

# Glossary of Global Trade Terms

## Acceptance:

The act of giving a written undertaking on the face of a usance bill of exchange to pay a stated sum on the maturity date indicated on the bill of exchange. If an acceptance is created by a Bank, it is known as a Banker's Acceptance. If it is accepted by a corporate entity, it is known as a trade acceptance. In Bill for Collections (BCs), documents of title to shipped goods are typically exchanged for a usance bill of exchange that has been accepted by the drawee (trade acceptance) when documents are sent using Documents against Acceptance (D/A) terms.

## Advising:

Act of conveying the terms and conditions of a Letter of Credit (LC) to the beneficiary. The advising bank is the correspondent of the issuing bank, usually located in the beneficiary country. Advising also involves authentication (i.e., advising bank should take reasonable care to check the apparent authenticity of the LC). In the event it cannot determine the apparent authenticity of the LC, the advising bank must so notify the issuing bank, and if it nonetheless elects to advise the LC to the beneficiary, it must also inform the beneficiary.

## Amendment:

Alteration to the terms of an LC. Amendments must stem from the applicant, be issued by the issuing bank and advised to the beneficiary. The beneficiary has the right to refuse an amendment if the LC is irrevocable.

## Applicant:

One who applies to a bank to issue an LC. In the majority of LCs issued, the applicant is an importer of goods.

## Back-to-Back Credit:

An LC issued against the security of another LC (master credit) on the understanding that reimbursement will stem from documents eventually presented under the first credit (master credit) issued.

## Beneficiary:

A payee or recipient, usually of money. A party in whose favor an LC is established. In an LC the beneficiary is usually the exporter of the goods covered by the LC.

## Bill for Collection (BC):

Documents (including a Bill of Exchange or draft) submitted through a bank for collection of payment from the drawee, also known as Documentary Collection.

## Bill of Exchange:

A written unconditional order to pay, addressed by one party (the drawee) to another, signed by the party giving it (the drawer), requiring the drawee to pay the drawer a specified sum of money, on demand or at a fixed or determinable future time.

## Clean:

Used to describe a payment that is handled without the presence of or reference to any of the underlying commercial documents.

## Collecting Bank:

In BCs it is the Bank in the drawee country that is instructed to collect payment from the drawee.

## Collection Order:

Form submitted with documents to the remitting/negotiating bank by an exporter with instructions. Also known as Collection Instruction.

## Confirming:

Act of a bank other than the issuing bank assuming the liability for payment, acceptance or negotiation of correctly presented documents under an LC.

## Contingent Liability:

A liability that arises only under specified conditions (e.g. when a bank opens an LC, it has an obligation to make a future payment on condition that a conforming demand for payment is made by the beneficiary under the LC).

## Credit:

Where a bank lends money or assumes a contingent liability, (i.e. credit facilities or the granting of credit approval).

## Discounting:

Act of purchasing or prepaying an accepted Usance Bill of Exchange or documents presented under an LC.

## Discrepancy:

Any deviation from the terms and conditions of an LC or from international standard banking practice or any applicable ICC rules existing in the documents presented there under, or any inconsistency between the documents themselves.

## Documentary Collection:

See [Bill for Collection \(BC\)](#).

**Documentary Credit (DC):**

An undertaking by a bank to make payment to a named beneficiary against a formal claim that another named party has failed to perform a specified action or satisfy the terms of an underlying contract.

**Documents Against Acceptance (D/A):**

Instruction used in BCs/Documentary Collections for commercial documents to be released to the drawee in exchange for the drawee's acceptance of the Bill of Exchange.

**Documents Against Payment (D/P):**

Instruction used in BCs for documents to be released to the drawee in exchange for payment.

**Draft or Bill of Exchange:**

A financial document evidencing a demand for payment of a stated sum of money that is issued by an exporter (the drawer) and submitted to their bank for collection from the drawee. Under an LC, this document is usually submitted along with shipping documents.

**Drawee:**

The party from whom payment is expected. In BCs the drawee is usually the buyer; in LCs the drawee is typically the issuing or confirming bank.

**Drawer:**

The party who is demanding payment. In Documentary Collections and Commercial Letters of Credit, the drawer is typically the seller of the goods.

**Due Date:**

The maturity date for payment.

**Guarantee:**

An undertaking by a bank to make payment to a named beneficiary against a formal claim that another named party has failed to perform a specified action or satisfy the terms of an underlying contract.

**Incoterms:**

Trade terms are the contract clauses that specify whether the seller or the buyer is responsible for organizing transport, who bears the risk of loss or damage to the goods during shipment, and who will insure the goods during carriage. International Chamber of Commerce (ICC) is the international body that promotes and facilitates world trade and codifies world trade practices in various publications.

**ISP98:**

The International Standby Practices ISP98, ICC Publication No. 590

**Issuing Bank:**

The bank that opens an LC at the request of its customer, the applicant.

**Letter of Credit (LC):**

See [Documentary Credit](#).

**Negotiation:**

Advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank, for a compliant presentation under an LC.

**Opener:**

See [Applicant](#).

**Opening Bank:**

See [Issuing Bank](#).

**Paying Bank:**

The bank that makes payment to the beneficiary after presentation of documents stipulated in the LC.

**Presentation:**

In LCs, it is either the delivery of documents under an LC to the issuing bank or to the nominated bank or the documents so presented. In BCs, it is the act of a collecting bank—performing in the capacity of a presenting bank—that contacts the drawee for payment or acceptance in accordance with the collection instruction.

**Presenting Bank:**

In LCs, it is the bank that presents drafts and/or documents for payment. In BCs, it is the collecting bank that makes presentation to the drawee.

**Principal:**

A term used in BCs that means the party entrusting the handling of a collection to a bank.

**Reimbursing Bank:**

The bank nominated by the LC issuing bank that will pay the value of the LC to the negotiating/paying bank.

**Remitting Bank:**

A term used in BCs that means the bank to which the principal has entrusted the handling of a collection.

**Schedule:**

The remitting/negotiating/presenting bank's letter covering bills of exchange and/or documents sent to the collecting/issuing bank, which lists the documents attached and gives collection and/or payment instructions. In BCs this is also known as the Collection Instruction.

**Sight:**

A term used to mean immediate payment. A bill of exchange payable at sight is payable on presentation to the drawee, i.e. on demand.

**Standby Letter of Credit:**

See [Documentary Credit \(DC\)](#).

**Transferable Credit:**

Permits the beneficiary to transfer all or some of the rights and obligations under the LC to a second beneficiary or beneficiaries.

**UCP 600:**

ICC publication, Uniform Customs and Practice for Documentary Credits (2007 revision) replaced the previous UCP 500 on July 1, 2007.

**URC 522:**

ICC publication, Uniform Rules for Collections (1995 revision).

**URDG 758:**

ICC Uniform Rules for Demand Guarantees.

**Usance Bill:**

A Bill of Exchange (draft) which allows the drawee a term or period of time before payment, also called usance. The term is usually stated in days (e.g. 30 days) and starts either from the date of the bill (e.g. 30 days date) or from the date of shipment, or from sight by the drawee (e.g. 30 days sight), which in practice means from the date of acceptance.

**Waive:**

To relinquish a right. The term is used in BCs with charges and/or interest to be collected from the drawee. In relation to LCs, this is where the applicant agrees to pay for documents presented after waiving the presence of discrepancies in the documents.

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