

## **The Mechanism of Documentary Collection**

### **Definition of a Documentary Collection**

Documentary Collection is the process in which the seller instructs his bank to present documents in relation to a trade deal to the buyer's bank to present or release documents to the buyer against certain conditions.

Documentary Collection is subject to the Uniform Rules for Collection, International Chamber of Commerce Publication No. 522 (URC522).

### **Types of Documentary Collection**

There are two main types of Documentary Collection:

#### Documents against Payment (DP)

The bank will release documents to the buyer upon his payment of the transaction.

#### Documents against Acceptance (DA)

The bank will release documents to the buyer upon his acceptance of a bill of exchange that undertakes to pay at a determinable future date.

### **Parties in a Documentary Collection Transaction**

#### Seller/Exporter

The seller/exporter is also known as the Drawer in documentary collection. The seller/exporter will ship the goods to the buyer based on the sales contract and submit documents to his banker with instructions for collection of payment.

#### Remitting Bank

The remitting bank is the seller/exporter's bank. It will send the documents to the buyer's bank with instructions for collection of payment. Upon receipt of payment from the buyer's bank, the remitting bank will credit the net proceeds to the seller/exporter's account.

#### Collecting/Presenting Bank

The collecting bank is the agent of the remitting bank in the buyer's country, its main role is to forward the documents and collection instructions to the buyer's bank.

The presenting bank is the bank that presents the documents to the buyer for payment or acceptance based on the collection instructions. Upon receipt of payment from the buyer, the presenting bank will

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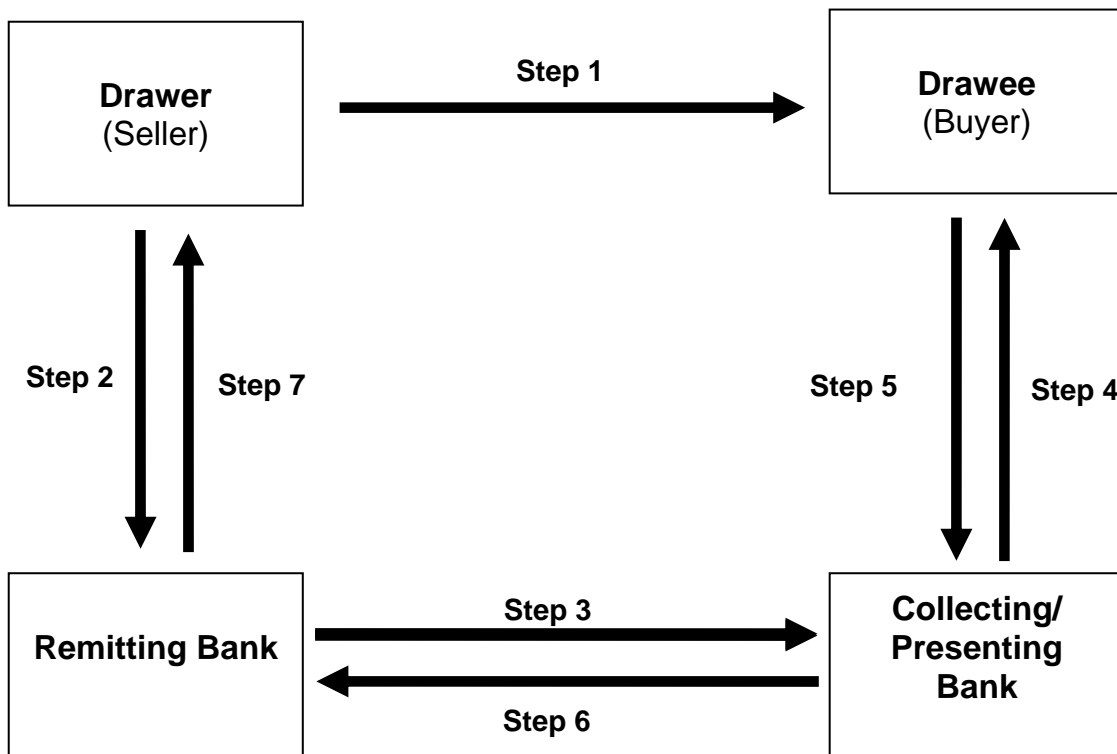
pay the net proceeds to the collecting bank, which will in turn pay the remitting bank after deducting its own charges.

A collecting bank may also become the presenting bank in the buyer's country.

### Buyer/Importer

The buyer/importer is also known as a drawee in documentary collection. The buyer will pay the documents or accept the bill of exchange. In return, the buyer/importer will obtain the documents to allow him to clear his goods.

## The Flow of Documentary Collection (Documents against Payment)



- Step 1: Seller ships the goods to the buyer's country as per the sales contract.
- Step 2: Seller presents documents to the Remitting Bank with clear instructions for collection of payment.
- Step 3: Remitting Bank forwards the documents and collection instructions to the Collecting/Presenting Bank.
- Step 4: Collecting/Presenting Bank presents documents to the buyer for payment.
- Step 5: Buyer pays for the document or take up import financing.
- Step 6: Collecting/Presenting Bank remits the net proceeds to the Remitting Bank after deducting its own charges.
- Step 7: Remitting Bank credits the net proceeds into the seller's account after deducting its own charges.