

# Glossary of terms and abbreviations

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This glossary contains most of the trade finance words and expressions used in this handbook or directly related to its contents. In order to make the content less complicated and more precise, the comments are made from the point of view of the seller unless stated otherwise.

Most of the words and expressions below can also be found in the Index for reference to a more precise page in the book.

**acceptance** Time draft accepted by the drawee, thereby creating an unconditional obligation to pay at maturity.

**acceptance letter of credit** A letter of credit, which requires the seller to draw a term draft to be accepted by the nominated bank upon presentation of documents, whereby the seller receives a banker's draft instead of payment.

**advance payment** Trading method where the seller receives payment before delivery, either as part of an agreed composite payment structure or due to low or unknown creditworthiness of the buyer.

**advance payment guarantee** Undertaking on behalf of the seller to repay the buyer in case of non-fulfilment of their contractual obligations.

**adverse business risks** Negative, corrupt and unlawful business practices related to international trade, ie, bribes and money laundering.

**advising bank** A bank, usually in the seller's country, which authenticates the letter of credit and advises it to the seller. The expression is also used when a bank authenticates a bank guarantee in favour of the beneficiary.

**air waybill (AWB)** Transport document in airfreight as a receipt of goods and evidence of the freight agreement. AWB is not a document of title and is not needed to claim the goods.

**all risk insurance** Formerly a common insurance clause in policies to be presented under collections and L/Cs, now commonly replaced by Institute Cargo Clauses, *see* that term.

**amendments** Alterations to instructions in a collection, or of the original terms and conditions in a letter of credit. The seller has the right to refuse such L/C amendments.

**annuities** Lease payments, based on a combination of interest and amortizations of the underlying financial costs.

**applicant** The party at whose request a bank issues a letter of credit. Sometimes also called account party. *See also* principal.

**assignment** A method where the seller transfers the rights of proceeds, often under a letter of credit, to a third party.

**at sight** A notation on a draft (bill of exchange), indicating that it should not be accepted but paid upon presentation. Often used in collections and letters of credit.

**availability** A letter of credit may be available (or payable or honoured) for presentation of documents against payment at sight, deferred payment or acceptance. *See* these terms.

**avalize (aval)** Where a guarantor, often a bank, issues its guarantee directly on an accepted bill of exchange or other financial instrument, thereby undertaking the payment obligations by the drawee on a joint and several basis. Other terms are bill guarantee and guaranteed acceptance.

**back-to-back letter of credit** An arrangement where the seller offers an existing letter of credit as security to their bank for the issuance of a secondary L/C in favour of their supplier(s).

**balance exposure** An often unrealized currency risk exposure within the company, reflecting different methods of calculating assets and debts for accounting purposes.

**bank cheque** Cheque issued by a bank and sent directly by the buyer to the seller as a method of payment. Also often referred to as a banker's draft.

**banker's acceptance** A time draft drawn on and accepted by a bank, often in connection with a letter of credit. *See also* acceptance letter of credit.

**banker's draft** *See* bank cheque.

**bank guarantee** An unconditional undertaking by a bank, on behalf of the principal to pay a certain amount in money to the beneficiary under certain conditions.

**bank identifier code (BIC)** The same as the SWIFT address (often also called SWIFTBIC), used as identification of accounts, often in connection with bank transfers.

**bank remittance** *See* bank transfer.

**bank-to-bank credit** A buyer credit given by a third party (often the seller's bank) to the buyer's bank for on-lending to the buyer to pay cash to the seller for goods delivered.

**bank-to-buyer credit** A buyer credit given by a third party (often the seller's bank) directly to the buyer to pay cash to the seller for goods delivered. Such credits normally demand a corresponding guarantee from the buyer's bank, covering the obligations of the buyer.

**bank transfer** The most common method of payment where the role of the banks is to transfer funds according to payment instructions by the buyer. Also called bank remittance.

**barter trade** Trade of goods and services with settlement in other goods or dependent on other trades being performed.

**bid bond** *See* tender guarantee.

**bill guarantee** *See* avalize (aval).

**bill of exchange** Commonly used trade financial instrument, drawn up by the seller and, after acceptance by the buyer, being an unconditional payment obligation to pay at a specified future date. A bill is often referred to as a 'draft' until it has been accepted.

**bill of lading** Transport document issued by the carrier for shipment by sea. The bill of lading is a document of title, which means that the goods will not be released to the buyer (the consignee) other than against this original document.

**B/L** *See* bill of lading.

**blank endorsement** A transfer of rights without specifying the new party, making the document, usually a bill of lading or an insurance policy, a freely negotiable document.

**bond** In the context of international trade, a guarantee instrument mostly issued by an insurance company, similar to a bank guarantee – which is the term generally used in this book for these instruments.

**bond (guarantee) indemnity or insurance** The general term for an insurance cover against the risk for 'unfair calling' under a Demand Guarantee.

**break-even price** The currency price needed at maturity in order to make the currency option profitable – calculated on strike price, premium and commission, if any.

**buyer credit** Any arrangement where a third party, usually a bank, in agreement with the seller, refinances the transaction, giving the credit directly to the buyer or their bank for direct cash payment to the seller.

**call option** A term used in connection with currency options, where an exporter purchases a call option in their domestic currency to hedge the incoming currency. The opposite is a put option – *see* that term. *See also* currency options.

**cap and floor** A currency hedge technique, whereby the currency risk is restricted to an upper and lower limit.

**capital goods** Industrial durable goods used for production of other goods for consumption, a distinction important in connection with available credit terms or with credit risk insurance.

**cash cover** A term used when the applicant of a letter of credit is required to deposit money in favour of the issuing bank as collateral.

**certificate of origin** Verifies the origin of the goods delivered. Often issued by a chamber of commerce in the seller's country.

**charter party bill of lading** A special form of a bill of lading issued by the vessel owner, which may restrict its nature as a document of title (not normally allowed under a letter of credit).

**CIS countries (Commonwealth of Independent States)** A political grouping of 11 former smaller Soviet states, included in the programmes of support from the European Development bank.

**claim document** The document giving evidence for a claim to be presented under a bank guarantee.

**clean bill of lading** A bill of lading without indication that goods are damaged and/or in unsatisfactory order at the time of loading.

**clean collection** Collection in which only a financial instrument is included, often the bill of exchange.

**clean payments** Payments to be made without a corresponding and simultaneous receipt of documents (bank remittance and cheques), contrary to documentary payments, *see* that term.

**co-joint financing** A form of leveraged finance between development banks, commercial banks and export credit agencies in order to increase the scope for additional projects and investments.

**collection accounts** Accounts held by the seller in banks in other countries to be used for incoming payments from buyers in that country.

**collection bank** Bank in the drawee's country, which is instructed to release documents to the buyer (the drawee) against payment or acceptance. Also called presenting bank.

**combined transport document** *See* multimodal transport document. Such a document is normally not a document of title.

**commercial documents** A general term for documents produced in connection with the delivery of goods or services, as compared to Financial documents – *see* that term.

**commercial interest reference rates (CIRR)** The minimum level for state-supported fixed interest rates according to the Consensus rules. *See* Consensus.

**commercial risks** Also called purchaser risks, covering not only the possibility of non-payment by the buyer, but also the risk for non-fulfilment of all other contractual obligations, including those necessary for the seller's own performance.

**commitment** In connection with letters of credit, banks undertaking in advance to the seller to confirm L/Cs, which may be issued by certain banks during a specified period of time, usually against a fee.

**compensation trade** The sale of goods and services with payment often in a combination of money and other goods.

**compliant documents** Documents presented which fully comply with the terms and conditions of the letter of credit.

**composite terms of payment** An expression used in this book when payment is to be effected in separate tranches related to the underlying structure of the commercial transaction.

**conditional guarantee** *See* demand guarantee.

**confidential factoring** Financing of invoices by the bank, of which the buyer is not aware – in this book called invoice discounting or invoice finance as opposed to notified factoring, *see* that term.

**confirmation** A procedure whereby a confirming bank, normally upon the request of the issuing bank, guarantees the liabilities of that bank towards the seller.

**confirming bank** The bank confirming the letter of credit to the seller. *See* confirmation.

**Consensus** Guidelines issued by OECD establishing a common practice for restricting the use of state-supported export credits.

**consignee** The party to whom goods are to be delivered, usually the buyer, the collecting bank or the forwarding agent.

**consignor** The party who delivers the goods to the consignee according to a freight agreement.

**contract CIRR** A form of state-supported interest rates. *See* Consensus.

**contract frustration policy** *See* contract repudiation indemnity.

**contract guarantees** Guarantees directly linked to the course of events in an underlying commercial contract.

**contract repudiation indemnity** Credit insurance covering the political risks of changed or revoked approvals by an authority in the buyer's country, preventing the transaction from being correctly performed. Also called contract frustration policy.

**convertible currencies** Currencies that can easily be exchanged against the main international currencies on a free and unrestricted market.

**corporate cheque** A cheque issued by the buyer and, in the context of this book, sent to the seller as a method of payment. *See also* Bank cheque.

**correspondent bank** Banks in other countries with whom domestic banks have account relationships or arrangements to verify signatures or authentication.

**counter trade** The sale of goods where the transaction is dependent on a corresponding purchase of other goods within a common framework.

**credit guarantee** Undertaking by a bank to guarantee any credit, loan or other obligation assumed by a subsidiary or affiliate of the principal or any third party, not capable of entering into the obligations on their own merits.

**credit insurance (credit risk insurance)** Insurance against loss due to the inability or unwillingness of the buyer to pay for goods delivered. Credit risk insurance may cover a variety of risks, both commercial and political. *See also* these terms.

**cross border leasing** An expression used in lease transactions, when the lessor and the lessee are located in separate countries. Also a general expression for larger, more complicated leasing transactions using tax rules advantages in different countries.

**cross rate** The price of one currency in terms of another as calculated from their respective value against another major traded currency.

**currency accounts** Accounts held by in foreign currency in banks, which could be used to balance currency flows/transactions without unnecessary currency exchanges.

**currency clauses** The use of special agreements between buyer and seller in order to cap or split the currency risk between the parties.

**currency exposure** The real currency risk affecting the liquidity position, to which the company is exposed at any period of time. *See also* balance exposure and payment exposure.

**currency hedges** Methods of minimizing currency risks and/or currency exposure.

**currency options** A currency hedge different from a forward contract since the currency option is a right, not an obligation, to buy/sell one currency against another at a fixed rate within a specified period of time.

**currency pegging** Officially or unofficially determined fixed or capped rates for the currency of one country against another currency, often the USD.

**currency position schedule** The comprehensive schedule over the company's total currency risk exposure, containing both fixed and anticipated currency flows.

**currency risk** The risk connected to invoicing in a foreign currency which, for example, when payment is received, may result in a lower amount in the seller's own currency than anticipated.

**currency spread** The difference between the bid and offered rate quoted by banks in a freely traded foreign exchange market.

**D/A** Abbreviation for 'documents against acceptance'.

**D/C** Abbreviation for documentary credit or just credit, synonym for letter of credit (which is the expression used in this book).

**default** Failure to pay an accepted financial instrument on maturity date or to perform any agreed contractual business obligation.

**deferred payment** Payment made to the seller at a specified date after shipment or presentation of documents under a letter of credit, but without the use of a draft accepted by a bank. *See also* acceptance letter of credit.

**demand guarantee** Undertaking by a bank to pay to the beneficiary the amount on first demand without their proving the right to the claim and without the consent of the principal.

**development banks** Regional and mostly well-capitalized banks, owned by the participating countries, which support projects vital for the economic development of that region.

**development funds** Regional and mostly well-capitalized funds, subsidiaries of the development banks, which lend on 'soft terms' to projects of special importance for regional development.

**direct export factoring** An arrangement where the seller's factoring company (the factor) has direct contact with the buyer in another country without the use of a local correspondent.

**direct guarantee** A guarantee issued directly to the beneficiary by the seller's bank without using a local issuing bank.

**discounting** The purchase (with or without recourse) of an accepted termed (usage) bill of exchange against an amount less than its face value.

**discrepancies (in documents)** Non-presentation, non-consistency or other reasons why documents may not be approved under a Letter of Credit.

**documents against acceptance (D/A)** When the buyer is requested by the collection bank to accept a term bill of exchange that accompanies the documents instead of payment at sight.

**document against payment (D/P)** When the collection bank notifies the buyer about the documents for collection and requests them to pay the amount at sight as instructed by the seller's bank.

**documentary collection** Where banks, acting on behalf of the seller, present documents for collection to the buyer against cash payment or acceptance.

**documentary credit** *See* letter of credit.

**documentary payments** A general reference to the two main documentary methods of payment, documentary (bank) collections and letters of credit. The opposite is clean payments, *see* that term.

**document of title** Transport document where the carrier undertakes not to release the goods other than against this original document. *See also* bill of lading.

**D/P** Abbreviation for ‘documents against payment’.

**draft** Synonym for bill of exchange, but often used before acceptance of the bill. *See also* bill of exchange.

**drawee** Party on whom the bill of exchange is drawn and who is required to pay at sight or accept the bill.

**due date** Maturity date for payment.

**duty-exempt guarantee** Undertaking by a bank, on behalf of the principal, to pay any customs duty for goods intended to be only temporarily brought into the country, but not brought out within the specified period.

**EES countries (European Economic Space)** A definition of both EU and non-EU European countries

**endorsement** Transfer of rights on a trade or a financial instrument, mostly made on the back of the document, either in blank or to a specific party. *See also* blank endorsement.

**EU payments** Bank transfers between most European countries, made in a specific format and according to rules stipulated by the EU.

**European Bank for Reconstruction and Development (EBRD)** The EBRD is a major development bank, supporting countries from central Europe to central Asia, including many former Soviet republics.

**exercise price** *See* strike price.

**expiry clause** A clause in a bank guarantee, limiting its duration.

**expiry date** The expiry date under a letter of credit which is the last date at which the seller can present documents to the nominated bank.

**export credit agencies (ECAs)** Government owned or supported insurance institutions, focusing on export risk cover for sellers/suppliers from that country.

**export credits** Credits that the exporter offers the buyer for sale of goods or services or credit given by third party to finance such transactions.

**export factoring** A method of short-form refinancing where the factoring company (the factor) purchases the seller’s receivables and assumes the credit risk, either with or without recourse to the seller.

**export insurance policy** A standard export credit insurance issued to the seller, covering commercial and political risks.

**export leasing** Medium-term export finance facility for machinery, vehicles and equipment in particular, with the legal right for the lessee to use the goods for a defined period of time but without owning or having title to them.

**export loans** Advance payments by banks, based on the security of a letter of credit, up to a certain percentage of the L/C amount.

**export risks** Risks that may affect the individual export transaction and which the seller must evaluate and cover prior to the execution of the contract.

**express payments** Urgent payments through the SWIFT system, making the transfer available to the seller quicker than normal payments, but at a higher fee.

**extend or pay** Where the beneficiary threatens to claim under a demand guarantee unless it is prolonged.

**facilitation payments** A form of corrupt practice in international trade where payments are made to officials or employees in the buyer's country or elsewhere in order to smoothen, hasten or facilitate the contract.

**factor** Synonym for factoring company, *see* export factoring.

**financial documents** Documents related to the financial aspect of the transaction and the payment (ie a bill of exchange) as compared to the commercial documents.

**financial lease** An arrangement where the practical risk of ownership rests with the lessee and where the lessor, from the outset of the lease, expects to recover from the lessee both the capital cost of the investment as well as interest and profit during the period of the lease. The opposite is operating lease – *see* that term.

**financial risks** An expression for increased financial, liquidity and cash management impacts as a consequence of entering into a new commercial transaction.

**first demand guarantee** *See* demand guarantee.

**force majeure** Various specified conditions, including 'acts of God' which cannot be avoided through due care by the commercial parties and therefore may excuse them from performance.

**forfeiting** Purchase of negotiable trade financial instruments, mostly avalized bills of exchange, without recourse to the seller. *See also* avalize.

**forward currency contract** A contract between the seller and the bank, in one currency expressed in terms of another currency at a rate fixed at contract date with execution at a future date.

**forward currency market** The market for currency exchange transactions with delivery at a future date, but with the rate determined at transaction date.

**forward discount rate** An expression often used when the forward exchange rate of a currency is lower than its spot value (the opposite is a premium rate).

**forward option contracts** Forward (exchange) contracts that can be settled within a period of time instead of at a fixed date. (Not to be mistaken for a currency option, *see* that term).

**forward points** The trading technique in the interbank forward exchange market, where rates are expressed and quoted as differences in points from the spot rates as opposed to real currency rates, so called outright forward rates, *see* that term.

**forward premium rate** An expression often used when the forward exchange rate of a currency is higher than its spot value (the opposite is a discount rate).

**forwarding agent's certificate of receipt (FCR)** Transport document indicating receipt of goods from the seller and the arrangement of transportation according to instructions. It is not a document of title.

**freely negotiable** A statement, often in a letter of credit, giving the seller the right to present the documents for negotiation at any bank.

**full set** Documents (often the bill of lading) with more than one original, where all originals shall be presented (often under a letter of credit or documentary collection).

**guarantee** *See* bank guarantee.

**guaranteed acceptance (aval)** The undertaking of a bank, on behalf of the buyer (the drawee), to guarantee an accepted Bill of Exchange or Promissory Note, either directly on the bill or note (Aval) or through a separate guarantee.

**hard currency** The currency of a nation with economic strength and a long-term reputation for currency stability, which results in a high acceptability in international trade and currency markets.

**hedge** An expression used for reducing outstanding currency or interest risks or fluctuations through compensating transactions.

**honouring documents** A term in the new L/C rules (UCP 600) specifying three possibilities for honouring documents at presentation, at sight, by acceptance or by deferred payment.

**IDA** The International Development Association (IDA), part of the World Bank, provides long-term interest-free loans and grants to the poorest developing countries.

**IFC** The IFC, International Finance Corporation, a member of the World Bank Group, is the largest multilateral source of loan and equity financing for private sector projects in the developing world.

**import licence** Document issued by authorities in the buyer's country in order to control or restrict the importation of goods.

**Incoterms** International accepted trade delivery terms (Incoterms 2000) issued by the International Chamber of Commerce (ICC).

**indirect guarantee** A guarantee issued to the beneficiary (often the buyer) by a local issuing bank based on a counter guarantee from an instructing bank, as opposed to the direct guarantee issued directly by that bank towards the beneficiary.

**inspection certificate** Frequently used document where an independent third party verifies the quality, quantity or other aspects of the goods prior to shipment, in most cases upon instruction from the buyer.

**Institute Cargo Clauses** Nowadays mostly used standard cargo or marine cargo clauses in international trade.

**instructing bank** The bank forwarding instructions on behalf of the principal to a local bank (the issuing bank) to issue a guarantee in favour of the beneficiary.

**interbank currency market** The market(s) established between major commercial and international banks for dealing in currencies (spot and forward), thereby also establishing interbank currency market rates.

**interbank money market** The market(s) established between major commercial and international banks for dealing in short term loans and deposits in most trade currencies, thereby also establishing interbank money market rates.

**interest contingency insurance** Where the seller takes a subsidiary transport insurance, should the buyer not fulfil their contractual obligation to insure the goods.

**interest swap** An arrangement with a third party, usually a bank, where a commercial party wanting to hedge the interest rate agrees to exchange (swap) floating into fixed interest rate, or vice versa, during a fixed period.

**International Bank Account Numbers (IBAN)** A fixed bank account numbering standard used within Europe, according to EU rules, often in connection with bank transfers.

**International Chamber of Commerce (ICC)** The world's only truly global business organization, based in Paris. They are also the issuing institution of generally accepted rules governing guarantees, documentary collections and letters of credit.

**international leasing** *See* cross border leasing.

**intrinsic value** Term used in connection with currency options and describes the amount, if any, which could be realized if the option was to be sold before maturity.

**investment insurance** A form of insurance covering a number of long-term political risks, potentially affecting the value or performance of an overseas investment.

**invoice discounting** Arrangements for provision of finance against the security of trade receivables, with recourse to the seller. *See also* confidential factoring.

**irrevocable letter** Under the new ICC rules (UCP 600) all letters of credit are by definition irrevocable, and therefore it is not necessary to state this term in an L/C.

**ISP 98** International Standby Practices, rules covering standby letters of credit, issued by the International Chamber of Commerce.

**issuing bank** The bank issuing a letter of credit on behalf of the applicant (the buyer). Also called the opening bank. The expression is also used when issuing a bank guarantee on behalf of the principal.

**joint and several guarantees** The normal form of bank guarantee, where the beneficiary, at their discretion, can claim either the guarantor or the principal.

**joint ventures** In this book, arrangements in primarily many developing and/or emerging countries, where the seller participates as co-owner in a project or in a larger export scheme to and within the local country.

**jurisdiction** The place agreed on in contracts and financial instruments where disputes, if any, should be settled legally.

**key customer risk insurance** Insurance policies covering and capping the outstanding risk on certain key risks in the seller's export ledger.

**L/C** Abbreviation for letter of credit.

**legalization** Certification of documents, normally done by an official or appointed representative of the buyer's country.

**lessee** The contractual end-user of the machinery/equipment in a lease contract.

**lessor** The owner and contractual counterpart to the lessee in a lease transaction.

**letter of credit (L/C)** A method of payment whereby an issuing bank, upon instruction from the buyer, guarantees the seller to pay a specified amount of money

against the presentation of compliant documents within a specified time period. Often also called documentary credit or just credit.

**letter of indemnity** A bank guarantee issued on behalf of the buyer in favour of the shipping company against their delivering of the goods without presentation of the original bill of lading.

**letter of support, letter of comfort or letter of awareness** Different forms of undertakings, but not in the form of a guarantee, normally issued by a parent or group company, indirectly supporting credit or other obligations assumed by subsidiaries or affiliate companies.

**London Interbank Offered Rates (LIBOR)** The interbank money market in London for short-term loans and deposits in most currencies, thereby establishing this market's lending interest rates.

**lines of credit** Arrangements of credit lines between banks in some countries and local banks in mostly developing countries, to be used for financing of small and medium-sized export transactions from that country.

**master letter of credit** The term for the original letter of credit, based on the security of which a second letter of credit is issued. *See also* back-to-back letter of credit and transferable letter of credit.

**matching** The offering of government-supported credit risk insurance cover to suppliers in one country on the same terms as offered by other government agencies to their exporters.

**maturity** Due date for a term bill of exchange or other financial instrument.

**method of payment** The agreed form of payment to be used by the buyer, either open account payments through bank cheque or bank transfer, or by documentary collection or a letter of credit.

**money laundering** A process, also carried out in connection with international trade, through which the proceeds of criminal activity are disguised to conceal their actual origins.

**multimodal transport document** Transport document evidencing shipment of goods by more than one means of transportation.

**negotiable document or instrument** A document or financial instrument where rights and obligations are freely transferable to another party.

**nominated bank** An expression used in the ICC rules for a bank authorized by the issuing bank not only to negotiate but also to pay or to accept drafts as the case may be.

**non-compliant documents** Where the documents presented, or their details, are not in accordance with the terms and conditions of the letter of credit.

**non-convertible currencies** Currencies not traded freely on an international currency market, often restricted by internal regulations and currency controls.

**non-negotiable documents/instruments** Documents or financial instruments where their rights and obligations are not freely transferable to another party.

**non-recourse financing** *See* project finance.

**non-tariff barriers** A general phrase describing non-regulated and often disguised barriers to international trade, mostly practised by individual countries to protect their own trade or industry.

**notified factoring** Financing of invoices of which the buyer is fully informed, normally through an assignment on each invoice. In this book also called factoring.

**notify party** The party who is to be informed by the carrier about the arrival of goods at the destination.

**noting** The first stage in protest of a dishonoured bill of exchange.

**ocean/marine bill of lading** *See* bill of lading.

**on-board bill of lading** Notation on the bill of lading that the goods have been loaded on board the ship. Often a requirement in the letter of credit.

**on-demand guarantee** *See* demand guarantee.

**‘on their face’** An important expression when dealing with documents and letters of credit, indicating that banks examine the presented documents with reasonable care, but without responsibility for their accuracy or genuineness.

**open account (payment terms)** Payment terms often including a short-term supplier credit, extended to the buyer at shipment without any written evidence of indebtedness.

**opening bank** Expression sometimes used instead of (letter of credit) issuing bank.

**operating lease** An arrangement where the lessee is using the equipment on a less than full payout basis and where the risk of ownership rests with the lessor who thereby also retains a financial risk in the arrangement.

**Organization for Economic Co-operation and Development (OECD)** An international state organization helping governments to implement common economic and social solutions globally and establishing common rules for government support of trade and industry.

**outright forward rates** Another expression for forward exchange rates normally quoted to customers as compared to the forward points quotations between banks, *see* that term.

**parallel financing** *See* co-joint financing.

**(The) Paris Club** An informal group of official creditors whose role it is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.

**payment exposure** The currency exposure resulting from in- and outgoing flows in foreign currency within the company, often reflecting the potential and real currency risk. The opposite is balance exposure – *see* that term.

**payment guarantee** Undertaking, normally in the form of a bank guarantee, on behalf of the buyer, to pay for the seller’s contractual delivery of goods or services.

**performance guarantee** A very common contract guarantee, covering the seller’s delivery and performance obligations according to the contract.

**points** The spread in the interbank currency market between the buying and selling rate. *See also* forward points.

**political risks** The risk for a commercial transaction not being performed due to measures emanating from the government or authority of the buyer's own or any other foreign country.

**postal risks** The risk of cheques or documents not being received by the counterpart, with risk for non-performance and/or payment disputes and delays.

**pour aval** *See* avalize.

**pre-contract CIRR** *See* Consensus.

**premium** The up-front fee that the buyer of a currency option pays to their counterpart, usually a bank, similar to an insurance premium.

**presenting bank** The bank presenting the documentary collection to the buyer and collect payment. Also called collection bank.

**pre-shipping finance** Finance earmarked for manufacturing or other costs for an export transaction until shipment, often based on the structure of the sales contract and/or supported by the chosen method of payment.

**principal** Party instructing a bank in a collection or when issuing a guarantee. *See also* applicant.

**product risks** Risks, including manufacturing and shipping risks, which are related to the product itself, and which the seller has to evaluate and cover in order to be able to fulfil their contractual obligations.

**progress payment guarantee** Undertaking on behalf of the seller to repay payments made by the buyer according to contract but where the buyer, because of the seller's non-fulfilment, cannot make use of the delivery until completion.

**project finance** Finance arrangements for larger projects, generally based on the revenues of the project to a high degree, mostly secured on its assets and less on the creditworthiness of the buyer. Often called non-recourse financing.

**promissory note** A form of financial instrument in international trade and more detailed than a bill of exchange, where the buyer irrevocably promises to pay to the seller according to a fixed schedule.

**protest** The formal procedure after noting of a dishonoured bill, where the notary public issues a formal protest, which can be used in legal proceedings.

**purchaser risks** *See* commercial risks.

**put option** A term used in connection with currency options, where a company purchases a put option to hedge a scheduled payment in foreign currency. The opposite is a call option – *see* that term.

**rail waybill (RWB)** Rail transport document as receipt for goods and evidence of freight agreement. RWB is not a document of title and is not needed to claim the goods.

**recourse** The provision whereby a refinancing party reserves the right against the seller to reclaim any amount not paid by the buyer (drawee) on maturity date of the refinanced instrument.

**red clause letter of credit** A letter of credit containing a clause that authorizes the advising or nominated bank to make an advance payment to the seller prior to delivery of conforming documents.

**reduction clause** A clause that automatically reduces the undertaking under a bank guarantee in line with the successive fulfilment of the obligations by the principal or in any other way, stated in the guarantee.

**reference banks** Banks selected in a loan agreement to be used as quoting banks to establish the reference interest rates.

**reference interest rates** The recognized money market rates for most trade currencies, established on an interbank market at a specific time during the day, or established in any other way as specified in a loan agreement.

**repurchase agreements (A)** Trade in which payment is made through products, generated by the equipment or goods being delivered by the seller.

**repurchase agreements (B)** Arrangements used in leasing transactions as additional security for the lessor, where the original supplier agrees to repurchase or arrange in some other way for the equipment in case of default of the lessee.

**retention money guarantee** Undertaking on behalf of the seller to comply with any obligation after delivery such as installation, start-up, etc, but where the buyer has already made payment.

**revocable letter of credit** Formerly a form of letter of credit, which could be cancelled or amended during its validity. Under the new ICC UCP 600 this is no longer a defined term, since all L/Cs are by definition irrevocable.

**revolving letter of credit** A letter of credit that is automatically reinstated after each drawing, but with some restrictions on total amount or number of reinstatements.

**sight bill** *See* at sight.

**silent confirmation** A confirmation of a letter of credit towards the seller made by the advising bank or some other party, but without the instructions to do so from the issuing bank.

**Society for Worldwide Interbank Financial Telecommunication (SWIFT)** An international cooperative bank network for payments and messages.

**soft currencies** The opposite of hard currencies, *see* that term.

**spot exchange rate** The fluctuating market price of one currency expressed in terms of another currency, for immediate delivery.

**spot market** The market for currency exchange transactions with immediate delivery or typically within two banking days.

**standby letter of credit** As opposed to an ordinary commercial letter of credit, the standby letter of credit is usually drawn on only in cases where the applicant fails to perform a specified obligation. The standby letter of credit is often used as an alternative to a bank guarantee.

**strike price** Also known as the exercise price, which is the stated price at which the holder of a currency option has the right to exercise the option at maturity.

**structured trade finance** In this book a reference to ad hoc trade finance techniques, often arranged by or through specialized financial institutions.

**subsidiary insurance** *See* interest contingency insurance.

**supplier credit** Arrangements where the seller is extending a fixed credit period to the buyer, either in connection with open account trading terms or for longer periods often evidenced by an accepted financial instrument.

**surety bond** An undertaking from a third party, often an insurance or a surety company, to pay a certain sum of money or under certain conditions with the alternative obligation to fulfil or arrange for the completion of the underlying commercial contract, should the principal default in their obligations.

**SWIFTBIC** *See* bank identifier code (BIC).

**tender exchange rate insurance** The use of insurance in order for the seller to cover the outstanding currency risk between the period of a firm offer until acceptance, if any, from the buyer.

**tender guarantee** Undertaking on behalf of the seller to stand by the offer/tender, should it be accepted. Often also called bid bond.

**term bill** Bill of exchange to be paid at a later due date.

**terms of delivery** The detailed terms and conditions agreed between the parties to govern the delivery of goods. The rules set by ICC, Incoterms 2000, are by far the most commonly used in international trade.

**terms of payment** The complete terms and condition agreed between the commercial parties, related to the buyer's payment obligations, including the chosen method of payment.

**third-party documents** Documents under letters of credit (and collections) issued by other parties where the seller must be certain these can be correctly issued for presentation under the L/C (or be included in the agreed collection documents).

**Trade Facilitation Programme** The EBRD's programme for promotion and support of foreign trade with central and eastern European and the CIS-countries.

**trade practices** Established trade rules in a country either by common practice or by rules set by ICC, which are by far the most commonly used in international trade.

**trade refinancing** Any arrangement where the seller is using receivables or separate finance instruments to offload a trade credit given to the buyer.

**transfer guarantee** A separate undertaking issued by a central bank or authorized commercial bank, guaranteeing both the allocation and the transfer of foreign exchange out of the country.

**transfer risk** Restrictions caused by government authorities, preventing the buyer from purchasing the foreign exchange for local currency and/or transferring the currency out of the country.

**transferable letter of credit** Permits the seller to transfer under certain conditions the rights and obligations under the letter of credit to one or more of their suppliers.

**two-factor export factoring** An arrangement where the seller's factoring company (the factor) makes use of a local factoring company for direct contacts with the foreign buyer. *See also* direct export factoring.

**UCP** UCP 600, Uniform Customs and Practice for Documentary Credits. ICC rules for letters of credit.

**unconditional guarantee** *See* demand guarantee.

**unconfirmed letter of credit** The issuing bank always guarantees a letter of credit, but if unconfirmed, no other bank has the obligation to honour compliant documents when presented by the seller.

**undertaking to provide guarantee** Undertaking to have the relevant guarantee issued if the offer is successful. Often issued by a parent or group company in support of a subsidiary.

**unfair calling** Claim by the beneficiary under a demand guarantee without having any contractual reason to do so.

**URC** URC 522, Uniform Rules for Collection, issued by the ICC.

**URCG** URCG, Uniform Rules for Contract Guarantees, issued by the ICC.

**URDG** URDG, Uniform Rules for Demand Guarantees, issued by ICC.

**usance bill (or usance letter of credit)** An expression sometimes used for a term bill of exchange or letter of credit with a future payment date, thereby extending the buyer a specified period of credit.

**validity period** The period under which a guarantee, a letter of credit or any other similar undertaking will be honoured by the issuing bank.

**value date** The execution date for foreign exchange contracts.

**warranty guarantee** Undertaking on behalf of the seller, covering any contractual maintenance or performance obligations during a period of time after delivery or installation.

**with/without recourse** *See* recourse.

**(The) World Bank** The expression that has come to be used for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), two of the United Nations' specialized agencies. These organizations provide low-interest loans, interest-free credit, and grants to developing countries.<sup>a</sup>