



# Chapter 6

---

# International Payment

# 目 录

**6.1**   **Payment Options for domestic trade**

**6.2**   **Payment instrument**

**6.3**   **Paying Methods**

**6.4**   **Payment Clauses in the Contract**

**6.5**   **Summary risk lever  
of different mode of payment**



# Learning objective

**When you finish this chapter, you should be able to**

- 1. Identify the risks of different methods of payment in international trade.**
- 2. Discuss the form and function of payment instruments: bill of exchange, check, and promissory note.**
- 3. Explain the procedures of document collection**
- 4. State the types of letter of credit and the procedure of L/C payment**
- 5. Outline different parties' responsibilities under L/C payment.**



## Lead-in Case

In the sales confirmation signed by the importer and exporter, the terms of shipment is written as “shipment should be effected in September”, soon after the S/C is signed, the importer asks its’ issuing bank to open the relevant L/C . In the L/C at sight, the time of shipment is also written as “Shipment must be effected on or before September, 2019.”The exporter ships the goods on September 10, and soon get the payment from the issuing bank.



## Lead-in Case (continue)

On October 10, the importer file a complaint about late shipment, they insist that the shipment should not be later than August 31, they say the exporter should pay for compensation for penalty of 0.1% per day for 10 days, which is 1% of the contract value.

### Question:

1. Why the exporter can get the payment quickly from the issuing bank?
2. Is the request from the importer reasonable or not?  
Should the exporter pay for the penalty?



## 6.1 Payment Options for domestic trade

**1. COD (cash on delivery)**

**2. Open Account (OA)**

**3. Collection**



## 6.2 Payment instrument

### Necessary items:

- 1) The words of “Bill”, “Bill of Exchange” or “draft”;
- 2) The date and place of issuance of draft;
- 3) The specific sum;
- 4) The tenor,
- 5) The name of the drawee;

### 1. BE (Bill of Exchange)

#### BILL OF EXCHANGE

凭 Drawn Under			不可撤销信用证 Irrevocable L/C No.		OUK760981	
日期 Date	Sept. 12, 2019		支取 interest	Payable With	@	% 按 息 付款
汇票 号码 No.	123456	汇票金额 Exchange for	USD 10,000		北京 Beijing	September 27, 2019
见 票 at	xxx	日后 (本汇票之副本未付) 付交 sight of this FIRST of Exchange (Second of Exchange				
Being unpaid) Pay to the order of						
金额 the sum of	US DOLLARS TEN THOUSAND ONLY					
此致: 付款人 To: Drawee			出票人本人或其代表人签章 Drawer's name Sign/ stamp			



## 6.2 Payment instrument

**Necessary items(continued):**

**6)The name and signature of the drawer;**

**7)The name of the payee or the order of bearer;**

**8)The endorsement of the payee when applicable**

**9)The name and signature of the payee;**

### 1. BE (Bill of Exchange)

#### BILL OF EXCHANGE

凭 Drawn Under			不可撤销信用证 Irrevocable L/C No.		OUK760981	
日期 Date	Sept. 12, 2019		支取 interest	Payable With	@	% 按 息 付款
汇票 号码 No.	123456	汇票金额 Exchange for	USD 10,000		北京 Beijing	September 27, 2019
见 票 at	xxx	日后 (本 汇 票 之 副 本 未 付) 付 交 sight of this FIRST of Exchange (Second of Exchange				
Being unpaid) Pay to the order of						
金额 the sum of	US DOLLARS TEN THOUSAND ONLY					
此致: 付款人 To: <u>Drawee</u>			出票人本人或其代表人签章 Drawer's name Sign/ stamp			





## 6.2 Payment instrument

### Optional items

- 1) The reason of issuing the draft;
  - 2) The interest clause for time bill;
  - 3) The total copy of the bill
- The drawee's address etc

### 1. BE (Bill of Exchange)

**ORIGINAL** (正本字样)

**No. of the check** 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点. 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID)

PAY TO THE ORDER OF ⑧收款行或其指定人

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (2) Parties Involved

- a) Drawer: the party who issues the draft or bill of exchange.
- b) Drawee: the party who is ordered to pay the funds written on the face of the draft or bill of exchange.

### 1. BE (Bill of Exchange)

**ORIGINAL** (正本字样)

**No. of the check** 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID) .....

PAY TO THE ORDER OF ⑧收款行或其指定人 .....

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (2) Parties Involved:

c) **Acceptor:** a drawee who agrees to pay the bill when it is due by signing the bill on its face.

d) **Payee:** the party who, on the face of the bill, is to receive payment.

### 1. BE (Bill of Exchange)

**ORIGINAL** (正本字样)

**No. of the check** 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点, 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID)

PAY TO THE ORDER OF ⑧收款行或其指定人

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (2) Parties Involved

e) Endorser: a payee who has signed (endorsed) and delivered the bill to a endorsee.

f) Endorsee: a person who receives an endorsed bill from an endorser.

### 1. BE (Bill of Exchange)

ORIGINAL (正本字样)

No. of the check 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID) .....

PAY TO THE ORDER OF ⑧收款行或其指定人 .....

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (2) Parties Involved

g) Bearer: a person who has physical possession of a bill that is payable to anyone (“to bearer”) or that has been endorsed without naming an endorsee (endorsed “in blank”)

### 1. BE (Bill of Exchange)

ORIGINAL (正本字样)

No. of the check 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID)

PAY TO THE ORDER OF ⑧收款行或其指定人

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (3) Procedure of using a B/E

- a) Issuance;
- b) Presentation;
- c) Payment;
- d) Acceptance;
- e) Discounting and endorsement;
- f) Dishonor.

### 1. BE (Bill of Exchange)

**ORIGINAL** (正本字样)

**No. of the check** 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点, 交单日期 (汇票出票日期) .....

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID) .....

PAY TO THE ORDER OF ⑧收款行或其指定人 .....

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### (4) Classification of a B/E

- a) Banker's draft & commercial draft;
- b) Documentary Draft & Clean Draft;
- c) Sight Draft & Time Draft / Usance Draft

### 1. BE (Bill of Exchange)

**ORIGINAL** (正本字样)

**No. of the check** 汇票号码

DRAWN UNDER ①开证行 .....

L/C NUMBER: ②信用证号 .....

DATED ③开证日期 .....

PAYABLE WITH INTEREST @ ..... % PER ANNUM

NO. ④发票号 EXCHANGE FOR ⑤汇票小写金额 ⑥交单地点 交单日期 (汇票出票日期)

⑦票期 (即期或远期) OF THIS FIRST OF EXCHANGE (SECOND OF EXCHANGE BEING UNPAID)

PAY TO THE ORDER OF ⑧收款行或其指定人

THE SUM OF SAY ⑨汇票大写金额 ONLY

TO: ⑩付款行 .....

Drawer (beneficiary) 出票人本人或其代表人的签章

1



## 6.2 Payment instrument

### 2.Promissory Note

#### **(1) Definition of Promissory Note**

a promissory note is defined as "a written instrument which contains an unconditional promise whereby the maker undertakes to pay a definite sum of money to the payee or to his holder".

To put it simple, a promissory note is any written promise to pay.





## 6.2 Payment instrument

### 2. Promissory Note

#### **(2) More about Promissory Note**

- a) a negotiable instrument;
- b) two parties concerned in a promissory note: the maker and the payee;
- c) two kinds: sight promissory notes or time promissory notes;
- d) Banker's promissory note, it's also called as cashier's check or cashier's order;
- e) Commercial promissory notes or trader's notes



## 6.2 Payment instrument

### 3. Check

#### **(1) Definition**

**A check is a direction in writing to a bank to pay a stated sum of money on demand to a named party, or to the order of a specified person or bearer.**

**A check can be seen as a type of bill of exchange drawn on a bank, payable on demand.**



## 6.2 Payment instrument

### 3. Check

#### **(2) More about check**

- 1) A check can be canceled at any time before it is paid.
- 2) If the paying bank marked “certified” with signature on the check, it is a certified check that will not be dishonored.



## 6.3 Paying Methods

### 1. Remittance

#### **(1) Definition**

a) Remittance refers to transfer of funds from one party to another among different countries through banks.

b) There are four parties involved in the remittance operation: remitter, remitting bank, paying bank and payee or beneficiary.

c) Types of remittance: M/T Mail Transfer(M/T), T/T (Telegraphic Transfer) ,D/D (Demand Draft)

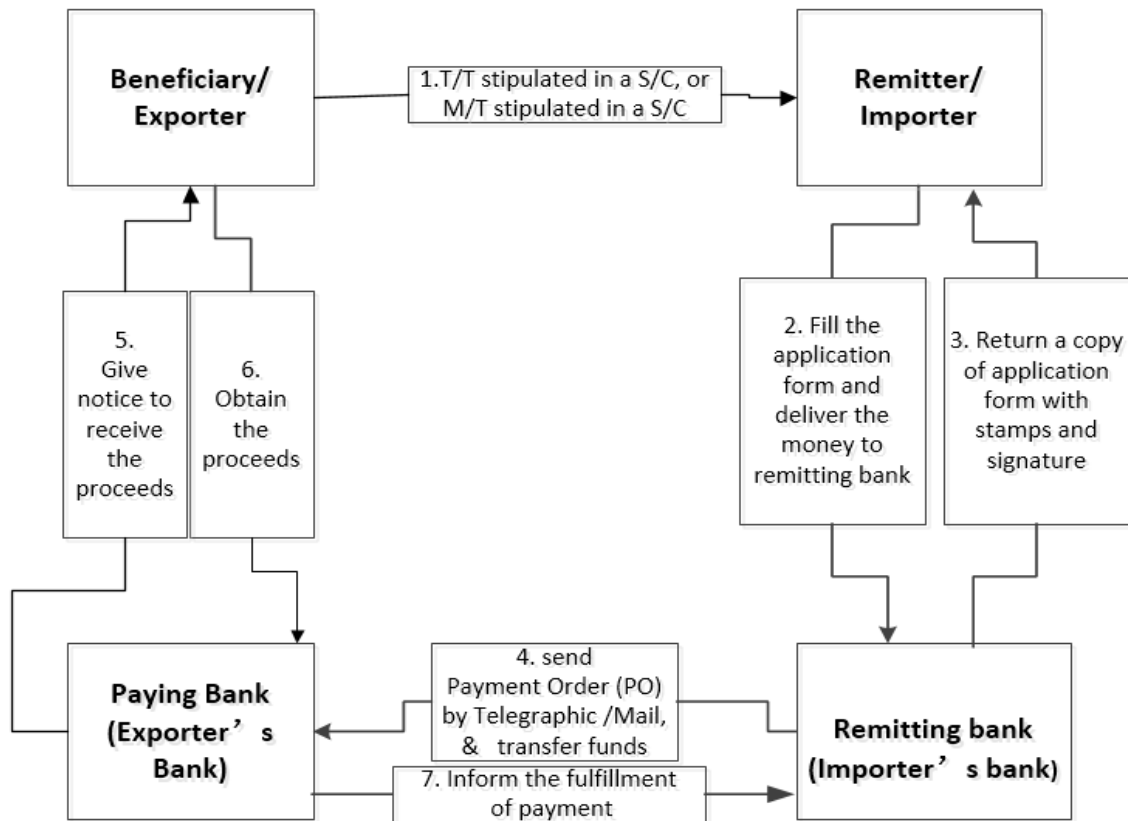


## 6.3 Paying Methods

### 1. Remittance

#### (2) More about check

#### 1) Workflow of T/T or M/T



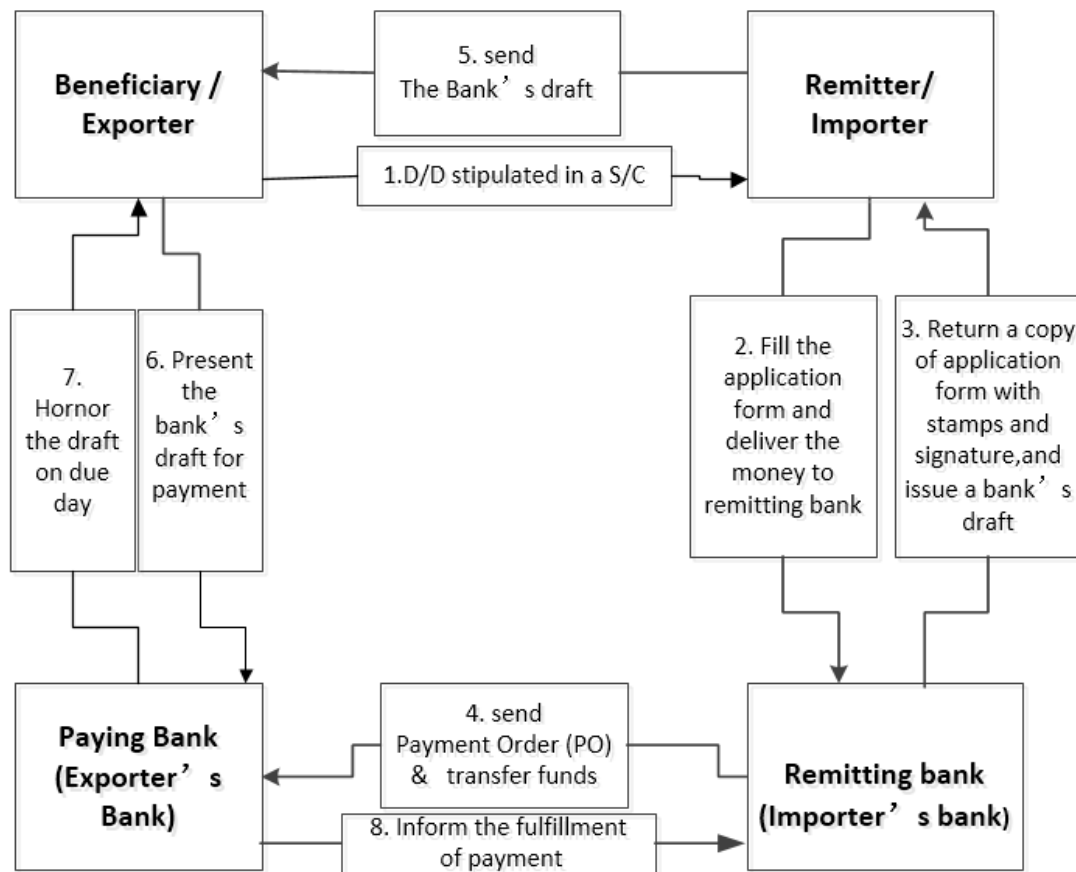


## 6.3 Paying Methods

### 1. Remittance

(2) More about check

2) Workflow of D/D





## 6.3 Paying Methods

### 1. Remittance

#### **Application:**

#### **a) Payment in Advance**

Payment in advance is the most secure method for exporters, but the least attractive for importers.

#### **b) Open Account**

This is the least secure method of trading for the exporter, but the most attractive to importers.



## 6.3 Paying Methods

### 2. Collection

#### **Definition:**

A collection means an arrangement whereby the seller draws a draft on the buyer and authorizes his bank to collect.

#### **(1) The parties involved under collection**

Principal , Remitting bank (in exporter's country) ;

Collecting bank, Drawee (in importer's country)

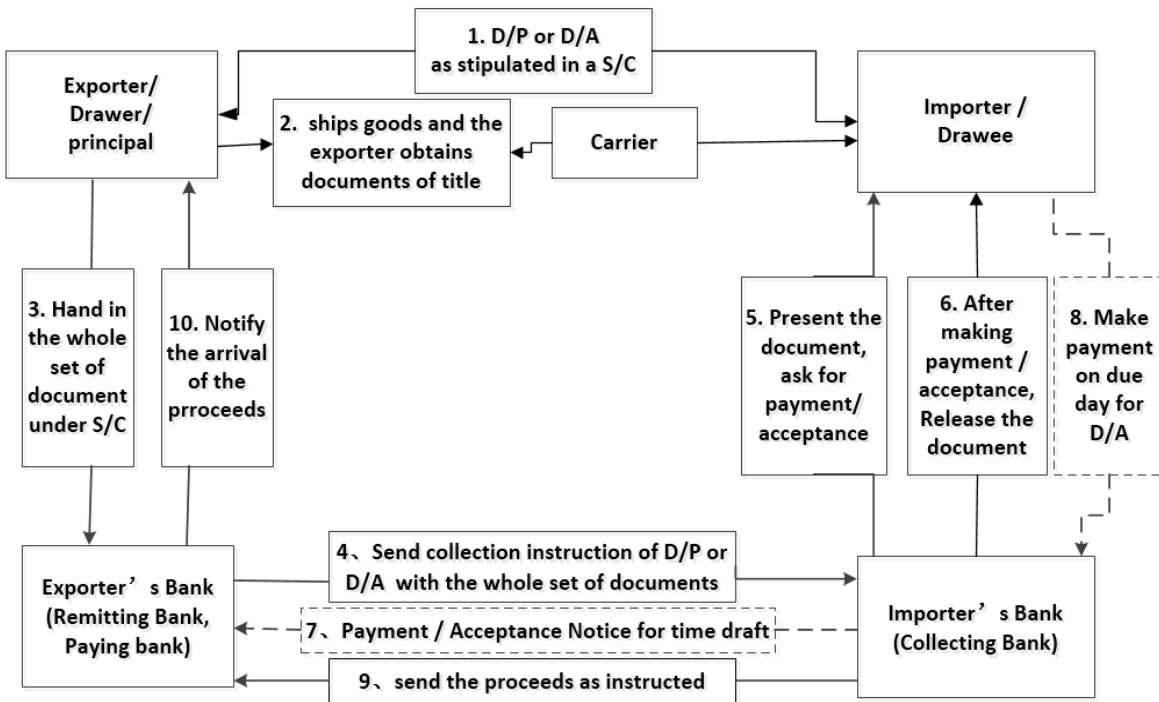




## 6.3 Paying Methods

### 2. Collection

(2) Workflow of  
D/A or D/P  
D/A(Document  
against  
Acceptance);  
D/P(Document  
against Payment);







## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

**A letter of Credit is the written promise of a bank on behalf of the buyer to pay a seller the amount specified in the credit provided the seller complies with the terms and conditions set forth in the credit.**



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

A letter of Credit includes:

- >The parties involved,including the applicant,the issuing bank,the negotiating bank,the paying bank and the like.
- > Remarks about the L/C:such as the Number of the L/C,its type and the issuing date.
- >The amount of the L/C.
- >The clauses of the bill of exchange,such as the amount of the bill,the drawer and drawee,the paying date.



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

A letter of Credit includes:

>>Guarantee clauses of the opening bank, which testifies that the opening bank will hold itself responsible for the payment to the beneficiary of the draft.

>L/C is of different forms. Most of the issuing banks use their own forms with reference to the standard forms. The legal document concerning the use of L/C is Uniform Customs and Practice for Documentary Credits.



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

(2) The parties to an L/C

> **Applicant** is the party on whose request the credit is issued, and it is the buyer that begins to apply to his bank to open a credit naming the seller as the beneficiary.

> **Opening Bank or Issuing Bank** is the bank that issues a L/C at the request of the applicant or on its own behalf. It is usually the bank located in the importer's country.



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

(2) The parties to an L/C

> **Paying Bank or Drawee bank** is the bank which cashes a check or draft, known as an accepting bank or payer bank too.

> **Negotiating Bank** is the beneficiary's bank which agrees to pay the beneficiary by purchasing a negotiable instrument.



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

(2) The parties to an L/C

> **Confirming bank** is the bank that adds its confirmation to a credit upon the issuing bank's authorization or request.

> **Reimbursing Bank** is the bank named in credit from which the claiming banks may request cover after paying or negotiating the documents in compliance with the credit.





## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

(2) The parties to an L/C

> **Presenting Bank** is the bank which receives the package of documents under an L/C and submits it to the paying bank for payment.

> **Nominated Bank** means the bank with which the letter of credit is available or any bank in the case of a credit available with any bank.



## 6.3 Paying Methods

### 3. Letter of Credit

#### **Definition:**

(2) The parties to an L/C

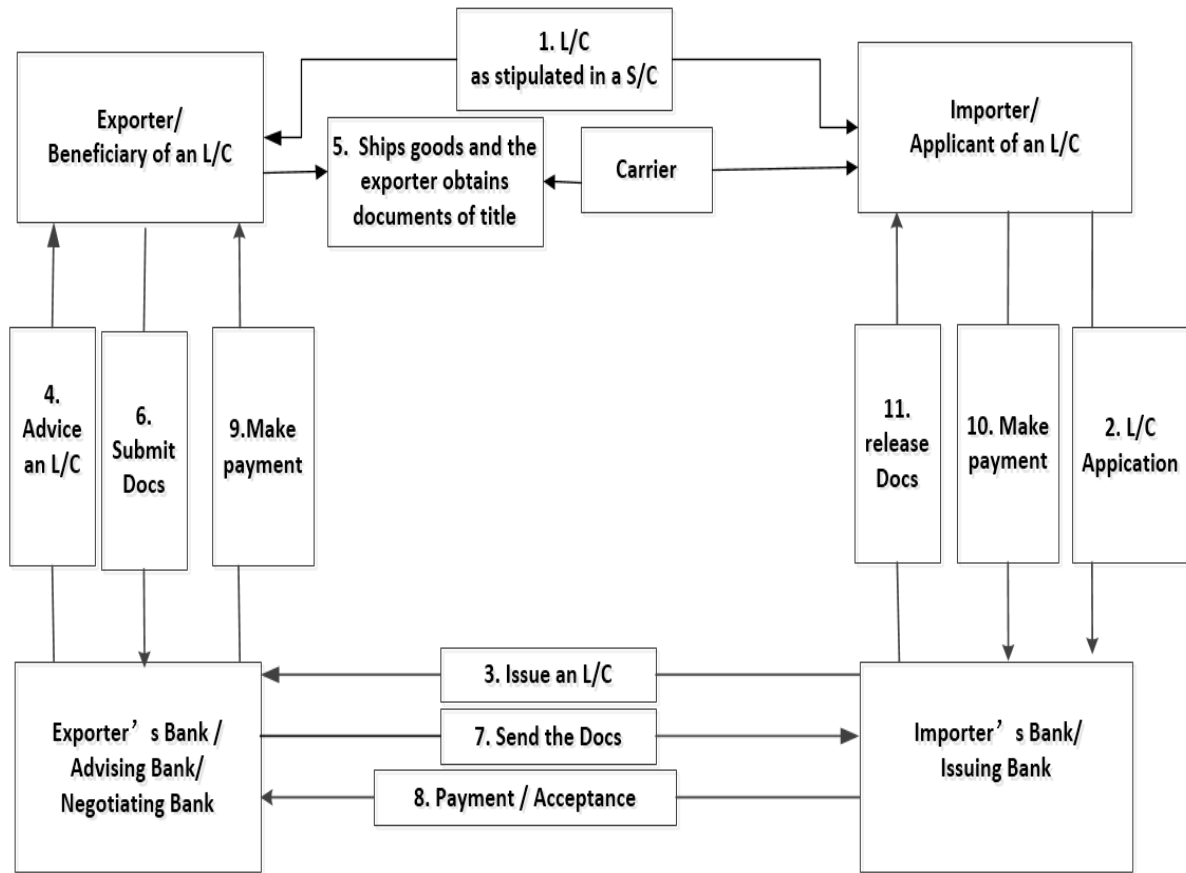
> **Beneficiary** is the exporter in a Sales Confirmation, he get the promise to get the payment from the issuing bank for a complying presentation same as the terms of an L/C.



## 6.3 Paying Methods

### 3. Letter of Credit

#### (3) Workflow of L/C





## 6.3 Paying Methods

### 3. Letter of Credit

#### (4) The types of L/C

- > **Revocable Credit;**
- > **Irrevocable Credit;**
- > **Confirmed Irrevocable Credit;**
- > **Transferable Credit;**
- > **Sight Credit and Usance Credit;**
- > **Back to Back Credit;**
- > **Red Clause Credit;**
- > **Standby Credit.**



## 6.3 Paying Methods

### 3. Letter of Credit

**(5) Governing rules of letter of credit:**

**> Uniform Customs and Practice(UCP 600);**



## 6.3 Paying Methods

### 3. Letter of Credit

**(6) Attentions for a documentary credit:**

**>Soft Clauses;**



## 6.3 Paying Methods

### 4. Letter of Guarantees

**An L/G can be used in a wider scope than an L/C, such as trade of commodity, labor and technology, construction project, financing from financial institutions and so on.**

**There are many differences between an L/G and an L/C.**



## 6.3 Paying Methods

### 4. Letter of Guarantees

#### **Definition:**

An L/G can be used in a wider scope than an L/C, such as trade of commodity, labor and technology, construction project, financing from financial institutions and so on.

There are many differences between an L/G and an L/C.





## 6.3 Paying Methods

### 4. Letter of Guarantees

#### **Types:**

**credit L/G and payment L/G.**

#### **Application Rules:**

**Uniform Rules for Demand Guarantees (ICC Publication No.758) and the Uniform Rules for Contract Guarantees (ICC Publication No.325)**



## 6.3 Paying Methods

### 5. International factoring

#### **Definition:**

**Factoring is a complete financial package that combines investigating and assessing the creditworthiness of buyers, giving one hundred percent protection against credit risk, collecting and managing of outstanding receivables and etc.**



## 6.3 Paying Methods

### 5. International factoring

**Four parties involved:**

Exporter, Exporter's factor

Importer, Importer's factor



## 6.4 Paying Clauses

### 1. payment terms

#### **Examples of Terms of Payment:**

**(1) The Buyer shall pay the total value to the Seller in advance by T/T(M/T or D/D) not later than June 30, 2020.**

**(2) Payment by T/T: Payment to be effected by the Buyer shall not be later than 30 days after receipt of the documents listed in the contract.**

**(3) Payment by D/P at sight: Upon first presentation the Buyer shall pay against documentary draft by the Seller at sight. The shipping documents are to be delivered against payment only.**



## 6.4 Paying Clauses

### 1. payment terms

**(4) Payment by D/P after sight:** The Buyer shall duly accept the documentary draft at 60 days sight upon first presentation and make payment on its maturity. The shipping documents are to be delivered against payment only.

**(5) Payment by D/A:** The Buyer shall duly accept the documentary draft drawn by the Seller at 90 days sight upon first presentation and make payment on its maturity. The shipping documents are to be delivered against acceptance.



## 6.4 Paying Clauses

### 1. Remittance

#### **Examples of Terms of Payment:**

**(6) The buyer shall open an irrevocable L/C in favor of the seller before Apr.15th, 2019. The said L/C shall be available by draft at sight for full invoice value and remain valid for negotiation in China for 15 days after shipment.**

**(7) 50% by L/C at sight, 50% by D/P at sight.**



## 6.5 Summary risk lever of different mode of payment

For **exporter**, the **risk level** for different mode of payment is arrange as follows:

**100% Payment in advance < L/C < L/G < D/P < COD < international factoring < D/A**



# Note to the Text

- 1.Open account**
- 2.Payment in advance**
- 3.COD-cash on delivery**
- 4.Bill of exchange: bill or draft**
- 5.Promissory Note**
- 6.Check**
- 7.Drawer**
- 8.Drawee**
- 9.Payee**
- 10.Endorser**





# Note to the Text

**11.Endorsee**

**12.Endorsement**

**13.Bearer**

**14.Presentation**

**15.Dishonor**

**16.tenor**

**17.Sight bill**

**18.Demand draft**

**19.Time bill( usance draft)**

**20.Maturity**



# Note to the Text

**21.Acceptance**

**22. Protest**

**23.Recourse**

**24. Draw by A on B**

**25.The United Nations Convention on International Bills of Exchange and International Promissory Notes**

**26.sight promissory notes or time promissory 27.cashier's check or cashier's order,**

**28.Commercial promissory notes or trader's notes**

**29.on demand**

**30.certified check**



# Note to the Text

**31. Remittance**

**32. Collection**

**33. Clean Collection**

**34. Documentary Collection**

**35. Document Against Payment (D/P)**

**36. Document Against Acceptance (D/A)**

**37. Principal**

**38. Remitting bank**

**39. Letter of credit**

**40. The beneficiary**



# Note to the Text

**41. Issuing bank**

**42. Issuance**

**43. Advising bank**

**44. correspondent bank**

**45. Confirming bank**

**46. reimbursing bank**

**47. Confirm L/C**

**48. Back to back L/C**

**49. Documentary L/C**

**50. UCP 600**



## Note to the Text

**51. ICC: International Commerce Committee**

**52. Letter of Guarantee (L/G)**

**53. Uniform Rules for Demand Guarantees (ICC Publication No.758)**

**54. Uniform Rules for Contract Guarantees (ICC Publication No.325)**

**55. International factoring**

**56. FCI correspondent bank**



Thanks

---