expect to receive payment but, rather, ends up the holder of an accepted draft payable in, say, 60 days. Such a draft becomes known as a "Bankers Acceptance" (which also designates other term debts that need not finance international trade transactions) and is a negotiable instrument. It is this instrument which can now usually be "discounted" by the bank, enabling the beneficiary to eliminate the receivable and obtain cash on a non-recourse basis. A bank's acceptance and subsequent discounting of a time draft, drawn under a documentary credit covering a bona fide movement of goods or sale of services, offers an exporter, or a subsequent holder, a method of financing receivables at competitive rates, i.e. his receivables are converted into working capital.

Types of Documentary Credits

All letters of credit are either irrevocable or revocable. A revocable letter can be amended or cancelled at any time without the exporter receiving prior notice. It is issued only in special circumstances, usually between affiliated companies. The irrevocable letter of credit cannot be amended or cancelled without the consent of all parties, including the exporter, the negotiating/paying/accepting bank, the issuing bank and the importer.

Each of these documentary credits can, in turn, be "sight" or "term" in tenor. Sight credits call for immediate payment upon presentation of relevant documents or drafts or both. Term credits call for payment at the end of a specified period (e.g. 30, 60, 90 days, or longer) after presentation of relevant documents or drafts or both. Term credits are usually available for "discount" (immediate encashment at present value) at any of the Canadian chartered banks. Normally such discounting is after acceptance of the documents or drafts or both.

Discounting of Trade Bills

Canadian chartered banks, either directly or through specialized export finance subsidiaries, provide Canadian exporters with a means of financing their short-term foreign receivables by discounting (purchasing) bills of exchange and promissory notes due to the Canadian exporters by their foreign buyers.

As indicated under "Open account" financing, a number of chartered banks, in addition to discounting trade bills, also purchase from Canadian exporters their acknowledged open account receivables by discounting commercial invoice acceptances on buyers in selected countries.

The Canadian exporters benefit from improved cash flow by maximizing the use of operating loans for their day-to-day domestic needs, by fixing the interest cost at the outset and by greater efficiency in having revolving credit lines set up for ongoing sales to the same buyers.

2. Longer Term Requirements

Medium payment terms are usually for periods up to five years, and long-term requirements refer to payment terms in excess of five years and can be up to 15 years. In most long term transactions, the risk to the lending banks will consist of the risk represented by the buyer, or the buyer's bank, or a government agency in the buyer's country and the political risk of government stability in the importer's country. Among the longer term financing mechanisms, the following are the more prevalent:

Forfaiting

A medium-term form of seller or supplier credit provided by a number of Canadian banks is forfaiting or à forfait financing, in which the bank purchases medium-term (up to five, and in special cases, seven year) promissory notes due to the Canadian exporter from a foreign buyer. A forfait financing is guaranteed by the bank. The value of the promissory notes is discounted at a fixed rate so that the exporter receives cash, after deduction of the interest charge or discount. Usually provided with a guarantee from the buyer's bank, the promissory notes are discounted by the Canadian bank on a non-recourse basis to the exporter.

The Canadian exporter benefits as he passes on the credit risk and currency exposure to the Canadian bank, turning a credit sale to a cash transaction, receiving fixed rate financing and incorporating the financial cost in the contract price, at the same time eliminating extensive documentation.

Buyer Credits

A buyer credit is a method of financing an export over a medium or longer term whereby the funds are loaned directly to the foreign buyer. These credits are usually suited to large financings of capital goods and to support turnkey projects. Buyer credits generally are on a non-recourse basis to the exporter as the importer enters into a direct financial relationship with the lending bank. The creditworthiness of a buyer credit is based on the integrity and financial ability of the buyer/importer to repay and may be supported by the guarantee of the government, a government agency, a national or a commercial bank in the borrower's country.

When analyzing buyer credits, as in most forms of export finance, the Canadian bank must take into consideration the economic and political risks of the buyer's country, as well as the commercial risks associated with the transaction.

3. Export Leasing

Canadian chartered banks can provide export leasing services through subsidiaries. This form of trade financing is usually undertaken by exporters, working in conjunction with a leasing company, to gain a competitive edge where the tax regimes in certain countries afford a cheaper means of financing the importer's acquisition of capital goods than other forms of trade finance, or where import restrictions prevent the buyer from purchasing foreign equipment outright. Export leasing is usually a medium to long-term means of financing and, depending on the mechanims used, the exporter receives cash for his transfer of title to the leasing company and the delivery of the capital equipment to the buyer.

4. Project Finance

Project financing secures repayment from the cash flow the project is expected to generate when it comes into production. The assets of the project can serve as collateral, so that lenders have basically recourse only to the assets and cash flow of the project. There are many variations to the structuring and securing of project loans. Such loans are usually longer term, require extended gestation periods before completion, and require innovative financing. Canadian chartered banks, though their International Trade and Merchant Banking divisions, are in the forefront of arranging project financing, particularly for the mining, energy, forestry,