

# Demand Guarantees and Standby Letters of Credit

A risk management and working capital solution



Expanding into new markets or fields of commercial activity, while managing working capital and the risks of domestic and international operations, is key for business growth. Demand Guarantees and Standby Letters of Credit can help meet these objectives.

## Demand Guarantees

Guarantees and Standby Letters of Credit may be the right solution for your business if you want to expand your field of commercial activities

A demand guarantee is an assurance from a bank to a beneficiary that the bank will pay that beneficiary a specified sum of money on a specified event. They can be used in a wide variety of situations:

- ◆ Tender Guarantee/Bid Bond, often required to support tenders.
- ◆ Advance Payment Guarantee, used where the applicant receives an advance payment at an early stage of contract.
- ◆ Performance Bonds, a common type of guarantee that supports the applicant's obligation under a contract. These are commonly used to support domestic and international trade, for example:
  - guaranteeing a payment to a seller who has delivered goods but failed to receive payment from the buyer.
  - a payment to a buyer seeking return of an advance payment because a seller has not met contractual obligations.

Guarantees can also support various types of financial obligations, for example rent payments under lease agreements, payments for utilities, court fees, etc.

## Standby Letters of Credit

Standby Letters of Credit are similar to Demand Guarantees in that they provide assurances in the event of non-payment, non-performance, or non-delivery.

In some countries the local market practice is to issue or receive Standby Letters of Credit as opposed to Demand Guarantees.

## Benefits

Demand Guarantees and Standby Letters of Credit can help businesses to:

- ◆ **Accelerate expansion into new markets and capture new opportunities** (e.g. bid for and execute domestic and international projects and contracts).
- ◆ **Better manage payment and performance risks** in international projects and contracts by providing counterparties with protection from a global bank.
- ◆ **Optimise working capital** as an alternative to making up front payments or placing cash deposits.

## What you need to know

- ◆ **Wording:** the wording in demand guarantees and standby letters of credit is negotiable between the applicant and the beneficiary and is subject to approval by the bank.
- ◆ **Rules:** Demand Guarantees can be issued under the internationally recognized Uniform Rules for Demand Guarantees and/or the governing laws of the country of the beneficiary or applicant. Standby Letters of Credit can be subject to International Standby Practices 98 (ISP98) or Uniform Customs and Practice for Documentary Credits 600 (UCP 600). When agreeing to wording, parties can stipulate which rules they want to apply (if any).
- ◆ **Issuance** - Demand Guarantees and Standby Letters of Credit can be issued directly to the beneficiary or issued indirectly via a local bank in the beneficiary's country.
- ◆ **Charges** – The applicant will pay an issuing fee and then a regular commission to the bank for the duration of the Demand Guarantee or Standby Letter of Credit. There are also fees for amendments and when more than one bank or bank office is involved.
- ◆ **Claims** – The bank will make a payment if it receives a claim from the beneficiary in the format stipulated in the Demand Guarantee or Standby Letter of Credit.

## Why HSBC?

- ◆ **Financial strength and stability:** Payment assurance from a world-class financial institution.
- ◆ **Global footprint:** A global network of offices and correspondent banks around the world to support international goals.
- ◆ **Focused expertise:** A dedicated team with experience in domestic and foreign demand guarantee and standby letter of credit issuance.

## Contact us

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**Call** 0207 200 1467 (lines open Monday to Friday, 09:00 to 17:00 hrs)

**Email** [clientservice.gtees@hsbc.com](mailto:clientservice.gtees@hsbc.com)

Independent legal advice should be sought if you are unsure of any terms of the Demand Guarantee or Standby Letter of Credit, or whether it meets with your individual requirements

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