total of 26 export companies' manufacturing goods worth around BDT 600 core had fallen victim to fraudulence for a non-existent British company.
Source: Habib et.al (BIBM Review)

Mini Case--10.7: Bank Forced to Open LC before Obtaining credit Report (as claimed) and was Affected
An importer requested a bank to open LC for importing chemical worth USD 200,000.00 from India. The bank approached to D & B for credit report. In the mean-time the bank had to open LC without credit report for the undue influence from the importer. After getting the report from D&B, it was found UTL which means unable to locate the foreign supplier. The issue was raised to importer. The Bank, at request of the client, issued an amendment of the LC to change the address of the foreign supplier and again requested for credit report. During this communication, the bank received original documents at issuing bank's counter and had to effect payment as the documents were in order. And in assessment of customs it was found there was water instead of chemical. However, after few days, when the bank received the credit report, the foreign supplier was rated as "POOR". Despite this rating, AD issued LC, effected payment, charged the applicants two times for the credit report. But a fraud transaction could be addressed if proper action was taken regarding credit report.
Source: Habib et.al (BIBM Review)

Mini Case-10.8: Malpractices by an Importer with the Support of the Warehouse Authority

Bank ABC opened a LC of USD 4 million for a wheat importer. The documents arrived to the Bank ABC but the importer could not release the document due to fund unavailability. So the banker kept the goods in a warehouse located in Chittagong under the LIM arrangement. The authority of the warehouse issued receipt copy to the banks and put the goods at the name of the respective bank. After some time, banks found overdue in the LIM account. Then the banker visited the warehouse and found no goods there. After investigation bankers came to know that the importer made an informal arrangement with the warehouse authority and sold the goods without the consent of the bank.

Source: Habib et.al (BIBM Review)

Mini Case-10.9: Fraudulent Practice by an Importer in international Trade

At the request of Importer X, Bank of Bangladesh open L/C for USD 1,70,000 to import Ginger from China. Nominated Bank received documents from the Beneficiary for USD 1,70,000 on 10.11.2014 and sent Documents to the Issuing Bank in Bangladesh on 12.11.2014 through DHL. The client is well known to the Bank and frequently comes to the Bank Manager's room and passes time. Being informed that DHL is about to deliver the documents to the Issuing Bank from Gulshan DHL office, the client sent a FAX Msg to DHL office in the name of the Bank Manager authorizing Mr. –Y to receive documents from DHL office at Gulshan. Later the client affixed fake signature and seal of the Bank officials and sent documents to his C&F agent for releasing the goods from Chittagong Port. Customs authority sent documents to the Bank's Agrabad Branch, Ctg. for authentication of the signatures of the B/L endorsement. Agrabad Branch authenticated the signature as the same found similar with the Specimen Signature Booklet. Accordingly, the client received the goods.

Few days later Issuing Bank received Swift Msg from the Nominated Bank for making payment against their complying presentation. Upon receipt of 3rd reminder from Bank in China, issuing bank sent Massage stating that they did not receive the documents yet. Getting detail from the Nominated Bank, Issuing Bank searched to the DHL and found that documents already delivered as per Bank's authorization. Issuing Bank initially tried to ignore the claim as they did not receive the documents. At this moment Beneficiary came to Bangladesh for pressing Issuing Bank to make payment. When Issuing Bank felt that they have to make payment, they took legal action against the Importer and managed to arrest him from Dhaka Air Port while he was fleeing from the country. After long persuasion and legal battle, the client paid the Bill amount. Nominated bank finally received the payment.

Source: Habib et.al (BIBM Review)

Mini Case--10.10: Some new banks are facing challenges of foreign correspondent banking relationship.

Over the last few years, nine private commercial banks got license to do banking activities. To expand their business, banks are trying to provide all sort of services to their customers including trade services. But some banks cannot issue letters of credit on behalf their local importers by their own banks because those banks don't have foreign correspondent banking relationship. Ultimately banks are to approach other local banks that have correspondent banking relationship with foreign banks abroad. Consequently, some new banks are losing their competitiveness with local banks while providing trade finance.

Source: Habib et.al (BIBM Review)

Chapter Ten: Indicative Questions

- What are the major challenges of Trade services in the globe?
- Elaborate key trade related frauds in the context of Bangladesh.
- Discuss TBML in the context of Bangladesh.
- Write a note on Compliance challenges in trade services in Bangladesh.

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Appendices

Appendices

Appendix Table-1: A Summary of UCP 600	
Application of UCP	- The bank must expressly indicates that documentary credits issued subject to UCP 600 in order to binding the transaction under UCP 600. However, text of the documentary credits may expressly modify or exclude UCP provisions.
Definitions and Interpretations of different Terms	- A summary of definitions of key terms (e.g. applicant, beneficiary, credit, issuing bank, confirming bank, nominated bank, honor and negotiation). - Any documentary credits issued subject to UCP 600, are irrevocable by default. - Any signature requires in documents may be handwriting, stamp, perforated, facsimile, symbol or any other mechanical or electronic method of authentication. - Branches of a bank in different country will be considered as separate bank. - The term used in the credit to describe the issuer of document such as but not limited to first class, local, qualified, any issuer except the beneficiary will qualify as the issuer of that document.
Credit vs Contract	- The credit is independent or autonomo~~o~~us from the sales or other contract on which it may be based. Therefore, Purchase sale agreement, reimbursement contract and LC are interconnected but autonomous from each other. – Banks deal with documents not goods ,service or performance to which the documents may be related.
Credit Availability, Liabilities and Responsibilities of Different Parties	- Every documentary credit must state the bank with which it is available. The credit may be available with nominated bank (s) or issuing bank. A credit available with nominated bank (s) is also available with the issuing bank. - Any credit issued subject to UCP 600 must state how the credit is available by i.e. payment, negotiation, deferred payment or acceptance. - Issuing bank is irrevocably bound to honour as of the time it issues the credit. - Issuing bank has obligation to reimburse the nominated bank independent from its obligation to the beneficiary. - The obligation of the confirming bank is similar to the issuing bank and run after adding confirmation to the credit and/or any

	subsequent amendments. However, liabilities of issuing bank and confirming bank are independent of each other. -
Advising the credit and amendment	▪ By advising the credit, the advising bank signifies that the advised credit is apparently authentic and it reflects the accurate terms & condition of the credit. ▪ A credit and any amendment may be advised to a beneficiary through an advising bank. The advising bank may select Second advising bank to advise the credit to the beneficiary.
Amendment, Nomination, and Reimbursement	▪ A credit can neither be amended nor cancelled without the agreement of the issuing bank, the confirming bank, if any, and the beneficiary. ▪ The beneficiary should give notification of acceptance or rejection of an amendment. If the beneficiary fails to give such notification, a presentation that complies with the credit and to any not yet accepted amendment will be deemed to be notification of acceptance. ▪ By nominating a bank to accept a draft or incur a deferred payment undertaking, the issuing bank expressly authorizes that nominated bank to prepay or purchase the draft accepted or deferred payment undertaking incurred by that nominated bank. ▪ If a credit states that reimbursement is to be obtained by a nominated bank claiming on another party without express reference to URR-725, article 13 of UCP 600 will apply for this reimbursement arrangement. However, if a credit is issued for the same subject to UCP and URR latest version, the stated reimbursement arrangement is subject to URR 725 and UCP article 13.
Standard for Examination, complying presentation and notice of refusal and Treatment of Documents	▪ Banks must examine a presentation on the basis of the documents alone and appear on their face principle ▪ Bank shall each have a maximum of five banking days following the day of presentation. ▪ Presentation not later than 21 calendar days after the date of shipment, but in any event not later than the expiry date of the credit. ▪ If a credit requires presentation of a document other than a transport document, insurance document or commercial invoice, without stipulating by whom the document is to be issued or its data content, banks will accept the document as presented if its content appears to fulfill the function of the required document and otherwise complies with sub-article 14

	(d).A document presented but not required by the credit will be disregarded. ▪ If a credit contains a condition without stipulating the document banks will deem such condition as not stated and will disregard it. ▪ A document may be dated prior to the issuance date of the credit. ▪ When the issuing bank decides that presentation is complying, it must honour. ▪ When a presentation does not comply, it may refuse to honour or negotiate. ▪ When an issuing bank determines that a presentation does not comply, it may in its sole judgment approach the applicant. ▪ When a bank decides to refuse, it must give a single notice to the presenter. ▪ Notice of refusal must contain refusal statement, reasons for refusal and status of the documents.
Documents	▪ Commercial Invoice: ▪ A commercial invoice must appear to have been issued by the beneficiary ,be made out in the name of the applicant, and be made out in the same currency as the credit ▪ A commercial invoice need not be signed or dated ▪ Commercial invoice must contain description of goods, services or performance and must correspond with that in the credit. ▪ Transport documents: ▪ All transport documents under article 19-24, must identify the name of the carrier except Charter Party Bill of lading (CPBL). ▪ The other common requirements for transport documents in article 19-24 are: o Signing the transport document, o Determination of shipment date o Shipment routing o No. of original issuance o Terms & Conditions of contract of carriage (except CPBL) o Transshipment (Except CPBL and Road–, rail and Inland waterway transport) etc. ▪ Insurance Document: ▪ Insurance documents mean Insurance policy, insurance

	certificate or declaration under a open cover is considered. ▪ Insurance document must appear to be issued and signed by an insurance company, an underwriter or their agents or proxy. ▪ When the insurance document sign by the agent or proxy, they must mentioned on whose beheld they are signing on insurance document. ▪ Insurance cover note is not allowed. ▪ Insurance policy is acceptable in lieu of an insurance certificate or declaration under an open cover but not vice versa. ▪ Insurance document must evidence that insurance cover is effective no later than the date of shipment as evidenced on the transport document. ▪ Requirement in a credit for "insurance covering 110% of the invoice value means the minimum amount of insurance required. ▪ Insurance documents may contain reference to any exclusion clause.
Tolerance and Disclaimers	▪ Tolerance: ▪ The words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit are to be construed as allowing a tolerance not to exceed 10% more or 10% less than the amount, the quantity or the unit price to which they refer. ▪ Disclaimers: ▪ Banks are not liable or responsible neither for genuineness of any documents nor the accuracy and representation of any documents. ▪ Banks are not obligated to translate and may transmit credit terms without translating them.
Transferrable LC and Assignments of Proceeds	▪ Transfer: ▪ No bank is obligated to effect transfer. ▪ All charges relating to transfer are for first beneficiary unless otherwise stated in the transferable credit.. ▪ If L/C allows partial drawings or shipments, it can be transferred in part to more than one second beneficiary. ▪ Transferred L/C cannot be transferred to any subsequent beneficiary. ▪ Rejection of an amendment by one or more second beneficiary does not invalidate the acceptance by any other second beneficiary. ▪ The transferred credit must accurately reflect the terms and conditions of the credit, including confirmation, if any, with

	the exception of the amount of the credit, any unit price stated therein, the expiry date, the period for presentation, or the latest shipment date or given period for shipment, any or all of which may be reduced or curtailed. ▪ The percentage for which insurance cover must be affected may be increased to provide the amount of cover stipulated in the credit or these articles ▪ Assignment: ▪ The fact that a credit is not stated to be transferable shall not affect the right of the beneficiary to assign any proceeds

Appendix Table-2: A Summary of ISBP

General principles	- abbreviations or elaboration, used in general, can be used vice versa between the credit and the documents. - Certificates, Certifications, Declarations and Statements must be signed.. - For documents issued by anyone except only the beneficiary, correction and alteration require authentication. - Courier receipt, post receipt etc. - in respect to the sending the documents are not transport document. - The expressions, shipping documents, stale document acceptable, exporting country, shipping company, third party document acceptable, third party document not acceptable and documents acceptable as presented are discouraged to use in LC. But if used , the meaning should be mentioned in the LC otherwise those terms meaning will be as per ISBP 2013. - The language of the documents must be mentioned in the LC. If not stated in LC, documents can be in any language.
Drafts and calculation of maturity dates	- Draft must be issued by beneficiary. - Amounts must not be overdrawn of the LC amount. - Beneficiary must authenticate any correction and alterations in draft. If no alternation or correction is acceptable, LC must state it. - Under LC drafts must not be drawn on the applicant. However, as a documentary requirement the LC may ask for draft drawn on the applicant (although such requirement is discouraged)
Invoice	- When credit requires "invoice" to be presented, the tile of the invoice may be same tile or similar title or may be untitle. But titled cannot be -provisional invoice and pro-forma invoice - Beneficiary must issue the invoice

	- Description of the goods, services etc. in invoice must correspondent with the same in the credit but need not to be mirror image or identical.
Transport Documents	- Carrier name must be identified in all transport document except charter party BL. r - The title of transport documents follows the however named principle except CPBL. Routing of the shipment as stated in the credit (Field 44 in SWIFT 700) will determine the respective transport article as basis for examination.
Insurance Documents	- Insurance company, underwriter, agents of both and proxies of both can issue insurance document. - The name of Insurance company or Underwriter must be reflected in the document. - Date of issuance is must. Date of issuance is to be treated as insurance cover commencement date and it must be on or before the shipment date. If The issuance date is later than the shipment date, the irrespective insurance documents must have an indication of cover effective date and this cover effective date must be on or before the shipment date. - The document must cover the risks stated in the LC. - There must not be any expiry date related to insurance claim in the insurance documents. - If irrespective percentage is stated in the credit, franchise or excess cannot be reflected in the insurance documents.
Analysis, Inspection, Health, Phytosanitary, Quantity and Quality certificates	- The documents must fulfill its function in absence of data content requirement for those certificates stipulated in the credit. - Those documents may be dated after the date of shipment.

Appendix Table-3: A summary of URR 725	
Application, Interpretation and Terms	- URR725 shall apply to any bank-to-bank reimbursement when the text of the reimbursement authorization expressly indicates that it is subject to these rules. - A reimbursement authorization is separate from the credit to which it refers. Except as provided by the terms of its reimbursement undertaking, a reimbursing bank is not obligated to honour a reimbursement claim.

	- Issuing bank is responsible for providing the information required in these rules in both the reimbursement authorization and the credit
Issuance, Receipt and Expiry of Reimbursement Authorization	- Except to the extent expressly agreed to by the reimbursing bank, the reimbursement authorization should not be subject to an expiry date or latest date for presentation of a claim, except reimbursement undertaking. - Reimbursement Authorization is revocable. However, when the issuing bank issues reimbursement authorization for issuance of reimbursement undertaking by the reimbursing bank, the requested reimbursement authorization is irrevocable. - The issuing bank may issue a reimbursement amendment or cancel a reimbursement authorization at any time upon sending notice to that effect to the reimbursing bank.
Standards of Reimbursement Claim	- A reimbursement undertaking by reimbursing bank to claiming bank is irrevocable - The claiming bank's claim for reimbursement must separately stipulate the principal amount claimed any additional amount due - A reimbursing bank shall have a maximum of three banking days following the day of receipt of the reimbursement claim to process the claim.
Documents and disclaimer	- An issuing bank must not, upon receipt of documents, give a new reimbursement authorization or additional instructions unless they constitute an amendment to, or a cancellation of, an existing reimbursement authorization. - A reimbursing bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism or by any strikes or lockouts or any other causes beyond its control. - A reimbursing bank's charges are for the account of the issuing bank. - Any claim for loss of interest, loss of value due to any exchange rate fluctuations, valuations or devaluations are between the claiming bank and the issuing bank, unless such losses result from the non-performance of the reimbursing bank under a reimbursement undertaking.

Appendix Table -4: A Summary of URC 522	
Application, Definitions, and Parties	- URC 522 shall be applicable to all collections where these rules are incorporated into the text of the "collection instruction". - Documents mean financial documents and/or commercial documents and documentary collection means collection of financial documents accompanied by commercial documents or commercial documents not accompanied by financial documents. - Various parties involved in the collection process are principal, remitting bank, collecting bank and presenting bank.
Presentation of documents and Collection Instruction	- A collection instruction should contain details of parties and documents sent for collection. - Presentation of documents should be made available to the drawee only as per instruction of the instructed party. - If a bank or drawee is instructed to create documents then remitting bank should provide the form of document. – Documentary collections are two types i.e. Delivery documents against payment (D/P) and Deliver documents against acceptance (D/A). - Banks should handle documents in good faith and without negligence. - transport documents used in the documentary collection must not consign to or to the order of a bank without prior agreement on the part of that bank
Disclaimer and Force Majeure	- Banks assume neither any liability or responsibility for the form, sufficiency, accuracy, genuineness falsification, delay, loss in transit, translation or legal effect of any document(s) or for the general and/or particular conditions stipulated in the document(s) .
Payment Without Delay	- Banks must immediately remit the amounts collected (less charges and /or disbursements and/or expenses where applicable) without delay to the party from whom the collection instruction was received in accordance with the terms and conditions of the collection instruction.
Interest, charges and expenses	- If the collection instruction specifies that interest or charges or expenses is to be collected from the drawee, the presenting bank may deliver the document(s) against payment or acceptance or on other terms and conditions, even if the drawee refuses to pay the interest; unless the collection instruction expressly states that interest or charges or expenses may not be waived.

	- Collection instruction must specify the rate of interest, interest period and basis of calculation.
Protest and Case of Need	- Collection instruction should give specific instructions regarding protest or case of need (or other legal process in lieu thereof) in the event of non-payment or non-acceptance by drawee. - And finally, article 26 points out the remitting bank shall be responsible to instruct the collecting bank regarding the method by which the advices of payment or acceptance or non-payment/non-acceptance are to be given

Appendix Table-5: A Summary of ISP 98	
Scope, application, definitions, and interpretation	- The issuer must expressly state in its standby that it is subject to ISP 98 in order to bind the standby under ISP 98 rules. - In case of any standby issued subject to both ISP 98 and UCP 600, the rule of ISP 98 will prevail over the provision of UCP 600 in case of variant interpretation on the issue between these two rules of practice. - Any Standby subject to ISP 98 is automatically irrevocable, independent, documentary, and binding undertaking. - An issuer's obligations toward the beneficiary are not affected by the issuer's rights and obligations toward the applicant under any applicable agreement, practice, or law. - An issuer is not responsible for: Performance or breach of any underlying trans-action; Accuracy, genuineness, or effect of any document presented under the standby; Action of others even if the other person is chosen by the issuer or nominated person; or Observance of law or practice other than that chosen in the standby or applicable at the place of issuance.
Undertaking to honour by issuer and any confirmer to beneficiary	- An issuer undertakes to the beneficiary to honour a presentation that appears on its face to comply with the terms and conditions of the standby in accordance with these Rules supplemented by standard standby practice. - A standby may nominate a person to advise, receive a presentation, effect a transfer, confirm, pay, negotiate, incur a deferred payment obligation, or accept a draft–; Nomination does not obligate the nominated person -

Presentation	- A presentation is timely if made at any time after issuance and before expiry on the expiration date. - A presentation must identify the standby under which the presentation is made. - If the last day for presentation stated in a standby is not a business day of the issuer or nominated person where presentation is to be made, then presentation made there on the first following business day shall be deemed timely. - A standby should indicate the time, place and location within that place, person to whom, and medium in which presentation should be made. If so, presentation must be so made in order to comply.
Examination	- Demands for honour of a standby must comply with the terms and conditions of the standby - Whether a presentation appears to comply is determined by examining the presentation on its face against the terms and conditions stated in the standby as interpreted and supplemented by these Rules which are to be read in the context of standard standby practice. - Documents presented which are not required by the standby need not be examined - The language of all documents issued by the beneficiary is to be that of the standby. - Any required document must be issued by the beneficiary unless the standby indicates that the document is to be issued by a third person or documents is of type that standard standby practice requires to be issued by a third person.. - A standby term or condition which is non-documentary must be disregarded.
Notice, Preclusion and disposition of Documents	- Notice of dishonour must be given within a time after presentation of documents which is not unreasonable. - Notice given within three business days is deemed to be not unreasonable and beyond seven business days is deemed to be un-reasonable. - Dishonoured documents must be returned, held, or disposed of as reasonably instructed by the presenter. - Failure to give notice of the disposition of documents in the notice of dishonour does not preclude the issuer from asserting any defense otherwise available to it against honour.
Transfer, Assignment and Transfer by	- Where a beneficiary requests that an issuer or nominated person honour a drawing from another person as if that person were the beneficiary, these Rules on transfer of drawing rights

Operation of law	("transfer") apply. Transfer should be in their entirety to the transferee beneficiary. - No substitution of documents required.
Cancelation	- A beneficiary's rights under a standby may not be cancelled without its consent. Consent may be evidenced in writing or by an action such as return of the original standby in a manner which implies that the beneficiary consents to cancellation. A beneficiary's consent to cancellation is irrevocable when communicated to the issuer.
Reimbursement Obligation	- Any instruction or authorization to obtain reimbursement from another bank is subject to the International Chamber of Commerce standard rules for bank-to-bank reimbursements.
Timing	- A standby must: contain an expiry date; or permit the issuer to terminate the standby upon reasonable prior notice or payment.
Syndication	- Retention of the original standby does not preserve any rights under the standby after the right to demand payment ceases. - If a standby with more than one issuer does not state to whom presentation may be made, presentation may be made to any issuer with binding effect on all issuers.

Appendix Table-6: A Summary of URDG 758	
Application of URDG	If the demand guarantee or counter guarantee is to be subject to the URDG 758, this must be explicitly stated in the text of the demand guarantee or counter guarantee. It also gives the authority to exclude and modify any article. • If a specific article is to be excluded, it must be so noted in the text of the guarantee. Demand guarantee or counter guarantee issued on or after July 01, 2010 subject to the URDG means subject to URDG 758
Definitions, Interpretations, documents and non-documentary condition	• A summary of definitions of key terms (e.g. "Advising party, applicant, instructing party, guarantor, counter guarantor etc. interpretations and clauses is contained in articles 2 and 3. This increases understanding of the new URDG considerably. • , demand guarantee and counter guarantee are interconnected but independent from each other. • Guarantors deal with documents and not with goods, services or performance to which the documents may relate. • Non documentary conditions are disregarded
Advising of Guarantee, and Amendments	• A guarantee may be advised to a beneficiary through an advising party • A guarantee is bound on issuing party after it has

	issued.
Presentation and Language	• Presentation should be made to the guarantor at the place of issue or place mentioned in guarantee. • Unless otherwise specified language of the documents issued by or on behalf of the applicant or the beneficiary, shall be in the language of the guarantee
Examination of Documents and handling of discrepant documents	• The guarantor –must examine a presentation on the basis of the documents alone • The guarantor –shall each have a maximum of five business days following the day of presentation • the guarantor will accept the document as presented if its content appears to fulfill the function of the document required by the guarantee • When a presentation does not comply, issuer may reject the demand through serving a . single notice to the presenter • Contents of Discrepancy Notice must contain statement that the guarantor reject the demand along with reasons for rejection
Disclaimer for banks	The guarantor is not liable or responsible for any fraudulent demand documents or the accuracy and representation of any documents • The guarantor is not obligated to translate and may transmit guarantee terms without translating them.
Extend or Pay, Transfer and assignment of proceed	• The guarantor may (note: but is not obliged to) suspend payment for maximum of 30 calendar days after receipt of the complying demand, if the demand also requests for extension. • Unless otherwise agreed at the time of transfer, the transferor shall pay all charges incurred for the transfer. • Partial transfers are prohibited and transferable guarantee may be transferred more than once • Beneficiary has the authority to assign the proceeds.
Governing law and Jurisdiction	• Unless otherwise provided in the guarantee, its governing law shall be that of the location of the guarantor's branch or office that issued the guarantee. • Unless otherwise provided in the guarantee, any dispute between the guarantor and the beneficiary relating to the guarantee shall be settled exclusively by the competent court of the country of the location of the guarantor's branch or office that issued the guarantee.

Appendix Table-7: Delivery and Risk under Various Incoterms Rules 2020

Delivery and risk under EXW: Ex Works means seller delivers the goods to the buyer when it places the goods at the disposal of the buyer at a named place (like a factory or warehouse) and that named place may or may not be seller's premises and provide sufficient notice to this effect.

Delivery and risk under FCA: Free Carrier means seller delivers the goods to the buyer in one or other of the two ways. First when the named place is seller's premises, the goods are delivered. When they are loaded on the means of transport arranged by the buyer. Second when the named place is another place, the goods are delivered when, having been loaded on the seller's means of transport , they reach the named other place and are ready for unloading from the seller's means of transport and at the disposal of the carrier or of another person

Delivery and risk under CPT: Carriage Paid To means seller delivers the goods and transfers the risk to the buyer by handing them over to the carrier contracted by the seller or by procuring the goods so delivered the seller may do so by giving the carrier physical possession of the goods in the manner and at the place appropriate to the means of transport used.

Delivery and risk under CIP: Carriage and Insurance Paid To means seller delivers the goods and transfers the risk to the buyer by handing them over to the carrier contracted by the seller or by procuring the goods so delivered the seller may do so by giving the carrier physical possession of the goods in the manner and at the place appropriate to the means of transport used. The seller must contract for insurance from the point of delivery to point of destination. The seller is required extensive insurance cover complying with Institute Cargo Clause (A) (LMA/IUA). The insurance will cover, at minimum, 110% of the contract price in the currency of the contract

Delivery and risk under DAP: Delivered At Place means seller delivers the goods and transfers the risk to the buyer when the goods are placed at the disposal of the buyer on arriving means of transport ready for unloading at the named place of destination or at the agreed point within that place, if any such point is agreed.

Delivery and risk under DPU: Delivered At Place Unloaded means seller delivers the goods and transfers the risk to the buyer when the goods, once loaded from the arriving means of transport, are placed at the disposal of the buyer at the named place of destination or at the agreed point within that place, if any such point is agreed.

Delivery and risk under DDP: Delivered Duty Paid means seller delivers the goods and transfers the risk to the buyer when the goods are placed at the disposal of the buyer clear for import on the arriving means of transport ready for unloading at the named place of destination or at the agreed point within that place, if any such point is agreed.

Delivery and risk under FAS: Free Alongside Ship means seller delivers the goods to the buyer when the goods are placed alongside the ship (i.e quay or a barge) nominated by the buyer at the named port of shipment or when seller procures the goods already so delivered

Delivery and risk under FOB: Free On Board means seller delivers the goods to the buyer on board the vessel– nominated by the buyer –at the named port of shipment or procures the goods already so delivered

Delivery and risk under CFR: Cost and Freight means seller delivers the goods to the buyer on board the vessel or procures the goods already so delivered

Delivery and risk under CIF: Cost, Insurance and Freight means seller delivers the goods to the buyer on board the vessel or procures the goods already so delivered The seller must contract for insurance from the port of shipment to port of destination, at least the seller is required limited insurance cover complying with Institute Cargo Clause (C)(LMA/IUA). The insurance will cover, at minimum, 110% of the contract price in the currency of the contract

Source: ICC Incoterms 2020

Appendix Table--8: Glossary of Technical Terms used in the Manual

- **Acceptance**. A time draft that the drawee (the payer) has accepted and acknowledged in writing the unconditional obligation to pay it at maturity.
- **Advising Bank**. A bank, which receives a letter of credit, issued by the applicant's bank and forwards it to the beneficiary after verification of authenticity.
- **Air Waybill**. A transport document/bill of lading, which serves as a receipt for goods and contract to transport the goods by air.
- **Applicant**. The buyer/importer/account party who applies to its bank to issue a letter of credit in favor of the beneficiary/seller/exporter.
- **Assignment of Proceeds -** Legal mechanism by which the beneficiary of a letter of credit may pledge the proceeds of future drawings to a third party.
- **At Sight**. The tenor of a draft or availability term of a credit indicating that payment is due upon presentation or demand.
- **Back-to-Back Documentary Credit**. A documentary credit issued on the basis of

another documentary credit that will constitute security for the back to back credit.

- **Bank guarantee**: Undertaking given by a bank on behalf of a customer to pay the guaranteed party a sum of money if the customer cannot or will not pay/perform.
- **Beneficiary**. The person or company in whose favor a letter of credit is issued. Usually the beneficiary is the seller/exporter.
- **Bill of Exchange** (See Draft.)
- **Bill of Entry**. A declaration by an importer or exporter of the exact nature, precise quantity and value of goods that have landed or are being shipped out.
- **Bill of Lading**. A transport document, which serves as a receipt for goods and contract to transport using ocean mode.
- **Bonded Warehouse** - a warehouse authorized for storage of good on which payment of duty is deferred until the goods are removed from the warehouse.
- **Certificate of Analysis**. A certificate issued regarding the quality and composition of food products or pharmaceuticals.
- **Certificate of Inspection**. A document certifying that merchandise was in good condition immediately prior to its shipment.
- **Certificate of Origin**. A document, often issued by a Chamber of Commerce, certifying the origin of the goods being shipped. It is used to satisfy import regulations and to determine customs duties.
- **Certified Invoice**-An importer may require a certified invoice, which is an invoice bearing a signed statement by someone in the importer's country who have inspected the goods and found them in accordance with those specified in the contract.
- **Charter-party** An agreement wherein the ship owner hires his vessel to the charterer subject to certain conditions.
- **CIGS.** It is a Contracts for the International Sale of Goods.(UN convention on contracts for the international sale of goods)
- **Clean Bill of Lading**. A receipt for goods issued by a carrier with no indication that the goods or the packaging were in damaged condition when received.
- **Clean Transport Document**. A transport document that bears no clause or notation that indicates that goods were received in apparent good order and were not damaged or had other irregularities.
- **Collecting Bank.** Banks involved in the collection of a draft and/or documents.
- **Commercial Invoice**. A document issued by a seller listing goods being sold to a named buyer including the price and shipping terms.
- **Confirmation of a documentary** Credit. Adding an additional undertaking in the LC other than that of the issuing bank.
- **Consignee**. The person or firm named in a freight contract to whom merchandise is to be delivered.

- **Consular Invoice**. A commercial invoice that has been reviewed by the Consulate of the buyer's country to ensure that no indigenous laws or regulations are being broken.
- **Contract of Carriage.** This is an agreement between the shipper and the carrier.
- **Country Risk**. The risks inherent in doing business in a foreign country over and above commercial risks, which are generally beyond the local company's ability to control.
- **Deferred Payment -** Payment a set time after shipment or presentation of shipping documents, as opposed to immediately or 'at sight'.
- **Demand Guarantee**. A guarantee usually issued by a bank, under which the beneficiary is only required to make a demand in order to receive payment.
- **Discrepancy.** Error or defect, according to the bank, in the presented document compared with the documentary credit, UCP 600 and ISBP.
- **Dock Receipt**. A receipt for goods issued by an ocean carrier or their agent at their dock or warehouse; does not cover the loading on a vessel.
- **Documents Against Acceptance (DA) -** Instructions given by a shipper to his or her acceptance bank that the documents attached to a time draft for collection are deliverable to the drawee/payer against his or her acceptance of the draft.
- **Documents Against Payment (DP) -** Instructions given by a shipper to his or her bank that the documents are deliverable to the drawee/payer only against his or her payment of the draft
- **Draft**. An unconditional order in writing from drawer (exporter) to drawee (importer) directing the drawee to pay a specific amount of money to the payee on demand or at a fixed or determinable future date.
- **Drawback** A repayment of duty on the exportation of goods previously imported.
- **Drawee**. The person, company or bank upon which a draft is drawn.
- **Drawer**. The person, company or bank that creates the draft and is generally entitled to receive payment.
- **Duty**. A tax on imported goods imposed by the customs authorities in that country.
- **Entre-pot Trade**. It means export of any imported goods into a third country with minimum 5% value addition.
- **Exchange Rate**. The value or price of one currency when used in relation to its value in another currency.
- **Expiry Date -** Last date on which documents may be presented or corrected in order to comply with a letter of credit.
- **Export credit insurance.** Special insurance coverage of exporters to protect against commercial and political risks for making an international sale.
- **Feeder Ship** Vessel used in short sea trade to serve ports at which deep-sea container ships do not call.

- **Force Majeure**. Conditions such as floods, earthquakes, hurricanes or other events beyond the control of various parties involved in transporting goods.
- **Foreign Exchange.** The currency of a foreign country and/or the conversion from one currency to another.
- **Forwarder's Cargo Receipt -** Document issued by a freight forwarder or freight consolidator indicating goods have been received from the seller and are being held on behalf of the buyer.
- **Forwarding Agent.** The agent or firm arranging transport on behalf of the seller.
- **Free** (**Foreign**) **Trade Zone**. An enclosed and secured area usually designated by a port into which goods may be taken and customs duties may be deferred or waived until such time as the goods are removed for domestic distribution or re-exported.
- **Freight Forwarder**. A private company that arranges cargo space on a carrier as well as the logistics for delivering the goods to the carrier (e.g. ship, airplane etc.).
- **GATT**. "General Agreement on Tariffs and Trade." A multilateral treaty designed to reduce trade barriers and to provide a forum for resolution of trade disputes.
- **Groupage B/L.** Forwarding agents are permitted to group together or consolidate consignments from individual consignors and dispatch them as one consignment.
- **Hague Visby Rules.** Set of rules amending the Hauge rules, published in 1968, which have not been implemented by as many countries as the predecessor Hague Rules.
- **House bill of lading.** A bill of lading issued by freight forwarder.
- **Insurance certificate**: Document giving details of insurance cover for a consignment. The certificate will cross-reference a master insurance policy and must be countersigned.
- **Insurance cover note:-**Insurance document evidencing that insurance cover for a consignment has been taken out, but not giving full details.
- **Insurance policy:** Document setting out full details of insurance in force.
- **International Chamber of Commerce** (**ICC**). An organization founded to promote free trade, private enterprise, and to represent business interests at the national and international level.
- **Issuing Bank**. The bank that issues a letter of credit; also called the opening bank
- **Inspection certificate.** A certificate generally issued by a respected independent agency that generally verifies the quality, quantity or specifications of the good shipped is in conformity with the sales contract.
- **Latest shipment date.** Date on a letter of credit by which the goods must have been shipped.
- **Liner Party BL.** Liner B/Ls are issued by shipping companies in respect of goods carried on regular line vessels with scheduled runs, and reserved berths at destination.

- **Maturity date:** Date at which payment is due under a term bill of exchange.
- **Mate's Receipt:** When the goods are handed over to the agent of the shipping company for shipment by a specified vessel and the agent contracts to do so, it issues a receipt known as Mate's Receipt.
- **Marine Risk Insurance**. Insurance covering loss or damage while goods are at sea.
- **Marks of Origin**. Physical markings on a product indicating the country where the merchandise was produced.
- **Most-Favored-Nation Treatment**. A commitment that a country will extend to another country the lowest tariff rates or the most favorable nontariff policies.
- **Multimodal Bill of Lading -** Bill of lading covering shipment of goods by more than one means of transportation but including an ocean leg.
- **Nominated Bank.** The bank with which the credit is available or any bank in the case of a credit available with any bank.
- **Notify party:** the party who is to be notified when goods arrive at their destination.
- **ON Board B/L:** It is issued after the goods have been shipped on board. A credit requiring B/L must indicate that the goods have been shipped on board.
- **Open Insurance Policy**. A marine insurance policy that applies to all shipments over a period of time rather than on a single shipment.
- **Packing List**. A document that lists the various packages or cartons being shipped and their contents.
- **Partial Shipment:** A shipment under a Letter of Credit representing only part of the goods covered by the Letter of Credit.
- **Payee:** Party to whom payment is due.
- **Phytosanitary Certificate.** A certificate typically issued by a country's agricultural department to satisfy import regulations certifying that specified perishable food, weed and plant items are free from contamination, pests and plant diseases.
- **Pre Shipment Finance**. The finance required for the period before goods have been shipped.
- **Pre**-shipment Inspection. An inspection of contract goods prior to shipment to ascertain their quality, quantity or price.
- **Post Shipment Finance**. The finance required for the period after goods have been shipped before payment is received by the exporter.
- **Presenting Bank.** The Collecting Bank making presentation to the Importer (drawee), usually the Importer's bank.
- **Principal -** Party entrusting a draft and/or documents to a bank for collection of payment; usually the seller of goods.
- **Pro-Forma Invoice**. A draft or sample of what the final invoice will look like which is used by sellers in the negotiating process with a potential buyer in order to ensure

that all parties understand what costs are included in the quoted price.

- **Promissory Note:** Financial document in which the buyer agrees to make payment to the seller at a specified time
- **Red Clause Credit:** A red clause credit allows pre-shipment advances to be made to the exporter at the risk and expense of the applicant.
- **Remitting Bank.** The bank that the Exporter authorizes to carry out the collection on its behalf.
- **Revolving Credit:** The revolving credit is one, which under the terms and condition thereof provides for restoring the credit to the original amount after it has been utilized.
- **Short Form/Blank Back BL**: BL in which the detailed conditions of transportation are not listed in full (on the back of the BL).
- **Sight Draft**. A draft which is payable by the drawee at the time of presentation.
- **Straight BL.** B/L issued to the name of a certain party and which cannot be transferred by endorsement.
- **Stale BL.** A BL that has been presented later than 21 calendar days after the date of shipment.
- **Standby Letter of Credit**. Letter of credit issued to back an obligation of the applicant, but typically not intended to be the primary method of payment.
- **SWIFT:** Society for Worldwide Interbank Financial Telecommunication; an organization that operates the major interbank electronic communication system for financial messages (payments, letters of credit, securities transactions etc.)
- **Through BL:** BL covering goods being transshipped en route. It covers the whole voyage from point of shipment to final destination.
- **Transferable Letter of Credit.** A Letter of Credit that allows the Beneficiary (Exporter) to instruct its bank to transfer the credit in part or in whole to a Secondary Beneficiary.
- **Transferring Bank.** The bank authorized by the Issuing Bank to transfer at the Beneficiary's request all or part of the Letter of Credit to another party.
- **Trust Receipt:** Release of merchandise by a bank to a buyer in which the bank retains title to the goods.
- **Warehouse Receipt**. A receipt issued by a warehouse operator for goods received for storage.
- **Weight Certificate.** It is a certificate evidencing the weight of the goods to be carried to the destination of importer by the carrier.

International trade and foreign exchange are closely associated. In simple terms, foreign exchange means the process of exchange of currency of one nation into that of another nation. Sometimes, by foreign exchange simply we mean foreign currency, but conceptually it is a process of currency conversion from one into another. Currency conversion process become increasing popular with the expanding cross border transactions. International trade has been the key driver for the promotion of the global foreign exchange market and transactions. Foreign exchange market is the network or setup within which one currency is exchanged for another. It is a global market or network that is one of the important components of any economy today. The market is commonly associated with currency exchange, remittances, import transactions, export transactions, investments flows etc. Commercial banks, Investment Banks, Central Banks, Businesses and Corporations, brokers-dealers are the most common groups of market participants in the foreign exchange market. Alongside currency conversion on the spot i.e. spot transactions, several derivatives or financial engineering tools are transacted in the foreign exchange market. In the context of most global economies, cross-border trade transactions are also foreign exchange transactions. Spot transaction by the traders is the most common transactions in the foreign exchange market. Sometimes, traders use foreign exchange derivatives to hedge their foreign exchange risks associated with their trade transactions.

Balance of Trade (BOT) is the difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad.
Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. When exports are greater than imports than the BOT is favorable and if imports are greater than exports then it is unfavorable.

Balance of Trade (BOT)	Balance of Payment (BOP)
1. It is a narrow term.	1. It is a broad term.
2. It includes only visible items.	2. It includes all transactions related to visible, invisible and capital transfers.
3. It can be favorable or unfavorable.	3. It is always balances itself.
4. BOT = Net Earning on Export - Net payment for imports.	4. BOP = Current Account + Capital Account + or - Balancing item (Errors and

5. Following are main factors which affect BOT (a) cost of production (b) availability of raw materials (c) Exchange rate (d) Prices of goods manufactured at home	omissions) 5. Following are main factors which affect BOP (a) Conditions of foreign lenders. (b) Economic policy of Govt. (c) all the factors of BOT

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