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GLOBALTRADE TO LAUNCH NEW PRODUCTS AT SIBOS

GlobalTrade Corporation (GTC) the parent of this publication will introduce its @GlobalTrade eLC Delivery and @GlobalTrade Document Preparation & Collaboration Systems at this year's SIBOS in Atlanta. The official product launch will take place at the Capgemini booth No. L215 at 4pm on October 13, 2004. The two products have been developed over the last two years in response both to market demand in Europe for an electronic delivery channel connecting banks to exporters and to a need for a multi-bank system that would enable exporters to see incoming export LCs from all their banks in one system and thereafter use the credit data to prepare compliant documents. HypoVereinsbank, part of HVB Group, and DaimlerChrysler AG have played an important role in ensuring that the solution meets the needs of large, small, and midsize exporters.

LCM spoke with GTC's founders Jacob Katsman, CEO, and Nick Pachnev, CTO, about this event and about the company's history.



LCM

When and how did the company start?

Katsman

GTC was founded in Toronto, Ontario, Canada, in November 2002. Before this time Nick Pachnev and I ran CCEWeb, which tried to build a simpler and cheaper Bolero using sea waybills instead of a central registry. CCEWeb had other great ideas such as an eLC Card, a FastTrack eLC, and a Documentary Clearance Centre that you can read about in the October 2000 issue of L/C Monitor. The bottom line is that after running a number of pilot projects in 2001 we learned that the market was not ready to jump from paper to paperless trade and more importantly that the main stakeholders - importers, exporters, banks, and trade service providers (TSPs) - had and still have different ideas about why they should and should not be joining an electronic trade platform.

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Following the burst of the Internet market bubble and Sept. 11th, you could say that the environment for the introduction of new eTrade products was less than friendly. Banks and corporates were primarily concerned with running their own business even if this meant running it with inefficient computer systems and with a higher degree of risk. This market environment forced us to take a sober look at our company's value proposition and the market segment that our company was addressing. The hype was gone and to obtain funding from investors one had to demonstrate not only sales but also a sustainable business model. We decided that our company would focus on becoming a dominant player in the niche market of systems for electronic trade services.

LCM

What is @GlobalTrade?

Katsman

@GlobalTrade™ represents our brand name for a set of eTrade solutions. The @ sign stands for Internet delivery channel and GlobalTrade is self-explanatory. This year at SIBOS we are launching two products:

1. @GlobalTrade eLC Delivery System
2. @GlobalTrade Document Preparation & Collaboration System

Exporters in various industries have expressed the need for a multi-bank solution for trade and this is what our company has developed starting with the @GlobalTrade eLC Delivery System.

These products have been developed after extensive market study and scoping of bank and corporate requirements in Europe and North America. The starting point for getting from paper to paperless trade requires banks to send data to their corporate customers in an electronic way. In a letter of credit transaction between the issuing and advising bank the SWIFT electronic network exists. But in most cases when the letter of credit is received by the advising bank it is still printed and sent to the exporter/beneficiary via facsimile or registered mail. A perfectly good electronic message is converted from electronic to paper form.

Some big banks have jumped on the bandwagon of web-based front-end systems offering their clients the ability to register with their proprietary systems and log in to their web sites to download the credit advice. This is a great idea if you are doing all your export



JACOB KATSMAN

business through one bank. As soon as you have two, three, five, ten, or thirty banks this is no longer practical. Even for midsize trading companies dealing with three banks, having to remember three logins and passwords and having to wait for the web pages to come up in three different systems just to see if a credit that the company is waiting for has arrived is not practical. Exporters in various industries have expressed the need for a multi-bank solution for trade and this is what our company has developed starting with the @GlobalTrade eLC Delivery System.

@GlobalTrade eLC Delivery System

eLC Delivery System allows advising banks to send SWIFT category 7 documentary credit messages to its exporters/beneficiaries in a secure electronic way via the Internet. The banks are able to enhance the messages by adding information to them such as the cover letter, confirmation terms, bank charges, and contact details before transmitting the data through the agreed electronic channel.

No integration with the bank's back-office system is necessary in order to use the **eLC Delivery System**. Even banks that do not have a back-office system (such as small banks or foreign branches of banks) can enjoy the same benefits.

Banks that have small volumes of export documentary credit business can also afford to use **eLC Delivery System** due to its transactional pricing option. No minimal transaction volume is required.

The benefits to banks

- Improves customer service
- Meets the needs of large exporters requesting electronic LC delivery
- Encourages the growth of advising and associated confirmation revenue

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LCM

We learned that you are also offering a product specific for the German market that enables conversion of the SWIFT Category 7 messages to the DTAEA format; can you elaborate on this?

Katsman

DTAEA is the German standard for export documentary credits. I call it 'SWIFT plus' since it delivers the basic SWIFT data enhanced with additional details such as the cover letter information from the advising bank, whether the credit is confirmed or unconfirmed, confirmation details, contact person at the advising bank, and other pertinent points that exporters need. Large exporters in Germany can all receive DTAEA messages from the main domestic German banks. However, the non-domestic banks do not have the resources to purchase software that would allow them to convert SWIFT messages into DTAEA format. Our company has solved this problem by creating a SWIFT/DTAEA Converter that works over the Internet and can accommodate even a very small advising bank with just a few hundred messages per year. Our transactional pricing makes the product accessible to banks and corporates of all sizes. The most important factor about this product and the eLC Delivery System in general is that they help remove the barrier to electronic trade documentation by allowing all banks to send messages to their corporate customers in a standard electronic form leading to compliant document creation and presentation.

LCM

What technology has been used in building @GlobalTrade products?

Dealing with diverse message standards and document types that are tightly entrenched in the existing business processes and technical infrastructures of companies and financial institutions is and will continue to be the main challenge for an end-to-end adoption of electronic documents in international trade.

Pachnev

All products are built on top of @GlobalTrade Platform that relies on the latest advancements in J2EE and XML technologies to provide a highly configurable and secure environment for connecting geographically and technically diverse user groups involved in most



NICK PACHNEV

international trade transactions. All platform modules and functions were designed to support the operations of a single company or to work in an application service provider environment servicing multiple financial institutions and their customers.

The cornerstone of our technology is a transformation engine that allows companies and banks to exchange information electronically even if they are using different internal message standards and document types. GlobalTrade Platform does not force the users to adopt a specific message or document format to take part in an electronic trade transaction. Rather the technology adapts to the user standards, document formats, and processes, which greatly expedites the user enrolment process.

The transformation engine works together with the workflow, security and role-based access modules to provide an easily accessible collaborative environment for the management of electronic and paper documents. It takes only minutes to add a trade document model into the workflow process, which gives the users controlled access to a web-form, XML, PDF, e-mail, and a number of other document representations. The simplest interface requires nothing more than an Internet connected PC with a web browser to access all the collaboration functions of the platform.

LCM

How is your technology dealing with the Internet environment and does your system use digital certificates?

Pachnev

The @GlobalTrade Platform incorporates standard industry practices for securing information exchange and access over the Internet. The users have the option to manage system access either using verified and tightly controlled user name and password combinations or through a certificate-based system. All browser communications are SSL encrypted. Additional security measures include, among others,

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The beneficiary can select to receive the messages in the following formats:

- Raw SWIFT
- Text SWIFT with headers explained
- GT XML (GlobalTrade XML combining the SWIFT data and additional information added by the Advising Bank)
- DTAEA (German standard for export documentary credits)

The following delivery options are available:

- E-mail attachment full message
- E-mail notification only and download the full message from http site
- Direct upload into @GlobalTrade LC Document Preparation & Collaboration System
- Integration with beneficiary's proprietary system

eLC Delivery System can also copy the message to a mobile device such as a Blackberry.

eLC Delivery System is currently able to process SWIFT MT700, 701, 710, 711, 720, 721, 799, and 707. For the bank the system verifies message consistency, checks for duplicate messages, and combines multi-part messages into a single electronic communication.

LCM

How is @GlobalTrade document preparation system different from other doc prep systems on the market?

Katsman

First of all it is not only a document preparation system. It is a document preparation and collaboration system that has been designed to meet the needs of multinational corporations and then scaled down to the workflows of midsize and small corporates. It is the only system of its kind on the market today and is vigorously tested by some of the most demanding exporters in the automotive, chemical, and trading sectors.

@GlobalTrade Document Preparation & Collaboration System

@GlobalTrade Document Preparation & Collaboration System is the central part of @GlobalTrade Platform. The system provides customizable workflows for large, midsize, and small corporates handling letters of credit, documentary collections, and open account transactions. The system also provides the bank with a tool to improve efficiency in its in-house document preparation services while offering superior customer service. With the role-based access feature @GlobalTrade LC system can be easily configured for

the needs of large or small corporates.

Features

- Web-based access by all exporters and participants in an international trade transaction
- Multi-bank capture of advised LCs from domestic and non-domestic banks
- Full visibility and control throughout the process
- Ability to electronically route the advised LC through the exporter's organization for approval
- Utilization of the bank-provided LC data, exporter-supplied data, and collaboration with the third party document issuers to create the presentation documents
- Ability to remotely print and deliver documents and document data electronically to the bank
- e-UCP compliant system allowing full electronic or mixed electronic and paper presentation
- Customizable document templates that exactly reflect any paper document, preprinted forms or laser printed documents.
- Clause list allowing on demand import of standard clauses into any part of the system
- Address book
- Reporting Module
- Monitoring subsystem for non-documentary terms and conditions
- Automatic and semi-manual e-mail notifications within and outside the system
- Can be used as an ASP through integration with a bank's web portal or installed at the corporate's office

The main reason why exporters are interested in using @GlobalTrade System is for the reduction of the risk of late payment and/or discounted payment due to non-compliance with the terms of the LC.

Lost interest on funds that are held up by the issuing bank waiting for the applicant's acceptance or having to discount an export shipment could cost hundreds of thousands or in some cases millions of Euro per year.

@GlobalTrade Document Preparation & Collaboration System answers the needs of small, midsize, and large corporates and helps banks meet their customers' needs.

LCM

What is your relationship with Capgemini?

Katsman

Capgemini is our alliance partner in Europe. They are ready to provide integration services to banks and corporates that license our technology. They are one of the few consultancies that really understand trade services space.

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multiple levels of data input validation, data consistency checks, detailed activity logging, multiple authorization levels, and critical event notification.

LCM

What are the main challenges to the adoption of electronic documents in international trade?

Pachnev

Dealing with diverse message standards and document types that are tightly entrenched in the existing business processes and technical infrastructures of companies and financial institutions is and will continue to be the main challenge for an end-to-end adoption of electronic documents in international trade. Connecting the various offices and production facilities of a large company into a uniform electronic workflow process is often a serious challenge. The company may have the same document in several formats; for example the packing list may differ in format depending on where it is prepared: head office, an overseas branch, a production facility, or a doc prep service of a friendly bank.

Convincing all the independent companies, financial institutions, and government agencies involved in a typical trade transaction to use the same network and set of standards is not practical from an economic and political points of view. This is why early in the platform development process we decided to build a document collaboration system that adapts to the user requirements instead of focusing on developing a set of document or process standards and hoping that they would be embraced by the trade community.

Another serious challenge is that the majority of governments still rely on paper for customs clearing of the goods and other regulatory compliance requirements. Dealing with those countries requires, at a certain point, conversion of electronic documents to paper. This nullifies any operational advantages of extending the electronic process beyond the paper conversion point and limits the scope of commercially viable electronic messaging to regional networks organized around the needs of a strong export or import interest group.

LCM

How do you plan to overcome these challenges?

Katsman

It is difficult to solve all these challenges with one system or one product. There are different market segments that require different solutions. When you say banks you must understand if you are speaking about issuing, advising, confirming, reimbursing, or domestic banks, foreign branches, or all of the above. When you say corporates you must clarify if you mean

importers, exporters, or both. From our company's experience large exporters will lead the change from paper to paperless trade. We have developed eTrade solutions to focus on those needs. By working with large exporters and their innovative banks, market penetration will be gained and change will follow.

Pachnev

We plan to overcome these challenges by starting with the optimization of the trade process on a regional basis, which will gradually lead to the adoption of electronic documents by all parties in the trade chain. Such a process should not focus only on replacing paper with electronic data but should provide a significant and immediate benefit to the customer, such as measurable reduction of operational risk. ▀

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Section 10 (B) of the Exchange Act 1934 and Chase and Mahonia had been complicit therein, public policy would, in my view have required the court not to lend its aid to the enforcement of the letter of credit which shared the same unlawful purpose as the three swaps, which came into existence solely by virtue of that purpose and which was, in any event so closely connected with them as to be tainted by that purpose.'

Conclusion

While the judge held on the facts that there was no illegality in the swap arrangements in this case, he agreed with the original court's overall reasoning in the 2003 judgment. The Judge agreed that the correct position under the law is that a bank is entitled to refuse to pay out on a letter of credit that is connected to an illegal scheme or purpose. This decision seems to be part of a trend or extensions to the range of defences to claim for payment under a letter of credit. There are dangers here for the banking community. The courts may unwittingly find themselves infringing the rights of innocent parties once the principle that a credit tainted by illegality can be dishonoured becomes current.

Robert M. Parson is a solicitor and partner in the international trade law firm Clyde & Co in London. He both advises and regularly lectures to traders and bankers on trade and related finance law. Parson is one of the founding members of the International Trade & Banking Institute, www.itbi.net. ▀