

## GLOBAL TRADE AND RECEIVABLES FINANCE



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The guide presents general information about the fundamental trade finance methods and also provides a comparison between different payment forms for reference.

You can use the links below for the particular type of payments method you intend to use in your global trade activities.

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Founded in 1865 to finance trade between Asia and the West, today HSBC is one of the world's largest banking and financial services organisations serving more than 47 million customers. Headquartered in London, HSBC operates through long-established businesses and an international network of around 6,000 offices in 71 countries and territories.

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You may also follow the latest developments across the world on global trade at HSBC Global Connections website. HSBC Global Connections website launched in 2012 is a valuable resource, bringing together business news and insight from around the world helping exporters and importers operating in global markets to plan their business strategies.

You can access to developments in international trade and opportunities through detailed research reports about the world economy and country specific Trade Forecast Reports. Also, HSBC Country Guides inform you about the legislative, cultural and tax schemes in the markets that you wish to operate.

For the latest updates about international trade, please see

<http://www.globalconnections.hsbc.com/>

## TRADE FINANCE METHODS

Exporter	Payment Method	Importer
Highest risk	Open Account	Highest safety
	Documentary Collection	
	Documentary Credit	
	Confirmed Letter Of Credit	
Highest safety	Advance Payment	Highest risk

### Open Account ( Cash against Goods)

This is a payment method where the exporter delivers the documents representing the goods either directly or via bank to the importer without receipt of payment or against policy and the importer pays the cost of goods on a date later than the date on which the importer clears goods from customs. As no assurance is provided to the exporter for the payment of the cost, this method implies the highest risk on the exporter.

### Documentary Collection

This is a payment method where the seller entrusts the documents of the goods to their bank provided that their value is collected following delivery of goods.

### Documentary Credit

This is a conditional payment commitment that a bank is liable to fulfil for the exporter in the event that particular conditions specified beforehand are fulfilled by its exporter customer. In the documentary credit transaction, the bank of the exporter acts as a mediator between the exporter and importer and reassure the exporter on behalf of importer on that the payment would be made to the exporter provided that they fulfil particular conditions. In terms of the risk to be taken by importer and exporter, the most secure method of payment is the documentary credit.

### Advance Payment

In this payment method, the importer pays the cost of goods in cash before the exporter delivers the goods. Contrary to the Cash Against Goods, the importer opens a credit for the exporter. Before accepting such kind of payment method, the buyer should trust the seller fully and believe that the seller will fulfil its commitment.

## ADVANTAGES AND DISADVANTAGES AS PER PAYMENT METHODS

Exporter	Importer
Certainty of the payment	Facility to provide advance payment discount
Advantage of working capital / balance sheet management	One of the cheapest import methods
Less possibility to bargain	Provision of a usable fund in advance
Possibility to have difficulty in entering into some markets	No control on loading, quantity and forwarding time

## **OPEN ACCOUNT/CASH AGAINST GOODS**

### **Exporter**

Ease of customer acquisition and sales  
Competitive advantage in the market  
Possibility to quote higher pricing  
Collection risk  
Political risk  
Use of working capital  
Payment problems with importers and markets worked with for the first time

### **Importer**

One of the cheapest import methods  
Flexible payment facility  
Finance provided by seller  
Delivery of goods before payment  
Non-availability of any clear date or commitment on the receipt of the goods  
Risk of purchasing goods over deferred payment price (higher price)

## **DOCUMENTARY COLLECTION**

### **Exporter**

Collection follow-up  
Follow-up facility through bank  
Proprietorship till the payment  
Non-availability of a certain payment guarantee  
Cancellation of the order after goods are forwarded  
Removal of proprietorship before the payment for some consignment types

### **Importer**

Facility to make payment upon receipt of the goods  
A cheaper payment method than documentary credit  
Demurrage cost that may arise in the event of earlier arriving of documents than goods  
No control on the loading time

## **Use of this Information**

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