



CHAPTER 5

DOCUMENTARY CREDIT/LETTER OF CREDIT

✿ Objectives

After studying this chapter you should be able to understand:

- 5.1 Definition, parties to the documentary credit, and the basic steps of making a payment by documentary credit**
- 5.2 Types of credits**
- 5.3 General practice points on documentary credits**
- 5.4 General rules**
- 5.5 Conclusions**

5.1 Definition, parties to the documentary credit, and the basic steps of making a payment by documentary credit

The requirement for the letter of credit will be included in the contract between the exporter and the importer, and when the letter of credit is issued it should describe the documentary requirements demanded from the exporter.

Bankers' documentary letters of credit provide a means by which an exporter can get his money safely before the goods are received by the importer. For the exporter this is, in fact, a guarantee of payment that is nearly as good as getting paid in advance.

For the importer it is better than paying in advance because by specifying the documents that the exporter must produce, the importer retains some control over the goods. For example, inspection certificates can be requested to try to make sure the quality of the goods is acceptable.

What is a *letter of credit*?

A *documentary credit*¹ can be simply defined as a conditional guarantee of payment made by a bank to a named beneficiary, guaranteeing that payment will be made, provided that the terms of the credit are met. These terms will state that the beneficiary must submit specified documents, usually to a stated bank and by a certain date.

The *letter of credit*² is a letter or other authenticated communication addressed by one bank (at the request of its customer) to another bank requesting the bank to whom it is addressed to make payments to (or advance payment to) or accept or negotiate bills of exchange (drafts) to or to the order of a third person (known as the beneficiary) either against stipulated documents or upon condition that all the other terms and conditions of the credit are complied with or upon the performance (or non-performance in the case of stand-by credits) of any other act by the said beneficiary.

¹ Watson Alasdair – Finance of international trade, 4th edition, The Chartered Institute of Bankers, London, 1990

² Aurey Davies & Martin Kearns – Banking operations, Pitman Publishing, London, 1992, p. 55.

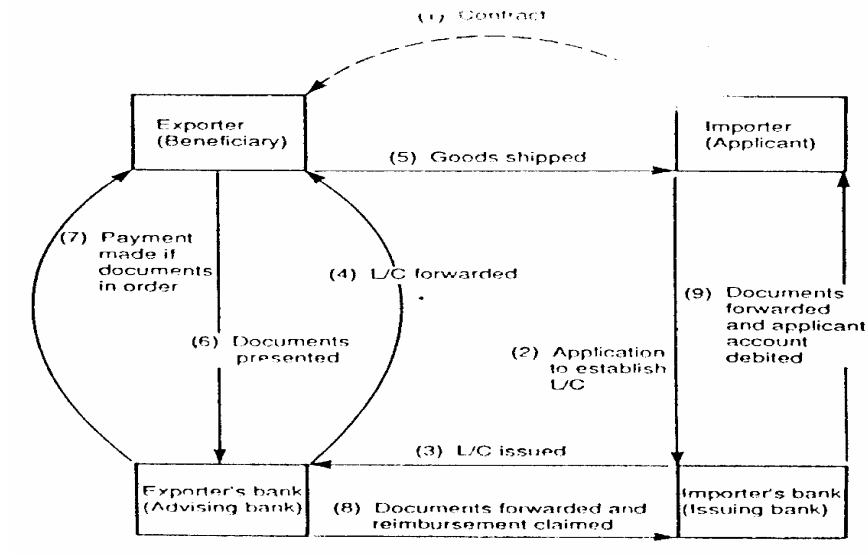
Documentary Credit/Letter of Credit

In most banks throughout the world, documentary credits are governed by a code of practice drawn up by the International Chamber of Commerce Commission on Banking Techniques and Practice. The code is called “The Uniform Customs and Practice for Documentary Credits” or “UCP” for short. It was last revised in 1993 ICC Publication No. 500 (see Annex No. 1). Under the provisions of the "UCP", a documentary credit is defined as:

“An arrangement between a customer and a bank to make payment to, or to the order of the beneficiary,

- or to pay or accept Bills of exchange drawn by the beneficiary,
- or to authorise another bank to effect such payment, or to pay, accept, or
- negotiate such bills of exchange,
- against stipulated documents, provided that the terms and conditions are complied with”³.

The general procedure is that the importer’s bank (issuing bank) issues at the request of the importer (applicant) a credit in favour of the exporter (beneficiary). The exporter may be advised directly but normally will be advised of the credit through a bank (advising bank) in his own country.



³ Article 2 of UCP.

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The basic steps of making a payment by documentary credit are as follows:

- ◆ A contract is made between an importer in one country and an exporter in another in which it is agreed that payment will be made by documentary credit.
- ◆ The exporter prepares the goods for export.
- ◆ The importer arranges the documentary credit by applying to his bank for a letter of credit to be issued.
- ◆ The importer's bank (issuing bank) draws up the letter of credit (if it considers the importer is creditworthy) including in it the details of the documents that the exporter will have to provide. The letter is sent to the exporter's bank.
- ◆ The exporter's bank (the advising bank) advises the exporter that the letter has been received and the exporter then provides the documents to show that the goods have been sent. By providing documents that comply exactly with the terms of the letter of credit the exporter can be sure of payment, guaranteed by the bank that has issued the letter of credit. In some cases the contract between exporter and importer will arrange for a bank in the exporter's country to add its guarantee or confirmation that payment will be made; such a bank is known as a *confirming bank*.
- ◆ The exporter sends the goods to the importer.
- ◆ The exporter presents the documents showing that the goods have been sent to his bank.
- ◆ The exporter's bank checks the documents and if they are:
 - A) completely correct - payment is made to the exporter and the documents are sent to the importer's bank which will then pay back the exporter's bank;
 - B) almost correct - payment can be made to the exporter after taking an indemnity from him by which he promises to repay if the documents are refused;
 - C) incorrect - the exporter will have to get new documents or send the wrong documents for collection, which will mean a delay in getting paid.

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- ◆ If the documents are correct the importer's bank will pay the exporter's bank as agreed in the letter of credit by one of the three basic methods of payment: draft, mail transfer or urgent transfer.
- ◆ The importer will receive the documents and collect the goods.

The kind of documents used in a documentary credit are generally the same kind of documents used for collections (insurance documents, invoices and transport documents) but a variety of other documents may also be requested.

As you have already seen, the parties involved in the documentary credit are:

1. **The applicant.** The importer or applicant is responsible for the setting up of the credit. He will complete a bank application form (see Annex No. 2, for Romanian specimen, or Annex No. 3 for British one) detailing the terms and conditions the beneficiary will have to meet to obtain payment. The terms and conditions will generally consists of:

- how much is to be paid and when
- a description of the goods
- a list of shipping documents to be presented by the beneficiary
- dates within which goods must be shipped and documents presented.

The application is the request by the applicant for the issuing bank to undertake to pay the beneficiary on his behalf.

2. **The issuing bank.** This will normally be the applicant's own bank. Initially they must decide if they are prepared to issue an undertaking on behalf of their customer. Once the credit has been issued they will have to pay even if the applicant can not. The issuing bank will also verify the application to make sure:

- a) the terms and conditions are clear and concise;
- b) that its own rules, and any exchange control rules have been satisfied.

3. **The advising bank.** This is the bank, which receives details of the credit from the issuing bank. The advising bank will check the credit for:

- a) authenticity;
- b) feasibility;
- c) exchange control regulations.

Before passing on to the beneficiary.

4. **The beneficiary.** This is the exporter (or seller of the goods) who probably insisted on a credit in the first place. On receipt of the credit he should verify that it agrees with the contract, and that he can comply with the conditions. The beneficiary should have in his hands an undertaking by a bank that payment will be made.

5.2 Types of credits

All types of credits should be issued as a subject matter of the Uniform Custom Regulations of the International Chamber of Commerce.

A documentary credit: It involves payment or acceptance or negotiation against stipulated documents, provided that the terms and conditions of the credit are complied with.

Since over 99% of all credits handled at branch level are documentary credits we shall talk more about these ones.

Credits are classified as either *irrevocable* or *revocable*.

A revocable credit may be cancelled or amended at any time without prior notice being given to the beneficiary. This type of credit is rare.

Some characteristics of revocable credits:

- a) A revocable credit *cannot be confirmed*.
- b) The advising bank should advise such revocable credits to the beneficiary with the following phrase added: "*Without engagement on the part of the advising bank.*"
- c) The issuing bank *can cancel such a credit* provided that, prior to receipt of advice of amendment or cancellation of the said credit, the beneficiary had not submitted the "stipulated documents" under the credit for payment, acceptance or negotiation.

An *irrevocable credit* constitutes a definite undertaking by the issuing bank to make payment without recourse. Irrevocable credits can only be amended or cancelled with the agreement of all parties. Irrevocable credits can be either *confirmed* or *unconfirmed* by the advising bank.

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This is the most common form of letter of credit used in international transactions, and it is defined, as constituting in Uniform Custom: “a definite undertaking of the issuing bank provided that the stipulated documents are presented and that the terms and conditions of the credit are complied with:

A – if the credit provides for sight payment – to pay;

B – if the credit provides for deferred payment – to pay or to provide that the payment will be made on the date(s) determinable in accordance with the stipulations of the credit;

C – if the credit provides for acceptance – to accept drafts drawn by the beneficiary if the credit stipulates that they are to be drawn on the issuing bank;

D – if the credit provides for negotiation – to pay without resource the drawer and/or bona fide holders, drafts drawn by the beneficiary at sight or at a tenor, on the application for the credit or on any other drawee stipulated in the credit other than the issuing bank itself.

Characteristics of irrevocable credit:

- an irrevocable credit *can only be amended or cancelled* with the consent of all the parties to the credit;
- once *the exporter has complied with* the terms and conditions of the irrevocable credit and has submitted the “stipulated documents”, *he will receive payment* (or acceptance) from the issuing bank;
- where an irrevocable credit is routed through another bank located in the country of the beneficiary (exporter/seller), the bank that notifies the terms and conditions of the credit to the beneficiary is known as the advising bank;
- where an advising bank either declines confirmation or is not asked to confirm an irrevocable credit, its role is confined to that of agent of the Issuing Bank. Its mandate is to follow the instructions given by the issuing bank.

Irrevocable confirmed credits

It is, as the title implies, a type of credit carrying “the definite undertaking” of two banks: the definite undertaking of the opening bank and the confirmation of the opening bank’s commitment by another bank known as the confirming bank.

Therefore “when an issuing bank authorises or requests another bank to confirm its irrevocable credit and the latter does so, such confirmation constitutes a definite undertaking of such a bank (the confirming bank) in addition to that of the issuing bank, provided that the stipulated documents are presented and that the terms and conditions are complied with:

- A – if the credit provides for sight payment – to pay;
- B – if the credit provides for deferred payment – to pay or to provide that payment will be made on the date(s) determinable in accordance with the stipulations of the credit;
- C – if the credit provides for acceptance – to accept drafts drawn by the beneficiary if the credit stipulates that they are to be drawn on the confirming bank, or to be responsible for their acceptance and payment at maturity if the credit stipulates that they are to be drawn on the applicant for the credit or any other drawee stipulated in the credit;
- D – if the credit provides for negotiation – to negotiate without recourse to drawers and/or bona fide holders, draft(s) drawn by the beneficiary at sight or at a tenor, on the issuing bank or on the applicant for the credit or on any other drawee stipulated in the credit other than the confirming bank itself.

Characteristics of irrevocable confirmed credits:

- a) when an advising bank agrees to add its confirmation to an irrevocable credit, it adds the following clause to the credit: “*This credit bears our confirmation and we shall accordingly honour your drafts on us on due presentation if accompanied by documents as stipulated by and in compliance with the credit terms and conditions.*”
- b) with such a confirmation, the *beneficiary* of the irrevocable confirmed credit *has the engagement* of the banking institutions in the two countries;
- c) this type of credit *is most favourable to the exporter* as he is assured of payment or eventual settlement in his own country provided that he submits the stipulated documents and complies with all the other terms and conditions of the credit.
- d) where an advising bank, upon being asked to add its confirmation, is unable to do so, “it must so inform the issuing bank without delay”.

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- e) amendments or cancellations of any of the terms and conditions embodied in the irrevocable confirmed credit cannot be made “without the agreement of the issuing bank, the confirming bank and the beneficiary”.
- f) partial acceptance of amendments contained in one and the same advice of amendment is not effective without the agreement of all the above mentioned parties.

Sight credits. These allow for payment to be made as soon as documents are presented.

Deferred Payment Credit. This type of credit is becoming increasingly popular. It allows for payment at a future date without calling for a Bill of Exchange. The terms of such credit would state for instance: “available against presentation of the following documents....but payable only.....days after date of invoice. Bill of lading. Presentation date, etc”⁴

The provisions of UCP mention some specialised credits, such as:

Transferable credit. It is one that can be transferred by the original beneficiary to one or more second beneficiaries. It is normally used when the first beneficiary does not supply or manufacture the goods himself, but is a middleman and thus wishes to transfer part, or all of his rights to the actual supplier or manufacturer. This type enables the middleman to give the supplier an undertaking from a bank to pay, against which they would probably be prepared to supply the goods. Without a transferable credit, a middleman of little financial standing, would probably not be able to get a bank to issue such an undertaking, and so the deal would probably fall through.

This type of credit can only be transferable once, i.e. the second beneficiary does not have the right to transfer the credit to anyone else.

Back to back credits. Under the “Back to back” concept, the beneficiary of the first credit offers it as “security” to the advising bank for issuance of the second credit.

⁴ See UCP

Red clause credits. The so-called “Red clause” credit incorporates a special concession to the beneficiary allowing the advising bank to advance a percentage of the total credit amount before presentation of shipping documents. The clause was originally written in red ink to draw attention to this special condition.

Revolving credit. It is one where the amount can be renewed or reinstated without specific amendments to the credit being needed. The purpose of a revolving credit is to replace a series of credits to the same beneficiary, and be able to control the size of shipments at any one time.

Standby credits. This type of credit (is referred to in Articles 1 and 2 of UCP) can be issued by a bank on behalf of a customer and in favour of an overseas party in the same manner as an ordinary credit except that it will not call for payment, acceptance or negotiation by it or an overseas advising/confirming bank; instead it is payable against a simple document (e.g. confirmation of shipment, simple receipt, etc.) and is irrevocable. This type of credit serves to act as a guarantee by the issuing bank to the overseas beneficiary against defaults by its applicant customer.

As you can see, the basic forms of documentary differ in respect of the degree of security they provide for the beneficiary. Credits are further classified into various types according to the method of settlement employed. There are also special arrangements involving combinations of separate credits or the assignment of credit proceeds.

*Types of credit*⁵, classified by the Credit Suisse:

⁵ Documentary credits-Documentary collections-Bank guarantee – a guide to safer international trade, issued by Credit Suisse Special Publications, Vol. 77

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Type of credit	Method of settlement
<i>Sight credit</i>	Immediate payment on presentation of the documents. The contract specifies payment in cash.
<i>Deferred payment credit</i>	Payment at maturity. The contract specifies payment at a future date (without a bill of exchange). After presentation of the documents, the amount due under the credit may be obtained in the form of an advance.
<i>Acceptance credit</i>	Payment at maturity. The contract specifies payment at a future date (with a bill of exchange). After presentation of the documents, the bill can be discounted in order to obtain the amount of the credit immediately.
<i>Negotiation credit</i>	The beneficiary can obtain the value of the documents from the bank nominated as having authority to negotiate. In a freely negotiable credit, any bank is regarded as a nominated bank.
<i>Red clause credit</i>	An advance is made available to the beneficiary.
<i>Revolving credit</i>	The beneficiary receives payment in fixed instalments for goods dispatched in part-shipments.
<i>Standby credit</i>	The credit functions as a guarantee.
<i>Transferable credit</i>	The credit is used to pay the beneficiary's suppliers.

Special arrangements⁶:

⁶ Documentary credits-Documentary collections-Bank guarantee – a guide to safer international trade, issued by Credit Suisse Special Publications, Vol. 77.

Arrangement	Method of settlement
<i>Back-to-back credit</i>	A trader arranges for his supplier to be paid by means of a credit issued by the trader's bank. This credit is secured by a non-transferable credit issued in the trader's favour. The possibilities have to be ascertained in each case.
<i>Assignment of the proceeds of a credit</i>	The beneficiary assigns all or part of the proceeds of the credit to a supplier.

5.3 General practice points on documentary credits

The International Chamber of Commerce, in its last issue, has warned customers to refrain from any of the following acts:

- calling for documents which the beneficiary cannot obtain;
- requiring inclusion, in a stipulated document, of particulars that are not within the issuer's knowledge;
- stipulating conditions whose observance cannot be ascertained from the face of the documents.

The *following particulars* must be adequately *provided in the application form*⁷ (see Annex No. 2):

- Applicant's name, full postal address (including postal code, where this available);
- Date on which credit application form is filled in and submitted should be inserted;
- Date and place of expiry of the credit should be clearly inserted:
 - Date: "all credits must stipulate an expiry date". However "if the expiry date falls on a day on which the bank to which presentation

⁷ Norms concerning the circulation of the "Order of external foreign currency payment" (DPVE) and "L/C Opening request" (CDA) forms – NRV 8, annex to the Regulation no. 3/1997.

has to be made is closed for reasons (...), the expiry date will be extended to the first following business day on which the said bank is open.”

- Place: this is interpreted to mean the city or country where the credit is to be available.
- Beneficiary: this is often, but not always, the seller of the goods. The applicant to the credit should provide his name and full postal address (together with postal code). Where the credit is to be teletransmitted; his telex number, fax number or other similar details must be indicated on the application form.

The name of the beneficiary must be spelled accurately; his address must also be correct. (Incorrect or suspicious addresses can be a warning signal).

Finally, the applicant would have satisfied himself as to the “reliability, standing, trustworthiness, performance ability and record of the beneficiary to be” although this is not of direct concern to the issuing bank.

- Methods of transmitting the credits:

Is the credit to be transmitted by AIR MAIL preceded by a brief teletransmission advice?

Is the credit going to be teletransmitted by: cable, telegram, telex, facsimile, data communication network (such as SWIFT)?

Where the teletransmission is the operative credit instrument, the beneficiary can draw drafts and present documents under the credit and the nominated bank can pay or accept or negotiate drafts against the stipulated documents.

- Confirmation

The parties to the sales contract must have agreed, in advance, whether the credit is to be irrevocable or revocable and whether the irrevocable credit should be confirmed by another bank.

- Transferable:

In order to be transferable, a credit must have been expressly designated “transferable” by the issuing bank.

- Amount of the credit:

Like cheques, the amount of the credit must be expressed in both words and figures.

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- ❑ Bank at which the credit is to be available:

A bank should always be nominated in every letter of credit, with authority to:

- pay (paying bank);
- accept drafts drawn on it (accepting bank);
- negotiate (negotiating bank), unless the credit allows negotiation by any bank.

- ❑ Method of payment under the credit:

A credit is to indicate clearly the way of payment. The credit applicant should therefore indicate, on the application form, whether the credit is to be available by sight payment, deferred payment, and acceptance or by negotiation.

- ❑ Are partial shipments to be allowed?

Partial shipments are allowed unless the credit clearly indicates otherwise. In order to avoid any doubt, the credit applicant should write either “partial shipments allowed” or “partial shipments not allowed”.

- ❑ Are trans-shipments allowed?

The applicant’s attention should be drawn to the question of trans-shipment.

- ❑ Documents required to be submitted under the credit.

The credit applicant should specify the types of documents, which must be submitted by the beneficiary to the paying/accepting/or-negotiating bank. The following types of documents are presented to banks in credit operations:

- A. Drafts-i.e. Bills of Exchange drawn by the beneficiary at sight or at a tenor (30,60,90 or 180 days after sight);

- B. Commercial invoice

“Unless otherwise stipulated in the credit, Commercial invoices must be made out in the name of applicant for the credit”; furthermore, the description of the goods in the commercial invoice must correspond with the description of the credit.

- C. Transport documents required

These will depend on the mode of transportation to be used:

- By Air (Air Consignment note or Air Waybill);

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- By Post (Air or Surface Mail);
- By Rail(Rail waybill or Rail Consignment Note);
- By Road;
- By inland waterway;
- By sea (marine bill of lading);
- By combined transport (by both rail and sea). A combined transport document should be called for.

A. Insurance documents to be submitted under the credit.

“Insurance documents must be as stipulated in the credit and must be issued and/or signed by insurance companies or underwriters or their agents”.

“Cover notes issued by agents will not be accepted, unless specifically authorised by the credit”.

B. Other documents to be submitted under the credit:

- certificate of origin;
- certificate of analysis;
- packing list;
- weight list, etc.

□ Presentation period:

The credit applicant’s attention should be drawn to the provisions of Uniform Custom regulations that state that every credit which calls for a transport document should also stipulate a specified period of time after the date of issuance of the transport document within which the documents must be presented for payment, acceptance or negotiation.

In all cases, the documents must be presented no later than the expiry date of the credit, even if the documents presentation period has not expired.

□ Mode of settlement of indebtedness under the credit.

The credit applicant should indicate how payments, acceptances and negotiations under the credit are to be settled. Usually, the applicant authorizes the issuing bank to “debit my/our account no. ...” or, where

forward exchange contracts has been concluded “debit my/our account no. ... utilizing forward contract no. ...”.

- Signature of the credit application form.
Each credit application form should be duly signed and dated by the applicant or his accredited officer. The reverse side of the form may also require signing as an acknowledgement of the Conditions under which the bank will grant the credit.

5.4 General rules

In credit operations all parties concerned deal in documents and not in goods, services and/or other performances to which the documents may relate.

Therefore, indeed the examination of “stipulated documents” is the most important function of the branch staff of a bank charged with the task of handling documentary credits.

Failure to keep in view the terms and conditions of the letter of credit can result in the following discrepancies that cause unnecessary delays in making payments under credits:

- ◆ late presentation of documents, the letter of credit having expired;
- ◆ late presentation of documents within the time scale laid down in the credit even though the credit itself may not have expired;
- ◆ late shipment;
- ◆ the description of the goods on the invoices is not the same as that one stated in the letter of credit.

Presentation of documents

Customers should always ensure that the credit documents are presented to the branch office or specified department of the bank that originally advised the credit.

Delivery of the credit documents to the wrong branch or section of the bank could result in delays in making payments.

The presenter of the credit documents must give precise instructions regarding the way of payment (by cheque, or Banks draft, by crediting an

account – the number of the account and the branch and bank should be provided).

Other problems that may arise in the presentation of documents are:

- The bills of exchange (or draft) are incorrectly drawn or not endorsed.
- The documents presented do not bear any relationship one to the other and can be said to be inconsistent with one another.
- When bills of lading are presented and the “shipped on board” notation is not signed or even dated by an authorized official.
- When airway bills (Air Consignment Note) are to be presented under the credit, but they are not signed as agent for the carrier.
- When some documents called for under the credit are missing.
- When the insurance documents show an incorrect insurance value or the risks to be insured under the credit are not covered.

Settlement procedures

Once the branch has adequately completed the examination of the stipulated documents, the settlement may be by means of: payment, acceptance or negotiation.

5.5 Conclusions

The two fundamental principles of documentary credit practice are:

- the independence of the credit from the underlying contract and,
 - the requirement that documents strictly comply with the terms of the credit.
- A. Independence of the documentary credit from the underlying contract. The documentary credit is completely independent of the underlying contract. If the exporter fulfils the documentary obligations, payment must be effected according to the terms of the credit, regardless of disputes connected to the underlying contract. It is essential that all parties remain confident that issuing or confirming banks will respect their payment commitments.
- B. Strict compliance. The terms of the documentary credit must be strictly adhered to as the doctrine of strict compliance. This means that

documents presented under the credit must conform very precisely to the terms of the credit.

Advantages and disadvantages to the exporter and importer involved in L/C

The main advantages to the exporter are⁸:

- ❖ dependence on the credit worthiness of an importer is replaced by dependence on a bank.
- ❖ if the credit is confirmed by a bank in the exporter's country, the exporter is no longer subject to country risk.
- ❖ if the credit is an irrevocable form it cannot be cancelled without the exporter's express agreement, but notice of revocation can be rejected if received after shipment.
- ❖ the documents and therefore the goods will not be released until payment or a commitment to payment is made.
- ❖ when credit has been allowed, the Bill of Exchange will have been accepted by a bank and can, therefore, be used to obtain finance by discounting.

The main disadvantages to the exporter are:

- the exporter has to produce the correct document, accurate in every detail. Even small discrepancies can cause delay.
- if in revocable form the credit could be cancelled between shipment and payment.
- where the advising bank does not have immediate access to reimbursement by the issuing bank, payment may delay.

The main advantages to the importer are:

- ◆ the importer can provide for stringent documentary requirements.
- ◆ because the exporter is more reassured of receiving payment, the importer may be able to negotiate better terms on the purchase of the goods.
- ◆ the importer can control the timing of the shipment and the destination.
- ◆ there is reassurance that no funds will be paid unless documents of title are received and are correct.

⁸ Aurey Davies & Martin Kearns – Banking operations, Pitman Publishing, London, 1992, p.60

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- ◆ protection is provided by the Uniform Customs Practice for Documentary Credits.

The main disadvantages to the importer are:

- because the banks only deal with in the documents and not the goods, the provide no protection against poor quality, or defective or incorrect goods.
- if the credit is irrevocable, it cannot be cancelled without the consent of the exporter.
- the importer takes on the liability of the credit and remains liable regardless of any changes in circumstances.
- documentary credits can be expensive, although the importer can attempt to pass the charges on through increased prices.

Documentary collections and documentary credits

Although there are certain similarities between documentary collections and documentary credits there are also important differences. These are summarized in the following table:

Collections

1. The exporter (principal) requests the bank to handle the collection.
2. The exporter controls what banks can do by what is included in the collection order.
3. For the exporter, obtaining payment depends on the importer's ability to pay.
4. For the importer, getting the documents usually depends on paying or accepting a bill of exchange.

Credits

1. The importer (applicant) requests the bank to issue a letter of credit.
2. The importer controls what banks can do by specifying documents required
3. For the exporter, obtaining payment depends on producing the correct documents and on the credit worthiness of the bank which has agreed to pay.
4. For the importer, the commitment to pay arises when an application is made. Obtaining the documents requires no further formalities.

The range of methods of settlement

You need to pay special attention to collections and documentary credits because they are complicated, but they are only two of the possible choices

which importers and exporters can make about the payment terms for settling a debt.

The following list shows the options, which are available. From the exporter's point of view these are shown in order of decreasing risk, the most "dangerous", first. The risk increases from an importer's point of view.

1. Consignment of goods (which means sending them abroad without having a definite sale arranged and waiting for payments as goods are sold).
2. Open account trade (which means goods are sent and payment is made at intervals).
3. Documents sent direct to the importer with payment to be made when they are received (which gives the exporter no control).
4. Collections.
5. Documentary credits.
6. Payment in advance (which means the exporter gets his money before sending goods, and may have a period of credit during which the money can be used to make or purchase the goods to be exported).



Progress Test

1. What is a letter of credit?
2. Define a documentary credit.
3. Give the correct names for the following parties to a documentary credit:
 - a) Importer;
 - b) Importer's bank;
 - c) Exporter's bank;

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- d) Exporter.
4. List the parties involved in the letter of credit.
5. List and describe the basic steps in making a payment by documentary credit.
6. What must an exporter do to obtain payment under a documentary credit?
7. List the main types of credit.
8. What is a revocable credit?
9. What is an irrevocable credit?
10. List the characteristics of the irrevocable credits.
11. What is an irrevocable confirmed credit?
12. List the characteristics of the irrevocable conformed credits.
13. List the main particulars provided in the application form.
14. List the documents required to be submitted under the letter of credit.
15. List some advantages to the exporter of a documentary credit.
16. List some advantages to the importer of a documentary credit.
17. List some disadvantages to the exporter of a documentary credit.
18. List some disadvantages to the importer of a documentary credit.
19. Introduce the main differences between collections and credits.

PUBLICATION No. 500⁹

A. General Provisions and Definitions

Article 1

Application of UCP

The Uniform Customs and Practice for Documentary Credits, 1993 revision, ICC Publication N°500, shall apply to all Documentary Credits (including to the extent to which they may be applicable, standby Letter(s) of Credit) where they are incorporated into the text of the Credit. They are binding on all parties thereto, unless otherwise expressly stipulated in the Credit.

Article 2

Meaning of Credit

For the purposes of these Articles, the expressions "Documentary Credit(s)" and "Standby Letter(s) of Credit" (hereinafter referred to as "Credit(s)"), mean any arrangement, however named or described, whereby a bank (the "Issuing Bank") acting at the request and on the instructions of a customer (the "Applicant") or on its own behalf,

i. is to make a payment to or to the order of a third party (the "Beneficiary"), or is to accept and pay bills of exchange (Draft(s)) drawn by the Beneficiary,

or

ii. authorises another bank to effect such payment, or to accept and pay such bills of exchange (Draft(S)),

or

iii. authorises another bank to negotiate,

⁹ issued by the International Chamber of Commerce from Paris

against stipulated document(s), provided that the terms and conditions of the Credit are complied with.

For the purposes of these Articles, branches of a bank in different countries are considered another bank.

Article 3

Credit v. Contracts

a Credits, by their nature, are separate transactions from the sales or other contract(s) on which they may be based and banks are in no way concerned with or bound by such contract(s), even if any reference whatsoever to such contract(s) is included in the Credit. Consequently, the undertaking of a bank to pay, accept and pay Draft(s) or negotiated and/or to fulfill any other obligation under the Credit, is not subject to claims or defenses by the Applicant resulting from his relationship with the issuing bank or the Beneficiary.

b A Beneficiary can in no case avail himself of the contractual relationship existing between the banks or between the Applicant and the Issuing Bank.

Article 4

Documents v. Goods/Services/Performances

In Credit operations all parties concerned deal with documents, and not with goods, services and/or other performances to which the documents may relate.

Article 5

Instructions to Issue/Amend Credits

a Instructions for the issuance of Credit, the Credit itself, instructions for an amendment thereto, and the amendment itself, must be complete and precise.

In order to guard against confusion and misunderstanding, banks should discourage any attempt:

- i. to include excessive detail in the Credit or in any amendment thereto;
 - ii. to give instructions to issue, advise or confirm a Credit by reference to a Credit previously issued (similar Credit) where such previous credit has been subject to accepted amendment(s), and/or unaccepted amendment(s).
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b All instructions for the issuance of a Credit and the Credit itself and, where applicable, all instructions for an amendment thereto and the amendment itself, must state precisely the document(s) against which payment, acceptance or negotiation is to be made.

B. Form and Notification of Credits

Article 6

Revocable v. Irrevocable Credits

a A Credit may be either

- i. revocable, or
 - ii. irrevocable
-

b The Credit, therefore, should clearly indicate whether it is revocable or irrevocable.

c In the absence of such indication the Credit shall be deemed to be irrevocable.

Article 7

Advising Bank's Liability

a A Credit may be advised to a beneficiary through another bank (the "Advising Bank") without engagement on the part of the Advising Bank, but that bank, if it elects to advise the Credit, shall take reasonable care to check the apparent authenticity of the Credit which it advises. If the bank elects not to advise the Credit, it must so inform the Issuing bank without delay.

b If the Advising Bank cannot establish such apparent authenticity it must inform, without delay, the bank from which the instructions appear to have been received that it has been unable to establish the authenticity of the Credit and if it elects nonetheless to advise the credit it must inform the beneficiary that it has not been able to establish the authenticity of the credit.

Article 8

Revocation of a Credit

a A revocable Credit may be amended or cancelled by the Issuing Bank at any moment and without prior notice to the beneficiary.

b However, the Issuing Bank must:

- i. reimburse another bank with which a revocable Credit has been made available for sight payment, acceptance or negotiation - for any payment, acceptance or negotiation made by such bank - prior to receipt by it of notice of amendment or cancellation, against documents which appear on their face to be in compliance with the terms and conditions of the Credit;
- ii. reimburse another bank with which a revocable Credit has been made available for deferred payment, if such a bank has, prior to receipt by it of notice of amendment or cancellation, taken up documents which appear on their face to be in compliance with the terms and conditions of the Credit.

Article 9

Liability of Issuing and Confirming Banks

a An irrevocable Credit constitutes a definite undertaking of the Issuing Bank, provided that the stipulate documents are presented to the Nominated Bank or to the Issuing bank and that the terms and conditions of the Credit are complied with:

- i. if the Credit provides for sight payment - to pay at sight;
- ii. if the Credit provides for deferred payment - to pay on the maturity date(s) determinable in accordance with the stipulations of the credit;
- iii. if the Credit provides for acceptance:
 - (a) by the Issuing Bank - to accept Draft(s) drawn by the Beneficiary on the Issuing bank and pay them at maturity,or
 - (b) by another drawee bank - to accept and pay at maturity Draft(s) drawn by the beneficiary on the Issuing Bank in the event the drawee bank stipulated in the Credit does not accept Draft(s) drawn on it, or to pay Draft(s) accepted but not paid by such drawee bank at maturity;

- iv. if the Credit provides for negotiation - to pay without recourse to drawers and/or bona fide holders, Draft(s) drawn by the beneficiary and/or document(s) presented under the credit. Draft(s) on the Applicant should not issue a Credit available. If the Credit nevertheless calls for Draft(s) on the Applicant, banks will consider such Draft(s) as an additional document(s).
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b

A confirmation of an irrevocable Credit by another bank (the "Confirming Bank") upon the authorization or request of the Issuing Bank, constitutes a definite undertaking of the Confirming Bank, in addition to that of the Issuing Bank, provided that the stipulated documents are presented to the Confirming Bank or to any other Nominated Bank and that the terms and conditions of the Credit are complied with:

- i. if the Credit provides for sight payment - to pay at sight;
 - ii. if the Credit provides for deferred payment - to pay on the maturity date(s) determinable in accordance with the stipulation of the credit;
 - iii. if the Credit provides for acceptance:
 - a. by the Confirming Bank - to accept Draft(s) drawn by the Beneficiary on the Confirming Bank and pay them at maturity;or
 - a. by another drawee bank - to accept and pay at maturity Draft(s) drawn by the Beneficiary on the Confirming Bank, in the event the drawee bank stipulated in the Credit does not accept Draft(s) drawn on it, or to pay Draft(s) accepted but not paid by such drawee bank at maturity;
 - iv. if the Credit provides for negotiation - to negotiate without recourse to drawer and/or bona fide holders, Draft(s) drawn by the beneficiary and/or document(s) presented under the Credit. Draft(s) on the Applicant should not issue a Credit available. If the Credit nevertheless calls for Draft(s) on the Applicant, banks will consider such Draft(s) as an additional document(s).
-

c

- i. If another bank is authorized or requested by the issuing bank to add its confirmation to a Credit but is not prepared to do so, it must so inform the Issuing Bank without delay.
 - ii. Unless the Issuing Bank specifies otherwise in its authorization or request to add confirmation, the Advising Bank may advise the Credit to the Beneficiary without adding its confirmation.
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- d** i. Except as otherwise provided by Article 48, an irrevocable Credit can neither be amended nor cancelled without the agreement of the Issuing Bank, the Confirming Bank, if any, and the beneficiary;
 - ii. The Issuing Bank shall be irrevocably bound by an amendment(s) issued by it from the time of the issuance of such amendment(s). A Confirming Bank may extend its confirmation to an amendment and shall be irrevocable bound as of the time of its advice of the amendment. A Confirming Bank may, however, choose to advise an amendment to the Beneficiary without extending its confirmation and if so, must inform the Issuing Bank and the beneficiary without delay.
 - iii. The terms of the original Credit(s) or a Credit incorporating previously accepted amendment(s) will remain in force for the beneficiary until the beneficiary communicates his acceptance of the amendment to the bank that advised such amendment. The Beneficiary should give notification of acceptance or rejection of amendment(s). If the beneficiary fails to give such notification, the tender of documents to the Nominated bank or Issuing Bank, that conform to the Credit and to not yet accepted amendment(s), will be deemed to be notification of acceptance by the Beneficiary of such amendment(s) and as of that moment the Credit will be amended.
 - iv. Partial acceptance of amendments contained in one and the same advice of amendment is not allowed and consequently will not be given any effect.
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Article 10

Types of Credit

a All Credits must clearly indicate whether they are available by sight payment, by deferred payment, by acceptance or by negotiation.

b i. Unless the Credit stipulates that it is available only with the Issuing Bank, all Credits must nominate the bank (the "Nominated Bank") which is authorized to pay, to incur a deferred payment undertaking, to accept Draft(s) or to negotiate. In a freely negotiable Credit, any bank is a Nominated Bank.

Presentation of documents must be made to the Issuing Bank or the Confirming Bank, if any or any other Nominated Bank.

ii. Negotiation means the giving of value for draft(s) and/or documents(s) by the bank authorized to negotiate. Mere examination of the documents without giving of value does not constitute a negotiation.

c Unless the Nominated Bank is the Confirming Bank, nomination by the Issuing Bank does not constitute any undertaking by the Nominated Bank to pay, to incur a deferred payment undertaking, to accept Draft(s), or to negotiate. Except where expressly agreed to by the Nominated Bank and so communicated to the Beneficiary, the Nominated Bank's receipt of and/or examination and/or forwarding of the documents does not make that bank liable to pay, to incur a deferred payment undertaking, to accept Draft(s), or to negotiate.

d By nominating another bank, or by allowing for negotiation by any bank, or by authorizing or requesting another bank to add its confirmation, the Issuing Bank authorizes such bank to pay, accept Draft(s) or negotiated as the case may be, against documents which appear on their face to be in compliance with the terms and conditions of the Credit and undertakes to reimburse such bank in accordance with the provisions of these Articles.

Article 11

Teletransmitted and Pre-Advised Credits

- a** i. When an Issuing Bank instructs an Advising Bank by an authenticated teletransmission to advise a Credit or an amendment to a Credit, the teletransmission will be deemed to be the operative Credit instrument or the operative amendment, and no mail confirmation should be sent. Should a mail confirmation nevertheless be sent, it will have no effect and the Advising Bank will have no obligation to check such mail confirmation against the operative Credit instrument or the operative amendment received by teletransmission.
- ii. If the teletransmission states "full details to follow" (or words of similar effect) or states that the mail confirmation is to be the operative Credit instrument or the operative amendment, then the teletransmission will not be deemed to be the operative Credit instrument or the operative amendment. The Issuing Bank must forward the operative Credit instrument or the operative amendment to such Advising Bank without delay.
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- b** If a bank uses the services of an Advising Bank to have the Credit advised to the Beneficiary, it must also use the services of the same bank for advising an amendment(s).
-

- c** A preliminary advice of the issuance or amendment of an irrevocable Credit (pre-advice), shall only be given by an Issuing Bank if such bank is prepared to issue the operative Credit instrument or the operative amendment thereto. Unless otherwise stated in such preliminary advice by the Issuing Bank, an Issuing Bank having given such pre-advice shall be irrevocably committed to issue or amend the Credit, in terms not inconsistent with the pre-advice, without delay.

Article 12

Incomplete or Unclear Instructions

If incomplete or unclear instructions are received to advise, confirm or amend a Credit, the bank requested to act on such instructions may give preliminary notification to the Beneficiary for information only and without responsibility. This preliminary notification should state clearly that the notification is provided for information only and without the responsibility of the Advising Bank. In any event, the Advising Bank must inform the Issuing Bank of the action taken and request it to provide the necessary information.

The Issuing Bank must provide the necessary information without delay. The Credit will be advised, confirmed or amended, only when complete and clear instructions have been received and if the Advising Bank is then prepared to act on the instructions.

C. Liabilities and Responsibilities

Article 13

Standard for Examination of Documents

a Banks must examine all documents stipulated in the Credit with reasonable care, to ascertain whether or not they appear, on their face, to be in compliance with the terms and conditions of the Credit. Compliance of the stipulated documents on their face with the terms and conditions of the Credit shall be determined by international standard banking practice as reflected in these Articles. Documents, which appear on their face to be inconsistent with one another, will be considered as not appearing on their face to be in compliance with the terms and conditions of the Credit.

Banks will not examine documents not stipulated in the Credit. If they receive such documents, they shall return them to the presenter or pass them on without responsibility.

b

The Issuing Bank, the Confirming Bank, if any, or a Nominated bank acting on their behalf, shall each have a responsible time, not to exceed seven banking days following the day of receipt of the documents, to examine the documents and determine whether to take up or refuse the documents and to inform the party from which it received the documents accordingly.

- c** If a Credit contains conditions without stating the document(s) to be presented in compliance therewith, banks will deem such conditions as not stated and will disregard them.

Article 14

Discrepant Documents and Notice

- a** When the Issuing Bank authorizes another bank to pay, incur a deferred payment undertaking, accept Draft(s), or negotiate against documents which appear on their face to be in compliance with the terms and conditions of the credit, the Issuing Bank and the Confirming Bank, if any, are bound:
- i.** to reimburse the nominated bank which has paid, incurred a deferred payment undertaking, accepted draft(s), or negotiated,
 - ii.** to take up the documents.
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- b** Upon receipt of the documents the issuing bank and/or Confirming Bank, if any, or a Nominated Bank acting on their behalf, must determine on the basis of the documents alone whether or not they appear on their face to be in compliance with the terms and conditions of the Credit. If the documents appear on their face not to be in compliance with the terms and conditions of the credit, such banks may refuse to take up the documents.
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c If the Issuing bank determines that the documents appear on their face not to be in compliance with the terms and conditions of the Credit, it may in its sole judgment approach the Applicant for a waiver of the discrepancy(ies). This does not, however, extend the period mentioned in sub-Article 13 (b).

- d**
- i.** If the Issuing Bank and/or Confirming Bank, if any, or a Nominated Bank acting on their behalf, decides to refuse the documents, it must give notice to that effect by telecommunication or, if that is not possible, by other expeditious means, without delay but no later than the close of the seventh banking day following the day of receipt of the documents. Such notice shall be given to the bank from which it received the documents, or to the beneficiary, if it received the documents directly from him.
 - ii.** Such notice must state all discrepancies in respect of which the bank refuses the documents and must also state whether it is holding the documents at the disposal of, or is returning them to, the presenter.
 - iii.** The Issuing Bank and/or Confirming Bank, if any, shall then be entitled to claim from the remitting bank refund, with interest, of any reimbursement which has been made to that bank
-

e If the Issuing Bank and/or Confirming Bank, if any, fails to act in accordance with the provisions of this Article and/or fails to hold the documents at the disposal of, or return them to the presenter, the Issuing Bank and/or Confirming Bank, if any, shall be precluded from claiming that the documents are not in compliance with the terms and conditions of the Credit.

f If the remitting bank draws the attention of the Issuing Bank and/or Confirming Bank, if any, to any discrepancy(ies) in the document(s) or advises such banks that it has paid, incurred a deferred payment undertaken, accepted Draft(s) or negotiated under reserve or against an indemnity in respect of such discrepancy(ies), the Issuing Bank

and/or Confirming Bank, if any, shall not be thereby relieved from any of their obligations under any provision of this Article. Such reserve or indemnity concerns only the relations between the remitting bank and the party towards whom the reserve was made, or from whom, or on whose behalf, the indemnity was obtained.

Article 15

Disclaimer on Effectiveness of Documents

Banks assume no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document(s), or for the general and/or particular conditions stipulated in the document(s) or superimposed thereon; nor do they assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods represented by any document(s), or for the good faith or acts and/or omission, solvency, performance or standing of the consignors, the carriers, the forwarders, the consignees or the insurers of the goods, or any other person whomsoever.

Article 16

Disclaimer on the Transmission of Message

Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any message(s), letter(s) or document(s), or for delay, mutilation or other error(s) arising in the transmission of any telecommunication. Banks assume no liability or responsibility for errors in translation and/or interpretation of technical terms, and reserve the right to transmit Credit terms without translating them.

Article 17

Force Majeure

Banks assume no liability or responsibility for the consequences arising out of the interruption of their business by Acts of God, riots, civil commotion, insurrection, wars or any other causes beyond their control, or by any strikes or lockouts. Unless specifically authorized, banks will not, upon resumption of their business, pay, incur a deferred payment undertaking, accept Draft(s) or negotiate under Credit, which expired during such interruption of their business.

Article 18

Disclaimer for Acts of an Instructed Party

a Banks utilizing the services of another bank or other banks for the purpose of giving effect to the instructions of the Applicant do so for the account and at the risk of such Applicant.

b Banks assume no liability or responsibility should the instructions they transmit not be carried out, even if they have themselves taken the initiative in the choice of such other bank(s).

- c**
- i.** A party instructing another party to perform services is liable for any charges, including commissions, fees, costs or expenses incurred by the instructed party in connection with its instructions.
 - ii.** Where a Credit stipulates that such charges are for the account of a party other than the instructing party, and charges cannot be collected, the instructing party remains ultimately liable for the payment thereof.
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- d** Then Applicant shall be bound by and liable to indemnify the banks against all obligations and responsibilities imposed by foreign laws and usage.

Article 19

Bank-to-Bank Reimbursement Arrangements

- a** If an Issuing Bank intends that the reimbursement to which a paying, accepting or negotiating bank is entitled, shall be obtained by such bank (the "Claiming Bank"), claiming on another party (the "Reimbursing Bank"), it shall provide such Reimbursing Bank in good time with the proper instructions or authorization to honor such reimbursement claims.
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- b** Issuing Bank shall not require a Claiming Bank to supply a certificate of compliance with the terms and conditions of the Credit to the Reimbursing Bank.
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- c** An Issuing Bank shall not be relieved from any of its obligations to provide reimbursement if and when reimbursement is not received by the Claiming Bank from the Reimbursing Bank.
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- d** The Issuing Bank shall be responsible to the Claiming Bank for any loss of interest if reimbursement is not provided by the Reimbursing Bank on first demand, or as otherwise specified in the Credit, or mutually agreed, as the case may be.
-
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- e**

The Reimbursing Bank's charges should be for the account of the Issuing Bank. However, in cases where the charges are for the account of another party, it is the responsibility of the Issuing Bank to so indicate in the original Credit and in the reimbursement authorization. In cases where the

Reimbursing Bank's charges are for the account of another party they shall be collected from the Claiming Bank when the Credit is drawn under. In cases where the Credit is not drawn under, the Reimbursing Bank's charges remain the obligation of the Issuing Bank.

D. Documents

Article 20

Ambiguity as to the Issuers of Documents

a Terms such as “first class”, “well known”, “qualified”, “independent”, “official”, “competent”, “local” and the like, shall not be used to describe the issuers of any document(s) to be presented under a Credit. If such terms are incorporated in the Credit, banks will accept the relative document(s) as presented, provided that it appears on its face to be in compliance with the other terms and conditions of the Credit and not to have been issued by the Beneficiary.

b Unless otherwise stipulated in the Credit, banks will also accept as an original document(s), a document(s) produced or appearing to have been produced:

- i.** by reprographic, automated or computerized systems;
- ii.** as carbon copies;

provided that it is marked as original and, where necessary, appears to be signed.

A document may be signed by handwriting, by facsimile signature, by perforated signature, by stamp, by symbol, or by any other mechanical or electronic method of authentication.

c i. Unless otherwise stipulated in the Credit, banks will accept as a copy(ies), a document(s) either labeled copy or not marked as an original a copy(ies) need not be signed.

ii. Credits that require multiple document(s) such as “duplicate”, “two fold”, “two copies” and the like, will be satisfied by the presentation of one original and the remaining number in copies except where the document itself indicates otherwise.

d Unless otherwise stipulated in the Credit, a condition under a Credit calling for a document to be authenticated, validated, legalized, visaed, certified or indicating a similar requirement, will be satisfied by any signature, mark, stamp or label on such document that on its face appears to satisfy the above condition.

Article 21

Unspecified Issuers or Contents of Documents

When documents other than transport documents, insurance documents and commercial invoices are called for, the Credit should stipulate by whom such documents are to be issued and their wording or data content. If the Credit does not so stipulate, banks will accept such documents as presented, provided that their data content is not inconsistent with any other stipulated document presented.

Article 22

Issuance Date of Documents v. Credit Date

Unless otherwise stipulated in the Credit, banks will accept a document bearing a date of issuance prior to that of the Credit, subject to such document being presented within the time limits set out in the Credit and in these Articles.

Article 23

Marine/Ocean Bill of Lading

a If a Credit calls for a bill of lading covering a port-to-port shipment, banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

- i. appears on its face to indicate the name of the carrier and to have been signed or otherwise authenticated by:
 - the carrier or a named agent for or on behalf of the carrier, or
 - the master or a named agent for or on behalf of the master.

Any signature or authentication of the carrier or master must be identified as carrier or master, as the case may be. An agent signing or authenticating for the carrier or master must also indicate the name and the capacity of the party, i.e. carrier or master, on whose behalf that agent is acting,

and

- ii. indicates that the goods have been loaded on board, or shipped on a named vessel.

Loading on board or shipment on a named vessel may be indicated by pre-printed wording on the bill of lading that the goods have been loaded on board a named vessel or shipped on a named vessel, in which case the date of issuance of the bill of lading will be deemed to be the date of loading on board and the date of shipment.

In all other cases loading on board a named vessel must be evidenced by a notation on the bill of lading which gives the date on which the goods have been loaded on board, in which case the date of the on board notation will be deemed to be the date of shipment. If the bill of lading contains the indication “intended vessel”, or similar qualification in relation to the vessel, loading on board a named vessel must be evidenced by an on board notation on the bill of lading which, in addition to the date on which the goods have been loaded on board, also includes the name of the vessel on which the goods have been loaded, even if they have been loaded on the vessel named as the intended vessel”.

Documentary Credit/Letter of Credit

If the bill of lading indicates a place of receipt or taking in charge different from the port of loading, the on board notation must also include the port of loading stipulated in the Credit and the name of the vessel on which the goods have been loaded, even if they have been loaded on the vessel named in the bill of lading. This provision also applies whenever loading on board the vessel is indicated by pre-printed wording on the bill of lading,

and

iii. indicates the port of loading and the port of discharge stipulated in the Credit, notwithstanding that it:

a

indicates a place of taking in charge different from the port of loading, and/or a place of final destination different from the port of discharge,

and/or

b

contains the indication “intended” or similar qualification in relation to the port of loading and/or port of discharge, as long as the document also states the ports of loading and/or discharge stipulated in the Credit,

and

iv. consists of a sole original bill of lading or, it issued in more than one original, the full set as so issued,

and

iv. appears to contain all of the terms and conditions of carriage, or some of such terms and conditions by reference to a source or document other than the bill of lading (short form/blank back bill of lading); banks will not examine the contents of such terms and conditions,

and

vi. contains no indication that it is subject to a charter party and/or no indication that the carrying vessel is propelled by sail only,

and

vii. in all other respects meets the stipulations of the Credit.

b For the purpose of this Article, transshipment means unloading and reloading from one vessel to another vessel during the course of ocean carriage from the port of loading to the port of discharge stipulated in the Credit.

c Unless transshipment is prohibited by the terms of the Credit, banks will accept a bill of lading, which indicates that the goods will be transhipped, provided that the entire ocean carriage is covered by one and the same bill of lading.

d Even if the Credit prohibits transshipment, banks will accept a bill of lading which:

- i. indicates that transshipment will take place as long as the' relevant cargo is shipped in Container(s), Trailer(s) and/or "LASH~ barge(s) as evidenced by the bill of lading, provided that the entire ocean carriage is covered by one and the same bill of lading,

and/or

incorporates clauses stating that the carrier reserves the right to tranship.

Non-Negotiable Sea Waybill

If a Credit calls for a non-negotiable sea waybill covering a port-to-port shipment, banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

- i. appears on its face to indicate the name of the carrier and to have been signed or otherwise authenticated by:
 - the carrier or a named agent for or on behalf of the carrier, or
 - the master or a named agent for or on behalf of the master,

Any signature or authentication of the carrier or master must be identified as carrier or master, as the case may be. An agent signing or authenticating for the carrier or master must also indicate the name and the capacity of the party, i.e. carrier or master, on whose behalf that agent is acting,

and

indicates that the goods have been loaded on board, or shipped on a named vessel.

Loading on board or shipment on a named vessel may be indicated by pre-printed wording on the non-negotiable sea waybill that the goods have been loaded on board a named vessel or shipped on a named vessel, in which case the date of issuance of the non-negotiable sea waybill will be deemed to be the date of loading on board and the date of shipment.

In all other cases loading on board a named vessel must be evidenced by a notation on the non-negotiable sea waybill which gives the date on which the goods have been loaded on board, in which case the date of the on board notation will be deemed to be the date of shipment.

If the non-negotiable sea waybill contains the indication “intended vessel”, or similar qualification in relation to the vessel, loading on board a named vessel must be evidenced by an on board notation on the non-negotiable sea waybill which, in addition to the date on which the goods have been loaded on board, includes the name of the vessel on which the goods have been loaded, even if they have been loaded on the vessel named as the “intended vessel”.

If the non-negotiable sea waybill indicates a place of receipt or taking in charge different from the port of loading, the on board notation must also include the port of loading stipulated in the Credit and the name of the vessel on which the goods have been loaded, even if they have been loaded on a vessel named in the non-negotiable sea waybill. This provision also applies whenever loading on board the vessel is indicated by pre-printed wording on the non-negotiable sea waybill,

and

iii. indicates the port of loading and the port of discharge stipulated in the Credit, notwithstanding that it:

a indicates a place of taking in charge different from the port of loading, and/or a place of final destination different from the port of discharge,

and/or

b contains the indication “intended” or similar qualification in relation to the port of loading and/or port of discharge, as long as the document also states the ports of loading and/or discharge stipulated in the Credit,

and

- iv consists of a sole original non-negotiable sea waybill, or if issued in more than one original, the full set as so issued,

and

- v. appears to contain all of the terms and conditions of carriage, or some of such terms and conditions by reference to a source or document other than the non-negotiable sea waybill (short form/blank back non-negotiable sea waybill); banks will not examine the contents of such terms and conditions,

and

- vi. contains no indication that it is subject to a charter party and/or no indication that the carrying vessel is propelled by sail only,

and

- vii. in all other respects meets the stipulations of the Credit.

C For the purpose of this Article, transshipment means unloading and reloading from one vessel to another vessel during the course of ocean carriage from the port of loading to the port of discharge stipulated in the Credit.

Unless transshipment is prohibited by the terms of the Credit, banks will accept a non-negotiable seaway bill, which indicates that the goods will be transhipped, provided that the entire ocean carriage is covered by one and the same non-negotiable sea waybill.

Even if the Credit prohibits transshipment, banks will accept a non-negotiable sea waybill which:

indicates that transshipment will take place as long as the relevant cargo is shipped in Container(s), Trailer(s) and/or “LASH” barge(s) as evidenced by the non-negotiable sea waybill, provided that the entire ocean carriage is covered by one and the same non-negotiable sea waybill,

and/or

incorporates clauses stating that the carrier reserves the right to tranship.

Article 25

Charter Party Bill of Lading

a If a Credit calls for or permits a charter party bill of lading, banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

i. contains any indication that it is subject to a charter party,

and

ii. appears on its face to have been signed or otherwise authenticated by:

- the master or a named agent for or on behalf of the master, or
- the owner or a named agent for or on behalf of the owner.

Any signature or authentication of the master or owner must be identified as master or owner as the case may be. An agent signing or authenticating for the master or owner must also indicate the name and the capacity of the party, i.e. master or owner, on whose behalf that agent is acting,

and

iii. does or does not indicate the name of the carrier,

and

iv indicates that the goods have been loaded on board or shipped on a named vessel.

Loading on board or shipment on a named vessel may be indicated by pre-printed wording on the bill of lading that the goods have been loaded on board a named vessel or shipped on a named vessel, in which case the date of issuance of the bill of lading will be deemed to be the date of loading on board and the date of shipment.

In all other cases loading on board a named vessel must be evidenced by a notation on the bill of lading which gives the date on which the goods have been loaded on board, in which case the date of the on board notation will be deemed to be the date of shipment,

and

indicates the port of loading and the port of discharge stipulated in the Credit,

and

- vi. consists of a sole original bill of lading or, if issued in more than one original, the full set as so issued,

and

- vii. contains no indication that the carrying vessel is propelled by sail only,

and

- viii. in all other respects meets the stipulations of the Credit.

b Even if the Credit requires the presentation of a charter party contract in connection with a charter party bill of lading, banks will not examine such charter party contract, but will pass it on without responsibility on their part.

Article 26

a If a Credit calls for a transport document covering at least two different modes of transport (multi modal transport), banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

- i. appears on its face to indicate the name of the carrier or multimodal transport operator and to have been signed or otherwise authenticated by:
 - the carrier or multimodal transport operator or a named agent for or on behalf of the carrier or multimodal transport operator, or
 - the master or a named agent for or on behalf of the master.

Any signature or authentication of the carrier, multimodal transport operator or master must be identified as carrier, multimodal transport operator or master, as the case may be. An agent signing or authenticating for the

Documentary Credit/Letter of Credit

carrier, multimodal transport operator or master must also indicate the name and the capacity of the party, i.e. carrier, multimodal transport operator or master, on whose behalf that agent is acting,

and

- ii. indicates that the goods have been dispatched, taken in charge or loaded on board.

Dispatch, taking in charge or loading on board may be indicated by wording to that effect on the multimodal transport document and the date of issuance will be deemed to be the date of dispatch, taking in charge or loading on board and the date of shipment. However, if the document indicates, by stamp or otherwise, a date of dispatch, taking in charge or loading on board, such date will be deemed to be the date of shipment,

and

- iii. **a** indicates the place of taking in charge stipulated in the Credit which may be different from the port, airport or place of loading, and the place of final destination stipulated in the Credit which may be different from the port, airport or place of discharge,

and/or

contains the indication "intended" or similar qualification in relation to the vessel and/or port of loading and/or port of discharge,

and

- iv. consists of a sole original multimodal transport document or, if issued in more than one original, the full set as so issued,

and

- v. appears to contain all of the terms and conditions of carriage, or some of such terms and conditions by reference to a source or document other than the multimodal transport document (short form/blank back multimodal transport document); banks will not examine the contents of such terms and conditions,

and

- vi. contains no indication that it is subject to a charter party and/or no indication that the carrying vessel is propelled by sail only,

and

vii. in all other respects meets the stipulations of the Credit.

b Even if the Credit prohibits transshipment, banks will accept a multimodal transport document which indicates that transshipment will or may take place, provided that the entire carriage is covered by one and the same multimodal transport document.

Article 27

Air Transport Document

If a Credit calls for an air transport document, banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

appears on its face to indicate the name of the carrier and to have been signed otherwise authenticated by:

the carrier, or

a named agent for or on behalf of the carrier.

a Any signature or authentication of the carrier must be identified as carrier.

i. An agent signing or authenticating for the carrier must also indicate the name and capacity of the party, i.e. carrier, on whose behalf that agent is acting,

and

ii. indicates that the goods have been accepted for carriage,

and

iii. where the Credit calls for an actual date of dispatch, indicates a specific notation of such date, the date of dispatch so indicated on the air transport document will be deemed to be the date of shipment.

For the purpose of this Article, the information appearing in the box on the air transport document (marked “For Carrier Use Only” or similar expression) relative to the flight number and date will not be considered as a specific notation of such date of dispatch.

Documentary Credit/Letter of Credit

In all other cases, the date of issuance of the air transport document will be deemed to be the date of shipment,

and

- iv. indicates the airport of departure and the airport of destination stipulated in the Credit,

and

- v. appears to be the original for consignor/shipper even if the Credit stipulates a full set of originals, or similar expressions,

and

- vi. appears to contain all of the terms and conditions of carriage, or some of such terms and conditions, by reference to a source or document other than the air transport document; banks will not examine the contents of such terms and conditions,

and

- vii. in all other respects meets the stipulations of the Credit.

b For the purpose of this Article, transshipment means unloading and reloading from one aircraft to another aircraft during the course of carriage from the airport of departure to the airport of destination stipulated in the Credit.

c Even if the Credit prohibits transshipment, banks will accept an air transport document which indicates that transshipment will or may take place, provided that the entire carriage is covered by one and the same air transport document.

Article 28

Road, Rail or Inland Waterway Transport Documents

a If a Credit calls for a road, rail, or inland waterway transport document, banks will, unless otherwise stipulated in the Credit, accept a document of the type called for, however named, which:

- i. appears on its face to indicate the name of the carrier and to have been signed or otherwise authenticated by the carrier or a named agent for or on behalf of the carrier and/or to bear a

reception stamp or other indication of receipt by the carrier or a named agent for or on behalf of the carrier.

Any signature, authentication, reception stamp or other indication of receipt of the carrier, must be identified on its face as that of the carrier. An agent signing or authenticating for the carrier, must also indicate the name and the capacity of the party, i.e. carrier, on whose behalf that agent is acting,

and

- ii. indicates that the goods have been received for shipment, dispatch or carriage or wording to this effect. The date of issuance will be deemed to be the date of shipment unless the transport document contains a reception stamp, in which case the date of the reception stamp will be deemed to be the date of shipment,

and

- iii. indicates the place of shipment and the place of destination stipulated in the Credit,

and

- iv. in all other respects- meets the stipulations of the Credit.

b In the absence of any indication on the transport document as to the numbers issued, banks will accept the transport document(s) presented as constituting a full set. Banks will accept as original(s) the transport document(s) whether marked as original(s) or not.

c For the purpose of this Article, transshipment means unloading and reloading from one means of conveyance to another means of conveyance, in different modes of transport, during the course of carriage from the place of shipment to the place of destination stipulated in the Credit.

d Even if the Credit prohibits transshipment, banks will accept a road, rail, or inland waterway transport document which indicates that transshipment will or may take place, provided that the entire carriage is covered by one and the same transport document and within the same mode of transport.

Article 29

Courier and Post Receipts

a If a Credit calls for a post receipt or certificate of posting, banks will, unless otherwise stipulated in the Credit, accept a post receipt or certificate of posting which:

- i. appears on its face to have been stamped or otherwise authenticated and dated in the place from which the Credit stipulates the goods are to be shipped or dispatched and such date will be deemed to be the date of shipment or dispatch,

and

- ii. in all other respects meets the stipulations of the Credit.

b If a Credit calls for a document issued by a courier or expedited delivery service evidencing receipt of the goods for delivery, banks will, unless otherwise stipulated in the Credit, accept a document, however named, which:

- i. appears on its face to indicate the name of the courier/service, and to have been stamped, signed or otherwise authenticated by such named courier/service (unless the Credit specifically calls for a document issued by a named Courier/Service, banks will accept a document issued by any Courier/Service),

and

- ii. indicates a date of pick-up or of receipt or wording to this effect, such date being deemed to be the date of shipment or dispatch,

and

- iii. in all other respects meets the stipulations of the Credit,

Article 30

Transport Documents issued by Freight Forwarders

Unless otherwise authorised in the Credit, banks will only accept a transport document issued by freight forwarder if it appears on its face to indicate:

- i. the name of the freight forwarder as a carrier or multimodal transport operator and to have been signed or otherwise authenticated by the freight forwarder as carrier or multimodal transport operator,

or

- ii. the name of the carrier or multimodal transport operator and to have signed or otherwise authenticated by the freight forwarder as a named agent for or on behalf of the carrier or multimodal transport operator.

Article 31

“On Deck”, “Shipper’s Load and Count”, Name of Consignor

Unless otherwise stipulated in the Credit, banks will accept a transport document which:

- i does not indicate, in the case of carriage by sea or by more than one means of conveyance including carriage by sea, that the goods are or will be loaded on deck. Nevertheless, banks will accept a transport document which contains a provision that the goods may be carried on deck, provided that it does not specially state that they are or will be loaded on deck,

and/or

- ii bears a clause on the face thereof such as “shipper’s load and count” or “said by shipper to contain” or words of similar effect,

and/or

- iii indicates as the consignor of the goods a party other than the Beneficiary of the Credit.

Article 32

Clean Transport Documents

- a** A clean transport document is one which bears no clause or notation which expressly declares a defective condition of the goods and/or the packaging.
- b** Banks will not accept transport documents bearing such clauses or notations unless the Credit expressly stipulates the clauses or notations which may be accepted.
- c** Banks will regard a requirement in a Credit for a transport document to bear the clause “clean on board” as complied with if such transport document meets the requirements of this Article and of Articles 23, 24, 25, 26, 27, 28, or 30.

Article 33

Freight Payable/Prepaid Transport Documents

- a** Unless otherwise stipulated in the Credit, or inconsistent with any of the documents presented under the Credit, banks will accept transport documents stating that freight or transportation charges (hereafter referred to as “freight”) have still to be paid.
- b** If a Credit stipulates that the transport document has to indicate that freight has been paid or prepaid, banks which will accept a transport document on which words clearly indicating payment or prepayment of freight appear by stamp or otherwise, or on which payment of freight is indicated by other means. If the Credit requires courier charges to be paid or prepaid banks will also accept a transport document issued by courier or expedited delivery service evidencing that courier charges are for the account of a party other than the consignee.
- c** The words “freight prepay able” of “freight to be prepaid” or words of similar effect, if appearing on transport document, will not be accepted as constituting evidence of the payment of freight.

- d** Banks will accept transport documents bearing reference by stamps or otherwise to costs additional to the freight, such as costs of, or disbursements incurred in connection with, loading, unloading or similar operations, unless the conditions of the Credit specifically prohibit such reference.

Article 34

Insurance Documents

- a** Insurance documents must appear on their face to be issued and signed by insurance companies or underwriters or their agents.
- b** If the insurance document indicates that it has been issued in more than one original, all the originals must be presented unless otherwise authorized in the Credit.
- c** Cover notes issued by brokers will not be accepted, unless specifically authorized in the Credit.
- d** Unless otherwise stipulated in the Credit, banks will accept an insurance certificate or a declaration under an open cover pre-signed by insurance companies or underwriters of their agents. If a Credit specifically calls for an insurance certificate or a declaration under an open cover, banks will accept, in lieu thereof, an insurance policy.
- e** Unless otherwise stipulated in the Credit, or unless it appears from the insurance document that the cover is effective at the latest from the date of loading on board or dispatch or taking in charge of the goods, banks will not accept an insurance document which bears date of insurance later than the date of loading on board or dispatch or taking in charge as indicated in such transport document.
- f**
 - i.** Unless otherwise stipulated in the Credit, the insurance document must be expressed in the same currency as the Credit.
 - iii.** Unless otherwise stipulated in the Credit, the minimum amount for which the insurance document must indicate the insurance cover to have been effected is the CIF (cost, insurance and freight (...”named port of destination”)) or CIP (carriage and insurance paid to (...”named place of destination”)) value of goods, as the

case may be, plus 10%, but only when the CIF or CIP value can be determined from the documents on their face. Otherwise, banks will accept as such minimum amount 110% of the amount for which payment, acceptance or negotiation is requested under the Credit, or 110% of the gross amounts of the invoice, whichever is the greater.

Article 35

Type of Insurance cover

- a** Credits should stipulate the type of insurance required and, if any, the additional risks which are to be covered. Imprecise terms such as “usual risks” or “customary risks” shall not be used; if they are used, banks will accept insurance documents as presented, without responsibility for any risks not being covered.
- b** Failing specific stipulations in the Credit, banks will accept insurance documents as presented, without responsibility for any risks not being covered.
- c** Unless otherwise stipulated in the Credit, banks will accept an insurance document which indicates that the cover is subject to a franchise or on excess (deductible).

Article 36

All Risks Insurance Cover

Where a Credit stipulates “insurance against all risks”, banks will accept an insurance document which contains any “all risks” notation or clause, whether or not bearing the heading “all risks”, even if the insurance document indicates that certain risks are excluded, without responsibility for any risk(s) not being covered.

Article 37

Commercial Invoices

- a** Unless otherwise stipulated in the Credit, commercial invoices:
- i.** must appear on their face to be issued by the Beneficiary named in the Credit (except as provided in Article 48),
- and
- ii.** must be made out in the name of the Applicant (except as provided in sub-Article 48(h)),
- and
- iii.** need not to be signed.
- b** Unless otherwise stipulated in the Credit, banks may refuse commercial invoices issued for amounts in excess of the amount permitted by the Credit. Nevertheless, if a bank authorized to pay, incur a deferred payment undertaking, accept Draft(s), or negotiate under a Credit accepts such invoices, its decision will be binding upon all parties, provided that such bank has not paid, incurred a deferred payment undertaking, accepted Draft(s) or negotiated for an amount in excess of that permitted by the Credit.
- c** The description of the goods in the commercial invoice must correspond with the description in the Credit. In all other documents, the goods may be described in general terms not inconsistent with the description of the goods in the Credit.

Article 38

Other Documents

If a Credit calls for an attestation or certification of weight in the case of transport other than by sea, banks will accept a weight stamp or declaration of weight which appears to have been superimposed on the transport document by the carrier or his agent unless the Credit specifically stipulates that the attestation or certification of weight must be by means of a separate document.

E. Miscellaneous Provisions

Article 39

Allowances in Credit Amount, Quantity and Unit Price

- a** The words “about”, “approximately”, “circa” or similar expressions used in connection with the amount of the Credit or the quantity or the unit price stated in the Credit are to be constructed as allowing a difference not to exceed 10% more or 10% less than the amount or the quantity or the unit price to which they refer.
- b** Unless a credit stipulates that the quantity of the goods specified must not be exceeded or reduced, a tolerance of 5% more or 5% less will be permissible, always provided that the amount of the drawings does not exceed the amount of the Credit. This tolerance does not apply when the Credit stipulates the quantity in terms of a stated number of packing units or individual items.
- c** Unless a Credit which prohibits partial shipments stipulates otherwise, or unless sub-Article (b) above is applicable, a tolerance of 5% less in the amount of the drawing will be permissible, provided that if the Credit stipulates the quantity of the goods, such quantity of goods is shipped in full, and if the Credit stipulates a unit price, such price is not reduced. This provision does not apply when expressions referred to in sub-Article (a) above are used in the Credit.

Article 40

Partial Shipments/Drawings

- a** Partial drawings and/or shipments are allowed, unless the Credit stipulates otherwise.
- b** Transport documents which appear on their face to indicate that shipment has been made on the same means of conveyance and for the same journey, provided they indicate the same destination, will not be regarded as covering partial shipments, even if the transport documents indicate different dates of shipment and/or different ports of loading, places of taking in charge, or dispatch.

- c** Shipments made by post or by courier will not be regarded as partial shipments if the post receipts or certificates of posting or courier's receipts or dispatch notes appear to have been stamped, signed or otherwise authenticated in the place from which the Credit stipulates the goods are to be dispatched, and on the same date.

Article 41

Installments Shipments/Drawings

If drawings and/or shipments by installments within given periods are stipulated in the Credit and any installment is not drawn and/or shipped within the period allowed for that installment, the Credit ceases to be available for that and any subsequent installment, unless otherwise stipulated in the Credit.

Article 42

Expiry Date and Place for Presentation of Documents

- a** All Credits must stipulate an expiry date and a place for presentation of documents for payment, acceptance, or with the exception freely negotiable Credits, a place for presentation of documents for negotiation. An expiry date stipulated for payment, acceptance or negotiation will be construed to express an expiry date for presentation of documents.
- b** Except as provided in sub-Article 44(a), documents must be presented on or before such expiry date.
- c** If an Issuing Bank states that the Credit is to be available "for one month", "for six months", or the like, but does not specify the date from which the time is to run, the date of issuance of the Credit by the Issuing Bank will be deemed to be the first day from which such time is to run. Banks should discourage indication of the expiry date of the Credit in this manner.

Article 43

Limitation on the Expiry Date

- a** In addition to stipulating an expiry date for presentation of documents, every Credit which calls for a transport document(s) should also stipulate a specified period of time after the date of shipment during which presentation must be made in compliance with the terms and conditions of the Credit. If no such period of time is stipulated, banks will not accept documents presented to them later than 21 days after the date of shipment. In any event, documents must be presented not later than the expiry date of the Credit.
- b** In cases in which sub-Article 40(b) applies, the date of shipment will be considered to be the latest shipment date on any of the transport documents presented.

Article 44

Extension of Expiry Date

- a** If the expiry date of the Credit and/or the last day of the period of time for presentation of documents stipulated by the Credit or applicable by virtue of Article 43 falls on a day on which the bank to which presentation has to be made is closed for reasons other than those referred to in Article 17, the stipulated expiry date and/ or the last day of the period of time after the date of shipment for presentation of documents, as the case may be, shall be extended to the first following day on which such bank is open.
- b** The latest date for shipment shall not be extended by reason of the extension of the expiry date and/or the periods of time after the date of shipment for presentation of documents in accordance with sub-Article (a) above. If no such latest date for shipment is stipulated in the Credit or amendments thereto, banks will not accept transport documents indicating a date of shipment later than the expiry date stipulated in the Credit or amendments thereto.

- c** The bank to which presentation is made on such first following business day must provide a statement that the documents were presented within the time limits extended in accordance with sub-Article 44 (a) of the Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No. 500.

Article 45

Hours of Presentation

Banks are under no obligation to accept presentation of documents outside their banking hours.

Article 46

General Expressions as to Dates for Shipment

- a** Unless otherwise stipulated in the Credit, the expression “shipment” used in stipulating an earliest and/or latest date for shipment will be understood to include expressions such as, “loading on board”, “dispatch”, “accepted for carriage”, “date of post receipt”, “date of pick-up” and the like, and in the case of a Credit calling for a multimodal transport document the expression “taking in charge”.
- b** Expressions such as “prompt”, “immediately”, “as soon as possible”. And the like should not be used. If they are used banks will disregard them.
- c** If the expression “on or about” or similar expressions are used, banks will interpret them as a stipulation that shipment is to be made during the period from five days before to five days after the specified date, both end days included.

Article 47

Date Terminology for Periods of Shipment

- a** The words “to”, “until”, “till”, “from” and words of similar import applying to any date or period in the Credit referring to shipment will be understood to include the date mentioned.
- b** The word “after” will be understood to exclude the date mentioned.
- c** The terms “first half”, “second half” of a month shall be constructed respectively as the 1st to the 15th, and the 16th to the last day of such month, all dates inclusive.
- d** The terms “beginning”, “middle”, or “end” of a month shall be constructed respectively as the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of such month, all dates inclusive.

F. Transferable Credit

Article 48

Transferable Credit

- a** A transferable Credit is a Credit under which the Beneficiary (First Beneficiary) may request the bank authorized to pay, incur a deferred payment undertaking, accept or negotiate (the “transferring Bank”), or in the case of a freely negotiable Credit, the bank specifically authorized in the Credit as a Transferring Bank, to make the Credit available in whole or in part to one or more other Beneficiary(ies) (Second Beneficiary(ies)).
- b** A Credit can be transferred only if it is expressly designated as “transferable” by the Issuing Bank. Terms such as “divisible”, “fractionable”, “assignable” and “transmissible” do not render the Credit transferable. If such terms are used they shall be disregarded.

c The Transferring Bank shall be under no obligation to effect such transfer except to the extent and in the manner expressly consented to by such bank.

d At the time of making a request for transfer and prior to transfer of the Credit, the first Beneficiary must irrevocably instruct the Transferring Bank whether or not he retains the right to refuse to allow the Transferring Bank to advise amendments to the Second Beneficiary(ies). If the Transferring Bank consents to the transfer under these conditions, it must, at the time of transfer, advise the Second Beneficiary(ies) of the First Beneficiary's instructions regarding amendments.

e If a Credit is transferred to more than one Second Beneficiary(ies), refusal of an amendment by one or more Second Beneficiary(ies) does not invalidate the acceptance(s) by the other Second Beneficiary(ies) with respect to whom the Credit will be amended accordingly. With respect to the Second Beneficiary(ies) who rejected the amendment, the Credit will remain unaltered.

f Transferring Bank charges in respect of transfers including commissions, fees, costs or expenses are payable by the First Beneficiary, unless otherwise agreed. If the Transferring Bank agrees to transfer the Credit it shall be under no obligation to effect the transfer until such charges are paid.

g Unless otherwise stated in the Credit, a transferable Credit can be transferred once only. Consequently, the Credit cannot be transferred at the request of the Second Beneficiary to any subsequent Third Beneficiary. For the purpose of this Article, a transfer to the First Beneficiary does not constitute a prohibited transfer.

Fractions of a transferable Credit (not exceeding in the aggregate the amount of the Credit) can be transferred separately, provided partial shipments/ drawings are not prohibited, and the aggregate of such transfers will be considered as constituting only one transfer of the Credit.

h The credit can be transferred only on the terms and conditions specified in the original Credit, with the exception of:

- the amount of the Credit,
- any unit price stated therein,

- the expiry date,
- the last date for presentation of documents in accordance with article 43,
- the period of shipment,

any or all of which may be reduced or curtailed.

The percentage for which insurance cover must be effected may be increased in such a way as to provide the amount of cover stipulated in the original Credit, or these Articles.

In addition, the name of the First Beneficiary can be substituted for that of the Applicant, but if the name of the applicant is specifically required by the original Credit to appear in any document(s) other than the invoice, such requirements must be fulfilled.

i

The first Beneficiary has the right to substitute his own invoice(s) and (Draft(s)) for those of the second Beneficiary(ies), for amounts not in excess of the original amount stipulated in the Credit and for the original unit prices if stipulated in the Credit, and upon such substitution of invoice(s) (and Draft(s)) the First Beneficiary can draw under the Credit for the difference, if any, between his invoice(s) and the Second Beneficiary's(ies') invoice(s).

When a Credit has been transferred and the first Beneficiary is to supply his own invoice(s) (and Draft(s)) in exchange for the Second Beneficiary's(ies') invoices (and Draft(s)) but fails to do so on first demand, the Transferring Bank has the right to deliver to the Issuing Bank the documents received under the transferred Credit including the second Beneficiary's(ies') invoice(s) (and Draft(s)) without further responsibility to the First Beneficiary.

j

The first Beneficiary may request that payment or negotiation be effected to the Second Beneficiary(ies) at the place to which the Credit has been transferred up to and including the expiry date of the Credit, unless the original Credit expressly states that it may not be made available for payment or negotiation at a place other than that stipulated in the Credit. This is without prejudice to the first Beneficiary's right to substitute subsequently his own invoice(s) (and

Draft(s)) for those of the second Beneficiary(ies) and to claim any difference due to him.

G. Assignment of Proceeds

Article 49

Assignment of Proceeds

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

SPECIMEN DOCUMENTARY CREDIT (Names are fictitious)

**BRITISH
NATIONAL**

Temple House, 48, Wall Street, Bradford, W. Yorks.

Date 20th July, 1967

① **IRREVOCABLE CREDIT No. BDC/86789**
to be quoted on all drafts and correspondence.

Beneficiary(ies) ②
Quality Weaving Limited
Rushling Lane, Knaresdale,
West Yorks.

Advised through

Accreditor ③
Farper Simon Incorporated,
Fifth Avenue,
New York, U.S.A.

To be completed only if applicable
Our office of
Advised through refers

Dear Sir(s),

In accordance with instructions received from The State Banking Co.

we hereby issue in your favour a Documentary Credit for \$5210

(say) **Eight thousand two hundred and forty pounds sterling** available by ④

your drafts drawn on us

at sight

for the 100% bill ⑤ invoice value accompanied by the following documents:

1. Invoices in triplicate, signed and marked **Librae Co.**
- ⑦ 2. Certificates of origin issued by a Chamber of Commerce
3. Full set of documents based Shipping Company's Bills of Lading made out to order and bills of exchange marked "Prepaid A/R" and "Totally Exempt-Simco Inc. Fifth Avenue, New York"
4. Insurance Policy or Certificate in duplicate, covering Marine and War Risks up to buyer's warehouse, for invoice value of the goods.

Covering the following goods:

- ⑧ 1. 100 Shergoldin Coats
- ⑨ 2. To be shipped from Liverpool to New York S.I.L. ⑩
- not later than 10th August, 1967
- ⑪ 3. Transshipment not permitted Transshipment not permitted

This credit is available for presentation to us until 31st August, 1967 ⑫
Documents to be presented within 31 days of shipment but within
credit validity

Drafts drawn hereunder must be marked "Drawn under British National Bank,
Temple House, 48 Wall Street, Bradford, branch,
Credit number BDC/86789

- ⑬ 4. We undertake that drafts and documents drawn under and in strict conformity with
the terms of this credit will be honoured upon presentation.

Yours faithfully,

Go signed (Signature No.)

Signed (Signature No.)

DOCUMENTARY CREDIT

This is a typical irrevocable letter of credit — most credits are fully similar in appearance and contain the following details (numbers correspond to those in the example):

1. The type of credit (revocable or irrevocable)
2. The name and address of the exporter (beneficiary)
3. The name and address of the importer (accreditor)
4. The amount of the credit in sterling or in foreign currency
5. The name of the party or whom the bills of exchange are to be drawn, and whether they are to be at sight or at a particular term
6. The terms of contract and shipment (i.e. whether ex-works, FOB, CIF etc.)

7. Precise instructions as to the documents against which payment is to be made
8. A brief description of the goods covered by the credit
9. Shipping details, including whether transshipments are allowed. Also mentioned is the latest date for shipment and the names of the ports of shipment and discharge
10. Whether the credit is available for one or several shipments
11. The expiry date
12. Credit confirmed by bank in beneficiary's country — advice usually a payment.