
TD Bank, N.A. – Global Trade Finance

Strategies for Smart Business Growth & Market Expansion

November 6, 2014

Topics to be Covered

- **Compliance – KYC & KYCC**
- **Basic Requirements**
- **Goal of Your Trade Provider**
- **World Trade Data**
- **Import & Export Trade Solutions**
- **Types of Bank Borrowing**
- **Traditional Risk Spectrum**
- **Supply Chain Finance Products**
 - Bankers Acceptances
 - Standby Letters of Credit
 - Reverse Credit Insurance
 - Bank Payment Obligation – *Coming Soon!*

Compliance:

“Know Your Customer” includes “Know Your Customer’s Customer!!”

- **Overall, increased compliance requirements for exporters**
 - Dept. of State (Directorate of Defense Trade Control), Dept. of Homeland Security (Customs), Dept. of Defense (Defense Technology Security Administration), National Security Administration (NSA), Dept. of Treasury (OFAC), Dept. of Treasury & IRS (Boycott Control), Nuclear Regulatory Agency
- **OFAC (Office of Foreign Asset Control)**
 - Specially Designated National & Blocked Persons list
 - Specific requirements vary for each country
 - Countries under embargo – Cuba, Iran, N. Korea, Sudan, Syria
 - Other sanctioned countries – Balkans, Burma (Myanmar), Congo D.R., Ivory Coast, Liberia, Sierra Leone, and Zimbabwe
- **Internal (Bank) Compliance Requirements**
 - Bank Secrecy Act (BSA) / Boycott Clauses / OFAC Review / Anti-money Laundering (AML)
- **Very different “global” environment**
 - Technology improvements - both good news and bad news
 - Bank product delivery & ability to re-create Bank instruments / Commercial Documents
 - Forged / fraudulent documents and/or phrases: Conditional SWIFT Payment; Good, Cleared Funds; Zero-coupon L/C; Irrevocable Bank Purchase Order

Compliance requirements are not going away!

Exporting is considered a privilege NOT a right!

Please remember.....

***Any Court Order (injunction) trumps
EVERYTHING (any bank product and
obligation)!!!!***

- ***Temporary vs. Permanent?***
 - ***Where is your product?***
- ***If a documentary product is used, your
buyer has the “documents”.***

Common Sense for Exporters – Do Not Assume...!!

...that selling goods internationally is the same a domestic transaction

...that getting paid internationally is the same as getting paid domestically

...that the money transfer system works the same way overseas as in the U.S.

...that your overseas customer will be looking out for your best interests

...that international payment terms need to be complex



Exporters – Assess Your Credit Risks

Establish a line of communication (“a process”) involving all key employees involved in sales, finance, manufacturing, management, logistics & traffic groups when selling overseas.

- Establish your credit appetite
- Establish your shipping process / policy
- Organize the export process (ISO)
- Use the process (!!!)
- Review the process (!!!)
- Amend as needed (!!!)



Exporters – Assess the Country and Political Risk(s)

*If you can't spell the name of the country ...
or pronounce it...*

- Is the country politically unstable?
- What boundaries will your goods cross?
- How financially stable is the banking system in the country of import?
- Can this country's government dictate regulations and control over foreign trade? Terms extended? Their currency?
- Are there eminent threats to this country's national security?
- Can the government seize your goods without payment?



Your Trade Banks Goal – To help and assist

Pre-shipment: Reduce risk to Trade Customer

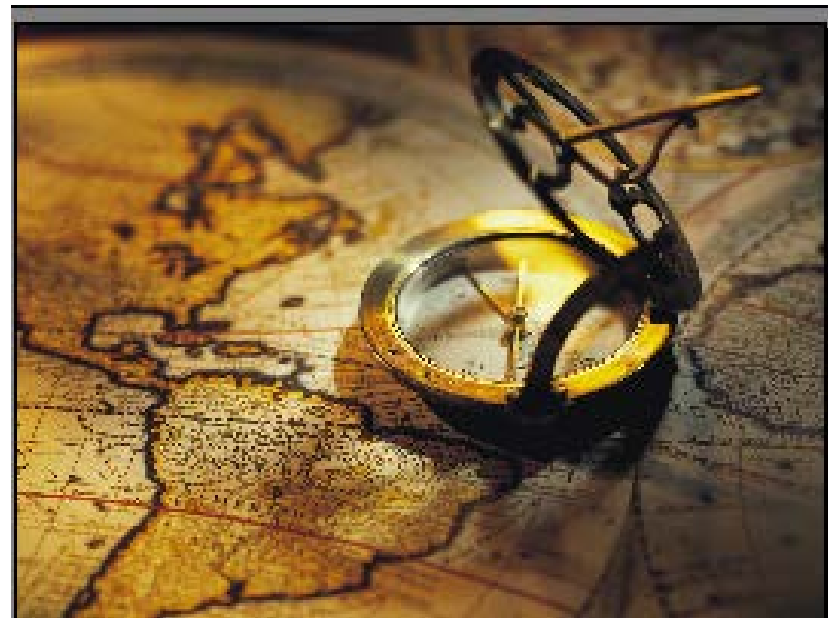
- Advise and provide alternatives and / or guidance
- Suggest credit mitigation products and programs
- Provide training when requested

Post shipment: Processor / Monitor

- Act as your financial intermediary
- Facilitate payment on your behalf
- Provide a process enabling clients to create, receive, and dispatch critical sensitive documents with minimal effort and maximum speed

To Do's....

- Obtain Trade Ops contact information
- Obtain Trade Fee Schedule
- Obtain Bank's Export L/C Instruction Sheet (SWIFT address)



World Trade 2010 Volume & 2015 Volume Projection

- Data reported by *SWIFT* – Society for Worldwide Interbank Financial Telecommunications
 - *SWIFT* is a global provider of secured financial messaging services (I.E. covering payments occurring bank-to-bank via open account and the various documentary products)
 - There are 10,000 users of *SWIFT* in 212 countries; primarily banks
- 2010 trade volume was \$15 trillion; L/C activity represents \$2.5T (17%); open account represents \$12.5T (83%)
- 2015 trade volume is projected to reach \$33 trillion; L/C activity represents \$3.5T (11%); open account represents \$29.5T (89%)

Import Solutions

Pre-Import - Improves working capital

Domestic Borrowing Structure

- Domestic AR @ 75–85%
- Domestic Inventory @ 0–25/50%

Post Import - Credit Mitigation Products

Credit Risk Protection:

- Import Documentary Collections (non-credit vehicle)
- Import L/C's
- Standby L/C's issued in favor of the Exporter as a credit support

Post Shipment Financing:

- Banker's Acceptances (B/A's)

Export Solutions

Pre-Export - Improves working capital availability using Foreign Collateral

Export Working Capital Programs:

- Small Business Administration
- EXIM Bank

Benefits of Export Working Capital Programs

- Facilitate lenders to lend against “export collateral”
- Includes Acceptable Foreign AR and or Exportable US Inventory at favorable advance rates
- Lender obtain guarantee (RAROC)

Post Export - Credit Mitigation Products and Programs

Credit Risk Protection:

- Export Documentary Collections (non-credit vehicle)
 - DP / CAD vs. DA (Sight vs. Time)
- Export Letters of Credit (non-credit vehicle)
 - Confirmation of the Letter of Credit
 - Discount Time Drafts
 - Standby L/C's received from buyer
- Short & Medium Term Export Credit Insurance Coverage (EXIM or Private Providers)
- Medium & Long Term Guarantees
 - Supplier / Buyer Credits
 - Direct Loan

Types of Bank Borrowing

(Assumes a credit facility has been approved by a bank)





- **Hard dollar borrowings:** based on a cash advance (loan) which is priced using a specific interest rate.

- **Soft dollar borrowings:** issuances of contingent liabilities which is priced using a specific fee schedule.
 - Contingent liability to the customer; subject to something happening (L/C – presentation of “clean” documents)
 - Contingent liability to the bank; once issued, bank must pay if there is a presentation of “clean” documents

Other type of borrowing:

- **Cash Collateral:**
 - 100% coverage with cash or securities, subject to bank policy

Traditional Risk Assessment – without any credit mitigant

<u>Seller / Exporter</u>		<u>Buyer / Importer</u>
<i>High Risk</i>		<i>Low Risk</i>
Relies completely on buyer to pay as previously agreed	<i>Open Account</i>	No Risk
		
Relies on buyer to pay draft on presentation of documents or upon maturity	<i>Documentary Collections</i>	Relies on seller to ship goods as described in the documents
		
Risk of own non-performance in adhering to all requirements in the L/C	<i>Letters of Credit</i>	Relies on seller to ship goods as described in the L/C and by when, also stated in the L/C
		
No Risk (Unless buyer asks for an advanced payment guarantee/SBLC)	<i>Payment in Advance</i>	Relies completely on seller to ship goods as ordered
		

Bankers Acceptances (B/A) – For BUY SIDE

Description:

- Finances international or domestic US trade transactions of finished goods up to a maximum term of 180 days. Transaction must be “self liquidating”. Can finance storage and the eventual shipment and collection periods. Not for use to acquire raw materials and cover manufacturing costs (I.E. general working capital needs). Qualification subject to Federal Reserve reg’s.

Features and Benefits:

- Lower cost of borrowing – Hard dollar line of credit priced at BA rate plus spread; may require collateral; B/A rate equivalent to LIBOR rate...before any spread
- Shipment of inventory must be within 30 days; must “own” it; provide proof
- Short term financing alternative; off a sight documentary credit or D/P collection or cash purchase (AKA a clean B/A)

Standby Letters of Credit (SBLC)

▪ Description

Issuing Bank agrees to pay Beneficiary, through the advising bank, if the applicant, fails to perform as per the T&C's of the L/C.

▪ Features and Benefits

Less expensive than insurance bonds when our customer, the applicant, is asked to provide a performance bond, construction bid, or backup for a financial obligation – i.e.. Unpaid invoices, lease coverage, workman's comp requirements or loans.

▪ Requirements

- DDA
- Commercial lending relationship providing a line of credit
- Completion of SBLC application
- L/C and Loan documentation; required language to be included in SBLC
- Alternative - 100% collateralized; declining

Standby Letter of Credit / Bank Guarantee

- Secondary Payment Vehicle drawn down in event of default
- Beneficiary obtains payment by presentation to a bank of a draft and some form of written demand, which may include a statement that the applicant is in breach of their contractual obligation(s).
- Conditions of default integral part of the language within a SBLC
- Uses include: Bid Bonds, **Performance Bonds**, **Advance Payment Guarantee**, Lease and Open Account Credit Guarantees
- Can be confirmed and can include “evergreen” clause – auto-renewal clause
- Pricing based on risk and term - % of L/C amount or minimum
- Subject to ISP 98 or UCP 600 (International vs. Domestic usage)

Bank Guarantee – if applicable

- *Not a Standby L/C but similar usage*
- *US Banks do not accept or issue Bank Gtees*
- Subject to URDG 758 (Uniform Rules for Demand Guarantees)
- US Bank issues SBLC (Counter Guarantee) to Foreign Bank as support for that Bank’s issuance of their Bank Guarantee to the in-country Beneficiary

Reverse Credit Insurance – For BUY SIDE

Description:

- Credit insurance covering non-payment of enforceable payment obligations resulting from Obligor insolvency or slow payment (and political events for foreign transactions). Insurance on payables in favor of Obligor's Vendor or Bank.

Features and Benefits:

- Typically single-buyer coverage structure written on a non-cancelable basis for 12 months with 90% indemnity; deductibles determined on case-by-case basis
- Coverage is typically “shipments attaching” meaning shipments / funding made by the Vendor/Bank during the 12 month period are covered
- Obligor's don't have to be the “big box” companies
- Pre-approval capacity shared with Vendors; obtain longer terms, larger credit lines
- Removes Vendor requirements for other credit enhancements like SBLC's

COMING SOON - Bank Payment Obligation (BPO) – For BOTH

Description:

- An irrevocable undertaking given by the buyer's bank to the seller's bank that payment will be made on an agreed date after a specified event has taken place for a transaction between buyers and sellers who chose not to use documentary instruments. The specified event is an exchange and validation of data (match report) or acceptance of mismatched data.

Features and Benefits:

- Combines some features of a documentary credit (irrevocable undertaking, exchange of documents and universally accepted rules – ISO 20022) and open account
- Automated solution via SWIFT's Trade Service Utility (TSU) or equivalent transaction matching applications used by participating banks
- Caution: Banks participating require a substantial BPO relationship - \$XX,000,000 minimum

Bank Payment Obligation (BPO)

Benefits for Buyer's:

- Demonstrates ability to pay and can (possibly) negotiate improved terms in future transactions
- Payment by bank is only made when seller complies with specific T&C's (I.E. 60 days after match) and produces the required data

Benefits for Seller's:

- Eliminates the physical document checking
- Reduces the risk of buyer cancelling or changing the order
- Non-payment risks shifts from buyer to buyer's bank (Obligor Bank)

Questions & Answers



Thank you very much!!!!

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