



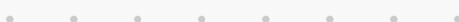
Wire Transfers



**How they work and why
they sometimes don't**



The Basics

- A bank account is really just an IOU
 - Funds transfers are debits and credits among accounts
 - At one bank or
 - At two or more different banks
 - “Wire” transfer refers to the medium used to convey the payment instructions (telegraph ← cable ← telex ← Swift)
 - Funds do not actually leave the country
 - There is usually an FX conversion involved
 - Banks charge fees for their services
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Fedwire

- In 1918 the Federal Reserve initiated a closed, Morse code-based telegraph system connecting the 12 Federal Reserve Banks, the Board and the U.S. Treasury.
- Today, Fedwire is a real-time gross settlement system with more than 9,000 member institutions initiating funds transfers that are immediate, final and irrevocable when processed.
- On-line participants send instructions through either a mainframe or PC connection to Fedwire. Off-line participants give instructions to the Reserve Banks by phone.
- The Fedwire system operates from 12:30 a.m. to 6:30 p.m. eastern time, Monday through Friday.
- The deadline for initiating third-party transfers (i.e., by banks on behalf of customers) is 6:00 p.m. eastern time.

General Factors Affecting Transfers

- The currency(s) involved
- Number of banks involved
- Sophistication of the banking/payment systems
- Completeness and accuracy of instructions
 - Provided by the sender initially
 - Passed along by banks in the process

Bank-Specific Factors

- Customer interface software at sender's bank
- Internal systems & external connections
- Cut-off times for processing
- Currency conversion/value dating policy(s)

Good Instructions Are Critical

- Payment instructions must be complete and accurate for beneficiary and any intermediary bank and should include:
 - Full name and address of the beneficiary / bank
 - Account number to be credited
- Beneficiary details and account details must match the receiving bank's records or wire will be rejected
- Banks will not try to interpolate the details
- If no account number is given, receiving bank may credit any account in the beneficiary's name

Where's My *&%#@ Money?!

- Check your other accounts at your bank
- Have sender confirm that the funds were debited from sender's account and not re-credited
- Get copy of the remitting bank's wire message and confirm the instructions were correct
- Ask sender to have the remitting bank initiate a tracer and be prepared to wait
- Request compensation if bank error is discovered

Interbank Compensation

- Banks can claim compensation for themselves or on behalf of customers if another bank fails to give value when due assuming it had complete and accurate instructions.
- USD compensation is calculated at the Fed Funds rate, even though the beneficiary's opportunity cost may be higher.

Wire Transfer Fees

- Sender's bank and beneficiary's bank may assess fees via account analysis
- Intermediary banks usually must deduct their fees from the proceeds of the wire
- Intermediary fees generally range from \$15 to \$25
- Tracers/investigations
 - Within 30 to 60 days of the wire date, flat charge
 - Beyond that, subject to hourly-rate research charge

Documentary Collections



A compromise between letters of credit and open account

How They Work

- Seller ships goods to buyer and presents commercial documents to buyer's bank with instructions to release documents to buyer against
 - Immediate payment (sight draft / CAD)
 - Acceptance of a time draft (DA)
- Key - Commercial documents must include transport document(s) that control access to the goods:
 - Full set of negotiable marine/multimodal bills of lading
 - Air or sea waybills consigned directly to the buyer's bank

Governing Law

- Common Law (☒ British Bills of Exchange of 1882)
UK, Commonwealth, Ireland, Hong Kong, India, Israel, Malaysia, Pakistan, Philippines, Singapore
- Geneva Conventions of 1930
Other Europe, Indonesia, Japan, Jordan, Korea, Lebanon, Saudi Arabia, Taiwan, Thailand
- United Nations Trade Law Commission (UNCITRAL)
 - 1988 Convention on Bills of Exchange and International Promissory Notes was effort to harmonize the systems
 - Awaiting necessary ratification by 10 countries
- China - Negotiable Instruments Law (eff. 1/1/96)
 - Resembles Geneva Conventions

Advantages

- Inexpensive, because:
 - Buyer needs no credit facility
 - No bank inspection of documents required
- Access to goods is controlled until buyer pays or promises to pay for them
- Accepted draft is legal evidence of indebtedness and may be insured or guaranteed
- Bank contacts buyer for payment at maturity
- Dishonoring accepted draft can damage credit
- Buyer may pay drafts before open account bills

Disadvantages

- Buyer can refuse the goods after shipment
- Seller is exposed to commercial risk of the buyer and political risk of buyer's country
- No built-in opportunity to finance accepted draft
(But may be possible if accepted draft is endorsed or guaranteed by buyer's bank after acceptance)

Best Applications

- Country risk is low
- Buyer has excellent or good credit rating
- Sales into countries that have FX restrictions and prohibit open account transactions

Non-Payment

- Sight draft / Cash Against Documents
 - Bank should still possess shipping documents
 - Plan B: Return goods to US? Keep in country/region?
 - Use extra caution dealing with perishable goods
 - Beware of graft/corruption at ports in certain countries
- Time Draft / Documents Against Acceptance
 - Try to resolve the issue directly with the buyer
 - Lodge formal **protest** through the buyer's bank

Protest

- Protest Deed -
 - Formal statement by an official, usually a notary public, that an instrument has not been accepted or paid at the due date.
 - Serves as evidence for the due presentment and non-acceptance or non-payment
- Costs
 - Bank charges plus notarial fees, stamp tax on the protest deed, VAT or turnover tax, etc.
 - Ultimately the debtor's but initially payable by the creditor
 - Inquire about all costs before lodging protest

Information

- **ICC Uniform Rules for Collections, URC 522**
(ICC Publication No. 522) \$9.95
- **A Commentary, URC 522**
(ICC Publication No. 550) \$25.95
- **Bills of Exchange - A Guide to Legislation in European Countries, Asia & Oceania**
(ICC Publication No. 593) \$59.95



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