

INTERNATIONAL BUSINESS

PART 3: PROCEDURE

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PROCEDURE:

1. Buyer issues **LOI** and **BCL** – Seller responds with **FCO**.
 2. Buyer signs and returns the **FCO**.
 3. Contract is signed and exchanged via fax; hard copies delivered.
 4. Buyer's bank issues proof of funds and draft **LC**; seller responds with proof of product and approves **LC** draft.
 5. Buyer's bank issues **LC** pre-advise to become operative when the 2% **performance bond** is received.
 6. Seller's bank issues 2% **PB** to activate **LC**.
 7. Buyer and Seller follow procedures as per final contract.
- Seller may have to incur the expense of official product inspections, and certificates on weight and quality may have to be provided as part of the shipping documents to be presented for negotiation of the **LC**.
 - Samples may be provided at buyer's expense and may be subject to buyer's approval before contract is signed.
 - Details of forwarding agent etc. may be provided after loading is completed.

If it is so agreed, Seller will pay all AGENT COMMISSIONS including any you will have negotiated with the buyer.

- Seller will give you a price quote.
- You add your commission to it before you make your offer to the buyer. (*Keep in mind that buyers are in the market and high commissions that lead to unacceptable prices kill every deal.*)
- When Buyer accepts your price, you tell Seller what the Buyer's contract price should be.
- When the contract is signed, you will receive a **Fee Protection Agreement** from the Seller.
- When Seller's bank receives an acceptable **LC**, you will receive an **irrevocable Pay Order** from the bank, which will undertake to pay you the commission as and when the bank receives the sale proceeds on negotiation of the **LC**.

On a recurring transaction, the first shipment will begin on a designated date after receipt of **ACCEPTABLE LC**, and thereafter, shipments will be scheduled at buyer's option.

GLOSSARY: PROCEDURE

LOI: Letter of Intent

The Buyer's statement of purpose to make a purchase

BCL: Bank Comfort Letter

The Buyer's Bank acknowledgement of Buyer's ability to pay

FCO: Full Corporate Offer

LC: Letter of Credit

A letter issued by a bank authorizing the bearer to draw a stated amount of money from the issuing bank, its branches, or other associated banks or agencies.

PB: Performance Bond

A bond given to protect the recipient against loss in case the terms of a contract are not filled : *a surety company assumes liability for nonperformance*

HINT:

You can easily find definitions and acronyms online.

- Go to your favorite search engine: Google, Yahoo, Ask.com, etc.
- Type "define xyz" in the search box and you will likely find the definition from an online dictionary or encyclopedia.
- Add those dictionaries and encyclopedias to your Favorites so you can refer to them again and again.

SAMPLE: LETTER OF INTENT

Buyer's Company Name: _____

Address: _____

Phone: _____ Fax: _____

Email: _____

We, _____ (**buyer's name**) _____, hereby state that we are ready willing and able under the act of perjury to purchase the following commodity as specified below and that funding is available:

PRODUCT: _____

SPECIFICATION: (**required for commodities or grade**) _____

QUANTITY: _____

DESTINATION PORT: _____

DELIVERY TERMS: (**i.e. spot, 3 months**) _____

SIZE OF SHIPMENT: (**i.e. 3,000 MT or more**) _____

PACKING: (**i.e. bulk, 50 kg bags**) _____

DISCHARGE RATE IN PORT DESTINATION: (**i.e. 2,000 MT per day**) _____

TERMS OF PAYMENT: (**RLC, -100% funded or blocked, DLC or SLC**) _____

PERFORMANCE BOND: _____

BANK COORDINATES: _____

TARGET PRICE: (**if possible**) _____

PERMISSION FOR SOFT PROBE

Buyer's Signature

Date

NOTE:

- This Sample is provided as a guideline for you to follow. It represents the type of language that may be used and is not a standard format.
- All text within (**parentheses**) is given only to illustrate the type of information required in that field. Do NOT use these comments in your own LOI.

GLOSSARY: LETTER OF INTENT

M/T: Metric Tons: a unit of measure

RLC: Revolving Letter of Credit

A letter of credit where the amount is renewed without requiring any specific amendments to the letter of credit, which is usually used where regular shipments of the same goods or commodities are made to the same importer.

DLC: Documentary Letter of Credit

A letter of credit that shows other documents that will be required before payment can be made.

SLC: Sight Letter of Credit

A letter of credit that is payable once it is presented along with the necessary documents.

SLC: Standby Letter of Credit

A stipulation that states a letter of credit will be called back if the payer defaults.

SOFT PROBE

A confirmation method used by banks to verify funding for a seller from a buyer, conducted by the seller's bank to the buyer's bank.

NOTE:

- Some acronyms may have more than one meaning (as SLC is defined above).
- When you aren't sure which meaning is intended, ask the SOURCE (the person who made the reference) to verify it's meaning so that all parties will be in agreement.

SAMPLE: BANK COMFORT LETTER

TO: BENEFICIARY via **(buyer's name)**

DATE: _____

Please note that we **(bank name)** with full banking responsibility hereby confirm that our client **(buyer's name)**, with account number _____, is financially able to initiate the transaction involving purchase of **(quantity and product name)** _____ during the next **(period of time)**.

We understand that the shipment face value of the needed irrevocable confirmed **(terms of payment / RLC, DLC, SLC)** letter of credit payable at sight will be _____ US \$ Dollars per shipment and the total value of the transaction **(period of contract length)** will be _____ US \$ Dollars.

We certify only that **(buyer's name)** has sufficient funds on the account and sufficient line of credit with our bank to complete above transaction. We guarantee that the payment **(RLC, DLC, SLC)** to be used for this transaction and will revolve from shipment to shipment duration of the contract should our abovementioned customer wish us to do so. We also certify that future transaction (s) will be made on the basis as the payment by **(terms of payment)**.

We have been informed by our client **(buyer's name)**, that he hereby gives permission to the seller to conduct a soft probe on his account.

_____ Authorized Signature _____ Title

ACCOUNT NAME _____

ACCOUNT NUMBER _____

ACCOUNT OFFICER _____

BANK PHONE # _____ BANK FAX # _____

BANK TELEX # _____ BANK SWIFT _____

NOTE:

- This Sample is provided as a guideline for you to follow. It represents the type of language that may be used and is not a standard format.
- All text within (parentheses) is given only to illustrate the type of information required in that field. These comments will be properly executed by the financial institution that submits the BCL.

GLOSSARY: BANK COMFORT LETTER

SWIFT: Society for Worldwide Interbank Financial Telecommunications.

A dedicated computer network to support funds transfer messages internationally between over 900-member banks worldwide.

RLC: Revolving Letter of Credit

A letter of credit where the amount is renewed without requiring any specific amendments to the letter of credit, which is usually used where regular shipments of the same goods or commodities are made to the same importer.

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SAMPLE: FULL CORPORATE OFFER (FCO)

Full Corporate Offer for (Commodity)

Dear Sir,

We wish to confirm with full corporate responsibility, that we are willing and able to transact and sell the commodities, with the following specifications, terms and conditions. Sales and purchases will be based on international procedures.

Commodity: _____

Description: _____

(Note: We do have _____ tons monthly of **(weight and content)** as shown in the attached assay report. This will be offered at a different rate).

Packaging: _____

Total weight per container _____

Delivery: **(amount of product within time period)**. Details to be specified in contract.

Inspection: **(assayer company name)** by seller at discharge port. Inspection at destination port to be borne by buyer.

Terms: Confirmed, irrevocable, partial shipment allowed, 100% site, transferable and operational for length of contract.

Price: USD\$_____ / ton **FOB (city name)**.

(Note: This is price is **CIF** if it is delivered to any **(named)** port)

This offer is valid for **(period of time)** and subject to unsold.

Please provide all necessary information and documents in electronic forms via email or fax number below.

Best regards,
(Sample Corporation)

Email: _____

Fax: _____

GLOSSARY: FULL CORPORATE OFFER (FCO)

FOB: Free on Board

Without charge to the purchaser for delivery on board or into a carrier at a specified point or location.

CIF: Cost, Insurance, and Freight

LETTER OF CREDIT

DEFINITION

A **Letter of Credit (LC)** is a document **issued by the Buyer's bank** as an **irrevocable** guarantee of payment to a **beneficiary**. This means that if Buyer does not perform his obligations, his bank pays.

The letter of credit can also be the source of repayment of the transaction meaning that the exporter will get paid with the redemption of the letter of credit.

PARTIES TO A LETTER OF CREDIT TRANSACTION:

Buyer (your buyer's company):applicant
Supplier (vendor):beneficiary
Buyer's Bank (name of Bank):Issuing Bank
Beneficiary's Bank (your Bank):Advising Bank

SIMPLE LETTER OF CREDIT TRANSACTION:

In this **example**, the letter of credit is the source of repayment of the transaction. The vendor wants to be paid as soon as the merchandise is shipped. The LC indicates that payment shall be made as soon as vendor can present proof of shipping.

1. Buyer goes to **Issuing Bank** to request (dollar amount) letter of credit with **Advising Bank**.
2. **Issuing Bank** goes through **underwriting** process. Although the bank is not advancing money, they are **extending credit** on Buyer's behalf and are taking on a **contingent liability**. If Buyer qualifies for the credit the LC is issued.
3. Even if Buyer does not qualify for credit, Buyer can still get an LC if they are willing to put up **cash collateral**. CD secured letters of credit are very common for small businesses.
4. Buyer's Bank sends a copy of the letter of credit to Advising Bank, which lets the **vendor** know to ship the merchandise.

If the letter of credit that the vendor requires is not tied to a particular transaction, but they are asking for a guarantee that makes sure the buyer will not default, they will probably ask for a **Stand-By letter of credit** or a **Revolving letter of credit**. These types of LCs are usually for a longer term, usually a year, and are the vendor's guarantee that they will get paid.

Although there are **other factors** involved **such as the role of correspondent banks and confirmations**, the thing that concerns the customer most is expediency and the fees involved, which can run anywhere from 1.5% to 8% of the value of the LC.

SAMPLE: LETTER OF CREDIT

Bank Letter of Credit

(Name of Bank) Letter of Credit (LC) is acceptable under the following conditions:

1. It is highly desirable that the LC be 100% guaranteed by a top 50 Prime World Bank. OR, if not guaranteed:
2. The text or draft of the contents of the (Name of Bank) LC to be used should be faxed to (Seller's Name) at (Fax Number).
3. ANY import licenses necessary should be faxed also.
4. EXCESSIVE COMMISSIONS are not permitted by the seller. DEPENDENT ON COMMODITY AND QUANTITY MAX 1 to 2% of the monthly shipping value will be covered by fee protection. (Type of products) are treated differently (if applicable).
5. Letter of Intent must be on END BUYERS LETTERHEAD.

NOTE:

If the letter of credit that the vendor requires is not tied to a particular transaction, but they are asking for a guarantee that makes sure that you will not default, they are probably asking for a **Stand-By letter of credit** or a **Revolving letter of credit**. These types of LCs are generally for a longer term, usually a year, and are the vendor's guarantee that they will get paid.

TYPES: LETTERS OF CREDIT

Revocable letter of credit (RLC)

An RLC can be revoked (cancelled or stopped) by the Issuing Bank without the agreement of the beneficiary.

Irrevocable letter of credit (ILC)

An ILC cannot be cancelled or amended without the agreement of all parties.

Standby letter of credit (SLC)

Guarantee of payment. If the beneficiary does not get paid from its customer it can then demand payment from the Bank by forwarding the copy of the invoice that was not paid and supporting documentation.

Revolving letter of credit (RLC)

An RLC is established when there are regular shipments of the same commodity between supplier and customer. Eliminates the need to issue an LC for each individual transaction.

NOTE:

If duplicate acronyms are found (as in RLC), ask the source to verify and/or clarify with you so that there is no confusion or mistake.

SAMPLE: PERFORMANCE BOND - ON DEMAND

Name and address of beneficiary

Guarantee No. _____

Amount _____

Date of Expiration _____

We are informed by **('the Seller')** that they have entered into Contract No. _____ with you for the supply of **(commodity)** and in this connection we have been requested to issue a Performance Guarantee.

In consideration, therefore, of the foregoing Contract we, **(Name of Bank)**, hereby irrevocably undertake to pay to you an amount not exceeding **(amount)** despite any objection by the Seller upon receipt by us of your first demand in writing provided that such demand contains your certification that the Seller has failed to fulfil their obligations under the Contract and that the sum demanded is accordingly due and payable under this Guarantee. The signatures to such demand must be authenticated by your bankers. Such demand shall be accepted by us as conclusive evidence that the sum claimed is due under this Guarantee.

Always provided that:

- Our liability is limited to a maximum aggregate total amount not exceeding (amount) inclusive of any costs, expenses and taxes.
- Our Guarantee will expire on **(date)**. Any claims hereunder must be lodged with us at our Registered Office at **(address)** (marked for the attention of Trade & Export Finance, Guarantee No. _____) by **(local time)** on that date, when our guarantee will become of no effect whether returned to us or not.
- You are not entitled to rank in any insolvency of the Sellers prior to any claim of **(Name of Bank)** for any payment made to you under this Guarantee.
- The rights and benefits arising hereunder are personal to you and may not be assigned or transferred to any third party.

This Guarantee shall be governed by and construed in accordance with the law of **(country)** and you agree to submit to the exclusive jurisdiction of the Courts of **(country)**.

When the guarantee expires, please return this document to us.

SAMPLE: AGENT FEE AGREEMENT

DATE _____

(Seller) hereby irrevocably guarantees with full corporate responsibility and authority, that upon closing and consummation of any and all orders either in part or whole, that our bank will be instructed to disburse immediately the entitlement and compensation herein stated and represented by the amount and pay the same to the following:

AMOUNT US\$ _____

Pay to the order of: **(your name)** _____

Company: _____

Address: _____

Telephone () _____ Fax () _____

Bank name: _____

Address: _____

Routing number: _____

Account number: _____

Bank contact: _____

Said amount shall be computed on the gross amount of each shipment and shall be payable on a pro rate basis, as each shipment is closed and consummated. Once the contract is validated upon commencing of transaction, this order to pay shall remain valid and enforceable for the full term and shall apply to any and all renewals, extensions, rollovers and additions as agreed to between the supplier/seller and buyer.

This order to pay is assignable, transferable and devisable. This agreement shall be interpreted and construed in accordance with the laws of all countries or jurisdictions as controlled where the banks are located.

SAMPLE: EXPORT LETTER OF CREDIT— COVER LETTER

(Letterhead of Seller/Beneficiary)

Bank Name	Date _____
Trade and Export Finance	
Address	
City, State Zip	Our Ref. _____

Dear Sirs;

Letter of Credit No. _____ Bank Name Ref. No. _____

We enclose documents for (amount) _____ for payment in accordance with the terms and conditions of the Credit. We also enclose your advice letter together with the original Credit instrument and amendment(s) to the Credit, if any.

Upon payment, please arrange for the transfer of proceeds to:

Our account no. _____

With (bank) _____

For Deferred payment Credits and Acceptance Credits:

[] Please purchase our claim against the Credit without recourse.

Additional instructions:

Contact Person

Company Name

Telephone

Signature