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Deutsche Bank Continues to Lead US in Business of Demand Guarantees



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Most US companies have probably never heard of the URDG 758 and the structure it provides for a more streamlined and cost-effective use of demand guarantees between their customers and suppliers. That's because only one global financial institution, Deutsche Bank AG New York, is offering demand guarantees to its US clients based on the internationally recognized rules issued by the International Chamber of Commerce (ICC) in July 2010.

Demand guarantees ensure that one party in a transaction receives a pre-defined amount from the bank of the corporate with which it is doing business, if that company fails to fulfill its obligations. These guarantees — as well as standby letters of credits that serve the same purpose and are subject to a separate set of ICC rules — are essential tools of cross-border commerce.

Other banks in the United States continue to offer standby letters of credit to their corporate clients, as does Deutsche Bank. The new URDG 758 guidelines, however, as an example, allow Deutsche Bank to offer support in connection with procurement contracts and in deals where demand guarantees or counter guarantees previously were not subject to rules.

In some arrangements, Deutsche Bank has issued guarantees out of the United States directly into foreign countries, eliminating the need for two instruments and thus saving money and time.

More Comprehensive, Stronger and Clearer

Deutsche Bank worked closely with the ICC to design the URDG 758. Considering that there is reportedly over \$14 trillion in trade utilizing demand guarantees, the URDG 758 offers many new opportunities to the trade finance community through rules that are more comprehensive, stronger and clearer than those of its predecessor, the URDG 458.

The new Publication 758 is fashioned after the widely successful Uniform Customs and Practice for Documentary Credits (UCP) 600. Similar to UCP600 and International Standby Practices 98 (ISP98), the URDG 758 is not "law." It merely sets out the roles and responsibilities of all parties at each key stage of the life cycle of a demand guarantee and reflects "best practice" in the guarantee business.

The URDG 758 rules are accompanied by templates that banks can use in full or as a baseline for drafting purposes. The ICC is actively promoting the new rule set and has officially translated it so far into 16 languages.

The rules allow corporates to pursue business in a more codified manner as well as track liabilities and manage their books of business. Companies can also more efficiently track and understand their exposures and when specific exposures are coming off the books, all at a lower cost because they're paying for one guarantee instrument instead of two.

The work for the corporate decreases substantially and it's able to issue and deliver the guarantee to trading partners much faster, because the corporate doesn't have to deal with a second financial institution that's essentially redoing the work of the first bank. Instead, the guarantee can be issued directly from Deutsche Bank's New York office to a bank branch where the company on the other side of the transaction is located. This enables companies to shave five to seven business days off the time it now takes to establish guarantees.

Only having to deal with one bank eliminates not only cost but also risk. When you bring in another set of rules and another bank that may interpret them differently, you increase your risk.

Steady Adoption by Our Clients

Deutsche Bank has seen steady adoption of the URDG 758 rules by US clients. One recent example is a country's Washington, DC-based naval mission, which was willing to accept a guarantee subject to the URDG 758 rather than the more common UCP 600 or ISP98 standby letter of credit.

The majority of businesses in the United States will continue to see standbys as the guarantee product of choice, but URDG 758 rules will become more commonplace when companies pursue international business.

Other banks in the United States appear to be waiting for any kinks in applying the rules to surface before offering the new form of demand guarantees.

An essential step toward more widespread use of the URDG 758 is for corporate clients to familiarize themselves with the rule set. With that in mind, Deutsche Bank has been making both group and one-on-one presentations to educate our clients.