

## LETTER OF CREDIT

### CH – 4 Module A BFM PART -1 By Ashish Sir

A documentary credit or/and letter of credit, (DC or LC) can be defined as a signed or an authenticated instrument issued by the buyer's banker, embodying an undertaking to pay to the seller a certain amount of money, upon presentation of documents, evidencing shipment of goods, as specified, and compliance of other terms and conditions.

#### PARTIES UNDER LC

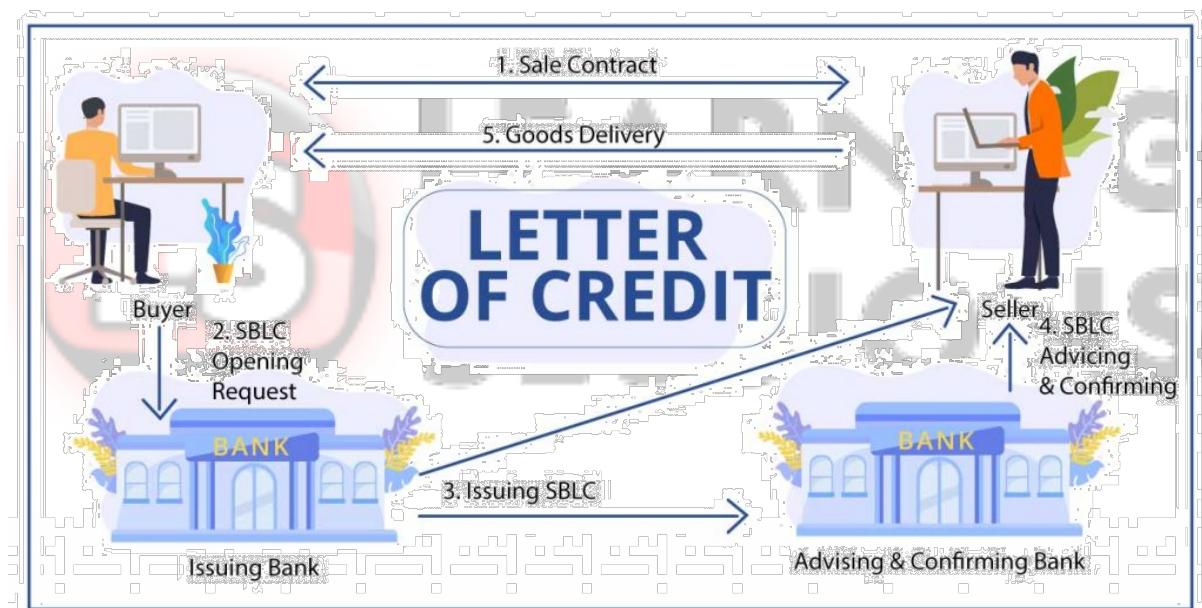
- #1 **Applicant:** The buyers/importers or the applicant - on whose behalf LC is opened,
- #2 **Beneficiary:** The sellers/exporters of the LC
- #3 **Opening bank** (buyers bank), who establishes the LC *(Issuing bank)*
- #4 **Advising bank** (bank in sellers' country), who acts as an agent of the issuing bank and authenticates the LC.
- #5 **Confirming bank** - who undertakes to pay on behalf of the issuing bank,
- #6 **Negotiating bank** (sellers bank or bank nominated by the opening bank),

**#7** Reimbursing bank- who reimburses the negotiating or confirming bank.

**The advising bank, confirming bank and the negotiating bank could be the same.**

### Process Flow of an Import Letter of Credit (LC)

With the involvement of the several parties, the LC transaction operates between the two nations:



#### Step-by-Step Process

Activity	Description
1 Order Placement <u>Main contract</u>	The Importer in India (Buyer) places an order with the Overseas Supplier in the USA, outlining terms and conditions.

2	<u>LC Request</u>	The <b>Overseas Supplier/Beneficiary</b> reviews and confirms the order, and <u>requests a Letter of Credit</u> from a bank in India. A copy of the confirmed contract is enclosed.
3	<u>LC Issuance</u>	The <b>Importer's Bank</b> , after verifying the importer's creditworthiness and obtaining internal approvals, issues and transmits the LC via <b>SWIFT MT 700</b> to the Supplier's Bank or a Correspondent Bank.
4	<u>LC Advising</u>	The <b>Advising Bank in the USA</b> authenticates the SWIFT LC message and advises the LC to the <b>Supplier/Beneficiary</b> .
5	<b>Goods Preparation</b>	Upon verifying the LC terms, the <b>Supplier</b> begins manufacturing the goods and complies with <b>customs formalities</b> in the USA.
6	<b>Shipment</b>	After clearance by <b>US Customs</b> , the Supplier completes shipment and obtains transport documents (e.g., BL, AWB).
7	<u>Document Submission</u>	The Supplier submits <u>original export documents</u> to their Bank (or the <b>Nominated Bank</b> ) for processing under the LC.
8	<u>Document Scrutiny &amp; Dispatch</u> <del>5BD</del>	The <b>Supplier's Bank</b> scrutinises the documents. If compliant, it either negotiates or forwards them to the <b>Importer's Bank</b> . Copies are also sent to the <b>Importer</b> for preparation.
9	<u>Importer's Bank Review</u> <del>5 Banking Days</del>	The <b>Importer's Bank in India</b> re-examines the documents. If compliant, it releases them to the Importer:  <b>Against Payment</b> (Sight LC)  <b>Against Acceptance</b> (Usance LC)
10	<b>Payment to Supplier</b>	The Importer's Bank remits payment via <b>SWIFT MT 202</b> to the Supplier's Bank. <u>For Usance LCs</u> , acceptance is conveyed via SWIFT for future payment.
11	<u>Supplier's Bank Credits</u>	The <b>Supplier's Bank</b> credits the payment to the <b>Supplier/Beneficiary's</b> account.

12	Customs Clearance in India	The <b>Importer</b> files a <b>Bill of Entry</b> with Indian Customs, matches goods with documents, and collects the shipment. Details are recorded in <b>IDPMS</b> via RBI.
13	IDPMS Closure	The Importer submits documents to the <b>AD Bank</b> , which <b>closes the transaction</b> in the <b>IDPMS</b> system.


**Real-Time Example:**

**Scenario:**

ABC Pvt. Ltd., based in **Mumbai, India**, places an order with

**GlobalTex Inc., USA** for importing **textile machinery** worth USD 500,000.

- ✓ ABC requests an LC from its bank, **HDFC Bank**, in favor of GlobalTex.
- ✓ HDFC Bank issues the LC via SWIFT MT 700 to **Bank of America**, the advising bank.
- ✓ GlobalTex manufactures the machinery and ships it after clearing US customs.
- ✓ They submit original shipping and commercial documents to Bank of America.
- ✓ Documents are forwarded to HDFC Bank, and after scrutiny, documents are released to ABC Pvt. Ltd.

✓ HDFC remits the payment and ABC clears the goods after filing the Bill of Entry.



## Role of Negotiating / Confirming / Reimbursing Banks

Bank Type	Description
Negotiating Bank <b>#1</b> <b>Nominated Bank</b>	If the Exporter submits documents to a <b>Negotiating Bank</b> , it checks for LC compliance. If compliant, it <b>pays the beneficiary</b> and becomes the <b>rightful owner</b> of the documents, and claims payment from the <b>Issuing Bank</b> .
Confirming Bank <b>#2</b>	In a <b>Confirmed LC</b> , the <b>Confirming Bank</b> (usually in Exporter's country) examines and, if compliant, pays the Exporter. It now acts as the <b>Issuing Bank's agent</b> and claims funds accordingly.
Reimbursing Bank <b>#3</b>	If specified, this is the bank where the <b>Issuing Bank maintains a Nostro/Vostro account</b> . It reimburses the <b>Negotiating/Confirming Bank</b> based on the LC terms.

Beneficiary

### Supporting Table: Transport Documents Submitted by Exporter

Document	Purpose
Commercial Invoice <b>#1</b>	Value and details of goods shipped
Packing List <b>#2</b>	Weight, size, packaging details
Bill of Lading / Air Waybill (BL/AWB) <b>#3</b>	Proof of shipment
Certificate of Origin <b>#4</b>	Country of manufacture
Insurance Certificate <b>#5</b>	Risk coverage in transit
Inspection Certificate <b>#6</b>	Third-party quality check confirmation

Declaration Forms **#7**

As required under U.S. export laws


**Final Submission & Compliance**

 Action	 Responsible Party
<b>Filing of Bill of Entry</b>	<u>Importer (with Indian Customs)</u>
<b>Verification of Physical Goods</b>	<u>Indian Customs</u>
<b>Upload on IDPMS</b>	<u>AD Bank via RBI server</u>
<b>Closure of Entry</b>	<u>Importer submits documents to AD Bank for final closure</u>


**Summary Table: Import LC Process at a Glance**

 Component	 Details
 <b>Goods Ordered From</b>	Overseas Supplier (e.g., USA)
 <b>LC Issued By</b>	Importer's Bank (e.g., SBI, HDFC)
 <b>LC Sent Through</b>	<u>SWIFT MT 700</u> <i>issuing/ opening bank</i>
 <b>LC Advised By</b>	Advising Bank (e.g., Bank of America)
 <b>Shipment Made</b>	After LC terms are verified and goods are prepared
 <b>Documents Submitted To</b>	<u>Supplier's/Nominated Bank</u>
 <b>Documents Checked By</b>	Both Supplier's Bank and Importer's Bank
 <b>Payment Made Through</b>	<u>SWIFT MT 202 (Sight) / SWIFT Acceptance (Usance)</u>
 <b>Goods Cleared By</b>	Importer via Customs using Bill of Entry
 <b>Transaction Closed In</b>	<u>IDPMS (Import Data Processing &amp; Monitoring System)</u>


**UCPDC**
**600**
*Important*

## TYPES OF LETTERS OF CREDIT

- **Uniform customs and practices of documentary credits (UCPDC)** are universally recognized set of rules framed by International Chamber of Commerce (ICC), governing LC business.
- The UCPDC gives guidance and assistance to all concerned parties to LC transaction, specifically emphasizing upon the duties and responsibilities of the opening bank, buyers and sellers, advising negotiating and the reimbursement bank, as also specifying the acceptable practices, in case of no specific instructions in the LC.
- UCPDC-600, i.e. the publication no. 600 of ICC, is the latest version of UCPDC and was made effective 1 July 2007.

## IMPORTANT TYPE OF LCs

<b>Revocable LC</b>	An LC <u>which can be amended or cancelled by the issuing bank without prior notice to the beneficiary before the documents are negotiated by the Negotiating Bank.</u> Dispensed in UCP-600.
<b>Irrevocable LC</b>	An LC in which issuing bank gives a definite, absolute and irrevocable undertaking to honour its obligations provided the beneficiary complies with all the terms and conditions of LC. Once an irrevocable LC is issued,



	it cannot be revoked / amended, without the consent of the beneficiary.
<b>Irrevocable</b>	An irrevocable LC where another bank adds its confirmation. In such a credit Confirming Bank gives definite undertaking to pay / accept/ negotiate if the terms and conditions of the credit are complied with
<b>Confirmed LC/</b> <b>Confirmed LC</b>	<b>Transferable LC</b> <i>Imp. Credit</i> This gives the beneficiary to Request the bank to make the credit available in whole or in parts to one or more beneficiaries. Transferable LC can be transferred in part or full but it can be transferred only once.
<i>Unsecured loan</i> <b>Red-clause LC</b> <i>Caution</i> <i>Advising Bank</i>	A LC in which a provision exists for allowing pre - shipment credit to the beneficiary for procurement manufacturing of goods to be exported. Also called as packing credit or anticipatory letter of credit
<i>p-1</i> <b>Green Clause LC</b> <i>pre shipment</i> <i>finance</i> <i>secured</i>	An LC in which apart from provision of allowing pre - shipment credit the issuing bank also has to arrange for storage / warehouse facility.
<b>Back-to-back LC</b>	Back to Back LC involves two irrevocable credit. Firstly, the inward credit (original LC) and the second called as outward credit (back-to-back), which is opened on the basis and security of the original LC.

## Substitute to the BG

<u>Stand-By-LC</u>	An LC very similar to bank guarantee by issuing bank, guaranteeing payment and / or performance (no movement of goods).
<b>Revolving LC</b>	under these LCs, the part amount, which has been utilized, is automatically restored & is available for further use. These are meant for more than one dealing. In such LC, roll-over of transactions take place
<u>Restricted LC</u>	LC in which negotiation is restricted to a particular bank.
<u>Acceptance</u> <u>Credit/ usance</u> <u>LC</u>	bill of exchange or drafts are drawn with certain usance period, and are payable, upon acceptance, at a future date, subject to receipt of documents conforming to the terms and conditions of the Letter of Credit. The usance period may be certain number of days from the date of shipment or date of bill of exchange, etc.
<u>Deferred</u> <u>Payment Credit</u>	There is no bill of exchange or draft drawn and is payable on certain future date, subject to submission of credit conformed documents. The due date is generally mentioned in the Letter of Credit.  The absence of bill of exchange saves the beneficiary from the cost of stamp duty or other levies, as applicable in certain countries.

<b>Negotiation Credit</b>	In a Negotiation Credit, the issuing bank undertakes to make payment to the bank, which has negotiated the documents, i.e. give the value for draft and/ or documents drawn under the Letter of Credit. The documents negotiated should be strictly as per the terms and conditions of the LC. The LC may be freely negotiable or may be restricted to any bank nominated by the LC issuing bank.
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### APPRAISAL OF LC LIMIT

An LC is used for purchase of goods either through imports or local purchase. For assessing the LC requirement of an enterprise, we have to know the following:

$$\frac{\text{Total Consumption}}{\text{EOQ}} = \text{No. of LCs}$$

**(i) Average Amount of Each LC:** This is dependent on the **monthly consumption of goods** and the **economic order quantity (EOQ)**. Economic order quantity (EOQ) is estimated by examining the sources of supply, means of transport, discount etc. In case of imports, the EOQ is often larger in comparison to indigenous purchases.

**(ii) Frequency of LC Opening:** Once EOQ is estimated, the number of LCs to be opened in a year can be calculated by dividing annual consumption by EOQ.

$$\frac{\text{Total Consumption}}{\text{EOQ}} = \text{No. of LCs}$$

Frequency of opening LCs will be 12 divided by the number of LCs to be opened in a year.

**(iii) How many LCs will be outstanding at a particular time:** The time

~~Time for LC~~  
~~Frequency~~  
~~2~~  
~~3.5 LCs~~

taken for one LC to remain in force depends upon the lead time (time taken from the date of opening LC to shipment of goods), the transit time and the usance available to purchaser from the date of receipt of goods.

If the frequency of opening LC is less than this, bank will have more than one LC outstanding at any point of time.

**Example:** If lead time is 10 days, transit is 20 days and usance period is six months, the total time for which an LC will remain outstanding is seven months.

$$10 + 20 + 6M \Rightarrow 7M$$

If consumption of goods is 6 crore per year and EOQ is one crore, (LCs to be opened Consumption/EOQ =  $6/1 = 6$ ) the frequency of opening LC is every 2 months. (12/6)

It means that at any point of time, there will be four LCs outstanding (7 divided by 2 and rounded off to next fig.).

As the amount of each LC is Rs one crore, the total LC limit will be \* 4 crore.

## LIABILITIES, RESPONSIBILITIES AND RIGHTS OF THE PARTIES

### Applicant

#1 • The applicant of the L/C must give complete and precise instructions for issuance of Letter of Credit and any amendment thereof.

#2 • The LC must not include excessive details or give any reference of credit previously issued, to avoid any confusion or misunderstanding.

#3 • The applicant should indemnify banks against any obligations imposed by foreign laws (Article 18).

### Issuing Bank / opening bank

#1 • Issuing bank must ensure itself about the creditworthiness of the applicant.

### Complying presentation

#2 • The issuing bank gives a definite undertaking to make payment in case of sight and accept and pay on maturity in case of acceptance or deferred payment, to authorize bank to negotiate and to reimburse the negotiating bank, provided that the stipulated documents are presented under the Letter of Credit.

#3 • The LC or amendment issued must be precise and there should be no ambiguity in the instructions and details mentioned in the LC

#4 • It is the responsibility of the issuing bank to examine the documents with a reasonable care and determine by international

### 5 Banking Days

standards whether the documents appear on face, to be complying the terms of the credit.

#5

- If it wishes to **refuse the documents**, it should do so in a reasonable time, i.e. within five banking days following the date of receipt of documents

#6

- The issuing bank, solely on its own judgement, can approach the applicant for **waiver of discrepancy**.

#7

- **The discrepancies pointed out should also be reported to the bank, from which the documents were received, by expeditious means.**



- The advising bank **has option to choose** as to whether it wishes to advise a LC or not.
- it must do advise LC by taking reasonable care in checking the authenticity of the credit.
- **In case, it decides not to advise a LC**, then it must inform the issuing bank immediately.
- **If the advising bank is unable to establish the authenticity** of LC then it must immediately inform the issuing bank and must also inform the beneficiary about the same.



## Confirming Bank

- A confirming bank gives a **definite undertaking** in addition to that of issuing bank, at the request of the issuing bank, to make payment on presentation of documents or as per the terms and conditions of the LC.
- The confirming bank, advising bank and nominated bank can be the same.
- **In case, it does not agree to add its confirmation**, it must inform the issuing bank without delay.
- It may also choose to advise amendments without adding its confirmation, however, intimation must be sent to the issuing bank and the beneficiary



## Negotiating Bank

- It is the responsibility of the negotiating bank or nominated bank to examine the documents as per UCP or International Standard Banking Practice (ISBP)
- take a **decision to negotiate the documents**, only if they appear on their face to be in compliance with the terms and conditions of the LC

Beneficiary : 21 days of shipment or before the expiry  
LC



## Protection to Banks

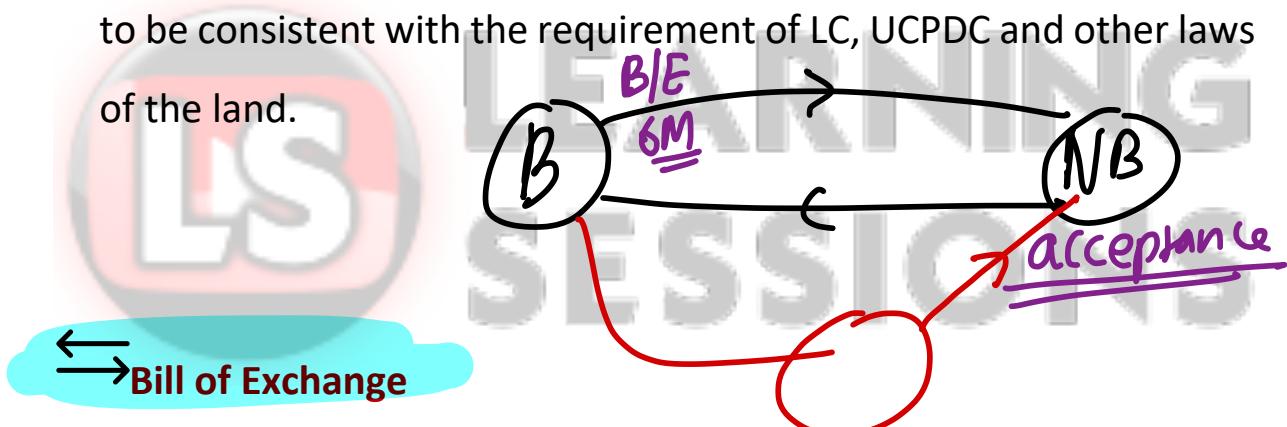
- a) Banks do not assume any responsibility for genuineness of the documents submitted or any discrimination in the contents mentioned in the documents
- b) Banks are not responsible for any loss arising due to delay in transmission or loss of messages, documents, or telecommunication.
- c) No responsibility is taken by the banks for errors in translation/interpretation of technical terms.
- d) Banks also do not take responsibility for any loss arising due to close of their business by the acts of god, commotions, civil riots, floods or any other causes beyond their control.
- e) Banks do not take any responsibility for the acts of the correspondent banks, whether the bank was chosen by the applicant or by itself.



## **DOCUMENTS UNDER LC-SCRUTINY**

- **Documents are basic requirement** of any trade and it evidences the carrying and completing of any trade transaction, whether the transaction is local or international.

- Documents have a more important place in the international trade, since interest of buyer, seller, buyer's country's requirements as well as seller's country's requirements are to be fulfilled.
- Similarly, scrutiny of documents presented under an LC is a very crucial and sensitive issue.
- The documents should be scrutinized from the point of articles of UCPDC as well as the terms and conditions mentioned in the Letter of Credit and then decide whether the documents appear on face to be consistent with the requirement of LC, UCPDC and other laws of the land.



- Bills of exchange, being one of the most important financial documents, is drawn by the beneficiary on the LC issuing bank.
- It envisages the issuing bank to make the payment immediately, if it is drawn at sight and accept and pay on due date, if it is drawn on acceptance basis.

It should, in normal due course satisfy the following requirements:

- (i) It should be **drawn by the beneficiary on the issuing bank** and payable at tenor mentioned in the Letter of Credit.

- (ii) It should indicate the number of Letter of Credit along with issuing bank's name, under which it is drawn.
- (iii) It should, unless and otherwise specified, be drawn in the currency of Letter of Credit and should not exceed the amount of Letter of Credit.
- (iv) Any corrections should be duly authenticated.



## INVOICE

- An invoice is a commercial document and is a necessity of trade documents.
- It is prepared by the beneficiary giving details of goods, quantity and value in unit terms, weight and total value of goods.



### Important Points while preparing or examining the invoice

- (i) It should be made out by the seller/ beneficiary, as stipulated in the Letter of Credit.
- (ii) It should, unless and otherwise specified in the Letter of Credit, be made out in the name of the applicant/ openers of the LC.
- (ii) Description of goods must correspond with the description of goods given in the LC.

(iv) Invoice must indicate the order number/ contract number/ proforma invoice number and number of LC along with issuing bank's name.

(v) The invoice value should not, invariably, exceed the LC value.

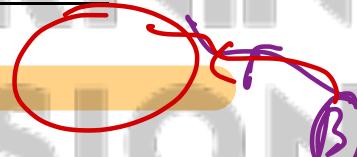
(vi) Terms of sale contract, such as FOB, C&F, CIF, etc., should be indicated in the invoice. Other particulars like Bill of Lading number, shipping marks, import license number (if any), gross weight, net weight, packing details, etc., should also be mentioned in the invoice.

(vii) If invoice is issued for an amount more than the amount permitted by credit (when not specifically prohibited by terms of LC), drawing should not exceed the amount of credit.



## BILL OF LADING

# PART - II



A document signed between shipper (seller/ agent) and carrier (shipping/ logistic company) that details type, quantity and destination of goods being carried.

**Seller's shipping agent issues 2 sets of documents**

1. Original negotiable bill of lading (signed)
2. Non-negotiable Bill of Lading

### FUNCTIONS:

1. A receipt that goods have been loaded
2. Evidence of contract of carriage between shipper and carrier



### 3. Document of title of goods

#### TYPE OF BILL OF LADING

- a) On-board Bill of Lading:** It acknowledges that the goods have been put on board of the shipment. This is considered safe for negotiation purpose.
- b) Clean Bill of Lading:** Which bears no superimposed clause or notation that expressly declares the defective condition of goods, or packaging. Best for negotiation purpose.
- c) Claused Bill of Lading:** Which bears superimposed clause or notation that expressly declares the defective condition of goods or packaging. Ship owner can disclaim his liability on loss to goods in case of such BL. Hence, it is not considered safe.
- d) Long form Bill of Lading:** All terms & conditions of carriage are given on the document.
- e) Through Bill of Lading:** That covers the entire voyage covering several modes of transport. There is no guarantee of the carriers for safe carriage of goods.
- f) Short form Bill of Lading:** Terms and conditions of carriage are not printed on the bill of lading but a reference to another document containing term and conditions is made.
- g) Chartered party Bill of Lading:** Issued to Chartered party who has hired space in vessel.

**h) Straight Bill of Lading:** Non-negotiable B/L that is issued directly in the name of the consignee, where the goods will be delivered to the consignee.



### **INSURANCE POLICY/ CERTIFICATE**

- (i) It must be issued and signed by the insurance company or their agents.
- (ii) It should not be issued by the broker.
- (iii) The date of issuance of insurance must be on or before the date of shipment or it must be endorsed by specific notation that the cover is effective from the date of shipment.
- (iv) The currency of issuance must be same as the currency of LC.
- (v) Unless otherwise specified, it should be issued for an amount of 110% of CIF/ CIP value of goods.
- (vi) The policy should clearly indicate the voyage it is covering, i.e., the port of shipment, port of destination and should also mention the point of termination of insurance coverage.
- (vii) Claims should be made payable in the country of applicant.
- (viii) All originals (if issued more than one) must accompany the documents.
- (IX) The policy must be blank endorsed.

(x) The description of goods in the insurance policy/ certificate should be in conformity with that given in the LC.



UCPDC referred to as UCP – 600 are prepared by ICC implemented from July 01, 2007

### Groupings

- **Articles 1 – 5 – General Provisions and Definitions**
- **Articles 6 – 13 – Liabilities and Responsibilities**

- **Articles 14 – 17** – Examination of Documents
- **Articles 18 – 28** – Documents
- **Articles 29 – 33** – Miscellaneous Provisions
- **Articles 34 – 37** – Disclaimers
- **Articles 38 – 39** – Transferable Credit & Assignment

### Article 1: Application of UCP

- UCP 600 apply to each LC when the text of the credit expressly indicates that it is subject to these rules.
- They are binding on all parties thereto unless expressly modified or excluded by the credit.

 **Article 2: Definitions:** Advising bank, applicant, banking day, beneficiary, complying presentation, confirmation, confirming bank, credit, honour, issuing bank, negotiation, nominated bank, presentation, presenter.

(**Complying presentation** means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and international standard banking practice.)



### Article 3: Interpretations:

- A **credit is irrevocable** even if there is no indication to that effect.
- Branches of a bank in different countries are separate banks.

- Unless required to be used in a document, words such as "prompt", "immediately" or "as soon as possible" will be disregarded.
- The expression "on or about" or similar will be interpreted as a stipulation that an event is to occur during a period of five calendar days before until five calendar days after the specified date, both start and end dates included. [On 1st April] 1 — 5 Apr
- The words "to", "until", "till", "from" and "between" when used to determine a period of shipment include the date or dates mentioned, and the words "before" and "after" exclude the date mentioned. 1 — 15 16 — Last day of month
- The terms "first half" and "second half" of a month shall be construed respectively as the 1st to the 15th and the 16th to the last day of the month, all dates inclusive.
- The terms "beginning", "middle" and "end" of a month shall be construed respectively as the 1st to the 10th, the 11th to the 20th and the 21st to the last day of the month, all dates inclusive.

#4

**Article 4: Credits vs Contracts:** A credit by its nature is a separate transaction from the sale or other contract on which it may be based.

- Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit.

## #5 Article 5: Documents v. Goods, Services or Performance: Banks

deal with documents and not with goods, services or performance to which the documents may relate.

## #6 Article 6: Availability, Expiry Date and Place for Presentation:

Credit must state the bank with which it is available, must also state if it is available by sight payment, deferred payment, acceptance or negotiation, must state an expiry date for presentation.

An expiry date stated for honour or negotiation will be deemed to be an expiry date for presentation.

*Opening bank*

 Article 7: Issuing Bank undertaking: Provided that the stipulated documents are presented to the nominated bank or to the issuing bank and that they constitute a complying presentation, the issuing bank must honour

 Article 8: Confirming Bank undertaking: Provided that the stipulated documents are presented to the confirming bank or to any other nominated bank and that they constitute a complying presentation, the confirming bank must honour.

#9

 **Article 9: Advising of Credits and Amendments:** A credit and any amendment may be advised to a beneficiary through an advising bank.

- An advising bank that is not a confirming bank advises the credit and any amendment **without any undertaking to honour or negotiate.**
- The advising bank signifies that it has satisfied itself as to the apparent authenticity of the credit or amendment and that the advice accurately reflects the terms and conditions of the credit or amendment received.
- If a bank is requested to advise a credit or amendment but elects not to do so, it must so inform, without delay, the bank from which the credit, amendment or advice has been received.

#10

 **Article 10: Amendments:** A credit can neither be amended or cancelled without the agreement of the issuing bank, confirming bank (if any) and beneficiary.

If amended credit advised to the beneficiary by the confirming bank, without extending its confirmation, it must inform the issuing bank without delay and inform the beneficiary in its advice.

#11

 **Article 11: Tele-transmitted and Pre-Advised Credits and Amendments:** An authenticated tele-transmission of a credit or

amendment will be deemed to be the operative credit or amendment,  
and any subsequent mail confirmation shall be disregarded.

- If a tele-transmission states "full details to follow" (or words of similar effect), or states that the mail confirmation is to be the operative credit or amendment, then the tele-transmission will not be deemed to be the operative credit or amendment.

#12  Article 12: **Nomination: Unless a nominated bank is the confirming bank**, an authorization to honour or negotiate does not impose any obligation on that nominated bank to honour or negotiate, except when expressly agreed to by that nominated bank and so communicated to the beneficiary.

URR 725

#13  Article 13: **Bank-to-Bank Reimbursement Arrangements:** If a credit states that reimbursement is to be obtained by a nominated bank ("claiming bank") claiming on another party ("reimbursing bank"), the credit must state if the reimbursement is subject to the ICC rules for bank-to-bank reimbursements in effect on the date of issuance of the credit.

Examination

 Article 14: **Standard for Examination of Documents:**

# Beneficiary



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SESSIONS



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- A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank shall each have a maximum of **5 banking days** following the day of presentation to determine if a presentation is complying.
- A presentation including one or more original transport documents must be made by or on behalf of the beneficiary not later than **21 calendar days** after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit

**Imp.**

- **A document may be dated prior to the issuance date of the credit, but must not be dated later than its date of presentation.**
- **When the addresses of the beneficiary and the applicant appear in any stipulated document**, they need not be the same as those stated in the credit or in any other stipulated document but must be within the same country as the respective addresses mentioned in the credit.



#15

## Article 15: Complying Presentation

- **When an issuing bank** determines that a presentation is complying, it must honour.

- When a **confirming bank** determines that a presentation is complying, it must honour or negotiate and forward the documents to the issuing bank.
- When a **nominated bank** determines that a presentation is complying and honours or negotiates, it must forward the documents to the confirming bank or issuing bank.



#### **Article 16: Discrepant Documents, Waiver and Notice:**

- When a confirming bank and/ or an issuing bank determines that a presentation does not comply, it may refuse to honour or negotiate.
- When an issuing bank determines that a presentation does not comply, it may in its sole judgement approach the applicant for a waiver of the discrepancies.
- **When a confirming bank, if any, or the issuing bank decides to refuse to honour or negotiate, it must give a single notice to that effect to the presenter.**



**Article 17: Original Documents and Copies:** At least one original of each document stipulated in the credit must be presented.

A bank shall treat as an original any document bearing an apparently original signature, mark, stamp, or label of the issuer of the document, unless the document itself indicates that it is not an original.

# Documents Part-4



## Article 18: Commercial Invoice

- must appear to have been **issued by the beneficiary**
- must be made **out in the name of the applicant**
- must be **made out in the same currency** as the credit; and need not be signed.
- a **confirming bank**, if any, or the issuing bank may accept a **commercial invoice issued for an amount more than the amount permitted by the credit**, and its decision will be binding upon all **parties**,
- The **description of the goods, services or performance** in a commercial invoice must correspond with that appearing in the **credit**.

Ship → Railway → Road



## Article 19: Transport Document Covering At least Two Different Modes of Transport

- **indicate the name of the carrier** and be signed



- indicate that the goods have been dispatched: The date of issuance of the transport document will be deemed to be the date of dispatch
- indicate the place of dispatch
- be the sole original transport document or, if issued in more than one original,
- contain terms and conditions of carriage or make reference to another source containing the terms and conditions of carriage



### Article 20: Bill of Lading

- indicate the name of the carrier and
- indicate that the goods have been shipped on board a named vessel at the port of loading
- indicate shipment from the port of loading to the port of discharge
- be the sole original bill of lading or, if issued in more than one original, be the full set as indicated on the bill of lading.



**Article 21: Non-Negotiable Sea Waybill:** it must indicate that the goods have been shipped on board a named vessel at the port of loading stated



### Article 22: Charter Party Bill of Lading



### Article 23: Air Transport Document

carrier  
TnC  
original documents



### Article 24: Road, Rail or Inland Waterway Transport Documents:

indicate the date of shipment or the date the goods have been received for shipment,



### Article 25: Courier Receipt, Post Receipt or Certificate of Posting

- A courier receipt evidencing receipt of goods for transport must indicate the name of the courier service
- indicate a date of pick-up or of receipt or wording to this effect.

This date will be deemed to be the date of shipment.



### Article 26: On Deck", "Shipper's Load and Count", "Said by

#### Shipper to Contain" and Charges Additional to Freight:

- A transport document must not indicate that the goods are or will be loaded on deck.
- A clause on a transport document stating that the goods may be loaded on deck is acceptable. ✓



**Article 27: Clean Transport Document:** A clean transport document is one bearing no clause or notation expressly declaring a defective condition of the goods or their packaging. A bank will only accept a clean transport document

**Article 28: Insurance Document and Coverage:** An insurance document, such as an insurance policy, an insurance certificate, or a declaration under an open cover, must appear to be issued and signed by an insurance company, an underwriter or their agents or their proxies.

**NOT BROKER**

- When the insurance document indicates that it has been issued in more than one original, all originals must be presented.
- The date of the insurance document must be no later than the date of shipment
- The insurance document must indicate the amount of insurance coverage and be in the same currency as the credit.
- If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods.

**Misc.**

**Article 29: Extension of expiry date of credit for presentation**



Important

- If the expiry date of a credit or the last day for presentation falls on a day when the bank to which presentation is to be made is closed, the expiry date or the last day for presentation, as the case may be, will be extended to the first following banking day.
- nominated bank must provide the issuing bank or confirming bank with a statement on its covering schedule that the presentation was made within the time limits extended

**V.V.GMP**



#### Article 30: Tolerance in Credit Amount, Quantity and Unit Prices

- The words "about" or "approximately" used in connection with the amount of the credit or the unit price stated in the credit are to be construed as allowing a tolerance not to exceed 10% more or 10% less than the amount, the quantity or the unit price to which they refer.
- A tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit.

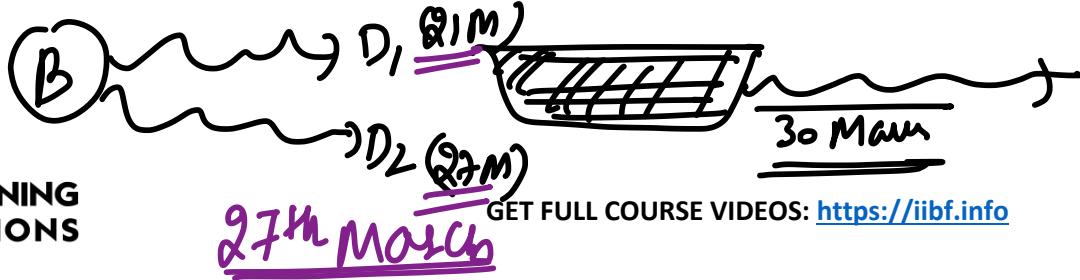
Quantity  $\pm 5\%$

**GMP.**



#### Article 31: Partial Drawings or Shipments:

Partial drawings or shipments are allowed.



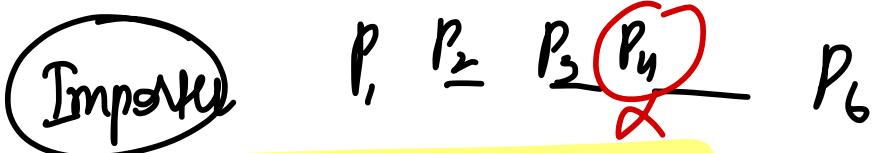
I:

~~Not me  
Cover  
partial  
shipment~~

- A presentation consisting of **more than one set of transport documents** evidencing shipment commencing on the **same means of conveyance and for the same journey**, provided they indicate the same destination, **will not be regarded as covering a partial shipment**, even if they indicate different dates of shipment or different ports of loading
- If the presentation consists of more than one set of transport documents, the **latest date of shipment as evidenced on any of the sets of transport documents will be regarded as the date of shipment.**

II:

- A presentation consisting of one or more sets of transport documents evidencing **shipment on more than one means of conveyance within the same mode of transport** will be regarded as **covering a partial shipment**, even if the means of conveyance leave on the same day for the same destination



#### Article 32: Instalment Drawings or Shipments

If a drawing or shipment by instalments within given periods is stipulated in the credit and **any instalment is not drawn or shipped within the period allowed for that instalment**, the **credit ceases to be available for that and any subsequent instalment.**



34-37  
GMP

 Article 33: Hours of Presentation: A bank has no obligation to accept a presentation outside of its banking hours.

34-37  
Disclaimer

 Article 34: Disclaimer on Effectiveness of Documents

A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.



Article 35: Disclaimer on Transmission and Translation

SWIFT

ETON  
HOE



Article 36: Force Majeure

V.V.GMP.

Not in

Human  
Control

- A bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots,

civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or any other causes beyond its control.

- A bank will not, upon resumption of its business, honour or negotiate under a credit that expired during such interruption of its business

## FORCE MAJEURE

 **Article 37: Disclaimer for Acts of an Instructed Party:** A bank utilizing the services of another bank for the purpose of giving effect to the instructions of the applicant does so for the account and at the risk of the applicant.

 **Article 38: Transferable Credits:** A transferable credit may be made available in whole or in part to another beneficiary ("second beneficiary") at the request of the beneficiary ("first beneficiary").

## Concept!!!

 **Article 39: Assignment of Proceeds**

- The fact that a credit is not stated to be transferable shall not affect the right of the beneficiary to assign any proceeds to which it may be or may become entitled under the credit, in accordance with the provisions of applicable law.
- This article relates only to the assignment of proceeds and not to the assignment of the right to perform under the credit.

## Electronic - Ucp

### eRULES and the eUCP - eUCP 600 (version 2)

- To advance the digitalization of trade finance practices, ICC issued new electronic rules (eRules).
- The eRules will be continually monitored and updated to reflect future technological developments and trends that emerge in trade finance.
- ICC will ensure that the eRules remain applicable to banks and other trade finance institutions.

eURC → URC522

### URR 725 – THE UNIFORM RULES FOR BANK-TO-BANK REIMBURSEMENTS

- The URR 725 are the Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits ICC publication No. 725.
- URR 725 was approved by the ICC national committees at the ICC Banking Commission in April 2008.
- URR 725 has been effective since 01 October 2008.
- URR 725 is an updated version of previous rules for bank-to-bank reimbursements known as URR 525.

## What is the Scope of URR 725?

The Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits, ICC Publication No. 725, shall **apply to any bank-to-bank reimbursement under documentary credits**, when the reimbursement **authorization expressly indicates** that it is subject to these rules.

The rules are binding on all parties thereto, unless expressly modified or excluded by the reimbursement authorization.



### DEFINITIONS FROM URR 725:

**“Reimbursing bank”** means the bank instructed or authorized to provide reimbursement pursuant to a reimbursement authorization issued by the issuing bank

**“Reimbursement authorization”** means an instruction or authorization, independent of the credit, issued by an issuing bank to a reimbursing bank to reimburse a claiming bank or, if so, requested by the issuing bank, to accept and pay a time draft drawn on the reimbursing bank.

**“Reimbursement undertaking”** means a separate irrevocable undertaking of the reimbursing bank, issued upon the authorization or request of the issuing bank, to the claiming bank named in the reimbursement authorization, to honour that bank’s reimbursement

claim, provided the terms and conditions of the reimbursement undertaking have been complied with.

**“Claiming bank”** means a bank that honours or negotiates a credit and presents a reimbursement claim to the reimbursing bank. “Claiming bank” includes a bank authorized to present a reimbursement claim to the reimbursing bank on behalf of the bank that honours or negotiates.

GMP.

- a) A reimbursement bank will have maximum 3 banking days  
following the day of the reimbursement claim to process the claim  
and
- b) reimbursement claim received outside the banking hours will be deemed to be received the next working day.

INCOTERMS

Part 5

- Incoterm is an acronym for International Commercial Terms.
- The Incoterms rules are a globally recognised set of standards for the delivery of goods by all modes of transport (road, rail, air and sea).

- They are the terms buyers and sellers involved in international and domestic trade agree on. They are recognised by governments and legal authorities across the world.

### **11 INCOTERMS CURRENTLY IN USE**

The Incoterms rules provide globally accepted definitions and rules of interpretation for common commercial terms.

These terms are better known by their three-letter acronyms. There are currently 11 Incoterms in use. Some apply to all modes of transport while some are specific to a particular mode. These are the 11 rules briefly explained:

- **EXW (Ex-works):** This means that the seller makes the goods available at a specified location, usually the seller's factory. The buyer is responsible for onward transportation of the goods and bears the cost for the same.
- **DAP (Delivered at Place):** The seller is responsible for delivering the goods to a designated place.
- **FOB (Free on Board):** The seller completes delivery when he loads the goods on a ship specified by the buyer at a named port. Hence, the seller is “free” of responsibility once the goods are “on board” the ship. Any liability for damage or loss thereafter passes to the buyer.

- **FCA (Free Carrier):** The seller delivers the goods to a carrier or an agent nominated by the buyer at the seller's premises or another specified location.
- **FAS (Free Alongside Ship):** The seller delivers the goods alongside the ship. The buyer must load the goods on the ship. This rule applies only to sea transport.
- **CFR (Cost and Freight):** The seller delivers the goods on a ship at the designated port and pays for cost and freight to bring the goods to the port.
- **CIF (Cost, Insurance and Freight):** The seller delivers the goods on the ship at the named port and pays for cost, freight and insurance to transport the goods to the port.
- **CPT (Carriage Paid To):** The seller delivers the goods to a named place and pays for carriage to that place.
- **CIP (Carriage and Insurance Paid To):** The seller delivers the goods to a named place, pays for both carriage and insurance of the goods to that place.
- **DPU (Delivered at Place Unloaded):** The seller delivers the goods at a designated place and unloads them, bearing the risks and costs of both. This is the only rule that requires the seller to unload the goods to complete delivery. **The buyer takes care of any import clearance charges, taxes and duties.**

- **DDP (Delivered Duty Paid):** The seller bears the maximum responsibility here as he arranges for carriage and delivery of goods at a named place and pays for import clearance as well as any duties and taxes that might apply.

- There were 13 incoterms before but there was addition of 2 i.e. **DAP**  
& **DAT** and 4 incoterms i.e. **DAF, DDU, DEQ and DES** were removed.
- And in 2020 the DPU replaced DAT

## PART-5 Letter of Credit [BFM]

### CRYSTALLISATION OF FOREIGN CURRENCY LIABILITY

The issuing bank on receipt of documents drawn under its Letter of Credit, has an obligation to pay immediately, if the documents are drawn at sight or accept and agree to pay on due date, if the documents are drawn on acceptance basis, provided the documents are drawn strictly as per the terms of the LC.

In case the documents are drawn at sight, in terms of extant FEDAI guidelines, the issuing bank can hold the documents for a maximum period of 10 days after the receipt of documents at its counter, in foreign currency. (Now to be crystallized at the discretion of the bank.)

In case the bill is not retired or paid by the importer within this period, the issuing bank would crystallize the liability into Indian rupees at Bill Selling Rate or rate at which forward contract was booked.

In case of usance bills, the foreign currency liability would be crystallized on the due date, into Indian rupees.

### EVIDENCE OF IMPORT BY THE IMPORTER

Important

- Authorized dealers, while opening Letter of Credit for their importer clients or effecting payment for imports, shall take an undertaking from the importer that they shall submit exchange control copy of Bill of Entry within the prescribed period.
- The submission of Bill of Entry, duly approved by the customs ascertains that there is actual import of goods in the country.
- Authorised dealers, on non-receipt of Bill of Entry within six months from the date of payment, shall follow up with the importer for submission of Bill of Entry and if not submitted within another three months, shall report the same in the BEF statement, being submitted on half yearly basis to Reserve Bank of India.
- To be submitted within 15 days from the close of the half year to which it relates.

### STANDBY LETTER OF CREDIT (GUARANTEES)

- The usage of standby LC is mostly witnessed in countries like the USA, where guarantees are not used, and standby LC acts as a substitute for guarantee.

- This type of Letter of Credit is opened by banks in countries, where there is restriction on issuance of guarantees and therefore standbys provide a suitable substitute for performance or financial guarantees.
- Standby Letter of Credit (SLC, SBLC or SLOC) serves as a back-up and a secondary payment mechanism.
- The trigger for payment in a Standby L/C is usually a 'default' on part of the applicant (buyer) which then permits the beneficiary (seller) to draw under the letter of credit.
- The SLOC is used as a payment of last resort should the buyer of goods or services fail in fulfilling their financial or performance obligation.

### COMMERCIAL STANDBY LC FOR IMPORT OF GOODS

Banks have been permitted by Reserve Bank of India, to issue standby LCs towards import of goods into India.

Since **standby LCs covering import of goods are susceptible to certain attendant risks** in the absence of evidence of shipment/ insurance cover, importers should be advised and explained of the risk factors involved/ chances of abuse in acceding to the request for establishment of standby LCs for import of goods into India.

**Invocation of the Commercial Standby LC by the beneficiary should be supported by proper evidence.**

9025

The beneficiary of the credit should furnish a declaration to the effect that the claim is made on account of failure of the importer to abide by his contractual obligations.

**Following documents must also be presented:**

- Copy of invoice #1
- Non-negotiable set of documents including a copy of non-negotiable bills of lading/ transport document. #2
- A copy of inspection certificate, wherever provided for, as per the underlying contract etc. #3



LEARNING  
SESSIONS

