Certificate in Trade and Commodity Finance

Trade and Commodity Finance Fundamentals

Certificate in Trade and Commodity Finance Fundamentals Glossary

A

Advance payment: An upfront payment made by a buyer to a seller before goods are delivered. It is a common method of payment in international trade and can help the seller cover production costs.

Arbitrage: The simultaneous purchase and sale of an asset in different markets to profit from price discrepancies.

Asset-based lending: A form of financing that is secured by a company's assets, such as inventory or accounts receivable.

B

Back-to-back letter of credit: A financial instrument in which a seller receives a letter of credit from the buyer's bank, which is then used as collateral to issue a second letter of credit to a supplier.

Balance of trade: The difference between a country's exports and imports over a specific period.

Bill of lading: A legal document issued by a carrier to a shipper that details the type, quantity, and destination of goods being transported.

C

Commodity: A raw material or primary agricultural product that can be bought and sold, such as oil, gold, or wheat.

Confirmation: A guarantee from a bank that a letter of credit will be honored.

Counterparty: The other party in a financial transaction.

D

Default: The failure to meet financial obligations or conditions of a contract.

Derivative: A financial contract whose value is derived from an underlying asset, index, or rate.

E

Export credit agency: A government agency that provides financial assistance to exporters, such as insurance or loans.

Exposure: The amount of risk a company faces due to changes in exchange rates, interest rates, or commodity prices.

F

Factoring: A financial transaction in which a company sells its accounts receivable to a third party at a discount.

Forfaiting: A form of trade finance in which a forfaiter purchases a seller's receivables at a discount.

G

Guarantee: A promise by one party to assume responsibility for the debt or obligation of another party if that party fails to meet its obligations.

H

Hedging: A strategy used to reduce or eliminate the risk of adverse price movements in financial markets.

I

Incoterms: International commercial terms that define the responsibilities of buyers and sellers in international trade transactions.

Invoice financing: A form of short-term borrowing in which a company uses its accounts receivable as collateral for a loan.

J

Joint venture: A business arrangement in which two or more parties agree to combine their resources to achieve a specific goal.

K

Know your customer (KYC): The process of verifying the identity of clients to prevent money laundering and fraud.

L

Letter of credit: A financial instrument issued by a bank that guarantees payment to a seller if certain conditions are met.

Lien: A legal right or interest that a lender has in a borrower's property until a debt is repaid.

M

Margin call: A demand by a broker for an investor to deposit more money or securities into a margin account to cover potential losses.

N

Netting: The process of offsetting the value of multiple positions or payments due to be exchanged between two parties.

O

Off-balance sheet financing: A form of financing in which a company does not show a liability on its balance sheet.

P

Performance bond: A guarantee by a third party that a contract will be fulfilled according to its terms.

Prepayment risk: The risk that a borrower will repay a loan early, depriving the lender of future interest payments.

Q

Quality control: The process of ensuring that products or services meet specified quality standards.

R

Receivables financing: A form of financing in which a company uses its accounts receivable as collateral for a loan.

Refinancing: The process of replacing an existing debt obligation with a new one.

S

Standby letter of credit: A financial instrument that guarantees payment to a beneficiary if the applicant fails to fulfill its obligations.

Supply chain finance: A form of financing that helps companies optimize their working capital by extending payment terms to suppliers.

T

Trade finance: The financing of international trade transactions, including lending, issuing letters of credit, and providing insurance.

U

Underwriting: The process of evaluating and assuming risk for a fee, such as issuing insurance or securities.

V

Valuation: The process of determining the value of an asset or company.

W

Working capital: The funds a company uses to finance its day-to-day operations, such as inventory and accounts receivable.