

# IFF



# THE MECHANICS OF INTERNATIONAL TRADE FINANCE

## POSTGRADUATE CERTIFICATE

DELIVERED BY DISTANCE LEARNING OVER 16 WEEKS

**Dates:**

March  
September

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# COURSE SYLLABUS

## UNIT 1 INTRODUCTION TO INTERNATIONAL TRADE FINANCE

### Unit Learning Aims and Objectives

- ★ To gain an insight into the operation of international trade, the conflicting needs of seller and buyer and the importance of the commercial terms
- ★ To understand the role and types of documentation in trade and the methods in which the seller and their financier can exercise documentary control over the movement of goods
- ★ To appreciate the importance of trade finance in international trade, and the benefits to both the corporate and the financier

### UNIT CONTENT

#### International Trade

- Conflicting needs of seller and buyer
- Nature and importance of the commercial terms of trade
- Type of risks encountered in international trade
- Overview of the methods of payment

#### Trade Documentation

- Nature and use of negotiable documents
- Use and key features of each of the trade documents to include the sales invoice, bill of exchange (draft), promissory note, bills of lading, and other transport documents
- Importance of cargo insurance and pre-shipment inspection
- Methods of exercising control over the goods during transport and the features and value of documents of title

#### Trade Finance

- An explanation of what trade finance is, when used and its benefits
- The difference between trade services and trade finance

## UNIT 2 COLLECTIONS, AVAL AND FORFAITING

### Unit Learning Aims and Objectives

- ★ To appreciate the use and operation of DP and DA collections, bank aval and the ICC rules for collections
- ★ To understand the financing of collections and the discounting of bills of exchange
- ★ To gain an insight into the practice of forfaiting, the nature of due diligence required on the without recourse purchase of debt obligations and the benefits of the secondary market

### UNIT CONTENT

#### Collections

- Use and operation of DP and DA collections and appreciation of the ICC rules URC
- Bank responsibility
- Collection instructions and the process of protest in the case of dishonor
- Risk considerations and benefits for each of the parties

#### Advance Against Collections

- Method of financing collections and how these are structured
- Risks appreciation and benefits

#### Bank Aval

- Use and operation of bank aval
- Obligations and risk considerations of the avalising bank

#### Discounting Bills of Exchange

- Financing of bills of exchange with and without recourse
- Operation of discount finance

#### Forfaiting

- Use and operation of forfaiting
- Nature of debt obligations and required due diligence
- Commitment to purchase; advantages to the seller
- Forfaiting agreements; key terms
- Benefits of the secondary market

## UNIT 3 DOCUMENTARY CREDITS

### Unit Learning Aims and Objectives

- ★ To appreciate the purpose and value of the documentary credit
- ★ To gain an appreciation of the ICC rules UCP, ISBP and URR
- ★ To understand the credit and documentary risk factors
- ★ To be able to optimally structure documentary credits from the perspective of the buyer or the seller
- ★ To appreciate and identify financing opportunities

### UNIT CONTENT

#### Principles and Usage

- When used, key principles and parties
- Operation
- Appreciation of the ICC UCP, ISBP and URR rules

#### Issuing the Documentary Credit

- Risk appreciation for the applicant and issuing bank
- Obligation of the issuing bank
- Structuring the import credit to mitigate risk

- Calculating the credit facility limit
- Advantages and disadvantages for the applicant

#### Advising/Negotiating the Documentary Credit

- Difference between advising and nominated bank
- Role and responsibility of the nominated bank
- Structuring the export credit to mitigate risk for the beneficiary
- Advising the credit
- Handling amendments
- Advantages and disadvantages of the export credit for the beneficiary

#### Confirmation

- Unconfirmed credits; beneficiary risk appreciation
- Risk, responsibility and obligations of the confirming bank
- Silent confirmation; the difference between an undertaking to pay and a commitment to negotiate

#### Documents

- Presentation and document examination
- Impact and process of a discrepant presentation
- Operation of the discrepancy waiver
- Right of the issuing bank to reject a discrepant presentation

#### Payment

- Complying documents
- Discrepancy waiver approval
- Importance of the bank to bank reimbursement clause

#### Import Credits; Financing Opportunities

- Usance payable at sight credits
- Re-finance

#### Export Credits; Financing Opportunities

- Discounting bank acceptances
- Purchasing deferred payment undertakings
- Negotiating with and without recourse
- Allocation of proceeds



# COURSE SYLLABUS

## UNIT 4

### SPECIALIST TYPES OF CREDIT

#### Unit Learning Aims and Objectives

- ★ To appreciate the different types of documentary credit and their use
- ★ To gain an insight into the operation of oil related credits and the role of the letter of indemnity and shipping guarantee
- ★ To understand the operation and credit facility requirement of a revolving credit, risks for the issuing bank and applicant, and the differences with a credit reinstatable by amendment
- ★ To appreciate how to structure the master and counter credit on a back to back credit facility to mitigate risk and comparison with transferable credits

#### UNIT CONTENT

##### Oil Credits

- Variation in amount clauses
- Use of letters of indemnity
- Requirement and risk considerations of shipping guarantees

##### Revolving Credits

- Use and operation
- Revolvment by value or period, and the operation of cumulative and non-cumulative credits
- Calculation of the credit facility limit
- Risk appreciation for the issuing bank and applicant
- Comparison with credits reinstatable by amendment

##### Transferable Credits

- Use and operation
- Allowed changes on transfer
- Risk appreciation for the issuing bank
- Advantages and disadvantages to the middle-party
- Comparison with back to back credits

##### Back to Back Credits

- Use and operation
- Risk appreciation for the financing bank and middle-party
- Structuring master and counter credits to mitigate risk

##### Other Types of Credit

- Reinstatable
- Synthetic
- Red clause
- Green clause
- Non-bank issuer

## UNIT 5

### DEMAND GUARANTEES AND STANDBY CREDITS

#### Unit Learning Aims and Objectives

- ★ To appreciate the use and operation of demand guarantees and how these differ to conditional guarantees and surety bonds
- ★ To understand the different types of demand guarantee
- ★ To be able to explain the use and difference between a counter guarantee and 'primary' guarantee
- ★ To appreciate the use of the ICC rules URDG
- ★ To gain an insight into the applicant and bank risks of issuing guarantees
- ★ To be able to structure the key clauses of a demand guarantee to mitigate risk and to manage risk exposure
- ★ To appreciate the use, process and operation of standby credits and how these differ to demand guarantees
- ★ To gain an understanding of the key differences between ICC rules ISP and UCP
- ★ To gain an insight into the syndication of facilities and method of risk participation for large guarantee or standby credit facilities

#### UNIT CONTENT

##### Demand Guarantees

- Key principles, parties and when used
- Comparison with conditional guarantees
- Appreciation of ICC URDG rules
- Operation of direct and indirect guarantees
- Role of the counter guarantee
- Issuing the demand guarantee
- Obligation of the guarantor
- Structuring the demand guarantee wording to mitigate risk and manage risk exposure
- Types of trade-related guarantees
- Governing law
- Impact of extend or pay demands and foreign law and usage on expiry dates
- Claim demand; examination and payment obligation
- Cancellation
- Risk considerations for the applicant, counter guarantor and guarantor
- Benefits to the beneficiary
- Transferable guarantees and comparison with assignment

##### Standby Credits

- Key principles, parties and process
- Bank responsibility and obligations
- Appreciation of ICC rules ISP compared with UCP
- Types of trade-related standbys
- Operation of a commercial standby credit
- Automatic extension (evergreen)

- Presentation of claim demand documents; examination and payment
- Risk considerations for the issuer and applicant
- Benefits to the beneficiary
- Structuring a commercial standby credit to mitigate applicant and issuer risk
- Comparison with demand guarantees

#### Syndications

- Purpose operation and risk participation

## UNIT 6

### STRUCTURED TRADE FINANCE

#### Unit Learning Aims and Objectives

- ★ To appreciate the purpose and nature of structured trade finance and the use of trade loans
- ★ To be able to construct a trade cycle timeline and calculate the borrowing requirement
- ★ To evaluate a trade proposition and determine the required extent of structuring
- ★ To understand the role of security, the use of pledge and trust receipts in taking transactional security over goods and the importance of 'the law of the place'
- ★ To gain an insight into the role of Export Credit Agencies and the nature of their support for exporters

#### UNIT CONTENT

##### Structured Trade Finance

- What structured trade finance is and when it is used
- An alternative to 'balance sheet' lending
- Trade loans; their use, structure and management of different risk exposures
- Determining the extent and nature of the structure
- Self-liquidating and partially structured facilities
- Use and construction of the trade cycle timeline and the formulation of the credit facility amount
- Structuring an export letter of credit as a source of repayment for pre-shipment finance

##### Evaluation of the Trade Proposition

- Key aspects of assessment
- Relevance of the borrower's financial statements
- Principle of 'going concern' and relevance of other lending facilities

##### Security

- Its use and purpose
- Taking transactional security over the goods; the use of pledge and trust receipts
- Relevance and importance of 'the law of the place'





# COURSE SYLLABUS

## Export Credit Agencies

- Their role in supporting exports
- ECA eligibility
- Nature of support
- Buyer and supplier credit facilities
- Credit insurance
- Working capital and bond support

## UNIT 7

### OPEN ACCOUNT PAYMENTS AND THEIR FINANCING

#### Unit Learning Aims and Objectives

- ★ To gain an appreciation of the operation and market dynamics of open account trade
- ★ To understand the mechanism of international payments and the Bank Payment Obligation 'BPO'
- ★ To appreciate how to construct a trade payables financing structure for a buyer
- ★ To be able to explain the use, mechanics and risk considerations of Approved Trade Payables Finance from the perspectives of the buyer, supplier and the bank
- ★ To appreciate how to assess risk and construct a trade receivables financing structure
- ★ To evaluate credit insurance as a financing tool

#### UNIT CONTENT

##### Open Account Trade

- Operation and market dynamics
- Mechanism of international payment transfer
- Use and operation of the bank payment obligation 'BPO'

##### Trade Payables

- Buyer; purchase ledger management
- Creditor listing importance
- Structured methods of financing trade creditor payments
- Funding deposit payments
- Pre-shipment funding for the manufacturer

##### Approved Trade Payables Finance (Supply Chain Finance)

- Use, process and operation
- Role of the bank in supporting the buyer and suppliers
- Credit risk
- Proprietary and multi-finance platforms
- Risk appreciation for the bank, buyer and supplier
- Benefits

##### Trade Receivables

- Importance of the commercial agreement
- Nature of the sales invoice, credit notes and risk considerations

- Seller; sales ledger management
- Debtor listing; importance

##### Credit Insurance

- Types of cover
- Its use to support financing
- Evaluation of the terms

##### Receivables Finance

- Advance vs. debt purchase
- Risk evaluation
- Structuring receivables finance
- Disclosed and undisclosed facilities
- Eligible and ineligible debts
- Rights of recourse
- Assignment of debt
- Presentation of debts for finance
- Prepayment and retentions
- Capture of the trade receivable
- Specific debt purchase
- Factoring
- Confidential invoice discounting
- Off-balance sheet finance; true sale?

## UNIT 8

### COMMODITY FINANCE

#### Unit Learning Aims and Objectives

- ★ To gain an insight into the types of commodity and the commodity market
- ★ To appreciate the role and characteristics of commodity finance
- ★ To be able to evaluate risks in commodity finance
- ★ To understand the financing structures for pre-export payment, goods stored in a warehouse and borrowing base

#### UNIT CONTENT

##### The Commodity Market

- Definition and types of commodity; base and precious metals, energy and agriproduce
- Characteristics of the commodity market
- How commodities are traded; the role of commodity exchanges

##### Financing Commodities

- Purpose of commodity finance
- Risks in commodity finance
- Financing the commodity trader

##### Pre-export Finance and Prepayment

- Use and operation
- Risk considerations
- Due diligence
- Off-take agreements

##### Warehouse Finance

- Use and operation
- Pre-sold or speculative?
- Risk considerations
- Due diligence
- Use of warehouse receipts, deeds of attornment and warehouse warrants

- Collateral management
- Control of cash flow

##### Borrowing Base

- Use and operation
- Security pool and lending value
- Reporting
- Risk considerations

##### Other Forms of Commodity Trade

- Countertrade
- Counterpurchase
- Risk considerations

