Question No. 5 Write short notes on the following: ii) Documents against Acceptance

Solution: Under the documents against acceptance method, the exporter draws a usance or time bill in the importer. He forwards the bill along with the export documents to the bank for delivery to importer against acceptance of the bill. The essence of this type of transaction is that the exporter is willing not only to ship the goods before payment but is prepared to wait even after the buyer has taken delivery of goods. He, therefore, draws a bill and insists upon its acceptance before the documents are handed over to the importer. These bills have a usance period, usually of 30, 60, 90, 120 or 180 days. Accepting the bill (which means writing the word ACCEPTED and putting the signature) implies an unconditional undertaking to pay on the due date mentioned in the bill. On the due date, the bill is presented for payment and the amount remitted to the exporter.

There are several risks associated with the system. Firstly, there is a credit risk. Failure or unwillingness to pay on the due date may force the exporter to take recourse to legal action. Secondly. there are transfer risks arising from possible delays in remittances from the buyer because of shortage of foreign exchange in his country. Incidence of such risks, can however, be minimized by taking recourse to an export credit insurance policy. Lastly, where the bills are drawn in foreign currencies, exchange risks as also the time contract is concluded and the bill is paid.