

Documentary Credits

A risk management and working capital solution



Sourcing or selling products globally could increase opportunities, but payment can be uncertain – especially in unfamiliar markets. Documentary Credits are among the safest methods of payment for settling international trade.

Documentary Credits

A documentary credit (DC), which is also often referred to as a Letter of Credit (LC) benefits both sellers and buyers.

- ◆ For sellers, DCs guarantee that payment for goods or services will be made by a bank, on behalf of the buyer, upon presentation of commercial documents that are compliant with the terms and conditions of the DC
- ◆ For buyers, DCs give confidence that imported goods will be as specified and delivered at the agreed time and place, and that payment will only be made by the bank after shipment, and against compliant documents in line with the DC terms

How DCs work

- ◆ Payment terms are at sight or usance
- ◆ The seller presents commercial documents to the DC issuing bank
- ◆ Payment to the seller is assured by the DC issuing bank upon confirmation that documents are compliant
- ◆ The DC issuing bank then releases the documents to the buyer
- ◆ The buyer has an obligation to make the payment against the DC, to the DC issuing bank
- ◆ HSBC handles DCs in accordance with the Uniform Customs and Practice for Documentary Credits (UCP 600), a set of international standards for the handling of Documentary Credits through financial institutions. These rules are published by the International Chamber of Commerce (ICC)

DCs are typically used as a risk management and financing instrument in international and domestic trade. As such, they are subject to international rules and give both buyers and sellers access to a consistent framework when trading overseas. While they are independent from the commercial contract, DCs will often reflect the terms agreed.

Benefits for Buyers

- ◆ **Security around payments** which are only made upon presentation of compliant documents providing evidence that the DC terms are met
- ◆ **Negotiate better terms:** a DC issued by HSBC provides suppliers with payment assurance, giving buyers extra leverage to negotiate better pricing or payment terms
- ◆ **Improved cash flow:** Using DCs instead of deposits and/or advance payments can help accelerate cash flows
- ◆ **New market opportunities:** DCs can help buyers minimize the risks of working with new suppliers in new territories as payment is only made once all terms and conditions are met
- ◆ **Greater control:** DCs give buyers greater control over the details of a transaction by stipulating certain conditions
- ◆ **Real time information:** By signing up to our instant@dvice service, buyers can get alerts via email as soon as a DC is issued or a DC bill is received

Benefits for Sellers

- ◆ **Reduced risk of non-payment:** The buyer's bank undertakes to pay sellers on a set date, upon presentation of documents compliant with DC terms
- ◆ **Reduced risk of non-compliant documents:** HSBC's reputation for superior standard of document checking and handling may help lower the risk of non-compliant documents being presented to buyer's bank
- ◆ **Improved buyer relationships:** DCs can enable sellers to offer extended credit terms to buyers
- ◆ **Added protection:** Sellers can leverage HSBC's DC confirmation services to address country and/or bank risk, subject to HSBC's sole discretion
- ◆ **Funds immediately after shipment:** Documents can be sent to the buyer's bank for acceptance and payment, or sellers can request upfront funding without the need to draw on credit facilities. Funds can generally be advanced against compliant documents or after acceptance from the buyer's bank has been received
- ◆ **Faster order fulfilment:** With HSBC's instant@dvice service, sellers have access to electronic copies of DCs for forwarding to shipping, insurance or other trade partners in order to complete documentation required under the DC

Why HSBC?

HSBC manages large trade flows globally with the ability to provide financing across currencies and geographies. We can offer buyers and sellers access to our global footprint, with a network of group offices and correspondent banks located throughout the world. DCs issued by HSBC are widely accepted in both international and domestic markets - our operational strength and over 150 years of trade experience means we can help streamline DC processing and provide day to day advice on managing trade transactions. With a strong balance sheet we have the credit appetite to offer our clients financing solutions to support their international ambitions.

Contact us

Contact your HSBC Relationship Manager or Global Trade and Receivables Finance specialist today

Click <http://www.business.hsbc.uk/en-gb/imports-and-exports>

Call 0800 783 1300 (lines open Monday to Friday, 09:00 to 17:00 hrs)

Email uktradeservices@hsbc.com

HSBC has sole discretion to make funding decisions for individual transactions and will retain recourse to you after funds are advanced. An HSBC trade account relationship, approved trade finance facilities and trade finance agreement are required. Additional terms and conditions may apply.

Global Trade and Receivables Finance transactions may be subject to credit approval. Other restrictions, including specific country regulations, may apply. Certain products and solutions contained herein may not be offered in every market. Check with your local HSBC Trade specialist for a full product offering in your country.

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