bank to deliver these instructions. At this point, the buyer informs its own bank of its agreement to accept the goods and pay the draft.

The role of the banks is confined to an examination of the documents involved to ensure that terms, conditions and descriptions match. The banks do not examine the goods themselves. The exporter relies on them to transfer shipping and payment documents and to obtain payment after the goods are shipped. As a result, the exporter should ensure that the documents required in the collection order match the terms of the commercial contract between the exporter and importer, and that all documents are properly completed when submitted for collection.

In certain cases, "clean collections" are used to effect payment for an export transaction. These are not accompanied by shipping documents, usually because it has been previously agreed that preparation of these documents is the responsibility of the importer. In a clean collection, only financial documents such as bills of exchange, promissory notes, cheques, payment receipts or similar instruments are used to obtain payment.

A bill of exchange can secure payment immediately (a demand bill), within two business days (a sight bill), or at a future date (a term bill). If a term bill is used, the exporter may have to borrow funds to cover the transaction until the bill comes due. In effect, this extends credit to the importer. There may be no alternative to this. The incurred interest charges, however, are commonly added to the price paid by the buyer.

Where an accepted bill of exchange (or acceptance) has been tendered in exchange for the shipping documents, the exporter can arrange to discount the acceptance at the bank and receive payment immediately rather than wait until the bill matures before receiving cash. Acceptances can be discounted on either a recourse basis (the exporter guarantees the importer's payment of the bill) or a non-recourse basis (the bank agrees to accept the risk that the importer might not pay). Charges for discounting acceptances are based on an interest charge for the time until payment is due and on a risk premium to cover the possibility of non-payment.

Open Account Trading

In open account trading, the exporter sends the goods, shipping documents, and an invoice to the buyer, all at the same time. Trading on open account allows the exporter to incur minimal documentation and transaction costs, but also to assume most of the risk in the transaction.

In this case, any financing required is provided entirely by the exporting firm until the payment is received from the importer.