**THE CHALLENGE**

ASP Optical has received a letter of credit (LC) from an Indian bank as payment for a sale to an Indian buyer. ASP wants the LC discounted for cash, but this credit exposure is too risky for ASP’s bank.

**THE SOLUTION**

A Trade Finance Obligations (TFO) Policy will cover up to 90% of the bank’s loss if the Indian bank defaults on the LC confirmed by ASP’s bank.

**HOW IT WAS DONE**

Lucille is an account manager at a major Canadian bank. One of her customers is ASP Optical, an advanced instrumentation firm with several Asian buyers. The company has made a large sale in India and has just received a USD 1-million letter of credit (LC), with a 180-day term, issued by a small bank in Mumbai.

Because of the long payment term, ASP needs immediate working capital to keep its cash flow healthy. Accordingly, the CFO of ASP Optical asks Lucille to confirm and discount the LC so the firm can get its money quickly. However, Lucille’s bank doesn’t have a counterparty limit for the Indian bank, and her risk management group is not comfortable with the credit exposure that confirming and discounting the LC would involve.

Knowing how important the cash is to ASP’s operations, Lucille contacts her bank’s trade finance department to discuss a solution. It comes in the form of an EDC TFO Policy which enables the bank to share most of the credit risk with EDC.

In the event that the Indian bank defaults on the letter of credit, the TFO Policy will ensure that Lucille’s institution is paid for up to 90% of the loss amount. This leaves the bank with only 10% of the credit risk, which is well within its guidelines.

**THE RESULT**

As soon as EDC issues the credit approval on the Indian bank under the TFO Policy, the bank can confirm the LC. Once ASP has shipped the goods, the bank can discount the LC and pay ASP Optical without further delay.

*Please note that this example is provided for illustration only and that certain terms and conditions apply to the solution presented. For detailed information, please contact us.*

EDC CAN HELP

Export Development Canada is Canada’s export credit agency, offering financial and risk management solutions to help Canadian businesses expand into the international market.

Would you like to learn how our Trade Finance Obligations Policy can help you say “yes” to your customers more often? Contact us at 1-866-551-3607 if your customer has annual sales under CAD 10 million, or 1-866-572-6447 for those with annual sales that are higher. Or you can visit us at Flguide.edc.ca.