

Documentary Collections

For detailed outline go to:


http://www.worldtraderref.com/WTR_site/documentary_collections.html

Documentary Collections

- Differences from cash on delivery:
 - a) money collected by bank instead of an individual, shipping company or postal service
 - b) cash on delivery for a title document instead of goods
- **Compared to Documentary Credit**
- lower charges
- easier procedure
- BUT bank is only collector not surety
- Same preparation of documents and presentation to the bank
- BUT draft not by seller but rather buyer itself
- Seller's bank no obligation to pay upon presentation
- Seller's bank acts as collecting or remitting bank on behalf of seller (commission)
- **Uniform Rules for Collections (URC)**
- By ICC in Paris, current version No. 522



Four Main Parties

- **The principal (seller/exporter/drawer)**
Sometimes also remitter
 - **The remitting bank (principal`s/ seller`s/
exporter`s)**
 - **The collecting or presenting (buyer`s)
bank**
 - **The drawee (buyer/importer)**
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DC Procedure

- step-by-step exchange of documents giving title to goods for either cash or a contracted promise to pay at a later time





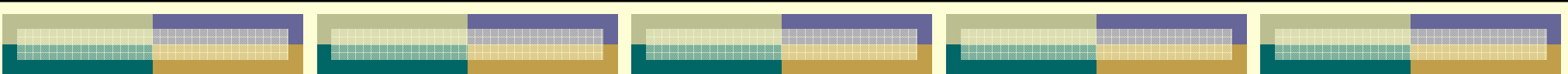
0. The **buyer and seller** agree on the terms of sale of goods:

- (a) specifying a documentary collection as the means of payment,
 - (b) naming a collecting/presenting bank (usually the buyer's bank),
 - (c) listing required documents.
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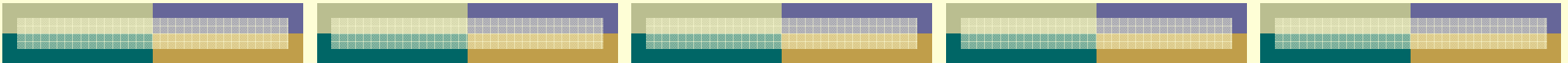

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- 1. **The seller** (principal) ships the goods to the buyer (drawee) and obtains a negotiable transport document (bill of lading) from the shipping firm/agent.




2. The seller (principal) prepares and presents (remits) a document package to his bank (the remitting bank) consisting of

- (a) a collection order specifying the terms and conditions under which the bank is to hand over documents to the buyer and receive payment,
 - (b) the negotiable transport document (bill of lading), and
 - (c) other documents (e.g., insurance document, certificate of origin, inspection certificate, etc.) as required by the buyer.
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- 3. **The remitting bank** sends the documentation package by mail or by courier to the designated collecting/presenting bank in the buyer's country with instructions to present them to the drawee (buyer) and collect payment.
 - The remitting bank may find it necessary or desirable to use an intermediary bank (**correspondent bank**) rather than sending the collection order and documents directly to the collecting bank. For example, the collecting bank may be very small or may not have an established relationship with the remitting bank.
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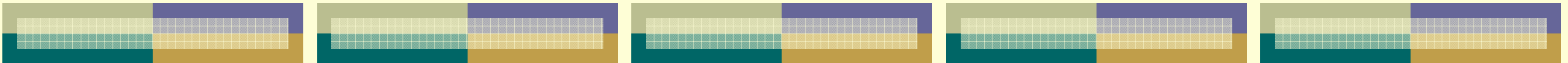

4. The presenting (collecting) bank


- (a) reviews the documents making certain they are in conformity with the collection order,
 - (b) notifies the buyer (drawee) about the terms and conditions of the collection order, and
 - (c) releases the documents once the payment conditions have been met.
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5. The buyer (drawee)

- (a) makes a cash payment (signing the draft), or if the collection order allows, signs an acceptance (promise to pay at a future date) and
 - (b) receives the documents and takes possession of the shipment.
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- **6. The collecting bank** pays the remitting bank either with an immediate payment or, at the maturity date of the accepted bill of exchange.
 - **7. The remitting bank** then pays the seller (principal).
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Three types of collections

- 1. DOCUMENTS AGAINST PAYMENT
(D/P) greatest security to the seller
 - collecting bank releases the documents to the buyer only upon full and immediate cash payment in freely available funds
(resembles cash-on-delivery transaction)
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● 2. DOCUMENTS AGAINST ACCEPTANCE (D/A)

- collecting bank is permitted to release the documents to the buyer against:
 - acceptance (signing) of a bill of exchange or
 - signing of a time draft at the bank promising to pay at a later date (usually 30, 60 or 90 days).
 - The completed draft is held by the collecting bank and presented to the buyer for payment at maturity, after which the collecting bank sends the funds to the remitting bank, which in turn sends them to the principal/seller.
 - seller gives up title to the shipment in exchange for the signed bill of exchange that now represents his only security in the transaction
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● 3. ACCEPTANCE DOCUMENTS AGAINST PAYMENT (rarely used)

- (a) the collecting bank presents a bill of exchange to the buyer for acceptance,
 - (b) the accepted bill of exchange remains at the collecting bank together with the documents up to maturity,
 - (c) the buyer pays the bill of exchange at maturity,
 - (d) the collecting bank releases the documents to the buyer who takes possession of the shipment, and
 - (e) the collecting bank sends the funds to the remitting bank, which then in turn sends them to the seller.
 - This gives the buyer time to pay for the shipment but gives the seller security that title to the shipment will not be handed over until payment has been made. If the buyer refuses acceptance of the bill of exchange or does not honor payment at maturity, the seller makes other arrangements to sell his goods.
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PAYMENT NOTES


- If the buyer draws (takes possession of) the documents against acceptance of a bill of exchange, the collecting bank sends the acceptance back to the remitting bank or retains it on a fiduciary basis up to maturity. On maturity, the collecting bank collects the bill and transfers the proceeds to the remitting bank for crediting to the seller.
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General notes and Cautions

- The banks involved do **not guarantee** payment or assume any credit risk (only intermediaries)
- If the shipper/seller **sends goods directly** to the buyer's address, the shipment will be handed over without the buyer first making payment. The seller, therefore, will usually address the shipment to his **agent in the buyer's country or to the collecting bank** if it is known to him and prior agreement has been obtained to do so.
- Goods are transported, stored, and insured at the expense and **risk of the seller until payment** or acceptance occurs. No responsibility of banks.
- **additional safeguard** over open-account transactions. Draft duly presented and accepted through a bank in the buyer's country, is an **acknowledged evidence of debt**. However, this may not be of great value against a purchaser who is determined not to pay.
- D/P - buyer may **refuse to pay** = seller **maintains title** to the shipment, may negotiate new terms with the buyer, locate another buyer, or have the goods returned, incurring the cost of shipping, insurance, and bank fees. If the goods are perishable, the seller may be in a difficult position to find a new buyer quickly.




General notes and cautions

- D/A - buyer may refuse to accept the draft = seller is in the same position as in D/P terms where the buyer refuses to pay the draft.
 - D/A - buyer may accept (sign) the draft, take possession of the goods, but then refuse to pay the draft at maturity = seller has neither payment nor the goods, he may try to enforce the buyer's obligation to pay the draft through **banking channels or legal action, both of which involve additional costs.**
 - Banks have **no obligation to authenticate documents**, it is possible that the seller will send a short shipment, the incorrect goods, or inferior goods. The only recourse - **direct contact with the seller or legal action.**
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Transaction documents

- Similar to those in a documentary letter of credit transaction.
 - In the original agreement between buyer and seller the buyer specifies documents that
 - (1) make it possible to secure the shipment from the shipping company (bill of lading),
 - (2) secure release from the customs authority (certificates of origin, commercial invoice, etc.), and
 - (3) offer some guarantee of quality and count (inspection certificates).
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The Collection Order

- the key document
 - prepared by the seller
 - specifying the terms and conditions of the documentary collection.
 - great care and precision - banks only act upon the instructions given in the order (no past transactions or verbal understandings)
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The Collection Order

- 1. The payment period as agreed with the buyer
 - 2. The name and address of the buyer
 - 3. The buyer's bank
 - 4. Instructions, if any, about what to do with the accepted bill of exchange
 - 5. Notation concerning payment of charges for the documentary collection
 - 6. Notation/instructions for the lodging of a protest in the event of nonacceptance or nonpayment
 - 7. Instructions for notification of agent or representative in the buyer's country
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Bank Principles

- certain problems out of banks' control or responsibility:
 - Seller's instructions left out of the collection order by mistake or omitted because "**we've always done it that way**" **don't count**. The principal should take **great care in preparing** the collection order so that it gives **complete and clear instructions**.
 - Banks are required to act **in good faith and exercise reasonable care** to verify that the documents submitted **APPEAR** to be as listed in the collection order. They are, however, under **no obligation to confirm the authenticity** of the documents submitted.
 - Banks are **not liable** nor can they be held accountable **for the acts of third parties** (e.g. freight forwarders, forwarding agents, customs authorities, insurance companies and other banks). Specifically, they are not responsible for delays or consequences resulting from **Acts of God** (floods, earthquakes, etc.), riots, wars, civil commotions, strikes, lockouts, or other **causes beyond their control**.
 - Banks also assume **no liability** or responsibility for loss arising out of **delays or loss in transit** of messages, letters, documents, etc.
 - Banks assume no responsibility regarding the **quantity or quality of goods** shipped. They are only concerned that documents presented appear on their face to be consistent with the instructions in the collection order. Any dispute as to quality or quantity of goods delivered must be settled between the buyer and the seller.
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Banks


- Without explicit instructions, the collecting bank takes **no steps to store or insure the goods**. This, of course, can be a problem for both the seller and the buyer. If the seller has not received payment he still has ownership and an insurable interest in the goods.
 - If a collection remains **unpaid** or a bill of exchange is **not accepted** and the collecting bank receives no new instructions **within 90 days**, it **may return the documents** to the bank from which it received the collection order.
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Tips for Sellers

- A seller should only agree to a documentary collection payment if
 - The seller does not doubt the buyer's ability and willingness to pay for the goods;
 - The buyer's country is politically, economically, and legally stable;
 - There are no foreign exchange restrictions in the buyer's country, or all licenses for foreign exchange have already been obtained; and
 - The shipped goods are easily remarketable.
- The seller should check on the buyer's **creditworthiness and reputation** before consenting to a documentary collection, especially D/A terms.
- The seller should find out from the buyer what documents are required for **customs clearance** in the buyer's country. The seller should then assemble the documents carefully and make sure they are in the required form and endorsed or authenticated as necessary.
- If the buyer does not get the required documents he may refuse the collection altogether, or in D/A terms he may unknowingly sign the acceptance and then find that he cannot clear the goods through customs. Although he is legally responsible for payment, he may be unable to pay because he never received the goods. Either leaves the seller in a compromised situation.
- As a rule, the remitting (seller's) **bank will not review the documents before forwarding** them to the presenting/collecting (buyer's) bank. Review of the documentation is the primary responsibility of the buyer.




Sellers

- Because goods may be refused, the seller should **only ship goods that are readily marketable** to other buyers.
 - Risks to the seller center around the fact that **payment is not made until after the goods are shipped.**
 - The **seller assumes liability for shipping, insurance, and storage** while the goods are in transit and before payment is made. If the buyer does not pay the draft the seller is still responsible for these costs.
 - If the buyer refuses payment (in D/P terms) or acceptance (in D/A terms) the **seller retains ownership** of the shipment. The seller may have the goods shipped back or try to sell them to another buyer. If the buyer takes no action, customs may seize the goods and auction or otherwise dispose of them.
 - In D/A terms if the buyer signs the acceptance, takes possession of the goods, and then refuses to pay the bill of exchange at maturity the seller has given up title to the shipment and the **only recourse is to the buyer, not the banks.**
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Tips for Buyers

- A buyer should only agree to documentary collection payment terms if there is **trust that the seller will ship** the goods as specified in accordance with the agreement between buyer and seller.
 - The buyer should be **aware of any documentation, certifications, or authorizations** that may be required for customs clearance or for eventual sale of the goods in his own country.
 - The buyer should **specify all documentation required of the seller in his agreement** with the seller.
 - Upon presentation by the presenting bank the buyer must **carefully inspect the documents** to make certain they meet all specifications for customs clearance and for eventual sale of the goods in his own country.
 - As a special favor, the collecting bank may allow the buyer to take **temporary possession of the documents for inspection** before payment. The collecting bank, however, assumes responsibility for the documents until redemption.
 - In the above case, the buyer should immediately return the entire set of documents to the collecting bank if he is unwilling or unable to meet the agreed upon payment procedure.
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Buyers

- In a documentary collection the **buyer is generally in a secure position** because ownership or responsibility for goods does not have to be assumed until documents have been paid for or a time draft signed.
 - The buyer may **not sample or inspect the goods before accepting and paying** for the documents **unless authorized** to do so by the seller. The buyer may, however, specify a certificate of inspection from a reliable third party as part of the required documentation package.
 - Unless bound by a separate contract, the buyer assumes **no liability for goods if he refuses to take possession of the documents.**
 - **Partial payment** in exchange for the documents is not allowed unless specifically authorized in the seller's collection order.
 - With D/A terms, the buyer may receive the goods and resell them for profit before the time draft matures, thereby using the proceeds of the sale to pay for the goods. The buyer is responsible for payment, however, even if the goods cannot be sold.
 - The main risk for buyers is that **goods shipped might not conform to the goods specified.** Because banks deal only in documents and not in goods, the buyer's only recourse is with the seller.
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Tips for Banks

- Documents sent for collection must be accompanied by a **collection order** giving the principal's complete and precise instructions.
 - Banks are only permitted to act upon the **specific instructions** given by the principal in the collection order.
 - If a remitting, collecting, or presenting bank **cannot comply** with the instructions in the principal's collection order, it must immediately **advise the party** from whom it received the order.
 - Banks have the **responsibility to verify that documents** received with a collection order **appear on their face to be as specified** in the collection order, but do not have the responsibility to authenticate individual documents.
 - If it appears that **documents are missing** from the document package (as determined by those listed in the collection order) the bank must immediately **notify** the party from whom the documents were received.
 - If the principal names a specific collecting bank the remitting bank is to use such bank as the collecting bank.
 - If the principal does not name a collecting bank the remitting bank is **free to make its own choice** as to the collecting bank in the country of payment.
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Banks

- Collection documents may be **sent directly** to the collecting/presenting bank **or through** an intermediary bank called a **correspondent bank**.
 - The drawee is to be presented the documents in the form in which they were received from the principal. However, the remitting and collecting banks may affix stamps or rubber stamps, make endorsements, or attach a cover letter to the document package.
 - If an **incomplete or incorrect address of the drawee** is shown on the collection order, the collecting bank may, without obligation or responsibility, attempt to find the correct address.
 - The banks must make presentation of documents **without delay**.
 - If the documents call for payment in a **specific currency**, the banks must, unless otherwise instructed, collect payment for documents in that currency.
 - The collecting bank may not accept partial payments from the drawee unless otherwise instructed in the collection order.
 - If a collection remains unpaid or a bill of exchange is not accepted and the collecting bank receives no new instructions within 90 days, it may return the documents to the bank from which it received the collection order.
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