RBS
The Royal Bank of Scotland

Guide to Trading Internationally

Payment for exports

What's in this section?

Non-payment is an acute problem in export trade because:
- the buyer is overseas
- the goods are usually overseas, and
- it is difficult to get the goods back again.

This section explains the four main payment methods used in export trade.

The four main methods are:
1. Advance payment
2. Open account trading
3. Collections
4. Letters of credit

The aims of this section are to:
- outline the problems caused by non-payment because international trade differs from domestic trade;
- show each method of payment and show how and when payment follows the despatch of goods in each method;
- indicate the advantages and the disadvantages of each method of payment to the seller;
- indicate the advantages and disadvantages of each method for the buyer.

Advance payment

- The customer sends money first to the exporter.
- The exporter checks that the money has been received.
- The exporter sends the goods to the customer.

The exporter may request advance payment because (for example) they are unwilling to send unpaid-for goods to the buyer's country because of some risk over payment. The buyer may agree to pay in advance because they want to induce the exporter into an established relationship.

If advance payment is agreed, the buyer sends the payment before the exporter consigns the goods for delivery. The exporter sends off any documents that the buyer will need (e.g. original bills of lading, export licences) after handing the goods to the carrier or carrier's agent.

Advantages: All in favour of the exporter.

Disadvantages: All against the buyer who has parted with money and has no assurance of receiving goods.

Open account trading

- The exporter sends goods first to buyer (e.g. on Day 1).
- The customer sends money afterwards (e.g. on Day 30).

Open account trading requires payment at agreed intervals after the goods have been despatched to the buyer. It requires a more formal arrangement than is needed for advance payment because a longer and more permanent relationship between exporter and buyer is envisaged. The exporter despatches goods to the buyer and at the same time sends an invoice for those goods, for payment at an agreed date or after an agreed period.

Open account trading is also a common payment method used for:
- goods bought by an overseas parent company from a UK subsidiary that sources goods for it;
- trade between established pairs of exporters and customers, both of whom operate in stable markets such as Western Europe or the USA.

Advantages: All in favour of the customer.

Disadvantages: All against the exporter. If the customer does not pay, or if they do pay but their country blocks remittance of funds to exporter:
- the exporter has neither the goods nor the money, and
- the exporter may not get the goods back.

Collections

Collections do not give the exporter the security of advance payment or the relative peace of mind that comes from open account transactions with long-term customers in established relationships. They require both exporter and buyer to exercise great care in agreeing the detail of the sales contract.

The transaction is initiated by the exporter, who despatches the goods to the buyer's country. At the same time, they entrust the related documents (which may include negotiable bills of lading) to their bank, for collection of sale proceeds and the delivery of documents to the buyer according to the terms of the sales contract.

There are three types of collection:

1. Clean collection
2. Documents against acceptance (D/A)
3. Documents against payment (D/P)

Clean Collections

For a clean collection, the exporter despatches the goods and the related documents directly to the buyer and then sends his/her bank the bill of exchange for the value of the goods drawn according to the sales contract. The bank can then set in train the collection of the due amount from the buyer.

- The exporter sends goods first to the buyer.
- The exporter sends all documents except the bill of exchange to the buyer.
- The exporter sends the bill of exchange to his/her own bank.
- The exporter's bank sends the bill of exchange to the buyer's bank for it to be presented to the buyer.
- The buyer pays the money, which is remitted to the exporter's bank.

Advantages: All in favour of the buyer.

Disadvantages: All against the exporter. If the buyer does not pay, or if he does pay but his country blocks remittance of funds to exporter:
– the exporter has neither the goods nor the money, and
– the exporter may not get his goods back.

Documents Against Acceptance (D/A)

- The exporter sends goods first to the destination country.
- The exporter sends the required documents to his own bank.
- His bank sends the required documents to the buyer's bank.
- The buyer's bank obtains the buyer's acceptance of the bill of exchange, payable either at an agreed period after sight or on a fixed date in the future, and releases the required documents to the buyer.
- The buyer obtains delivery of the goods.

The documents referred to in a documentary collection D/A usually include:

- a bill of exchange drawn payable at a future date
- the transport documents needed to obtain delivery of the goods along with other related documents.

For a documentary collection D/A, the exporter (through the bill of exchange) does not authorise release of the transport documents until the buyer accepts the bill of exchange for payment at a definite future date. Once the buyer accepts the bill of exchange, the buyer's bank releases the transport documents needed to obtain delivery of the goods and any other remaining documents. The buyer can then take possession of the goods for which he has agreed to pay in terms of the accepted bill at a definite date in the future.

Advantages: All in favour of the buyer.

Disadvantages: All against the exporter. If the buyer does not pay on the due date, or if they do pay but their country blocks remittance of funds to exporter:

- the exporter has neither the goods nor the money, and
- the exporter may not get the goods back.

Documents Against Payment (D/P)

The documents referred to in a documentary collection D/P usually include:

- a bill of exchange drawn payable at sight, at an agreed period after sight, or on a fixed date in the future;
- the transport documents needed to obtain delivery of the goods;
- together with other related documents.

The essential word in D/P collections is "payment". There are two types of D/P collection, according to when payment is made, but in both types the documents that give title to the goods are released to the buyer only upon payment. Unlike collections on D/A terms, collections on D/P terms leave the exporter in effective control of the goods until payment.

Payment at sight

- The exporter sends goods first to the destination country.
- The exporter sends the required documents to his/her own bank.
- The bank sends the required documents to the buyer's bank.
- The buyer's bank obtains the buyer's payment and releases the required documents to the buyer.
- The buyer obtains delivery of the goods.

For a documentary collection D/P with payment at sight, the terms of the sales contract stipulate that the buyer must pay as soon as the exporter presents the documents. Upon such payment, the exporter releases the transport documents (typically including bills of lading that grant title to the goods) to the buyer, who can then arrange for delivery of the goods.

Advantages: Mostly in favour of the exporter, who retains control over the goods until payment is made.

Disadvantages: If the buyer's country blocks remittance of funds to the exporter:

- the exporter has neither the goods nor the money, and
- the exporter may not get the goods back.

If the buyer does not pay:

- the exporter may not get the goods back.

Payment at an agreed period after sight or on a fixed date in the future

For a documentary collection D/P with payment at an agreed period after sight, the terms of the sales contract stipulate that the bills of exchange be drawn at say 30, 60, 90 or 120 days (or another agreed period) after sight. Alternatively, the bill of exchange may be payable on a fixed date in the future. The buyer is required to accept the bill of exchange for payment at the defined future date, but the exporter does not immediately release the transport documents (which give title to the goods). Thus, the buyer does not immediately get delivery of the goods.

- The exporter sends goods first to the destination country.
- The exporter sends the required documents to his/her own bank.
- The bank sends the required documents to the buyer's bank.
- The buyer's bank obtains the buyer's acceptance of the bill of exchange payable on a defined future date, and retains all documents in its custody.
- On (or before) the defined future date, the buyer's bank obtains the buyer's payment and releases the required documents to the buyer.

- The buyer obtains delivery of the goods.

The buyer makes payment on the defined future payment date. The exporter then releases the documents to the buyer, enabling the buyer to take delivery of the goods. If the goods arrive before the defined future payment date, and if the buyer then wishes to take delivery of the goods, the buyer must still make payment before receiving the documents that enable them to take delivery of the goods.

Advantages: Mostly in favour of the exporter, who retains control over the goods until payment is made.

Disadvantages: If the buyer's country blocks remittance of funds to the exporter:
- the exporter has neither the goods nor the money, and
- the exporter may not get the goods back.

If the buyer does not pay:
- the exporter may not get the goods back

Letters of Credit

A Letter of Credit (or Documentary Credit) is an arrangement under which the bank that issues the Credit undertakes to the beneficiary of the Credit (the exporter) that, provided the exporter presents the documents stipulated in the Credit and complies with all the terms and conditions of the Credit, the payment or any other obligation of the bank to the exporter will be fulfilled. By using a Letter of Credit, compared with other methods of payment, both the exporter and the buyer gain the additional independent assurance of the bank that issues the Credit (the Issuing Bank).

Letters of Credit can be made subject to "UCP 600: Uniform customs and practice for documentary Credits", Publication 600 of the International Chamber of Commerce (ICC). Among other things, the publication states how, and by whom, documents relating to transport, insurance and other matters are to be issued so that they may be acceptable under a Credit.

The general procedure is as follows:
- The exporter agrees a sales contract with the buyer.
- The buyer arranges for their bank to issue a documentary Credit matching the terms of the sales contract.
- The buyer's bank (the "Issuing Bank") issues the Credit in favour of the exporter ("the beneficiary").
- The Issuing Bank sends the Credit to a bank of its choice (the "Advising Bank") in the exporter's country.
- The Advising Bank sends the Credit to the exporter.
- The exporter checks the terms and conditions of the Credit (including the nature of the documents required under the Credit) to ensure that:
  – it complies with the agreed sales contract, and
  – the exporter can actually fulfil the terms and conditions.

The exporter must raise any queries with the Advising Bank or the buyer (or both) in order to resolve such queries and receive any necessary amendments to the Credit before shipment.
- The exporter ships the goods to the destination country.
- Transport and insurance companies (or their agents) send the required transport and insurance documents to the exporter.
- The exporter presents the assembled documents to the Advising Bank.
- The Advising Bank checks that:
  – the documents as presented are in compliance, and
  – all the terms of the Credit have been complied with.

If the checks show compliance, the Advising Bank will follow the Issuing Bank's instructions, so that the Issuing Bank's undertaking to pay the exporter is honoured through the banking channels indicated in the Credit.
- The exporter is paid or otherwise satisfied in accordance with the Credit
- The Advising Bank sends the documents to the Issuing Bank.
- The Issuing Bank obtains payment from the exporter's customer.
- The Issuing Bank releases the documents to the buyer enabling the buyer to take delivery of the goods.

Because of the additional, independent assurance they provide to both exporter and buyer, Letters of Credit are often the preferred method of payment in trade with areas outside the EU and the USA.

Advantages: Shared by exporter and buyer: both have independent assurance that goods and money will be exchanged according to the terms of the sales contract.

Disadvantages: The exporter is still at some risk of non-payment:
- If the exporter is unable to meet the terms and conditions of the Credit, there is no guarantee of payment, even if the goods have already been shipped.
- If the Issuing Bank finds discrepancies not previously found by either the exporter or the Paying Bank, there is no guarantee of payment.
- Unless a Credit is "confirmed", the exporter does not have a second (Confirming) bank's additional guarantee of payment.

UCP 600

Most international letters of credit are governed by rules developed under the auspices of the International Chamber of Commerce, or ICC. These rules are known as the Uniform Customs and Practices for Documentary Credits (UCP). A newly revised edition of the UCP known as ICC Publication No. 600, 2007 Revision, or more commonly UCP 600, is effective now. It replaced ICC Publication No. 500, 1993 Revision (UCP 500).

UCP 600 is the "law" governing an international Letter of Credit when the credit itself so provides. As part of a standard form international Letter of Credit, most banks include a provision that the Credit is governed by the UCP.

The provisions of UCP 600 are frequently quoted in export business and by banks active in export finance. UCP 500 also states provisions governing how, and by whom, documents relating to transport, insurance and other matters are to be issued so that they may be acceptable under a Credit.

Detailed knowledge of UCP 600 provisions is not essential, but the exporter should have enough knowledge to enable them to refer to specific articles that may apply.

An additional useful reference is "International Standard Banking Practice (ISBP) for the examination of documents under documentary credits", ICC Publication No. 645, January 2003. This new ICC publication demonstrates how UCP 600 works in day-to-day practice.

Exporters should also be aware that where the Credit permits, it is possible to make presentation by electronic means alone or in combination with paper documents and accordingly reference is made to the above-noted publication. For further details see: "Supplement to UCP 600 for Electronic

Presentation eUCP ICC 500/3 April 2002". As this is a recent innovation, exporters are strongly advised to seek advice from their own bankers.

Revocable and irrevocable credits

Some documentary Credits may be cancelled, withdrawn or "revoked" after issue; they are said to be "revocable". Other Credits may not be so cancelled; they are "irrevocable", and cannot even be amended except with the approval of all parties to the Credit (which includes the exporter named as the beneficiary in the Credit). An exporter should not agree to ship under a revocable Credit and should reject the business. If (as a strict exception) the exporter has no option but to accept business on these terms, they should be guided by the Bank at every stage.

Article 6 of UCP 600 requires that Credits should show clearly whether they are revocable or irrevocable, and states that, if it contains no such indication, a Credit will be deemed irrevocable.

Confirmed and unconfirmed credits

If there is any doubt about the certainty of getting paid, e.g. because of worries about the Issuing Bank or the country in which it is located, an exporter can check the standing of the bank issuing an irrevocable Credit, or can seek the confirmation of another bank in their own country. "Confirmation" is a technical term meaning the undertaking of a second bank to honour the obligations of a Credit, given in addition to the Issuing Bank's undertaking.

The exporter can get appropriate advice from their own Bank. There will be an extra cost for confirmation, but this cost must be weighed against the possible loss of the entire proceeds of the sale.

With and without recourse

UCP 600 describes some actions as being "with recourse" or "without recourse". For example, Articles 9a and 9b of UCP 500 state that, for irrevocable confirmed Credits that provide for negotiation, the Issuing and Confirming Banks are liable to pay (9a) or negotiate (9b) drafts on the Credit "without recourse to drawers and/or bona fide holders".

When a bank pays an exporter money under a Credit, it assumes that it will eventually receive money from the Issuing Bank in reimbursement. If it does not receive the Issuing Bank's money, the bank may or may not be entitled to ask the exporter to repay it, depending on whether the payment was made "with recourse" (or "comeback") or "without recourse":

- Payments made on the basis that the Paying Bank can "come back to" the exporter and ask for repayment are made "**with recourse**".
- Payments made on the basis that the Paying Bank will not "come back to" the exporter and ask for repayment are made "**without recourse**".

The general rule in documentary Credit operations is:

- both the Issuing Bank and the Confirming Bank effect payment **without recourse** to the exporter in respect of documents presented to them which **comply with the terms of the Credit, but**
- all other banks pay the exporter with recourse.

Transferable credits

Some Credits allow the beneficiary to ask the bank authorised to honour the terms of the Credit (the "Transferring Bank") to make part or all of the Credit available to someone else. The original beneficiary of the Credit is the "first beneficiary" and those to whom the Credit is made available are "second beneficiaries". The exporter may be either the first or a second beneficiary.

The exporter as first beneficiary

At one extreme, an exporter might simply be an intermediary, sourcing goods from suppliers who ship directly to the buyer. The exporter and his/her suppliers could all be paid under the same transferable Credit, with the exporter as first beneficiary and the suppliers as second beneficiaries. This allows the exporter to make a profit without using his/her own bank facilities and at the same time allows the second beneficiary to do business against a transferred Credit, which provides a margin of safety.

For example, an irrevocable transferable Credit for £150 is issued in favour of an exporter (first beneficiary). They get their supplier (second beneficiary) to ship the goods to the customer for £100. The exporter recovers £150 from the customer and achieves a profit by asking the Transferring Bank to transfer the Credit to the second beneficiary in the sum of £100. The transferred Credit shows the same goods as the original Credit, and all terms and conditions of the original Credit are incorporated into the transferred Credit. The following, however, are changed in the transferred Credit:

- The amount is reduced to £100.
- Any unit price stated in the original Credit is reduced to be consistent with the transferred Credit value.
- The expiry date of the original Credit is brought forward, so that the exporter can substitute their own invoices for £150 for those of the second beneficiary and present documents under the original Credit within time.
- The last date for presenting documents is also brought forward to ensure compliance with the requirements of the original Credit (or with UCP 600, Article 43, which requires that a Credit should stipulate a period of time after the date of shipment during which presentation should be made).
- The period for shipment is reduced.

If the original Credit also calls for an insurance policy/certificate, the percentage of the transferred Credit allocated to insurance is adjusted to satisfy the cover required by the original Credit.

Once they ship the goods, the second beneficiary presents their documents to the Transferring Bank, which advises the exporter and requests their invoices for £150. The exporter's invoices are substituted for the second beneficiary's invoices and documents for £150 are presented to the Issuing Bank. When the £150 payment is received under the original Credit, the Transferring Bank pays £50 to the exporter and £100 to the second beneficiary.

A fundamental requirement for the exporter will be the need to make sure that the buyer is not made aware of:

- who the second beneficiary is, or
- how much is being paid to them

since such information reveals the exporter's own pricing and profit margins. The exporter must be guided by the Transferring Bank so that maximum confidentiality in respect of all dealings with the second beneficiary is maintained.

The exporter as second beneficiary

In some sales contracts, it might be that the exporter's own customer is the first beneficiary, in which case the exporter will be a second beneficiary. Either the end-buyer or the first beneficiary (or both) will be overseas. For example, a US buyer might instruct their bank to establish an irrevocable, transferable Credit in favour of an EU beneficiary (first beneficiary) who instructs the Transferring Bank to make all or part of the Credit available to the UK exporter as second beneficiary.

Some of the following issues may need to be resolved:

- Is the original Credit confirmed?
- Is the transferred portion also confirmed (by the Transferring Bank) in acceptable terms?
- Is payment to be made upon presentation of documents to the Transferring Bank?
- Is payment to be subject to payment on the original Credit?
- If so, is the delay acceptable?
- Are goods to be shipped to a country where there is risk?

Back to back credits

If the exporter is not the supplier but is acting as an intermediary, they might ask their buyer to arrange for their (the buyer's) bank to establish a Credit in their (the exporter's) favour. At the same time, the exporter can ask their own bank to establish an entirely separate Credit (called a back-to-back or counter-Credit) in favour of the ultimate supplier. As far as possible, the terms and conditions of the back-to-back Credit should match those of the original Credit.

The exporter's bank would carefully examine the first Credit (in the exporter's favour) in order to ensure that the back-to-back Credit they open (in the ultimate supplier's favour) calls for as many as possible of the same documents required by the first Credit. This would allow documents presented under the back-to-back Credit to be substituted for the documents required by the first. The bank would also ensure that the terms and conditions in the back-to-back Credit (including dates of shipment and payment) are stated in a way that makes it as likely as possible that the exporter will be paid on the presentation of documents under the first Credit before they are due to pay the supplier under the back-to-back Credit. This should allow them to use the proceeds from the first Credit to meet their liability under the back-to-back Credit.

However, the exporter should remember that they must still meet their liability to their bank in respect of the back-to-back Credit, even if they are not paid promptly (or at all) under the first Credit. Successful completion of this kind of transaction requires the exporter to be guided by their bank's advice.

Advance payment ("Red Clause") credits

If a sales contract would involve an exporter in heavy investment (e.g. buying in goods, materials or special equipment) they might ask the buyer for part-payment in advance. When the buyer's bank sets up the Credit in the exporter's favour, it can include a specific clause that authorises payment of such a cash advance: this is a "red clause" (so named because it used to be typed in red to make it stand out). The advance will be due for repayment when the required documents are presented and the Credit proper is payable; at that point, part of the proceeds will be used to repay the advance and the balance will be paid to the exporter.

When the advance payment is made, the Issuing Bank may require a receipt signed by the exporter together with an undertaking to utilise funds to manufacture or purchase goods for export. In some cases, the Issuing Bank may require goods purchased with the advance to be warehoused in the bank's name to provide security for the money advanced.

Revolving credits

Once exporters and customers have built up ongoing business and a relationship of trust, they may wish to avoid opening a new Credit (or amending an existing Credit) for each new shipment. Revolving Credits will allow shipments to continue without repeatedly incurring the costs (in bank charges and administration) of opening or amending Credits. The revolving nature of the Credit, and the reinstatement of the amounts of Credit used up, will depend either on time or on value.

A revolving Credit based on time might, for example, allow an exporter to ship £100,000 each month for a period of six months. The maximum drawings might be specifically stated as being £600,000. The exporter can accordingly ship £100,000 worth of goods each month and expect to be paid for each shipment each month until they reach the total value of the Credit in the sixth month. The Credit might also state that amounts not drawn in a particular month are to be cancelled (non-cumulative) or that they can be carried forward (cumulative).

- In a non-cumulative arrangement, if the exporter does not ship in any particular month, they forfeit the right to be paid for that month; and if they make no shipments for five months, the most they can draw in the sixth month is £100,000.
- In a cumulative arrangement, however, the exporter can ship nothing for five months and then ship £600,000 worth of goods in the sixth month. They are entitled to draw £600,000 for them.

A revolving Credit based on value entitles the exporter to draw the value of their shipment each time they ship goods. The Credit is immediately reinstated by the value of the shipment made. This creates an open-ended liability for both the Issuing Bank and the buyer, so the terms of the Credit would normally provide both for a maximum amount to be drawn in total and for a maximum amount at each drawing. Many exporters that have long-established customers prefer revolving Credits, because they provide the means to almost instant finance.

Evergreen credits

Sourcing the goods required for an export sale may involve the exporter in making long-term arrangements (e.g. two or three years) with their own suppliers or with manufacturers. Such arrangements require the exporter to commit themselves financially or in other ways, so that they may want some assurance of their customer's long-term commitment. The exporter may therefore ask the buyer to include in their Credit a clause stating that the Credit is renewed automatically each year, unless notice of cancellation or amendment has been given well in advance of expiry. The long notice period should give the exporter enough time to unwind their own obligations to suppliers and manufacturers in an orderly manner.

Credits that contain such automatic renewal clauses are essentially available without a break, and are appropriately known as "evergreen Credits".

Standby credits

An exporter and their customer may arrange that goods will be paid for in an agreed manner after they have been despatched. However, if payment in the agreed manner is not forthcoming, the exporter will need another way of getting paid. A standby Credit can provide this security backup.

The buyer's bank issues the standby Credit, under which the exporter can claim for the amount unpaid simply by (for example) submitting a certificate stating the value of shipments made in respect of which no payment has been received from the buyer. Since the standby Credit becomes active only if the buyer fails to perform their obligations, the paperwork required to draw on a standby Credit is minimal. In the event that the customer does not pay, therefore, standby Credits provide the exporter with security similar to a bank guarantee. In some marketplaces (e.g. the USA), they are preferred to bank guarantees.

Clean credits

A clean Credit is one under which the Issuing Bank:

- requires only a bill of exchange to be drawn, as instructed in the Credit, and
- undertakes to pay such a bill upon presentation.

There is no requirement for any other document to be presented in support of the bill of exchange.
The exporter can use clean Credits in a manner very similar to standby Credits.

Credits financed by international agencies

Credits set up under aid agreements and financed by established international agencies do offer the exporter security of eventual payment. However:

- The terms and conditions of such Credits and the paperwork involved could be daunting.
- There may be delays in obtaining payment or even answers to queries because agency procedures need to be followed. Though the procedures are clearly laid out, the process can sometimes be both tedious and disheartening.

Inoperative credits

The exporter may sometimes be faced with a Credit that contains stipulations, terms and conditions that they can neither control nor meet independently (e.g. stipulated documents are to be issued by the buyer, the terms may require receipt of the proceeds of a back-to-back Credit, or payment may be made conditional on the satisfactory inspection of goods in the buyer's country).

Credits that contain terms or conditions that in their nature are outside the exporter's control preclude him/her from complying independently with the Credit, so that the Credit is not an independent instrument of payment and may be termed an inoperative Credit. The exporter should be very wary of accepting such a Credit. If he/she is forced (by business circumstances) to accept one, he/she should seek the bank's advice before shipment.

Payment under credits

The general principle of documentary Credit operations is:

- both the Issuing Bank and the Confirming Bank pay without recourse to the exporter in respect of documents presented to them that comply with the terms of the Credit, but
- all other banks pay the exporter with recourse.

All Credits must clearly indicate whether they are available by:

- sight payment, or
- deferred payment

and by:

- acceptance, or
- negotiation.

Occasionally, there may be Credits of which a portion is available by sight payment and a portion is payable on deferred payment or other terms.

Credits may be available for settlement to the beneficiary at the counter of:

- the Issuing Bank (which is usually in the buyer's country);
- the counter of a bank specifically named and nominated by the Issuing Bank;
- any bank, if the Issuing Bank has not nominated a specific bank.

At sight or deferred

With payment at sight, the bank authorised to pay should pay the exporter immediately it finds the documents presented to be in order (the authorised bank is usually the Advising Bank, which is also the exporter's own bank). If payment is to be made by the Issuing Bank in the exporter's own country, the Advising Bank may offer to pay, subject to payment of interest for the transit time of documents.

With deferred payment, the bank authorised to pay should pay the exporter on the maturity date specified by the Credit, provided it finds the documents presented to be in order. The bank is not obliged to pay earlier unless the Credit specifically indicates that the beneficiary may be paid on sight terms, with interest for the account either of the exporter or the buyer in the terms agreed between them and stated in the Credit. Nevertheless, market practice does allow payment to be made on sight terms outside the terms of the Credit, with recourse to the beneficiary and subject to an additional commission.

Acceptance and negotiation

With payment by acceptance, the Credit may require drafts to be drawn on:

- the Issuing Bank – the Issuing Bank would accept such drafts upon presentation of conforming documents by the exporter and pay them at maturity;
- the Advising Bank, if the Advising Bank agrees – the Advising Bank would accept such drafts upon presentation of conforming documents by the exporter and pay them at maturity.

In both cases, the exporter would be able to obtain immediate funds by discounting the acceptances.

By negotiation, the exporter can get immediate payment from the authorised Negotiating Bank, subject to payment of interest until the Negotiating Bank itself receives payment from the Issuing Bank.

Discounting and purchasing term bills

If the exporter and buyer discuss payment on deferred terms (with or without bills of exchange), the exporter should try to get the buyer to include in the Credit a condition that specifically authorises payment to the exporter on sight terms upon presentation of conforming documents. The condition should also indicate whether interest for the term is for the account of either the exporter or buyer.

Including such a condition will improve the likelihood that the exporter will be paid immediately without having to wait for maturity.

Confirmation and silent confirmation

If the buyer is located in an unstable country or there are doubts about the Issuing Bank, the exporter may be well advised to request the buyer to arrange for the Credit to be confirmed by a well-respected bank in the exporter's own country. The exporter will have extra commission to pay, but the whole Credit transaction will be made secure by confirmation. The exporter will have the irrevocable undertaking of a respected bank in their own country, which eliminates all risk associated with the buyer, the Issuing Bank or the buyer's country.

UCP 600 requires confirmation to be:

- at the specific request of the Issuing Bank, and
- in addition to the Issuing Bank's own undertaking.

However, if the Issuing Bank has not authorised any bank to confirm the Credit, it is still possible for the exporter to request a suitable bank in their country to confirm the Credit. Such a bank, if it consents, would act silently, i.e. would not advise the Issuing Bank of the arrangement. The bank would require the exporter to complete legal documentation acknowledging that the bank has recourse to the exporter and indicating that all rights of the beneficiary under the Credit are assigned to the bank.

Assignment of proceeds

UCP 600 allows an exporter to assign any proceeds to which he/she may be (or may become) entitled under a Credit. Such assignment relates only to the proceeds and not to the right to "perform" under the Credit (i.e. to tender documents or to do anything else that the beneficiary may do or be required to do under the Credit). The assignee's rights, if any, are solely in respect of any money that may be paid under the Credit.

The exporter might use this right to assign the proceeds of a Credit in one of two ways:

- If the exporter is not the supplier, he/she could assign enough of the Credit to meet the amount due to the supplier.
- If the exporter is himself/herself the supplier, assigning the proceeds may enable his/her bank to advance him/her the funds needed to purchase materials or goods.

Foreign currency

UK exporters will inevitably have to invoice buyers in currencies other than sterling. A foreign currency account can be of considerable help by allowing the exporter to chose a favourable moment at which to convert from foreign currency to sterling. However, as the exporter must eventually convert to sterling in order to report assets and liabilities in the balance sheet, they always risk incurring (perhaps substantial) losses on conversion.

The exporter has two basic choices:

- They may enter in to a forward exchange contract, arranging for conversion to be done at agreed rates at a fixed date in the future or at any time between two fixed dates. The exporter is obliged to take up the contract, even though they cannot be sure exactly when the foreign funds will be received. Even so, forward exchange has its advantages over spot transactions, where there is no choice in the rate.
- For a premium paid in advance, they may take out a currency option that gives them the right (without the obligation) to take up the currency deal. The exporter can thus take up a spot deal (if the advantage is greater than the premium paid) or take up the option at the agreed price when the spot rates are moving against him/her.

Foreign exchange is a very complex subject, so the exporter should be advised and guided by the bank.

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