

The order on one page

Chapter 1. Five lines and a calendar, filled in before anyone types the terms line. Finance cost is charged against the last line of the first table, never the third.

Order / buyer		Prepared by	
Instrument		Date	

Line	Amount	Share of the price	Source
Contract value			
Cost of goods sold (what the facility funds)			
Gross margin			
Selling, general and administrative carried by the order (state the convention)			
OPERATING MARGIN BEFORE ANY FINANCE COST			

Leg	Days	Owned by	Measured from (history, not estimate)
Production, order release to ship-ready			
Transit, port to port and inland			
Shipment to presentation of documents			
TOTAL BEFORE A DOCUMENT REACHES A BANK			

Financing base and clock	Value
Daily financing cost: cost of goods x own rate / 360	
Production alone, in money (70 days on Meridian: 55,909)	
DSO start date in your reporting, and the days it leaves out (Meridian: 96)	
Days-to-cash from first dollar committed, per route under consideration	

The two ratios	Value
Finance cost / gross margin	
Finance cost / OPERATING margin (the one that decides)	

Meridian: 4,200,000 less 3,423,000 less 470,400 = 306,600, or 7.3 per cent. The confirmed credit at 120 days costs 232,358: 29.9 per cent of the gross margin, 75.8 per cent of the operating margin.

Six routes at one term

Chapter 3 and Appendix A. Hold the buyer's payment period constant and move the instrument; never both in one table. Print the term in the heading.

Order / buyer		Prepared by	
Instrument		Date	

Term held on every row, days: _____ Own cost of funds: _____ % Contract value: _____

Route	Days to cash	Buyer credit from B/L	Financing	Fees and discount	Expected loss	Total cost	Margin after finance	Identity: OM - total - margin = 0
Open account								
Open account, credit insured								
Documents against acceptance								
Usance credit, unconfirmed, held								
Confirmed usance credit, discounted								
Receivables purchase, non-recourse								

Reading	Value
Cheapest route, and its total	
Dearest route, and its total	
Spread, and as a share of the operating margin	
Rows whose buyer credit from the B/L differs from the stated term (two variables in one table)	
Same table at the term you actually grant (separate page)	

Meridian at 90 days: 178,040 (insured open account) to 223,268 (receivables purchase), a spread of 45,228 or 14.8 per cent of the operating margin. The naive table, each instrument at its own natural term, shows 129,456: 2.86 times as much.

What each route leaves you holding

Chapters 2, 4 and 11. Name the specific risk, not "safer" or "riskier". A limit on an issuing bank answers one row of six.

Order / buyer		Prepared by	
Instrument		Date	

Route	What you hold after shipment	Who you argue with	Limit / owner	Worst single outcome, in money
Open account				
Open account, credit insured				
Documents against payment				
Documents against acceptance				
Unconfirmed credit				
Confirmed credit, discounted				
Receivables purchase				

Item	Answer	Evidence / note
Credit insurance: the conditions that decide a claim		
Cover is a share of a loss: uncovered share in money on the three largest exposures (Meridian: 260,400)		
Named-buyer limit in force on the SHIPMENT date; check made at dispatch release, by whom		
Withdrawal notices routed to the shipping desk and the credit manager the same day		
Overdue notification deadline and waiting period, and the named person who notifies		
Dispute clause: cover steps aside while a dispute is live; disputes escalated as credit events		
Maximum credit period and premium by tenor (flat premium across tenors is a model convention)		
Loss-payee or assignment wording for the lender, asked for at inception		

Non-recourse leaves four exposures: the excess over the approved limit, the warranties and repurchase, set-off and contra, and the retention. None of them is the buyer's insolvency.

The collection instruction

Chapter 5. The sheet is the entire instrument. Write the refusal branch before the documents leave, not in a follow-up email.

Order / buyer		Prepared by	
Instrument		Date	

Instruction	Entry
D/P or D/A (write the letters)	
Transport document: order bill consigned to shipper's order? (straight bill, air or sea waybill, telex release = no control)	
Collecting bank, and who chose it	
If not taken up: store, insure, protest? who pays demurrage?	
Local contact who may act, and authority to release against part payment (figure)	
Charges: "may NOT be waived" stated in terms	
Aval requested on the accepted draft (D/A)? commission, and the bank's line on the buyer	
Who in the market would buy these goods if the buyer refuses (name)	

D/A against open account, same term	Value
Extra days financed: 9 to presentation + collection cycle (Meridian: 16)	
Extra financing and fees (Meridian: 17,739)	
Expected loss difference after the 10 per cent credit for an accepted bill (Meridian: +799)	
What a dishonoured bill is worth in that jurisdiction (summary procedure? years?)	

Under D/P you keep the goods and lose time; under D/A you lose the goods and keep a piece of paper. Opposite failures, one heading.

Reading the credit the day it is advised

Chapter 6. The credit is a text drafted from a template. Read it against what you can physically produce, not against the contract. Any line without a name is a discrepancy already.

Order / buyer		Prepared by	
Instrument		Date	

Document the credit calls for	Wording demanded	Who produces it (name)	Days it takes	Can comply? / amendment needed

Line of the credit	Reading
Tenor, and what it makes the order worth	
Latest shipment date against the works schedule (70 days on Meridian)	
Presentation period AND expiry, against the slowest document	
Availability: sight / acceptance / deferred payment / negotiation, and with which bank	
Place of presentation (issuing bank counters = courier days at your risk)	
Confirmation authorised? by whom? for whose account?	
Reimbursing bank named? authorisation funded?	
Sanctions clause, dual-use goods, vessel and ports screened	
Issuing bank: would you lend it the contract value unsecured for the tenor? limit set?	

Amendment: 240, administrative on day one, a negotiation after shipment. Four people in one sitting: the shipping clerk, legalisation, invoicing, the credit manager.

A refusal advice, in the first hour

Chapter 7. Check the clock before the discrepancies. A late or incomplete notice can cost the bank its refusal.

Order / buyer		Prepared by	
Instrument		Date	

Test	Entry
Presentation date, and the fifth banking day after it	
Notice received: date and time	
One notice listing EVERY discrepancy? (a second notice adding one is late)	
Disposition stated: holding pending instructions / pending waiver / returning / acting on prior instructions	
Refusing bank: issuing (waiver route exists) or confirming (confirmation not engaged)	

Item	Answer	Evidence / note
Before presentation		
Disposition instructions in the covering schedule		
Payment under reserve or against indemnity: asked in writing, wording read		
If the applicant will not amend: ship discrepant, get a written waiver undertaking, or do not ship: decided the week the credit arrives		
The day of the refusal		
Exposure moved from the issuing bank's limit to the buyer's		
Cash forecast date changed		
Concession the buyer will ask for, priced: 1 per cent of the contract (42,000) against the modelled delay (5,447)		
Own first-presentation refusal rate counted, corrections before sending included		

62 per cent refused x 6 per cent not waived = 3.72 per cent, 3.1 times the bank and country risk over 136.8 days, but 2,162 of expected loss against 30,813. Never print the ratio without the two losses.

Confirmation: the break-even test

Chapter 8. Set the fee equal to the loss removed and solve for the issuing bank's default probability. Print the period beside every figure.

Order / buyer		Prepared by	
Instrument		Date	

Input	Value	Source
Amount confirmed		
Confirmation rate a year (quoted), and billing convention (per quarter?)		
Confirmed period: transit + presentation + term (from advice if confirmed on advice)		
Fee = amount x rate x period / 360 (minimum?)		
Loss given default on your claim		
Country transfer probability, one year		
Your credit committee's view of the issuing bank, one year		

Result	Value
Loss removed over the confirmed period, at your bank probability	
Fee less loss removed	
BREAK-EVEN issuing-bank probability (Meridian: 1.2172 per cent against 1.35)	
Reading: above it the fee is cheap; below it you pay a premium for certainty	

Item	Answer	Evidence / note
Before the contract		
Confirmation authorised in the sale contract, bank acceptable to you named		
Trade desk appetite on this issuing bank and country, before quoting		
Who pays the fee: settled with the price, in writing		
Silent confirmation offered? read the facility agreement as a bilateral credit line		

Confirmation buys nothing on a discrepant presentation. Loss removed over 125 days (28,166) and loss carried over 136.8 days (30,813) are different measurements: netting them gives a number that belongs to neither.

A discount quote, converted and compared

Chapters 9 and 10. Convert every discount to a yield on the day it arrives, then compare in money, on the base each rate is charged on.

Order / buyer		Prepared by	
Instrument		Date	

Conversion	Value
Face	
Quoted discount rate, and day-count basis	
Tenor, days	
Discount taken = face x rate x days / 360	
Proceeds = face - discount	
EQUIVALENT YIELD = discount / proceeds x 360 / days	
Gap, basis points (Meridian 180 days: 7.1466 against 6.90)	

Against your own facility	Value
Own facility: cost of goods x own rate x days / 360	
Discount: price x discount rate x days / 360	
Difference, in money (Meridian 90 days: 567)	
Break-even discount rate = own rate x cost / price (Meridian: 6.8460)	
Headroom left on the facility before this order	

Availability and recourse	Answer
Acceptance (a draft exists), deferred payment (a promise), or negotiation?	
Bank buying the obligation: did it incur it? (without recourse only then)	
Recourse written in your own facility letter?	
Purchase or loan?	

Any charge described as a discount, a deduction, a commission on the amount or "flat" is not a yield. Three questions: the charge in money, the sum received, the days it is out.

A receivables purchase, before you sign

Chapter 11. Compute both sides on their own bases, then read the clauses that decide what was actually sold.

Order / buyer		Prepared by	
Instrument		Date	

The two sides	Value
Days the purchase removes against your slowest alternative	
Their value: cost of goods x own rate x days / 360 (Meridian: 78,113)	
Discount plus commission, on the invoice (Meridian: 102,900)	
Net cost of speed (Meridian: 24,787), and the price of headroom that would justify it	
All-in yield on the money advanced (Meridian: 10.0461 per cent)	

Item	Answer	Evidence / note
Clauses		
Anti-assignment clause in the sale contract: consent obtained before shipment?		
Advance rate, and when the retention is released		
Approved limit on the debtor: value shipped above it		
Dilution, warranty and repurchase triggers, in plain language		
Partial dispute, credit note after sale, warranty retention, set-off against another contract		
Notice to the debtor required? governing law		
Accounts and incentives		
Auditor's view on derecognition, before signing		
One report per order: DSO improvement in days beside the discount and commission in money		
Working-capital objective stated net of the cost of achieving it		

Dilution is not sold: 2.25 per cent x 34 per cent x 4,200,000 = 32,130 stays with you, against 34,416 on open account. The instrument removes the less likely of the two risks.

The terms page

Chapters 12 to 14. One page beside the price list: the cost of a day, the edge, and the premium each term needs. A payment term is a discount off the price.

Order / buyer		Prepared by	
Instrument		Date	

Your order	Value
Margin after finance at sight (Meridian: 198,057)	
Cost of one day of buyer credit = (cost at longest term - cost at sight) / days (Meridian: 1,031.76)	
Break-even tenor, confirmed credit (192) and open account (204): solver bracket interior?	
Smallest order for this instrument, on the OPERATING margin (Meridian structure: 135,281)	

Days of credit	Cost at list price	Margin at list price	Break-even premium	Premium, discount for the applicant's account

Shortfall note (whenever a term is granted below its premium)	Entry
Premium the term needed	
Premium obtained	
Margin given up, in money	
Reason, in the salesperson's words: buyer insisted / competitor offered it / other	
Signed by (authority set by the money, not the days)	

Meridian: 30 days 0.74%, 90 days 2.27%, 120 days 3.05%, 180 days 4.64%, 360 days 9.73%. With the discount for the applicant's account, 120 days need 0.65% and 180 days 0.98%: Case B's 1.5% would have paid for 180 days.

Which input moves the answer, on your order

Chapter 15. Hold the order, the instrument and the terms; move one input across a defensible range; read the span.
Rank on money, never on the annualised rate.

Order / buyer		Prepared by	
Instrument		Date	

Input	Low	Base	High	Total cost low	Total cost high	Span	Who controls it before quoting
Days of credit granted							
Discount rate							
Own cost of funds							
Confirmation rate							
Days of production							
Gross margin							
Discrepancy rate							

Two inputs together (once a year)	Total cost	Margin after finance
Base case		
Terms + 30 days, confirmation + 1 point, cost of funds + 2 points		

Judgement inputs no table moves	Your value	Moved by hand to
Refusal multiple on D/P (1.45)		
Loss on a refused consignment (29%)		
D/A factor on the open-account loss (90%)		
Dilution: dispute rate and loss (2.25%, 34%)		
Days added by an unwaived refusal (60)		

Meridian at 120 days: terms 185,716, discount 112,000, cost of funds 94,415, confirmation 79,875, production 79,870, gross margin 20,607, discrepancies 9,583. At sight the discount drops out (nothing is discounted) and the cost of funds ranks first.

Before you quote: thirty, sixty, ninety

Chapter 16 and Appendix B. Every measurement from data you already hold. The value is in the pattern of the silences.

Order / buyer		Prepared by	
Instrument		Date	

Item	Answer	Evidence / note
Before the quotation goes out		
Operating margin, not gross		
Financing base (cost) and period (from day one of production)		
Break-even tenor and the premium for the terms offered		
Instrument priced at held terms; its owner named		
Credit read against document capability; amendment budgeted		
Export credit agency route: repayment term first (buyer credit starts at two years)		
Credit available at sight, discount for the applicant's account: asked?		
First thirty days		
Credit read on arrival; amendment requested the same week		
Limit or cover confirmed at the SHIPMENT date, withdrawal notices wired to dispatch		
Collection instruction written, refusal branch included		
Confirming bank's line confirmed in writing before the price is committed		
Document pack dry-run in full by the people who will produce it		
Sixty days		
Finance cost by order, instrument named		
Obligor recorded as it is: confirming bank, or the buyer after a refusal		
Days measured from the start of production		
Ninety days and after		
Terms on the price list with a surcharge		
Instrument decision owner named		
Break-even tenor recomputed each quarter, page dated		
Identity check on every costing sheet: margin after finance = operating margin - total cost, every row		