BG: Bank Guarantee

Bank Guarantee: A Bank Guarantee is a financial instrument issued by a bank confirming that full payment will be made by the issuing bank when conditions stipulated in the Sale and Purchase Agreement (SPA) procedure are met. The holder can borrow against it or secure a higher line of credit based on the value of the instrument.

BCL: Bank Comfort Letter

Bank Comfort Letter: Unlike a Bank Guarantee, a Bank Comfort Letter states the financial position of the account holder (the Buyer). It cannot be cashed or borrowed against, nor can it be used to increase the holder's credit line. BCL is not a valid financial instrument.

DLC: Documentary Letter of Credit

Documentary Letter of Credit: A Documentary Letter of Credit is a financial instrument issued by a bank and payable at full face value upon the successful production of the required documentation as contained in the body of the document (DLC). When the required documents are tendered and verified by the issuing bank, payment will be transmitted to the recipient's bank by SWIFT within the number of hours or days specified in the contract procedure.

RDLC: Revolving Documentary Letter of Credit

Revolving Documentary Letter of Credit: RDLC is the same as DLC but revolves around the life of the contract.

Bank Pre-Advice

Bank Pre-Advice: A Pre-Advice is a document sent by a bank advising the recipient's bank about its intention to open a financial instrument. For example, bank "A" will send a notice to bank "B" about its readiness to open a DLC in favour of the seller, who is a customer of bank "B". Bank "B" will respond confirming its readiness to receive such a financial instrument on behalf of its customer.

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SWIFT

SWIFT: SWIFT is the coded means by which banks transfer funds and documents through the wire process.

Soft Probe

Soft Probe: A soft probe is a means by which a bank conducts a brief credit worthiness check of a customer and also confirms if that customer's account is in good standing. It can be summarized as a "light credit check".

BUYER'S DOCUMENTS

LOI: Letter Of Intent

Letter Of Intent: A letter of intent is the initial request sent by the buyer (either directly or through his/her agent, facilitator, or mandate) to the seller, expressing their intention to purchase a product from the seller, the supplier, or the broker. The letter usually describes the product, the quantity, method of payment, method of shipping, and their banking details. The LOI must be on the buyer's letterhead and must be signed and sealed. In some instances, a buyer's mandate can sign and seal an LOI on behalf of the buyer. A trusted agent can do so only if approval has been given by the buyer.

IPO: Irrevocable Payment Order

Irrevocable Payment Order: An Irrevocable Payment Order is a document issued by the buyer to his bank to effect payment irrevocably to all agents, facilitators, consultants, mandates, and any party whose banking information was provided in the banking coordinate pages of the contract (SPA) and in the Master Fee Protection Agreement (MFPA). When the paying bank receives the payment order, they will affect payment irrevocably in accordance with the specific instructions in the IPO and MFPA.

ICPO: Irrevocable Corporate Purchase Order

Irrevocable Corporate Purchase Order: After the buyer has received an offer from the seller called a Full Corporate Offer (FCO), the seller may request an ICPO to confirm that the buyer has accepted his initial offer. The buyer sends a signed and sealed ICPO to the seller. This exchange of documents is usually done through and between the buyer and seller's facilitators or agents/mandates. The buyer must usually sign and seal the ICPO.

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MFPA: Master Fee Payment Agreement

Master Fee Payment Agreement: This is a document usually embedded in the contract, signed by the buyer and the seller, guaranteeing the payment of commission to all parties involved in the deal. Since the buyer pays all the parties from the discounted price, he is the party required to sign and seal the document. It is always a good practice to have this document in the contract as an integral part, not as an addendum.

POF: Proof Of Fund

Proof Of Fund: Proof of fund is a document issued by a bank, confirming the financial capability of their client to complete the transaction. It could be a letter written, signed, and sealed by bank officials on the bank's official stationery. It can also be in the form of a quarterly bank statement signed and sealed by authorized bank officials, with their phone, fax numbers, and email addresses for verification. Proof of fund documents are usually subject to verification for authenticity from the issuing bank.

SELLER'S DOCUMENTS

POP: Proof Of Product

Proof Of Product: The proof of product is a document issued by the seller to the buyer to prove that he/she has the product being sold. The proof of product is subject to verification by the buyer. The buyer may not continue with the transaction if he/she is unable to establish that the seller has a tangible product to sell. This may be done either by a physical inspection of the product in a vessel by accredited inspection firms or through a verification authority.

FCO: Full Corporate Offer

Full Corporate Offer: This document is issued by the seller as an acknowledgment of the buyer's LOI and confirmation and acceptance of the specifics in the procedure. After receipt of the FCO, the buyer issues an ICPO if such a document is demanded by the seller. Please see the appendix for a sample copy of an FCO.

INSURANCE DOCUMENTS

PB: Performance Bond

Performance Bond: A Performance bond is an insurance document guaranteeing that the issuer will pay a stipulated amount of money (%) to the other party if he/she breaches (fails to perform) the contract. This amount will compensate for the losses suffered by the other party. The defaulting party's bond covers all the losses incurred by the beneficiary. It is usually 2% of the total value of the purchase in the SPA. A bond will become operative if the conditions to activate it are met. Conclusively, a PB is not operative until it has been activated by a similar document or a clause that will make it operative.

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BUYER'S, SELLER'S, AND SUPPLIER'S INSTRUMENTS

CPB: Cash Penalty Bond (PB)

Cash Penalty Bond: A Cash Penalty Bond is a cash amount held in escrow by a designated bank to pay a penalty to a party by a defaulting party. Both parties are usually required to post the same amount in cash. In most cases, it is usually held in the buyer's bank or a jointly appointed attorney to maintain an escrow account for this purpose. Most sellers object to a cash bond being held by the buyer in his own account.

CP: Cash Penalty

Cash Penalty: Some contracts stipulate that if the buyer or seller defaults (fails to carry out some clause in the procedure), the defaulting party will have to pay the other party to compensate for possible financial loss or losses incurred as a result of their default (breach of contract). The banks take charge of the amount. If there is any defaulting party, that party loses his or her deposit. This is a sure way to make both the buyer and seller play a fair and honest game in the transaction.

SHIPPING TERMS

CIF: Cost Insurance and Freight

Cost Insurance and Freight: The Cost Insurance and Freight method is the safest shipping method for the buyer. The seller pays the shipping, insurance, and cost of the product. The seller will be paid by the buyer upon the safe delivery and inspection of the product, plus the production of all required documents as specified in the body of the DLC. The discount for this kind of delivery is very small compared to TTT and FOB transactions. The seller or supplier loads the vessel, inspects the product onboard the vessel, and delivers the product at a mutually agreed safe port. At the delivery port, the buyer will conduct his own inspection to ascertain the quantity and quality of the product and pay the seller or supplier based on the result of the inspection after the seller or supplier has submitted all relevant documentation as specified in the SPA procedure contract. This is the best and safest way to buy crude oil. There is usually a 2% performance bond involved in this kind of transaction.

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FOB: Freight On Board

Freight On Board: In FOB transactions, the buyer provides his vessel and a copy of his charter party agreement (CPA) to the seller or the supplier. His vessel sails to the loading destination (port) and his vessel loads the cargo. He pays for his vessel charter and all insurance. This method is also good because the buyer pays after his vessel is loaded and inspected to ascertain the Quality and Quantity (Q&Q).

TTT: Tanker to Tanker Transfer

Tanker to Tanker Transfer: Tanker to Tanker Transfer (TTT) transaction is usually conducted in international waters. The buyers and sellers' vessels exchange communication documents and commence communication. The seller's vessel would send a marine document called Notice of Readiness (NOR) to the buyer's vessel. This means that the seller's vessel contacts the buyer's vessel as a confirmation that he is ready to sail and meet him at an agreed discharge point. The buyer's vessel will respond with an Expected Time of Arrival (ETA), which is the time he expects to arrive at the agreed meeting point for a TTT transaction. TTT is a very risky type of transaction. The ocean could be very cruel. Among the three forms of crude oil delivery to the

buyer's destination, the TTT carries the highest discount. The TTT method involves great risk because the buyer cannot load his vessel before paying. In other words, payment must be made before loading.

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SAMPLE LOI: Letter Of Intent

Here is a sample of a typical Letter of Intent (LOI):

```

Date: _______________

To: _______________ (Seller's Name)

Subject: Letter of Intent

Dear Sir/Madam,

We, (Company Name), are writing to express our intention to purchase (Product Name) in the quantity of (Quantity) as per the following terms and conditions:

Product: (Product Name)
Quantity: (Quantity)
Price: (Price per unit)
Shipping Method: (CIF/FOB/TTT)
Payment Method: (DLC/BG/etc.)

Our banking details are as follows:
Bank Name: (Bank Name)
Bank Address: (Bank Address)
Account Number: (Account Number)
SWIFT Code: (SWIFT Code)

We look forward to your favourable response.

Sincerely,
(Your Name)
(Your Position)
(Company Name)
(Company Address)
(Company Contact Information)



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SAMPLE ICPO: Irrevocable Corporate Purchase Order

Here is a sample of a typical Irrevocable Corporate Purchase Order (ICPO):

```

Date: _______________

To: _______________ (Seller's Name)

Subject: Irrevocable Corporate Purchase Order

Dear Sir/Madam,

We, (Company Name), hereby issue this Irrevocable Corporate Purchase Order to confirm our intent to purchase (Product Name) in the quantity of (Quantity) as per the terms and conditions outlined in your Full Corporate Offer dated (FCO Date).

Product: (Product Name)
Quantity: (Quantity)
Price: (Price per unit)
Shipping Method: (CIF/FOB/TTT)
Payment Method: (DLC/BG/etc.)

Our banking details are as follows:
Bank Name: (Bank Name)
Bank Address: (Bank Address)
Account Number: (Account Number)
SWIFT Code: (SWIFT Code)

This ICPO is valid until (Expiration Date).

Sincerely,
(Your Name)
(Your Position)
(Company Name)
(Company Address)
(Company Contact Information)



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SAMPLE FCO: Full Corporate Offer

Here is a sample of a typical Full Corporate Offer (FCO):

```
Date: _______________

To: _______________ (Buyer's Name)

Subject: Full Corporate Offer

Dear Sir/Madam,

We, (Company Name), are pleased to issue this Full Corporate Offer to you for the sale of (Product Name) in the quantity of (Quantity) as per the following terms and conditions:

 Product: (Product Name)
 Quantity: (Quantity)
 Price: (Price per unit)
 Shipping Method: (CIF/FOB/TTT)
 Payment Method: (DLC/BG/etc.)
 Delivery Time: (Delivery Time)

We look forward to your acceptance of this offer.

Sincerely,
(Your Name)
(Your Position)
(Company Name)
(Company Address)
(Company Contact Information)
```

This completes the comprehensive guide on key documents and processes in international trade transactions involving Bank Guarantees, Letters of Credit, and related financial instruments.

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