

BANK

# Risk Management in International Trade

A guide to conducting safe import  
and export transactions

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# 1 DOCUMENTARY BUSINESS IN INTERNATIONAL TRADE

## 1.1 How to Lower Risks in International Trade

International business entails more varied and greater risks than those encountered in domestic markets.

The risks in international trade are primarily:

- the contractual partners abroad themselves,
- the economic and political situation in the importing country,
- the available foreign currency reserves of the importing country,
- currency risks, and
- transport risks.

Therefore, it is very important to implement risk minimisation measures at an early stage.

### **Primary goal of the exporter:**

- Ensuring the timely payment of the amounts due to the exporter.

### **Primary goal of the importer:**

- Ensuring that the goods/services ordered arrive in due time and in the contractually agreed condition.

During the contract negotiations, the agreement on payment and delivery terms is of very high priority. The terms of payment depend on the business competition, the market situation and the negotiation skills of the business partners.

### **Important payment methods**

(according to the degrees of importance for the exporter or importer):

- Prepayment (down payment)
- Irrevocable, confirmed documentary credit
- Irrevocable, unconfirmed documentary credit
- (Documentary) payment guarantee, standby L/C
- Documentary collection D/P
- Documentary collection D/A
- Bill of exchange acceptance
- Clean payment

## 1.2 The Documentary Credit

The documentary credit is an instrument that serves to mitigate the risks inherent to international business both on the buyer's and the seller's side. It still is the most effective and commonly used instrument to secure international commercial transactions.

A documentary credit represents a bank's contractual commitment to pay on behalf of the applicant (buyer), within a fixed period of time, in favour of the beneficiary (seller), upon presentation of exactly prescribed documents which must satisfy the requirements of the documentary credit.

### **Seller's advantage**

The **payment** on the part of the issuing bank is **not linked to the underlying transaction** and takes place against presentation of the proper documents. Therefore, the **seller does not depend on the buyer's solvency and/or willingness to pay**.

### **Buyer's advantage**

As the applicant of the documentary credit, the buyer has the **option** to prescribe **the type and content of the documents that need to be presented** (e.g. invoice, proof of transport, proof of insurance, etc.), depending on the type of the underlying transaction. The seller can be certain that payments in the context of the documentary credit will only be made if the documents are in conformity with the required terms.

For both contracting parties it is important to know that the basis for judging the conformity of the documents is provided by the "**Uniform Customs and Practice for Documentary Credits**" (UCP 600), published by the International Chamber of Commerce (ICC) in Paris. The purpose of the UCP 600 guideline is to ensure there is a uniform way of processing documentary credits, which is accepted internationally. Practically all banks around the world adhere to these rules.

**"Instructions for the issuance of a documentary credit, the credit itself, instructions for an amendment thereto, and the amendment itself must be complete and precise."**

- As a matter of principle, it is in the interest of the applicant to specify the instructions to the bank precisely and completely, in order to enable the bank to open a documentary credit that corresponds to the contractual agreements.
- To guard against misunderstanding and confusion, banks should discourage any attempt to include excessive detail in the documentary credit or in any amendment thereto.

**Overview of important provisions of the UCP 600:**

**a) “A documentary credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit.” (Extract from Article 4)**

- The bank’s obligations under the documentary credit are entirely separate from the underlying transaction.
- During the documentary credit transaction, the bank may only rely on the wording of the documentary credit.
- Contractual provisions that deviate from the wording of the documentary credit and/or claims or objections on the part of the applicant cannot be considered.
- **For the bank, only the wording of the documentary credit is relevant.**

**b) “Banks deal with documents and not with goods, services or performance to which the documents may relate.” (Article 5)**

- The banks only check if all received documents are in accordance with the documentary terms.
- The goods or services are not being checked!
- Possibly defective goods or services are to be clarified between the buyer and the seller.
- The banks deal solely with the documents.

**c) A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon.” (Extract from Article 34)**

- The banks must examine the documents stipulated in the documentary credit with reasonable care to ascertain whether or not they appear on their face to be in compliance with the terms and conditions of the documentary credit.

**d) “Compliance of the stipulated documents on their face with the terms and conditions of the documentary credit shall be determined by international standard banking practice as reflected in the UCP 600.”**

- Examination of the documents by the banks takes place exclusively on the basis of the criteria laid down in the UCP and pursuant to a recommendation issued by the International Chamber of Commerce (“International Application of the UCP Articles on the Examination of Documents” and “International Standard Practice for Letters of Credit”). With regard to the effectiveness of documents, the transmission of messages, force majeure and the actions of an instructed party, disclaimers of liability are in place (Article 14).
- Further examination does not take place and liability is not guaranteed, as this would be impossible due to the multitude of different documents that are issued in international trade.
- The banks do not assume any liability or responsibility for the consequences arising out of delay and/or loss in transit of any messages, letters or documents, or for the consequences arising out of the interruption of their business by force majeure, war, etc. (Article 36).

For the correct handling and usage of the documentary credit as a payment instrument it is important to know that this form of payment practically is a **formal business transaction**, meaning that once the credit has been issued it is totally detached from the underlying contract. The payment only depends on the presentation of the stipulated documents and the fulfilment of the UCP terms, but not on the delivery of the goods.

### **Example of a transaction guaranteed by a documentary credit**

It is extremely important to stipulate the individual terms of the credit transaction during the contract negotiations clearly and correctly.

#### **Stage 1**

##### **Offer**

Exporter proposes a documentary credit as a payment mode.

##### **Documentary credit negotiations**

Exporter and importer negotiate and conclude on the credit terms.

##### **Important to exporter and importer**

- Counselling by their banks
- Detailed and concrete outline of the payment conditions in the sales contract

#### **Stage 2**

##### **Conclusion of the contract**

The buyer agrees to the seller's offer and signs the sales contract.

##### **Opening of the L/C**

The buyer instructs his own bank to open the letter of credit for the buyer through the advising bank.

##### **Important to the importer**

Complete and precise instructions for the issuance of a documentary credit.

##### **Important to the exporter**

Thorough examination of the contents of the letter of credit issued by the bank (Can all the conditions stipulated in the L/C be fulfilled?).

#### **Stage 3**

##### **Delivery**

The seller delivers the ordered goods and supplies the documents stipulated in the L/C.

##### **Utilisation of the credit**

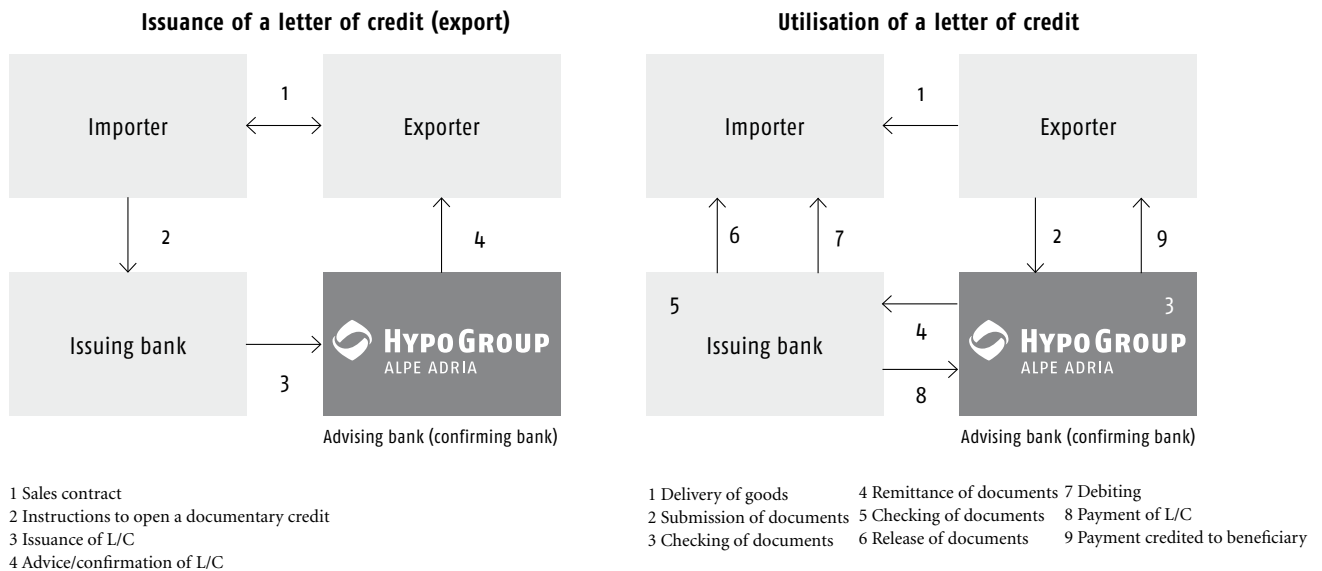
The seller, through the advising bank, submits the documents to the issuing bank for payment (the issuing bank "honours" the credit).

##### **Important to the exporter**

Procurement and presentation of the documents required for the utilisation of the credit within the stipulated period of time.

### **As a general rule, four parties are involved in the process of issuing a documentary credit:**

- Applicant for the credit (buyer, importer)
- Issuing bank (opening bank) in the country of the buyer
- Advising bank (confirming bank) in the country of the seller
- Beneficiary of the credit (seller, exporter)



### 1.2.1 Basic Forms of Documentary Credits

#### Credits ranked according to the security offered to the beneficiary

##### Revocable documentary credit

Revocable documentary credits may be amended or cancelled by the issuing bank at any time without notifying the exporter in advance. They are not frequently used because this mode of payment offers a very limited degree of security.

##### Irrevocable documentary credit

An irrevocable documentary credit creates an irrevocable obligation to pay for the issuing bank. Therefore, there is a high level of certainty for the seller that he will receive payment for the goods/services delivered if he adheres to the terms and conditions of the credit.

##### Irrevocable, unconfirmed credit

The beneficiary is merely advised by the advising bank that the documentary credit has been initiated, without any obligation on the part of the bank to honour payment. The advising bank is therefore not obliged to pay upon presentation of the beneficiary's documents.

The beneficiary has to rely on the payment promise of the foreign issuing bank. Therefore, the irrevocable, unconfirmed credit is only beneficial if the issuing bank's credit standing is good and the country's political and transfer risks are rather low.

##### Irrevocable, confirmed credit

If the advising bank confirms the credit to the beneficiary, it also assumes the obligation to honour documents that fulfil the stipulations of the L/C and are presented in due time. In this case, the beneficiary benefits from two independent recognitions of liability: the payment obligation of the issuing bank and also a legally equivalent and independent payment undertaking of the confirming bank. Therefore, the confirming bank assumes the political and transfer risks in the buyer's country as well as the economic risk of the issuing bank, which in turn eliminates these risks for the exporter. The confirmed credit offers very high security to the exporter, if opened by a bank abroad and confirmed by a domestic bank.

The banks' willingness to confirm the credit highly depends on the credit standing of the issuing bank and of the rating (risk classification) of the respective country. Therefore, it is advisable for the exporter to discuss in advance with his bank if and at which conditions and costs the bank would be willing to confirm the credit.

### **Credits according to the type of use**

#### **Sight credit**

After presenting and examining the documents, the beneficiary receives the proceeds of the credit step-by-step (at sight). The bank, in its turn, is entitled to use a reasonable period of time to examine the documents and acquire the proceeds.

#### **Deferred payment or acceptance credits**

Deferred payment credit: As soon as the proper documents are presented, the bank is authorised to issue a written promise to make a payment on the due date.  
Acceptance credit: The exporter draws a bill of exchange/time draft depending on the credit terms and does an acceptance instead of a payment.

Deferred payment or acceptance credits are payment term financing instruments for the buyer.

## **1.2.2 The Exporter and the Letter of Credit**

The exporter's main interest is the security of payments in export transactions.

**At the time of making the offer** it should be clear **what kind of risks and requirements concerning**

- credit standing and trustworthiness of the buyer,
- political, economical and legal situation in the importing country, and
- own liquidity, exist.

If a regular payment mode (open account) or other methods of payment are not to be considered, the exporter should ask, depending on the security degree, for an

- **irrevocable, unconfirmed credit** or an
- **irrevocable, confirmed credit.**

As a seller, you have the greatest possible degree of security if the credit is confirmed by your bank or by another first-rate domestic bank. Although the costs are somewhat higher, the increased security offsets the higher costs. As a general rule, if the political conditions in the country of the buyer are stable, there are no exchange restrictions, and the issuing bank has a high credit rating, the irrevocable, unconfirmed credit is sufficient. If any of the mentioned points do not apply it is advisable to agree on an irrevocable, confirmed credit.

**Advantages to the exporter using the documentary credit:**

- The issuing bank guarantees the payment according to the defined terms and conditions of the documentary credit, without depending on the buyer.
- The buyer cannot hold back the payment (intentionally or unintentionally), which clearly limits the financing costs.
- The buyer cannot hold back the payment under false pretences. If he wants to claim defects he has to claim these outside the credit. Therefore, the exporter is not in a payment depending position.  
The credit processing is regulated by the ICC's internationally recognised "Uniform Customs and Practice for Documentary Credits".
- Payment delays, as they frequently occur in deliveries on open account, are largely being avoided.

To benefit from the documentary credit, it is essential for the exporter to comply with all stipulations of the L/C, i.e. the exporter has to present complete documents that conform to the required terms in due time!

The following three points are highly important in export transactions that are to be secured by documentary credits:

**1. Exact stipulation of "documentary credit" as a term of payment in the contract**

During the conclusion of the sales contract, the terms for the payment method must be arranged. To avoid controversies over details of the planned credit, these important points affecting the exporter should be clarified during the contract conclusion:

- Import restrictions and foreign exchange controls in the importing country
- Bank of the buyer
- Business history and financial standing of the buyer's bank
- Necessity to ask for a confirmed credit
- If necessary: Is the seller's bank willing to confirm credits from the buyer's country and the buyer's bank?
- How much does the confirmation cost?
- Is an export risk guarantee issued by the federal government possible for the country of the buyer? Can this guarantee be used as a basis for a credit confirmation by a domestic bank?

Not only is the definition of the credit but also the inclusion of important data into the contract absolutely necessary. The following data is to be considered important:

- Which bank is opening the letter of credit, and must the credit be confirmed by the advising bank?
- Is payment to be made at sight or after sight (deferred payment)?
- Expiry of the credit; latest date of shipment
- Transport route, means of transport, etc.
- Delivery terms (according to INCOTERMS) – due to transfer of risks and costs
- Which credit costs are to be borne by which party?

- Which documents have to be presented upon utilisation?
- Are partial shipments/transshipments permitted?
- Date of issuing/advising the credit

The more accurately the documentary credit is defined in the contract, the greater the security that you will receive the letter of credit in the required form. Since the issuance of the credit is exclusively ordered by the buyer and opened by his bank, the contract is the only possibility to influence the contents of the letter of credit.

## **2. Exact examination of the letter of credit received**

After receiving the credit, the exporter, through his bank and/or an advising bank, has to examine the following:

- if he and his service performing companies (freight carrier, etc.) can meet all the individual conditions and terms stipulated in the L/C, and
- if the conditions are consistent with the agreements in the contract.

### **The following points are very important:**

- Are credit amount and currency consistent with the contract?
- Can all of the documents stipulated in the L/C be provided in the required form?
- Are the descriptions of the goods and the delivery conditions consistent with the contract?
- Can all deadlines stipulated in the L/C with regard to dispatch of the goods, presentation of the documents and expiry of the credit be fulfilled?
- Can the requirements (if any) stipulated with regard to shipping point, place of destination, means of transport, transport route, partial shipments, etc. be complied with?
- Does the transport insurance (CIF or CIP deliveries) provide the level of risk coverage required in the L/C?
- Has the credit – if agreed upon already – been confirmed?
- Does the splitting of the costs specified in the L/C comply with the agreement between the parties?

A thorough checking of the letter of credit received by the exporter is crucial because the advising bank is not informed about the exact content of the underlying contract. Therefore, the bank does not know if the letter of credit complies with the terms of the contract for delivery.

An analysis of the L/C by your bank and/or the advising bank is to be recommended because possible ambiguities can be clarified and the bank can point out important terms of the UCP 600 which are significant for the L/C in question.

## **3. Utilisation of the letter of credit by presenting the documents required by the L/C**

As soon as the shipment has been made the exporter has to procure the documents stipulated in the L/C and to submit those to the bank in compliance with the requirements of the L/C and in due time.

It is the bank's job to examine the documents with reasonable care and to ascertain whether they appear on their face to be in compliance with the requirements pursuant to the UCP 600 guidelines of the International Chamber of Commerce in Paris.

After checking and accepting the documents, the advising bank will honour the L/C it has accepted at the due date without any reservations. Without confirmation, it is not obliged to do so. However, if it acts as the payment agent (= nominated bank), it will, in most cases, also honour a letter of credit that has only been advised.

Documents that do not comply with the stipulations of the L/C have to be rejected by the advising/confirming bank within 5 banking days. This notification has to include all reasons for non-acceptance (discrepancies), and it must also indicate whether the bank will hold the documents at the disposal of the presenter or send them back to him.

If the defects in the documents cannot be remedied or if the documents cannot be resubmitted due to the expiration of deadlines, the bank, after consultation with the exporter, will pursue one of the following options:

1. It notifies the issuing bank about the discrepancies as soon as possible or sends the documents "under reserve" to the issuing bank to request authorisation to effect the payment.
2. It sends the documents to the issuing bank for approval. If the buyer is willing to accept the documents, they are handed over to him against payment.
3. It accepts – but is not obliged to – the documents "under reserve".

This approach may be chosen if the discrepancies in the documents are not major. **As every payment "under reserve" constitutes a pre-financing, the decision as to whether payment will be made rests entirely at the discretion of the nominated bank.** Should the buyer and/or the issuing bank refuse to accept the defective documents, the beneficiary must refund the amount paid out (plus commissions, charges and any interest) to the bank.

The "under reserve payment" expires, meaning the payment will be deemed final, after the issuing bank expressly accepts the documents (in most cases on the instruction of the buyer), or if the required notification of non-acceptance of the documents is not sent to the submitting bank in due time.

### 1.2.3 The Importer and the Letter of Credit

Even though the exporter is the main party profiting from the benefits of the letter of credit, the opening of such a credit gives the buyer a greater degree of security as well. Due to the terms stipulated in the L/C (documents, etc.) it helps the buyer to largely eliminate the main risk of contract performance by the exporter.

**By means of opening a documentary credit, the importer obtains the security that his business partner abroad only receives the funds if all the documents required by the L/C are presented in due time (usually after the shipping of the goods).**

However, the issuing of the letter of credit does not warrant that the exporter meets his delivery obligations.

In import transactions that are to be guaranteed by a letter of credit, it is advisable that the buyer and the seller discuss the payment mode in detail at the negotiation stage. If the letter of credit is the chosen method, the formulation should be explicitly expressed in the contract.

**The buyer should consider the type of credit which best suits his needs, the documents that must be presented to obtain payment, and the period of time during which the letter of credit is in effect.**

#### **Advantages to the importer using the documentary credit:**

- Strong position in negotiations (the willingness to open a documentary credit provides elbowroom in negotiating the price, the discount and the terms of payment)
- Interesting business partner from the seller's viewpoint (with an L/C, the seller obtains a high degree of security and payment in due time)
- In order to receive the payment that is guaranteed by the L/C without restrictions, the seller must fully adhere to the delivery terms and provide the documents stipulated in the L/C in the required form and in due time. (For his own benefit, the seller will therefore endeavour to satisfy the agreed terms of the letter of credit!)

The importer should bear in mind, however, that under a letter of credit the bank's payment depends solely on the presentation of the documents stipulated in the L/C. In a transaction involving payment by letter of credit, the banks only deal with documents, and never with goods. If the submission of the required documents takes place in due time, but the delivered goods do not comply with the agreed terms, the notice of defects or replacement claims have to be addressed directly to the seller.

**Two major points are important in import transactions guaranteed by documentary credits:**

**1. Exact stipulation of the payment term “documentary credit” in the sales contract (L/C clause)**

Besides choosing the right type of credit it is useful to include the following essential data concerning the L/C that you (as the importer) will have to open at a later point into this clause:

- Which bank is opening the credit?
- Is the credit to be confirmed by a foreign bank? (As a rule, an agreement on the confirmation of the L/C is not necessary due to the good international rating of Austrian banks.)
- Sight payment or deferred payment (terms of payment)
- Payable at which bank? (If possible, at the issuing domestic bank)
- Expiry date; latest date of shipment
- Delivery terms (according to INCOTERMS) – because of the transfer of risks and costs
- Which credit costs are to be borne by which party?
- Which documents have to be presented upon utilisation?
- Are partial shipments/transshipments permitted?
- Date of issuing the letter of credit
- Are potential customs benefits dependent on the presentation of certain documents (i.e. preference – certificate of origin)?

**2. Complete and exact application instructions for your bank to open a documentary credit**

The issuing bank examines the received order to open a documentary credit according to the instructions of the customer (subject to the existing credit line). The checks include completeness and plausibility of the order.

Special forms for the issuance of documentary credit orders are available at HYPO ALPE-ADRIA-BANK AG (see appendix/forms).

**1.2.4 Special Forms of the Letter of Credit**

**The documentary credit as a financing and security instrument in transit trade**

The documentary credit may serve as a financing instrument or as an additional security of credits for the purchase or/and the production of exporting goods.

**Transferable letter of credit**

A transferable letter of credit is a credit under which the beneficiary (intermediary) may request the bank to make the credit available to a third party (supplier). The intermediary is usually anxious to withhold the name of the producer and the sub-supplier from the applicant for the original L/C (buyer). In this case, the credit applicant and the transferring bank should make agreements concerning the L/C's wording before the opening of the credit.

It should be borne in mind, however, that the **bank is not obliged to effect the transfer**. If it decides to grant the first beneficiary's request for a transfer, the transferred credit must accurately reflect the terms and conditions of the original credit (pursuant to Article 38 of the UCP 600) with any or all of the following exceptions:

- the amount of the credit,
  - any unit price stated therein,
  - the expiry date,
  - the latest date for presentation (pursuant to Article 29), and
  - the latest shipment date,
- any or all of which may be reduced or curtailed.

**Furthermore:**

- **The name of the first beneficiary may be substituted** for that of the applicant who instructed the issuance of the original credit. However, should the terms of the original credit demand that the name of the applicant appears in any document other than the invoice, the transferred credit must incorporate this demand.
- The percentage for which **insurance cover** must be effected may be altered so as to provide the amount of cover stipulated in the original credit or in Article 28 of the UCP 600.

**Furthermore, the following regulations/restrictions may be applied:**

- A credit is only transferable if the opening bank **expressly designates it as "transferable" and if it formally is transferable**.
- Basically, a credit can only be transferred **once**. Parts of the credit, which in total do not exceed the entire credit amount, may be transferred separately and/or to more than one second beneficiary, provided the contract does not prohibit partial deliveries.
- **The (first) beneficiary under the original credit has the right to substitute his own invoice for that of the second beneficiary**.
- Revocable and standby letter of credits are not transferable in actual practice.

**Basically, the following points should be considered:**

- The form of the original documentary credit should be as simple as possible, because a multitude of documents and special terms and conditions almost always complicate the transfer and even make it impossible in some cases.
- It should be possible to obtain payment of the original credit with the documents of the transferred credit (except commercial invoice) without any problems.

Other than the basic requirements, a first class credit standing of the parties involved in the underlying transaction is essential. For these reasons alone, an accurately timed contact with the transferring bank is absolutely necessary.

**Back-to-back credit**

The purpose of the back-to-back credit is to finance transit trade transactions. It can be used if the terms and conditions of the underlying transaction are similar to those of a transferable letter of credit, but a transfer is not possible because of specific reasons concerning the L/C or because of other reasons.

**From a legal standpoint, the original credit** (= selling credit for the benefit of the intermediary) **and the back-to-back credit** (= buying credit for the benefit of the supplier/producer) **are separate instruments independent of each other and in no way legally connected, although they both form part of the same self-contained business operation.**

**As a general rule, we distinguish between two types of back-to-back credit:**

- Congruent: The back-to-back credit calls for such documents (with the exception of the commercial invoice) as can be used for the original credit without any amendment.
- Incongruent: The documents to be submitted under the back-to-back credit (with the exception of the commercial invoice) can only be used for the back-to-back credit, but not for the original credit.

As the **risk** associated with this type of credit is higher than average for the bank **issuing the back-to-back credit**, it will only be willing to issue such a credit, if:

- the intermediary can provide an adequate amount of collateral and the issuing bank of the original credit offers an appropriate credit standing,
- the parties involved in the underlying transaction (particularly the intermediary) are considered sufficiently reliable and capable of a proper execution of their part of the operation,
- in the case of a congruent credit, an unproblematic exchange of the commercial invoice with the intermediary, in due time, is assured,
- both credits at the intermediary's bank are arranged as realisable/payable, and the back-to-back credit, if possible, shows a later payment date than the original credit.

Therefore, **it is recommended to contact the bank that is to issue the back-to-back credit in good time** (preferably before or at the beginning of the negotiations of the intermediary with the buyer and/or the producer/supplier).

**Related instruments****Standby letter of credit**

The standby letter of credit has a function similar to practically any type of guarantee. This special form of credit has been an internationally known security instrument for decades and is most commonly used by the banks of countries (e.g. USA, Canada, etc.) where the issue of international bank guarantees by banks is not permitted by local laws and regulations.

The standby letter of credit is subject to the UCP 600 and is thus accepted and uniformly used by banks. In international trade, bank guarantees are often considered to be conditional securities only, because they are not subject to international regulations and furthermore have different legal positions in different countries. With the standby letter of credit, these insecurities can be eliminated.

**Characteristics of, and differences from, the regular documentary credit:**

The standby letter of credit can be used wherever regular credits and guarantees are used to secure contractual agreements, especially in the case of “term of payment” agreements.

As a general rule, a standby letter of credit is only called upon if the debtor has not fulfilled its payment obligations at the due date(s). This is unlike to the regular letter of credit, which activates the payment once the specified documents have been submitted.

In comparison to the regular letter of credit, the documents required under a standby L/C (mostly copies) have to be completed by an original declaration of the beneficiary, stating that the event of damage (i.e. non-payment at due date or insufficient performance) has occurred.

**Revolving letter of credit**

If a contract of sales states that the delivery of the goods will be made in instalments and at stipulated intervals, instead of a single letter of credit for the total value of all partial deliveries a revolving credit letter of credit for the value of one or more instalment deliveries can be agreed. **The revolving clause can be formulated so as to adjust the amount, number and frequency of revolving drawdowns to the delivery schedule.**

**We basically distinguish between the following types of revolving letters of credit:**

- Cumulative revolving credit: The balance of unused or only partially used instalments is added to the next instalment.
- Non-cumulative revolving credit: The balance of unused instalments may not be carried forward to later periods and therefore does not increase the amount that may be drawn for any subsequent delivery/deliveries.

Whether dealing with a cumulative or a non-cumulative letter of credit, the amount of the total liability has to be calculated under the assumption that the L/C is fully utilised.

**1.2.5 Important Documents in Foreign Trade**

Since even small deviations in the documents may threaten the payment under a letter of credit, the preparation of the documents must be done very carefully!

**Commercial invoice**

The exporter issues the commercial invoice on a pre-printed invoice form (mostly using an IT application) which usually includes the following data:

- Name and address of the exporter
- Name and address of the importer
- Exact designation of the goods
- Exact amount of items (number and type of packages, shipping marks, weights and, in some cases, dimensions)

- Unit price, total price and other expenses
- Delivery terms and conditions
- Dispatch type and dispatch route (name of the ship, transport route, etc.)
- Payment terms and conditions
- Intra-community shipments within the European Union: UID (VAT) number of seller and buyer.

According to the UCP 600, Article 18, the following questions have to be considered when **submitting the invoice under a documentary credit**:

- Is the invoice issued by the beneficiary as stated in the documentary credit and is it issued to the purchaser (applicant) named in the documentary credit?
- Does the description of the goods correspond exactly to that stated in the documentary credit (letter for letter, identical punctuation, same language)?
- Do the other aspects of the invoice (price, amount, currency, means of transport, delivery terms and conditions, etc.) match those of the documentary credit and the other documents?
- Is the invoice issued in the language of the documentary credit?

### **Transport documents**

The UCP 600 regulations for each transport document are laid down in a separate article. **The decisive criterion** for including any type of transport document in a letter of credit **is the issuance by a carrier or an agent that acts in the carrier's name.**

**Documents only concerning the carrier, such as the FCR** (Forwarder Certificate of Receipt) or the FCT (Forwarder Certificate of Transport), are – because the issuer does not assume any carrier obligations – **dealt with in Article 14 c and d** and are only admissible in a documentary credit if such documents are required.

### **Marine/ocean bill of lading**

The marine/ocean bill of lading is typical for **overseas shipments (port to port) and is usually issued** in several originals. It not only serves as shipping evidence but also embodies the title (right of ownership) to the goods (document to title of goods).

Changes to a marine/ocean bill of lading require an authorised initial by the carrier or a named agent using a correction stamp and signature.

Further requirements concerning the marine/ocean bill of lading are regulated in Article 20 of the UCP 600.

### **Multimodal transport document**

This kind of transport document refers to the usage of more than one mode of transportation (e.g. ship/rail or ship/truck, etc.). The exact regulations are listed in Article 19 of the UCP 600.

### **Air transport document (UCP 600, Article 23)**

The International Air Transport Association (IATA) published the air waybill for the air freight service. The air waybill is a certificate of evidence for the closing of an air freight contract between sender and carrier or an agent in the carrier's name. The "original for the shipper" (original #3) is the evidence that the shipper (exporter) has sent the air freight to the consignee (importer) named in the air waybill. The goods are handed over to the consignee (importer) named in the air waybill without the presentation of the document.

### **Road, rail or inland waterway transport documents (UCP 600, Article 24)**

This group of transport documents includes:

- the duplicate of railway consignment note,
- the international truck consignment note (CMR) for cross-border road transport of cargo, and
- the freight bill of inland waterway transport.

### **Insurance documents (UCP 600, Article 28)**

Transport insurance documents are important evidence for the existence of adequate transport insurance coverage.

### **Other documents**

When documents other than transport documents, insurance documents and commercial invoices are called for, the documentary credit should stipulate by whom such documents are to be issued and their wording or data content.

If the documentary credit does not stipulate otherwise, the banks will accept such documents as are presented, provided that their data content is not inconsistent with any other stipulated document presented (UCP 600, Article 14 d).

The most important of these documents are, inter alia:

- Certificate of origin
- Generalised system of preferences certificate of origin
- Certificate of movement
- Health certificate and phytosanitary certificate
- Inspection certificate
- Work progress certificate
- Proof of delivery (POD)/certificate of acceptance

If documents such as certificate of inspection, work progress certificate or POD are required for the documentary credit, there is always a risk for the exporter because the issuance depends on a third party.

### 1.3 Terms of Delivery in International Trade (INCOTERMS)

Not only the payment terms but also the delivery terms are an important part of international sales contracts. Details within the contract can be in free contract form or according to fixed clauses. The easiest and most secure form to avoid misunderstandings and disagreements concerning the obligations of both parties is the reference to the INCOTERMS (International Commercial Terms), a series of clauses published by the ICC (International Chamber of Commerce), in the contracts.

**The INCOTERMS regulate a range of important obligations of both seller and buyer** (but not all the aspects of a sales contract). Transfer of title, delivery options, notification of defects, warranties and payment terms are not included in the INCOTERMS. Significant, though, is the **regulation of the transfer of costs and risks from the seller to the buyer**.

Since the INCOTERMS **do not have the force of law**, the contracting parties wishing to use them have to make an **explicit agreement** stipulating their use. In such an agreement, it is advisable to always refer to the most recent version of the INCOTERMS.

**The most recent version, the INCOTERMS 2000, is divided into four main groups:**

**Group E: Departure**

**EXW** Ex Works (ex factory, ex mill, ex plant, ex warehouse) (... named place)

**Group F: Main carriage unpaid**

**FCA** Free Carrier (... named place)

**FAS** Free Alongside Ship (... named port of shipment)

**FOB** Free On Board (... named place of shipment)

**Group C: Main carriage paid**

**CFR** Cost and Freight (... named port of destination)

**CIF** Cost, Insurance and Freight (... named port of destination)

**CPT** Carriage paid to (... named place of destination)

**CIP** Carriage and Insurance paid to (... named place of destination)

**Group D: Arrival**

**DAF** Delivered at Frontier (... named place)

**DES** Delivered ex Ship (... named port of destination)

**DEQ** Delivered ex Quay (duty paid) (... named port of destination)

**DDU** Delivered duty unpaid (... named place of destination)

**DDP** Delivered duty paid (... named place of destination)

BEFORE USING THE INCOTERMS, BOTH CONTRACTING PARTIES NEED TO GET DETAILED INFORMATION ON THE RULES AND REGULATIONS CONTAINED THEREIN!

The entire content of the clauses can be found in the brochure “INCOTERMS 2000”, which is published by the International Chamber of Commerce in Paris. Alternatively, you can contact your carrier/freight forwarder for more detailed information, and the staff of HYPO ALPE-ADRIA-BANK AG will also be available to assist you at any time.

## 1.4 Documentary Collections

If the exporter is unable to secure his delivery of goods in the form of a documentary credit (mostly because of competition reasons) and he wants to avoid a shipment of goods on open account, the documentary collection is a suitable payment method.

In contrast to the documentary credit, **the documentary collection does not provide the seller with any security regarding payment by the customer/the customer’s bank.** Therefore, it should be agreed (if possible) that the seller keeps control over the goods until the buyer accepts all documents.

The basis for the processing of documentary collections is provided by the Uniform Rules for Collections (URC 522), as amended, which are published by the International Chamber of Commerce (ICC) in Paris.

### **The documentary collection is a suitable payment method if:**

- a relationship of mutual trust exists between the seller and the buyer,
- there is no doubt about the buyer’s willingness and ability to pay,
- stable political, economic and legal conditions exist in the importer’s country,
- the payment system of the importing country is not being restricted by foreign exchange controls,
- it is (if necessary) ensured that the importer only has access to the goods after fulfilling his payment obligations,
- the export transaction in question can be collateralised by means of an export credit insurance or an export guarantee issued by the federal government,
- the buyer can trust that the seller will deliver the goods in the contractually agreed manner and at the contractually agreed time and that the seller will also collect and provide all documents required.

### 1.4.1 Basic Forms of Documentary Collections

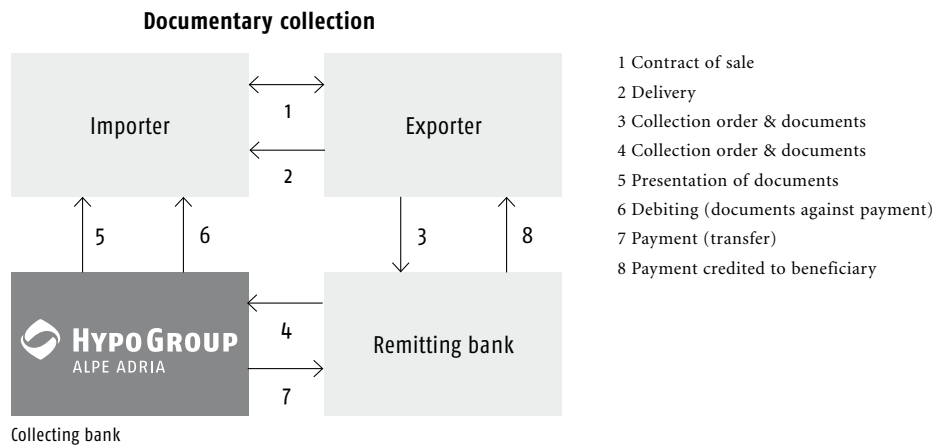
#### Documents against payment (D/P)

The presenting bank may only release the documents to the drawee against payment in the stipulated currency.

#### Documents against acceptance (D/A)

The presenting bank may only release the documents against the buyer's acceptance of a bill of exchange/draft with a specific due date/time. The seller thus grants the buyer a period of grace for payment and in return receives a draft accepted by the drawee as security, which he can redeem at maturity. The seller thus bears the risk of non-payment until the draft matures.

As in the case of documentary credits, it is very important to specify "documentary collection" as a payment condition during the contract negotiations and to stipulate this condition in the sales contract.



### 1.4.2 The Exporter and Documentary Collections

If documentary collection is used as a payment mechanism, the following points should be observed by the seller:

- **Credit standing and reliability of the buyer**
- Previous business experience with the **buyer's country**
- Political, economic and **legal situation in the importing country**
- Is there an increased **transfer risk** in the importing country?
- Is there a possibility of retrieving the goods or of finding a new customer in the event of non-acceptance or non-payment of the merchandise? If so, at what cost?
- **Right choice of delivery terms**
- **With "documents against acceptance"** with a grace period allowed for payment, the attention should be turned on the credit standing and the trustworthiness of the buyer. At the payment due date, the goods will have been sold on/processed, and your only security is the buyer's acceptance of the bill of exchange. Possible alternatives: The collecting bank or another first-rate bank guarantees payment of the draft accepted by the drawee.
- **Is it possible for the buyer to take over the goods** without having received the documents?

The collecting order should be made in writing, using a special pre-printed form offered by the issuing bank (see appendix/forms).

#### **Risks for the seller**

- At the time of dispatching the goods, the seller cannot be certain that payment will actually be made.
- **The seller depends on the buyer's willingness and ability to pay.**
- The seller carries the risk that the buyer receives the goods without paying, unless he submits the documents that are mandatorily required, on the part of the buyer, for taking over the goods (i.e. bill of lading or combined transport B/L), or the goods will be sent to the bank for disposal, which in turn releases the goods to the buyer only after the draft is accepted.

### **1.4.3 The Importer and Documentary Collections**

If you buy goods in the context of a “documents against acceptance” transaction, the seller will submit the required documents via his bank to your bank or to a correspondent bank. This bank will subsequently inform you about the availability of the documents and what requirements have to be fulfilled in order to hand them out to you.

What special points must the buyer observe in documentary collection operations?

- Prior to making payment, the buyer is only entitled to view the documents at the bank.
- The collecting bank may not deliver the documents before the collection conditions are fulfilled.
- In the case of non-payment or non-acceptance, the collecting bank has to notify the bank which placed the collection instruction without delay.
- Once the conditions for collections are fulfilled, the collecting bank does not have the task of checking the documents received from the remitting bank. The only task is to hand the documents over to the buyer, without checking the accuracy of their form or content.

#### **Risk for the buyer**

- He has to honour the documents before he receives and checks the goods on their contractually agreed condition.

To place a collection order, HYPO ALPE-ADRIA-BANK has special forms available for your convenience (see appendix/forms).

## 1.5 Collection of Bills in International Trade

The law governing bills of exchange is, according to the Geneva Convention Providing a Uniform Law for Bills of Exchange and Promissory Notes, basically standardised within Europe, except in Great Britain and Ireland. Also the former British colonies and the USA have regulations that differ from the European regulations. In Austria, a bill of exchange has to be charged with 1/8% stamp tax of the bill's amount. If the bill is issued and payable abroad, the charge is 1/16% of the bill's amount.

### Export and the collection of bills

A bill of exchange payable abroad is sent to the foreign payment agency in good time before maturity for collection or obtaining acceptance (with or without protest). After receiving the payment, the amount is credited to the beneficiary. A collection of bills is only advisable in countries with high legal security and/or with business partners who have excellent credit standing.

### Import and the collection of bills

A bill of exchange payable domestically is sent to the domestic payment agency in good time before maturity for collection or obtaining acceptance (with or without protest) by the bank of the foreign beneficiary. The payment of the bill has to be initiated by the drawee by means of an international transfer order in reference to the collection of the bill.

## 1.6 Bank Guarantees in International Trade

According to its nature, a guarantee can be characterised as a liability transaction. On the instruction of its customer, the bank assumes the monetary liability for its customer's obligations.

The bank guarantees that the beneficiary under the guarantee receives the amount of money stipulated in the guarantee agreement if the beneficiary's contracting partner does not perform its contractual obligations. The bank can only guarantee the cash benefit but not the third party's performance!

The main characteristic of a bank guarantee is its abstract nature, meaning that it is entirely independent and detached from the underlying transaction itself. Therefore, the bank issuing the guarantee cannot assert any objections with respect to the underlying transaction and has to pay if the guarantee is utilised in accordance with the guarantee agreement.

To point out these abstract features, banks include the following phrases in their guarantees:

“... we will make the payment on first demand ...”

“... waiving any objection ...”

“... irrespective of the underlying transaction ...”

**The parties' position of interest**

- **The beneficiary's interest is to get paid as quickly as possible**, without having to provide evidence, based on the underlying transaction, that he has the right to claim payment, which often proves to be rather difficult.
- **The applicant wants to avoid that the guarantee might be claimed without justified grounds.**
- **The issuing bank has to consider its own interest, as well as the customer's interest.**

By issuing guarantees, the bank assumes "abstract obligations". Therefore, the bank is not competent to decide on checking or evaluating the question of whether and to what extent the beneficiary has utilised the guarantee on justified grounds. In case of a claiming of the guarantee, it can only be checked if the process was done correctly and in due time.

The basic principle is: "Pay first, argue afterwards!"

**1.6.1 Direct and Indirect Guarantees**

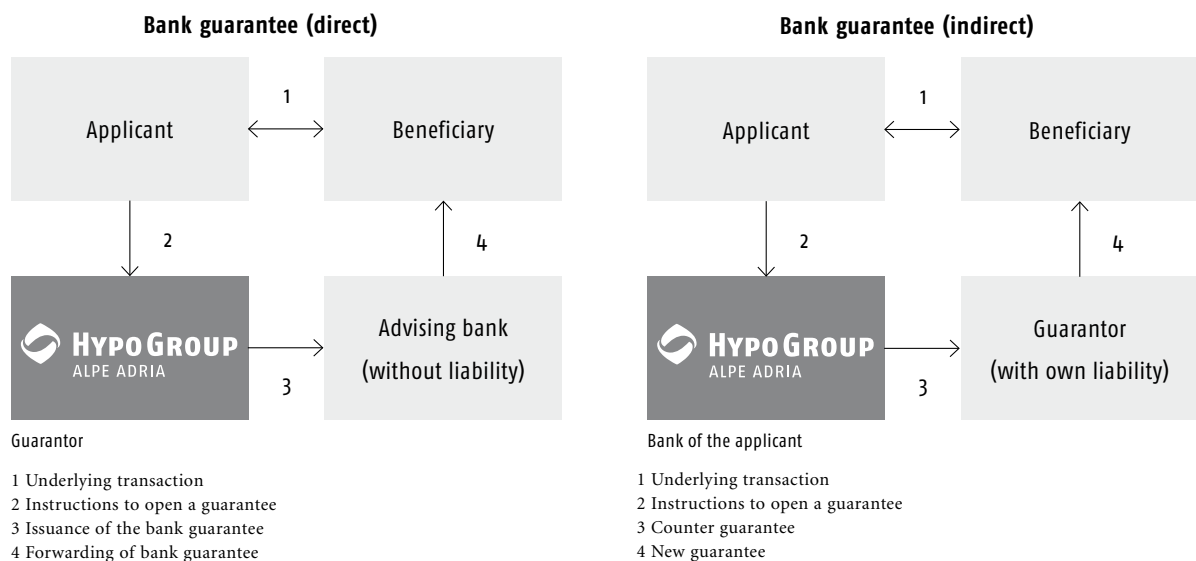
**Direct guarantee:**

The issuing bank forwards the guarantee directly to the beneficiary (with or without using an advising bank).

If an advising bank is involved, its task is to check the authenticity of the signatures furnished by the issuing bank. By forwarding the guarantee, the advising bank does not assume any kind of payment liability or obligation.

**Indirect guarantee:**

An indirect guarantee is issued by a domestic issuing bank which in its turn instructs a foreign correspondent bank to issue the guarantee to the beneficiary (in the country of the correspondent bank).



### 1.6.2 The Issuing of Bank Guarantees

**The following data is needed:**

- Beneficiary
- Type of underlying transaction (i.e. delivery of goods, installation, etc.), number and date of contract, delivery date, total order value, etc.
- Type of guarantee
- Term of guarantee
- Form and conditions of claim (i.e. submission of documents, etc.)
- Should the guarantee include reduction clauses or other special clauses? Are those agreed upon with the beneficiary?
- Is the guarantee to be sent directly to the beneficiary or advised by a bank in the beneficiary's country?
- Direct or indirect guarantee?
- Who is responsible for payment of the guarantee commission and fees?

**It is advisable to instruct the bank to issue a guarantee in writing, using the pre-printed forms that are offered by the bank (see appendix/forms).** The purpose of these forms is to reduce time-consuming questions and to ensure the immediate execution of the instructions to open a guarantee.

### 1.6.3 Types of Bank Guarantees

According to their purpose in the individual case, the following guarantees are used most frequently:

**(Documentary) payment guarantee**

The purpose of a (documentary) payment guarantee is to secure the payment claim of a seller under supply contracts and/or service agreements.

**Down payment guarantee/advance payment guarantee**

If, in the context of an export transaction, the buyer makes an advance payment, he will often demand a down payment guarantee/advance payment guarantee to ensure that his advance payment will be repaid in the event of the seller's non-performance of his contractual obligations.

**Bid bond**

This type of guarantee is often required in connection with international public tenders. With a bid bond, the party issuing the tender wants to ensure that

- the bidder's offer remains valid under unchanged conditions within the period of time stipulated in the tender,
- the contract, after being awarded, is accepted by the bidder, and
- the delivery or performance guarantee which might be required once the contract has been awarded, will be actually issued.

**Performance bond**

Under a performance bond, the bank assumes the liability for the proper performance of the contractual obligations incumbent upon its customer.

**Warranty guarantee**

This guarantee secures the enforcement of warranty claims.

### **Retention monies guarantee**

Plant engineering and construction transactions often include the agreement that the buyer can hold back a part of the sales price in order to compensate later defects or damages. In most cases, however, the buyer is willing to pay the whole price if he receives a retention monies guarantee.

### **Credit line guarantee**

A credit line guarantee is furnished by a bank in order to secure repayment obligations arising out of loans.

### **Marine/ocean bill of lading guarantee**

This guarantee serves to secure the ocean carrier against financial disadvantages concerning the hand-over of goods without the presentation of an original marine/ocean bill of lading.

## **1.6.4 The Claiming of Bank Guarantees**

If the guaranteeing bank receives a demand to pay from the beneficiary under the guarantee, it has to verify whether the claim is in line with the terms laid down in the guarantee text.

### **The beneficiary of a bank guarantee should consider the following important points:**

- The properly completed claim form must arrive at the guarantee bank in due time (mail risk!). In most countries (including Austria) claims submitted by fax are not accepted!
- If the available time is limited, the use of a courier service is recommended.
- The language and wording of the claim must comply with that of the guarantee.
- Your signatures need to be confirmed by your bank!

“Observing the proper procedure for filing a guarantee claim is precision work”!

### **Problems and particularities with guarantees in international trade**

In contrast to the documentary credit, bank guarantees do not have internationally recognised regulations and rules. Due to that fact, international guarantees often have specific characteristics which may lead to interpretation problems and/or disagreements.

### **Independence of the underlying transaction**

As a general rule, bank guarantees are not connected in any way to the underlying transaction. Therefore, objections based on the underlying transaction are excluded (contrary to bank suretyships).

For the beneficiary under a bank guarantee it is important to know if he is dealing with an abstract guarantee or a suretyship.

### **Applicable law/jurisdiction**

Every applicant/beneficiary under a guarantee should attach great importance to knowing the applicable law and jurisdiction. If a foreign legal system must be applied, this is always connected with certain risks.

### **Problems with the issuance of indirect guarantees**

Indirect guarantees are mostly stipulated in export transactions if public authorities or companies are the beneficiary. In many countries, especially in the Middle East, North Africa, and some Asian regions, indirect guarantees are mandatorily required by law.

In such cases, the guarantees are governed by foreign law. Because of this legal uncertainty, the applicant can only be released from his liability if the foreign (guarantee issuing) bank issues an explicit notification of release from liability or if the original guarantee (if issued by letter) is being returned.

In actual practice, the banks follow this procedure, regardless of whether the original guarantee has formally expired or not.

In the case of indirect guarantees, especially in Arabic and North African countries, the release from liability as well as the practice of not recognising the expiry date, which is common in some countries, often creates major problems.

In some countries, mandatory regulations exist, which, inter alia:

- declare expiry dates as ineffective vis-à-vis governmental authorities,
- categorically declare expiry dates as inadmissible,
- grant the beneficiary the option of unilaterally prolonging the guarantee, which means that in these countries the legal system allows a usage of the guarantee even after the expiry date.

**Ultimately, the legal risk has to be borne by the applicant for the guarantee. Therefore, the possible consequences arising from such a guarantee require special attention during the contract negotiations.**

### **The special case "extend or pay"**

In some cases, the beneficiary or the foreign guarantee bank may request the bank that issued the guarantee to either extend the maturity or to pay (extend or pay). If this happens, the issuing bank has to notify the applicant immediately. If the applicant refuses to agree to an extension of the maturity, the issuing bank is obliged to pay, but only in the case of a "first demand" guarantee.

If other requirements for utilising the guarantee apply (i.e. presentation of documents), these must be fulfilled as well before payment under the guarantee can be made.

For the applicant, indirect guarantees are usually more expensive because, as a rule, the guarantee commissions of the intermediary banks have to be borne as well.

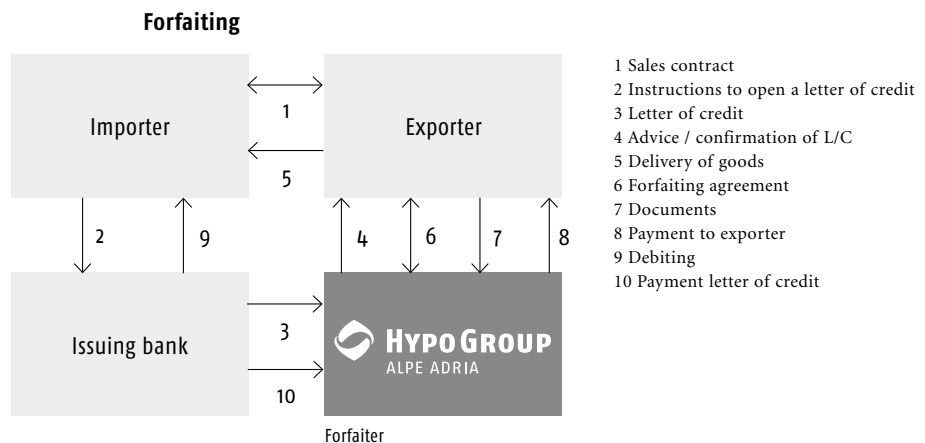
### Unlawful calling

The largest risk for the applicant is the possibility of an unlawful calling. If you encounter such a situation please contact your legal representative immediately. He will counsel you about the aspects of the case and feasible measures that may be taken.

In addition, we recommend contacting our international department which has experience in such cases and is available for information and advice at any time.

## 1.7 Forfaiting – A Proven Method of International Trade Finance

Forfaiting (à forfait) is the buying of export receivables through a financing institution without recourse. Without recourse means that the right of recourse to the seller of the receivable (= exporter) is waived. However, the exporter is liable for the adequate and orderly fulfilment of the underlying contract, for the actual existence of the receivable, and for the genuineness of the documentation. The receivables can be documented as bills of exchange, letters of credit (with deferred payment) or book receivables.



Forfaiting is a financing instrument in which the exporter turns the credit transaction into a cash transaction by discounting the receivables. The discount rate is based on the risk assessment of the receivables.

For the financing institution that buys an export receivable, the collateralisation is of primary importance. Security instruments are irrevocable letters of credit, irrevocable, unconditional and transferable bank guarantees or bills of exchange guaranteed by a bank. As in a forfaiting transaction all risks arising from the export receivable transfer to the buyer of the receivable, the following advantages arise for the exporter:

- Passing on of economic and political risks
- Elimination of currency and interest risks
- Increasing liquidity
- Eases balance sheet constraints
- Outsourcing of the collection procedure

### **Forfaiting – Factoring**

Contrary to forfaiting transactions, where medium-term individual receivables are being purchased, in factoring transactions the factor bank buys all short-term receivables (with or without recourse). As a rule, the receivables in factoring transactions are not specially collateralised. For the seller of the receivables, the financing and the collection procedure are of primary importance.

## **2 INTERNATIONAL PAYMENT TRANSACTIONS**

### **2.1 The Basics of International Payment Transactions**

#### **International payments comprise:**

- Cross-border payments
- Payments within Austria denominated in foreign currencies
- Payments within Austria if at least one party of the transaction is non-resident

In addition to regular bank transfers with international payment forms, an international payment order can also be made electronically.

### **2.2 Legal Principles/OeNB Report/Reporting Requirements**

The balance of payments (ZABIL) is a systematic presentation of business relations of a country or an economic area with the rest of the world.

The Austrian balance of payments is a component of the foreign trade statistics of the EU and the entire Euro area, and represents an important indicator of the currency and exchange policy. The European Central Bank (ECB) draws its decisions regarding currency policy on the previously mentioned statistics.

Effective 1 June 2006, the reporting system of the Austrian balance of payments was fundamentally changed:

Up until 31 May 2005: Reports submitted by banks (statement of transactions and balances in foreign currencies) that carry out international money transfers for themselves, as well as for their clients.

#### **New: Direct reporting by companies and persons that have receivables and liabilities abroad.**

The following reporting limits were established in order to reduce the time and costs for economic purposes. The type and volume of international transactions indicate if a company or a person must be reported in the balance of payments.

**The balance of payments consists of the following components:**

Finance/Capital Account (Reporting Ordinance ZABIL 1/2004):

**Reporting Limits:**

**DI** Direct investments: cross-border interest in a company, starting at 10% exceeding EUR 100,000 per transaction

**PI:** Portfolio investments: security investments exceeding a balance of EUR 5 million at the end of the year

**SI** Other investments: loans and deposits exceeding a balance of EUR 3 million in receivables or liabilities

**FD** Financial derivatives: special off-balance sheet financial transactions exceeding EUR 1 million (balance of payments made and payments received)

**LV** Transfer of assets and real estate property exceeding EUR 100,000 per transaction

Real Economy/Current Account (Reporting Ordinance ZABIL 1/2005):

**LB** Statistical data of the cross-border service transactions exceeding EUR 50,000 or EUR 200,000 (depending on business activities)

**Further, more detailed information is available at:**

**OeNB Balance of Payments link:** [www.zahlungsbilanz.oenb.at](http://www.zahlungsbilanz.oenb.at)

**OeNB Balance of Payments hotline:** 01/404 20-4444

## 2.3 The Basics of the Transfer Processes

### 2.3.1 SWIFT

SWIFT is an international system to operate financial transactions. It provides several services to a worldwide community of banking establishments and banks (Society for Worldwide Interbank Financial Telecommunication, Limited Liability Co-Operative Society).

SWIFT is a worldwide money transport network. By sending structured messages, the user bank or other banking establishments can communicate with other users or with SWIFT itself.

Every bank has its own, unique identification (BIC – Bank Identifier Code). The BIC of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is HAABAT22 and the BIC of HYPO ALPE-ADRIA-BANK AG is HAABAT2K.

## 2.4 Routing

### **There are several options to make international money transfers:**

- a) The amount will be posted directly by the correspondent bank to the account of the receiving bank, if they have a direct accounting connection.
- b) If there is no accounting connection with the receiving bank, the amount will be sent to our correspondent bank in the same country which will forward the amount to the receiving bank. Or, if a SWIFT key with the receiving bank exists, an MT 103 (SWIFT message – customer payment) will be sent to the receiving bank. The coverage takes place by the MT 202 (SWIFT message – bank-to-bank payment) via our correspondent bank.
- c) If the transferring amount is in a third currency (neither the currency of the receiving country, nor the currency of the amount to be transferred is in Euro), the transfer must be made via a bank of the country where the third currency is used. This bank must also have an accounting connection with the receiving bank.
- d) If the transferring amount is in Euro, the transfer can be made through different clearing networks.

## 2.5 Correspondent Banks

HYPO ALPE-ADRIA-BANK INTERNATIONAL AG and HYPO ALPE-ADRIA-BANK AG have accounting connections with correspondent banks. International transfers are made via these correspondent banks, using SWIFT.

## 2.6 Clearing Systems

Via clearing systems, transfers can be made to other member banks of the same clearing system. These transfers can be made even without a direct accounting connection to the beneficiary bank.

## 2.7 European Union Payment Transactions

### **2.7.1 IBAN/BIC**

Stating the IBAN and the BIC are two requirements for making favourably priced EU standard transfers. The abbreviation IBAN stands for International Bank Account Number and is the international standardised spelling for an

accounting connection that identifies every account within the European Union. The IBAN consists of the country code, the bank code, the account number and a checking digit. The IBAN may be provided to the customer only by the bank where his account is being maintained.

BIC stands for Bank Identifier Code. It is a worldwide identification of banking institutions and contains 8 or 11 digits. The BIC of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is HAABAT22 and the BIC of HYPO ALPE-ADRIA-BANK AG is HAABAT2K.

### 2.7.2 STP – Straight Through Processing

Straight through processing means that EU-wide incoming and outgoing payments can be automatically routed without any manual editing. The indication of IBAN und BIC is required. STP is used in standard EU transfers.

### 2.7.3 Term of Transfer

The transfer of Euro payments up to EUR 50,000 to EU member countries takes up to a maximum of three days (plus the day the order is placed), provided that IBAN and BIC are indicated and the SHA (shared expenses) instruction is used.

## 2.8 Products in International and European Union Payment Transactions

### 2.8.1 Conventional Foreign Transfers

All orders that do not meet the requirements for a European Union standard transfer or a country-specific transfer are carried out as conventional foreign transfers on the basis of the conditions applicable for such transactions. For these kinds of transfers the foreign transfer application form (pre-printed A4 form) has to be used.

IBAN and BIC of the beneficiary are not known

The amount has to be transferred in a currency other than Euro

The amount is higher than EUR 50,000.00

The receiving country is not a member of the European Union

### 2.8.2 International Standing Orders

With an international standing order, payments to foreign countries are made automatically and at regular intervals.

### 2.8.3 Intragroup Payments

Intragroup payments require that the customer and the recipient have an account with Hypo Group Alpe Adria. This condition applies for payments between customers within the Hypo Group. In Austria, the following requirements apply:

<b>Currency</b>	EUR
<b>Value date</b>	execution day + 0 value days until cut-off time, thereafter: execution day + 1 value day
<b>Cut-off</b>	outgoing payments      13.00 CET (1 p.m.) incoming payments      14.00 CET (2 p.m.)

**Transaction fees for outgoing and incoming payments:**

EUR 0.00 – EUR 1.000.00 = none

EUR 1,000.01 – EUR 5.000.00 = EUR 5.00

EUR 5,000.01 – EUR 12.500.00 = EUR 10.00

from EUR 12,500.01 – 0.10% max. = EUR 50.00

**2.8.4 European Union Standard Transfers**

Since 1 January 2006, transfers up to EUR 50,000.00 to other European Union countries can be made at very favourable rates (like domestic transfers) by means of our EU standard transfer (prior to that, from 1 July 2003, the limit was EUR 12,500.00).

**For EU standard transfers, the following conditions must be met (no exceptions):**

- Transfers only in Euro (EUR)
- Maximum amount EUR 50,000.00
- Only sharing of charges is possible (SHA – share)
- BIC (Bank Identifier Code) SWIFT code
- Information concerning the beneficiary:
  - Last name und first name, company, address
  - IBAN (International Bank Account Number) of the recipient

**Currency: EUR**

Belgium	EUR
Germany	EUR
Finland	EUR
France	EUR
Greece	EUR
Ireland	EUR
Italy	EUR
Luxembourg	EUR
Malta	EUR
Netherlands	EUR
Austria	EUR
Portugal	EUR
Slovakia	EUR
Slovenia	EUR
Spain	EUR
Cyprus	EUR

**National currency**

Bulgaria	BGN
Denmark	DKK
Estonia	EEK
Great Britain	GBP
Latvia	LVL
Lithuania	LTL
Poland	PLN
Sweden	SEK
Czech Republic	CZK
Hungary	HUF
Romania	RON

The conditions for European Union standard transfers are also valid and applicable for the following non-members of the EU: Norway (NOK), Iceland (ISK) and Liechtenstein (CHF)!

**2.8.5 European Union Standing Orders**

The rules for the EU standing order are the same as for EU standard transfers (see 2.8.4). EU standing orders are used to make automatic and regular payments within the European Union.

### 2.8.6 SEPA Credit Transfer (SCT)

If the SEPA criteria (XML format, SEPA payment order) are met, the same fees as for domestic transfers are charged for EUR transfers (no upper limit!) to accounts within the EU (currently 27 states), as well as Iceland (ISK), Norway (NOK), Liechtenstein (CHF) and Switzerland (CHF).

#### Conditions:

- Transfers only in Euro (EUR)
- Indication of BIC
- Indication of IBAN
- Fee option: SHARE

As soon as the above criteria are not met, the fees for foreign payment transactions will be applied automatically.

### 2.8.7 SEPA Direct Debit (SDD)

With the standardised transnational direct debit procedure, a bank account in Austria can be debited by a creditor of another European country.

For this purpose, the following requirements must be met:

- The bank of the payer(s) must be ready to receive and process a direct debit
- You must use an E-banking product
- You need a creditor ID in order to initiate a direct debit
- Before you can actually use this service, you need to carry out format-specific tests with us. Please contact us if you would like to collect money owing using the direct debit service. Our European Payments Department will then make the necessary arrangements to ensure that all requirements are met.

Please indicate the following reference when submitting invoices:  
Corporate, Risk Management in Foreign Trade

### 2.8.8 Electronic Banking

The easiest way to place an order at HYPO ALPE-ADRIA-BANK INTERNATIONAL AG or HYPO ALPE-ADRIA-BANK AG is electronically. Please contact your bank if you do not use the Internet or other electronic devices. Electronic transfers can be easily made at home or in the office. The fees for such transfers are much lower than by paying with payment forms.

### 2.8.9 Cheques in International and European Union Payment Transactions Collection cheques

For payments abroad, cheques can be written out. The fees are higher than foreign transfer fees. You can obtain cheque forms from our customer representatives.

#### Order cheques

An order cheque can be electronically issued and sent to the beneficiary (recipient) abroad.

**Credit note cheques for the account**

The credit note will be transferred “conditionally” or “for collection” on the value date (depending on currency and country) to the account. The applicable legal regulations have to be met.

**Buying of cheques over the counter**

It is possible to buy traveller’s cheques by cash. If certain requirements are met, cheques can be bought/cashed at the counter.

## 3 Opening of Accounts in our Subsidiaries Abroad

In many cases, your customers appreciate it if they can make payments to you from their own countries. As you are not familiar with the local legal and fiscal requirements, the opening of an account abroad can be quite complicated and prolonged. You are very welcome to contact us in this regard, and we will open an account for you in a foreign country, without you having to travel there at all. It would be a pleasure for us to initiate the process and we are able to offer this service in the following countries: Germany, Italy, Slovenia, Croatia, Bosnia and Herzegovina, and Serbia and Montenegro.

**Tip:**

If you and your business partner both have accounts with the Hypo Group, payments are treated as intragroup transfers and are therefore made on the same day and at special and convenient conditions.







## Contact persons at the Hypo Group for international business:

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#### Foreign payment transactions

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### ITALY

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