



Module-A Unit-4

CAIIB PAPER-2

BANK Financial Management(BFM)



CAIIB BFM Module A Unit 4: Documentary Letters of Credit

Introduction

A Letter of Credit/Documentary Credit is a very common and instrument, used for trade settlements across the globe. It is a link between buyers and sellers, reinforcing the buyer's integrity by adding to it his banker's undertaking to pay, while sellers need to make shipments of goods specified and present shipping documents to banks, before getting the payment. Thus, for international trade, where buyers and sellers are located far apart in different countries, or even different continents, the letter of credit acts as a most convenient instrument, giving assurance to the sellers of goods for payment and to the buyers for shipping documents, as called for under the credit.

UCP 82 (1933)

The first document issued under the title **"Uniform Customs and Practice"** based on the draft document circulated in 1929 contained the following provisions:

- Responsibility of the Bank to examine all documents and papers with care so as to ascertain that on their face, they appear to be in order.
- The word 'honor' and the detailed requirements of transport and insurance documents were introduced.
- When a Documentary Credit requires presentation of other documents, without further definition, banks will accept such documents as tendered without any responsibility on their part.
- The stipulation that when the expiry date of a documentary credit falls on a Sunday, or a legal holiday or a local holiday, the period of validity will be extended to the next following business day.
- The terms "effectiveness of documents, transmission/translation of documents and the meaning of the words "first half", "second half", "beginning of the month", "middle of month", and "end of month" were also explained.

UCP 151 (1951)

- This was the first revision of the UCP rules wherein the use of the terms "Applicant" instead of "Principal" was used and the methods of settlement – Payment, Acceptance, Negotiation and Purchase were introduced.
- The very important concept that "in documentary credit operations, all the parties deal in documents and not in goods", and that "Banks must determine compliance on the basis of documents alone". was highlighted.
- Provision with regarding to "the issuing bank had "reasonable time" to examine the documents and the stipulation that the "description of the goods on the commercial invoice must correspond with the description in the credit" was also highlighted.

UCP 222 (1962)

- The UK and the Commonwealth Banks adopted the UCPDC for the first time including the provision that the Documentary Credit is binding on all the parties.
- A rule that “a credit is separate from the Sales or other contracts on which it may be based” and that the “confirming bank negotiates without recourse” were introduced.
- The details of how to handle the documents of the second beneficiary if first beneficiary fails to substitute its own documents was introduced.

UCP 290 (1974)

- Introduction of the term “nomination” and its use.
- The addition of details regarding inconsistency between documents, a new article covering “Combined Transport”, “Assignment of Proceeds”, and the default period for presentation within 21 days after the date of issuance of the BL or other transport document.

UCP 400 (1983)

This revision resulted in restructuring of the entire text and brought out the **layout of the UCP as is prevalent today and some of the important provisions were:**

- The requirement that the advising bank is to take reasonable care to check the authenticity of Credit.
- Introduction of the term “Deferred Payment Undertaking” as a settlement means.,
- Separate article covering “Original documents” and “Bank-to-Bank Reimbursement”.
- Definition of “transshipment”.

UCP 500 (1993)

This version is the first UCP that many of the documentary credit practitioners across the globe have experienced and the revision consisted of many changes:

- “Credit is irrevocable” if the doc. Credit is silent on this issue,
- Banks to advise a credit that could not be authenticated,
- Reasonable time, not to exceed 7 banking days following the date of presentation of documents, in which to determine compliance or non-compliance,
- The requirement that non-documentary conditions were to be disregarded,
- Indication of who can sign transport documents and redefining of the word “transshipment”.

UCP 600 (2007)

UCP 600 represents the latest and current version of UCP to align with ISP 98 which covers:

- New articles covering “definitions” and “interpretations”.
- Removal of reference to “revocable credits”.
- New sub-article covering “documents lost in transit”.
- Setting of the maximum examination period as “5 banking days following the day of presentation”.
- The stipulation that documents are to appear to fulfil their function where the credit is silent with regard to the data content.
- Possibilities for handling discrepant documents.

Definition of Letter of Credit

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

An LC can also be defined as an undertaking issued by the bank, on behalf of the importer or the buyer, in favour of the exporter or the seller, that, if the specified documents, showing that a shipment has taken place, or a service has been supplied, are presented to the issuing bank or its nominated bank, within the stipulated time and all other LC terms are complied with, the exporter/seller will be paid the amount specified.

Thus, in an LC transaction, following parties are involved:

- The buyer/importer or the applicant - **on whose behalf LC is opened.**
- The seller/exporter or the **beneficiary of the LC.**
- The opening bank (buyers bank), **who establishes the LC.**
- The advising bank (bank in seller's country), **who acts as an agent of the issuing bank and authenticates and advises the LC.**
- The confirming bank - **who undertakes to pay on behalf of the issuing bank.**
- The negotiating/nominated bank (sellers bank or bank nominated by the opening bank), **who negotiates the LC and makes payment to the beneficiary.**
- Reimbursing bank - **who reimburses the negotiating or confirming bank.**

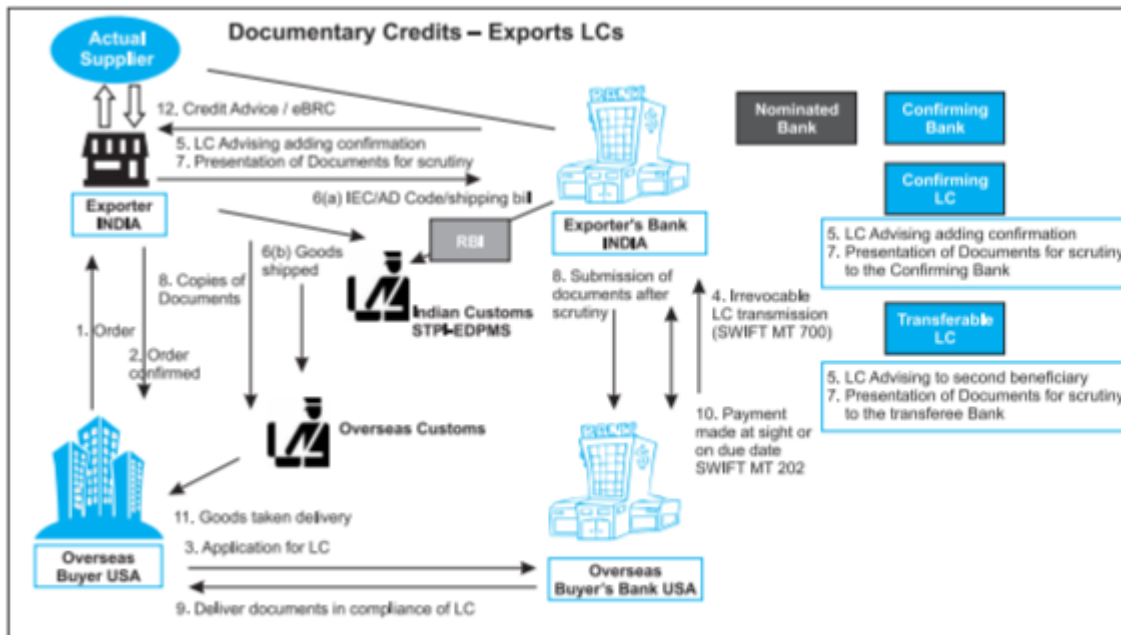
Types of Letter of Credit

- **Revocable LC:** A revocable LC is a credit, the terms and conditions of which can be amended/ cancelled by the Issuing Bank. This cancellation can be done without prior notice to the beneficiaries. An irrevocable credit is a credit, the terms and conditions of which can neither be amended nor cancelled.

- **Irrevocable LC:** An irrevocable letter of credit is an agreement between a buyer (often an importer) and the buyer's bank. The bank agrees to pay the seller (the exporter) as soon as certain conditions are met. Because it is irrevocable, the terms of the letter cannot be changed without the agreement of everyone involved.
- **Irrevocable Confirmed Letter of Credit:** An irrevocable letter of credit cannot be changed or cancelled unless everyone involved agrees. Irrevocable letters of credit provide more security than revocable ones. A confirmed letter of credit is one to which a second bank, usually in the exporter's country adds its own undertaking that payment will be made.
- **Transferable LC:** A Transferable LC is letter of credit where the Beneficiary (Transferor or 1st Beneficiary) may request the Transferring Bank to make the credit available in whole or in part to one or more other beneficiaries called Transferee(s) or 2nd beneficiary (ies).
- **Red Clause:** A red clause letter of credit is a specific type of letter of credit in which a buyer extends an unsecured loan to a seller. Red Clause Letters of Credit permit documentary credit beneficiaries to receive funds for any merchandise outlined in the letter of credit.
- **Green Clause:** A letter of credit which contains a clause authorising the nominated bank to make advances to the seller against security (such as a payment guarantee from a third party or the pre-shipment storage of the goods in the name of the nominated bank or the issuing bank) before shipment /presentation of documents.
- **Back to Back LC:** Back-to-Back Letter of Credit is a negotiable instrument in which the seller gets a Letter of Credit from the buyer and the seller further transfers the Letter of Credit to its supplier.
- **Standby LC:** A standby letter of credit (SLOC) is a legal document that guarantees a bank's commitment of payment to a seller in the event that the buyer—or the bank's client—defaults on the agreement.
- **Revolving LC:** A revolving letter of credit is a single letter of credit that covers multiple transactions over a long period of time. It is very specific in a way that it is used for regular shipments of the same commodity between the same buyer (importer) and the seller (exporter).

Operations of Letter of Credit

With the involvement of the several parties, the *LC transaction operates between the two nations, as explained in the following diagram:*



As shown in the diagram above, the transaction flows as under:

- The buyer and seller enter into the sales contract, for purchase/sale of certain amount of specified goods at specified rates, but agree to cover the transaction under Letter of Credit.
- The buyer in country A (applicant/opener) requests his bank, to open LC in favour of the seller in country B (beneficiary) for the specified amount.
- The buyer's bank, i.e. opening bank, issues the LC and sends the same to the beneficiary in country B, through its own branch or correspondent.
- The advising bank in country B, advises the LC to the beneficiary after authenticating signatures/swift.
- If the seller desires for the LC to be confirmed by some bank, in his own country, normally the advising bank agrees to do so, at the request of the opening bank and as per arrangement and on the behalf of the opening bank. Now the advising bank would also be called the Confirming Bank.

The seller now prepares the goods, and ships them as per instructions in the LC, submits the documents called for in the LC to the negotiating bank, which examines the same and if found to be in conformity with the LC terms, negotiates the documents and pays to the beneficiary. This bank now becomes the **negotiating bank**.

Uniform Customs and Practice For Documentary Credits

Were first framed by the ICC (International Chamber of Commerce) in 1933. Since then these rules have been revised six times, viz., 1951, 1962, 1984, 1994 and 2007. UCP-600, which is effective from 1/7/2007, is the latest revision.

UCP 600 - Important Changes:

UCP 600

- ICC Paris appointed a Task Force, after approval of the Banking Commission in 2003, to undertake revision of the UCP 500. The Task Force after working for over three years prepared a draft of the new UCP. The Drafting group constituted members from 9 countries, which had 15 meetings before the draft was finalized.
- A Consultative group, comprising of 41 members from 26 countries was formed to discuss the Draft. The Draft was also referred to National Committees, including ICC India, and key issues were identified, taking in to account various ICC opinions, DOCDEX decisions, papers, court decisions, etc.
- **DOCDEX** is one of the options available to the parties of the LC to resolve letter of credit disputes. Its full form is "ICC's Documentary Credit Dispute Resolution Expertise". After extensive working, discussions, deliberations on various articles, practices, and need to simplify the Articles, the ICC Banking commission approved the Draft of UCP 600, in its meeting on 25th October 2006, bringing the new UCP in to force w.e.f. 1st July 2007.

Main Features of UCP 600

- The UCP 600 was a major review in the history of Uniform Rules for Documentary Credits. It is leaner, with only 39 Articles, as compared to 49 in the earlier version. While some articles of the earlier version were deleted, some of the articles were merged, and a few new articles added. The major thrust was on a simplified language of articles.

Groupings

The Articles of UCP 600 can be grouped as under:

- **Article 1-5:** Definitions, Interpretations, Independence of LCs and Underlying contracts.
- **Article 6-10:** Availability, Expiry date and place, Obligations of issuing and Confirming bank, Advising credits and Amendments.
- **Article 11-17:** Pre-advised credits, Nominated bank, Reimbursement arrangements, Complying presentations, Original documents, etc.
- **Article 18:** Commercial invoice.
- **Article 19-27:** Transport documents.
- **Article 28:** Insurance documents.
- **Article 29-33.** Extension, Tolerance, Partial and Instalment drawings and Hours of presentation.
- **Article 34-37:** Disclaimers.
- **Article 38-39:** Transferability and Assignment of proceeds.

Liabilities, Responsibilities and Rights of The Parties

The Applicant

- **The applicant of the L/C must give complete and precise instructions for issuance of Letter of Credit and any amendment thereof.** The LC must not include excessive details or give any reference of credit previously issued, to avoid any confusion or **misunderstanding (Article 5).**
- The applicant should indemnify banks against any obligations imposed by **foreign laws (Article 18).**

The issuing Bank

- Issuing bank is the party acting on behalf of the applicant and should, therefore, ensure itself about the creditworthiness of the applicant.
- The issuing bank gives a definite undertaking to make payment in case of sight and accept and pay on maturity in case of acceptance or deferred payment, to authorize bank to negotiate and to reimburse the negotiating bank, provided that the stipulated documents are presented **under the Letter of Credit (Articles 2, 9).**

Advising Bank

- The advising bank has option to choose as to whether it wishes to advise a LC or not. If it agrees to advise the LC, then it must do so by taking reasonable care in checking the authenticity of the credit.
- In case, it decides not to advise a LC, then it must inform the issuing bank immediately. If the advising bank is unable to establish the authenticity of LC then it must immediately inform the issuing bank and must also inform the beneficiary **about the same (Article 9).**

Confirming Bank

- A confirming bank gives a definite undertaking in addition to that of issuing bank, at the request of the issuing bank, to make payment on presentation of documents as per the terms and conditions of the LC, The confirming bank, advising bank and nominated bank can be the same.
- In case, it does not agree to add its confirmation, it must inform the issuing bank without delay. It may also choose to advise amendments without adding its confirmation, however, intimation must be sent to the **issuing bank and the beneficiary (Article 8).**

Negotiating Bank

- It is the responsibility of the negotiating bank or nominated bank to examine the documents as per UCP or International Standard Banking Practice (ISBP), and take a decision to negotiate the documents, only if they appear on their face to be in compliance with **the terms and conditions of the LC (Articles 12, 14).**

Reimbursing Bank

- **Article 13 deals with Bank-to-Bank Reimbursement clause. Reimbursing bank shall be reimbursed by claiming bank**, the amount of claim lodged, subject to the condition that it has received reimbursement authorisation from the issuing bank and has accepted the same. The reimbursements and all the parties concerned are bound by Uniform Rules for Bank-to-Bank Reimbursements (URR-725) as discussed later in this chapter.

Beneficiary

The beneficiary of the LC also has various rights and responsibilities under Letter of Credit transactions. 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)**.

Protection to Banks

- Banks do not assume any responsibility for genuineness of the documents submitted or any discrimination in the contents mentioned in the **documents (Article 34)**.
- Banks are not responsible for any loss arising due to delay in transmission or loss of messages, documents, or telecommunication. No responsibility is taken by the banks for errors in translation/interpretation of technical terms **(Article 35)**.
- Banks also do not take responsibility for any loss arising due to close of their business by the acts of god, commotions, civil riots, floods or any other causes **beyond their control (Article 36)**.

Documents Under LC- Scrutiny, Crystallisation, Follow-up for Bills

Under LC and Safeguards For Banks

Document under LC and Scrutiny of Documents

Bill of Exchange

Bills of exchange, being one of the most important financial documents, is drawn by the beneficiary on the LC issuing bank. It envisages the issuing bank to make the payment immediately, if it is drawn a sight or accept and pay on due date, **if it is drawn on acceptance basis. It should, in normal due course satisfy the following requirements:**

- It should be drawn by the beneficiary on the issuing bank and payable at tenor mentioned in the Letter of Credit
- It should indicate the issuing bank's name and Letter of Credit number along under which it is drawn.
- It should, unless and otherwise specified, be drawn in the currency of Letter of Credit and should not exceed the amount of Letter of Credit.

- Any corrections should be duly authenticated.

Invoice

An invoice is a commercial document and is a basic necessity of trade documents. It is prepared by the beneficiary giving details of goods, quantity and value in unit terms, weight and total value of goods. **Following specific points should be kept in mind, while preparing or examining the invoice:**

- It should be made out by the seller/beneficiary, as stipulated in the Letter of Credit.
- It should, unless and otherwise specified in the Letter of Credit, be made out in the name of the applicant/openers of the LC.
- Description of goods must correspond with the description of goods given in the LC.
- Invoice must indicate the order number/contract number/proforma invoice number and number of LC along with issuing bank's name.
- The invoice value should not, invariably, exceed the LC value.
- Terms of sale contract, such as FOB, C&F, CIF, etc., should be indicated in the invoice. Other particulars like Bill of Lading number, shipping marks, import license number (if any), gross weight, net weight, packing details, etc., should also be mentioned in the invoice.
- If invoice is issued for an amount in excess of the amount permitted by credit (when not specifically prohibited by terms of LC), as per Article 18b of UCPDC, the drawing should not exceed the amount mentioned in the LC.

Bill of Lading

Bill of lading is a transport document evidencing movement of goods from the port of acceptance to port of destination. It is a receipt issued by the ship owner or its authorized agent, stating that the goods indicated therein (quantity, quality, description, etc.) are shipped on specific date and through specific vessel and deliverable to the person mentioned therein as the consignee or to his order, after payment of all dues to the shipping company.

- The bill of lading should be in complete set of negotiable copies, along with a number non-negotiable copies, as stipulated in the Letter of Credit.
- It should bear the signature of the ship owner or its authorised agent.
- The description of goods should correspond with the requirements in terms of Letter of Credit and as mentioned in the invoice.
- Bill of lading should bear the Letter of Credit number along with the name of the issuing bank.
- Payment of freight should be clearly indicated in the Bill of Lading, as per the requirement of the Letter of Credit.

- The Letter of Credit should call for "shipped on board" Bill of Lading, and accordingly, the BL should bear such clause.
- It should be drawn to the order of the shipper, blank endorsed or in favour of the issuing bank, as stipulated in the Letter of Credit.
- The date of shipment should be within the date stipulated in the Letter of Credit
- Partial shipments or trans-shipment, if permitted in the Letter of credit should be clearly indicated in the Bill of Lading.
- The gross weight, net weight should be as indicated in the invoice.
- The BL should not generally be dated prior to the date of issuance of LC, unless specifically provided therein.
- The BL should not be claused, unless specifically permitted under the LC.

Insurance Policy/Certificate

- It must be issued and signed by the insurance company or their agents. (Article 34a)
- It should not be issued by the broker. (Article 34b)
- The date of issuance of insurance must be on or before the date of shipment or it must be endorsed by specific notation that the cover is effective from the date of shipment. (Article 34c)
- The currency of issuance must be same as the currency of LC. [Article 34f(i)]
- Unless otherwise specified, it should be issued for an amount of 110% of CIF/CIP value of goods. (Article 34f(ii))
- The policy should clearly indicate the voyage it is covering, i.e., the port of shipment, port of destination and should also mention the point of termination of insurance coverage.
- Claims should be made payable in the country of applicant.
- All originals (if issued more than one) must accompany the documents.
- The policy must be blank endorsed.
- The description of goods in the insurance policy/certificate should be in conformity with that given in the LC.

Certificate of Origin

- Certificate of origin determines the origin of goods. It must be issued and signed by an independent authority, such as Chamber of Commerce, informing origin of goods, value, invoice number, Bill of Lading number, etc.
- Details appearing in the certificate of origin must be consistent with other documents. It must be ensured that origin of goods is not from any war-fighting country, i.e., consisting of banned hazardous goods

Crystallisation of Foreign Currency Liability

- **The issuing bank on receipt of documents drawn under its Letter of Credit, has an obligation to pay immediately, if the documents are drawn at sight or**

accept and agree to pay on due date, if the documents are drawn on acceptance basis, provided the documents are drawn strictly as per the terms of the LC.

Follow-up of Bills under LC

- **As per the extant guidelines, the foreign currency liability of import bill drawn under LC**, is crystallised into Indian rupees on a stipulated day as per individual Bank's policy after receipt of documents at the counters of the issuing bank, in case of sight bills and on due date, in case of usance bills.
- In case the importer has been sanctioned import loan facility, the rupee liability is debited to the loan account.

Evidence of Import by the Importer

- Authorized dealers, while opening Letter of Credit for their importer clients or effecting payment for imports, shall take an undertaking from the importer that they shall submit exchange control copy of Bill of Entry within the prescribed period.
- The submission of Bill of Entry, duly approved by the customs ascertains that there is actual import of goods in the country.

Safeguards for Banks

- Every bank has its own internal guidelines for sanctioning Letter of Credit facility to their importer client. Since the transaction involves overseas payments and movement of goods. Reserve Bank of India has advised banks to have thorough and clear-cut guidelines while sanctioning such facility.
- The importer clients should be well-versed with, the trade, for which he is importing goods and banks are required to follow due diligence and 'Know Your Customer' guidelines meticulously.

Standby Letter Of Credit (Similar To Guarantees)

International trade has been dominated by LC transactions, whereby the seller is assured of payment by submitting documents in compliance and conformity with the terms and conditions of the letter of credit. Standby Letter of Credit has often been used in situations where there is non-performance' or to put it in a layman's word, almost a substitute of guarantee. The usage of standby LC is mostly witnessed in countries like the USA, where guarantees are not used, and standby LC acts as a substitute for guarantee. This type of Letter of Credit is opened by banks in countries, where there is restriction on issuance of guarantees and therefore standby LCs provide a suitable substitute for performance or financial guarantees. The documents required are bare minimum, like proof of delivery of goods, proof of non-performance or simple claim form. However, until very recently, its usage was very much restricted in India, but, with several measures being adopted to liberalise the trade regulations and simplify procedures for imports, the Reserve Bank of India, has approved to adopt International

Standby Practices (ISP-98), a set of rules, relating to standby LCs, formulated by International Chamber of Commerce in 1998. As such, it is now in order for the authorised dealers to issue stand by LCs, either under ISP-98 or UCPDC-600, as agreed upon mutually by the parties concerned.

Usage of Standby LC by Authorized Dealers

Banks can establish stand-by LC for the following transactions:

As a document of promise in respect of non-performance' situation especially as a substitution to the guarantees which Authorized Dealers are permitted to issue under FEMA, 1999, such as issuing a guarantee in respect of any debt, obligation or other liability incurred by:

- An exporter on account of exports into India.
- Owed to a person resident in India by a person resident outside India for a bona fide trade transaction, duly covered by a counter guarantee of a bank of international repute/resident abroad.
- Exporters may also opt to receive stand by LC in respect of exports from India.

Commercial Standby LC for Import of Goods

Banks have been permitted by Reserve Bank of India, to issue standby LCs towards import of goods into. Since standby LCs covering import of goods are susceptible to certain attendant risks in the absence of evidence of shipment/insurance cover, importers should be advised and explained of the risk factors involved/chances of abuse in acceding to the request for establishment of standby LCs for import of goods into India. **The following safeguards may be taken where standby LCs are issued:**

The facility of issuing commercial standby may be extended on a selective basis and to the following categories of importers only:

- Where such standbys are required by applicants, who are independent power producers/importers of crude oil and petroleum products.
- Special category of importers, viz. Export House/Trading/Star Trading House/Super Star Trading house/100% EOUs.
- Public sector Units/Public Limited Companies with good track record.

Implications of some of the Articles of ISP-98

Before issuing Stand-by LC, the bank as well as the opener/applicant must understand the implications of the clauses of the ISP-98, detailed as under:

- **Article 1.02:** ISP-98 Rule supplements the applicable law to the extent not prohibited by that law. Hence, if there is any provision in the rule which conflict with the Indian law, such provision would not be applicable.
- **Article 1.09:** Business Day - Business day means a day on which the place of business at which the relevant act is to be performed is regularly open; and

Banking Day means a day on which the relevant bank is regularly open at the place at which the relevant act is to be performed.

- **Article 3.13.** Expiration Date on Non-Business Day.
- **Article 3.14:** Closure on a Business Day and authorisation of another reasonable place for presentation
- **Article 5.01:** Timely Notice of Dishonour - The article provides for timely notice of dishonour as per the provisions contained therein.
- **Articles 10.0 and 10.02** relating to syndication/participation under the standby LC may be taken note of by the banks issuing such standbys under syndication/consortium loan arrangements among authorised dealers.

Uniform Rules for Bank-To-Bank Reimbursements (URR-725)

Reimbursement of the value of documents negotiated. The International Chamber of Commerce has Banks, while issuing Letter of Credit, incorporate a clause authorising the negotiating bank to claim brought out the uniform rules for bank-to-bank reimbursement, set out in ICC Publication No. 725. The responsibilities of issuing bank, claiming bank, reimbursing bank and all other related parties, as incorporated in the Letter of Credit, have been specified in said rules.

General Provisions and Definitions

Application of URR

- Following standard clause should be incorporated in the reimbursement authorisation by the issuing bank that it sends to reimbursing bank, to bind all the parties concerned. drawn under Documentary Credits, ICC Publication No. 725. This means that reimbursing bank is bound by all the rules set up in URR, by accepting reimbursement instructions. The claiming bank is, however, not a party to it and the arrangement of reimbursement is solely between the issuing bank and reimbursing bank.

Definitions

- **Issuing bank:** The bank that has issued the letter of credit and provided reimbursement authorisation.
- **Reimbursing bank:** The bank having accepted the reimbursement authorisation instructions from the issuing bank provides reimbursement.
- **Claiming bank:** The bank that pays and incurs a deferred payment undertaking accept draft(s) or negotiates under a credit and presents a reimbursement claim to the reimbursing bank.
- **Reimbursement authorization:** Instructions/authorization, independent of the credit, issued by issuing bank to a reimbursing bank to reimburse the claiming bank.

Reimbursement Authorizations

- The reimbursing bank is no way concerned or bound by any provisions incorporated in the Letter of Credit even if any reference has been made in the reimbursement authorisation of any terms and conditions of the Letter of Credit. The reimbursement authorisation is totally a separate transaction from the credit.

Liabilities and Responsibilities

- The issuing bank is responsible for providing information required to the reimbursing bank under these rules.
- The issuing bank must not request a certificate of compliance to be submitted by the claiming bank these rules to reimbursing bank.
- The reimbursement authority must not have an expiry date.

International Standard Banking Practice - 745 (ISBP 745)

The ISBP (full title: International Standard Banking Practice for the Examination of Documents under Documentary Credits) is an ICC publication which provides important guidance regarding the examination of documents presented against letters of credit. It is important to note that the ISBP cannot in any way change the UCP 600 rules which apply to letters of credit, but it is nonetheless a valuable companion guide to UCP.

ISBP was initially approved by the ICC in 2002 and this version acted as a companion guide to Uniform Customs and Practice (UCP) 500 which were the current rules that governed letters of credit at that time,

When the rules were revised to UCP 600 in July 2007, the ISBP was duly updated by the ICC publication No.681, thus aligning the ISBP with the newly updated UCP.

A fully revised version of ISBP, ICC publication 745 was published in July 2013. This entailed a substantial update to the former version and includes a number of both new and reworded interpretations as well as some significant additions resulting from various official opinions published by the ICC. ISBP has therefore become an absolutely essential publication for anyone who is involved in letters of credit.

The objective of ISBP is given below:

- To encourage a uniformity of practice worldwide to reduce the number of credits rejected by banks owing to discrepancies.
The ISBP provides practices that should be applied by documentary credit practitioners helping to reduce discrepant presentations.

Incoterms

Parties to contract are, often, not aware of different trade practices in their respective countries which can cause misunderstanding resulting in unnecessary disputes. As such ICC published a set of international rules for the interpretation of

trade terms known as “**Incoterms**” The ICC publication on Incoterms has been updated several times, with latest version being Incoterms-2010. The full form of Incoterms “International Commercial Terms”.

Incoterms apply to contract of sale but not contract of carriage. They deal only with the relationship between seller and buyer. These can be broadly classified into four categories. Some of the incoterms are

(a) Departure:

- (i) Ex-works (named place) e.g. Ex-works Jamnagar, or Ex-works Pune.

(b) Main Carriage Paid:

- **CFR:** Cost and Freight (named port of destination) e.g. CFR JNPT, CFR Chennai
- **CIF:** Cost, Insurance and Freight (named port of destination) e.g. CIF JNPT, or CIF Chennai port
- **CPT:** Carriage Paid To (named place of destination) CPT Dubai
- **CIP:** Carriage and Insurance Paid to (named place of destination) CIP Dubai

(c) Main Carriage Unpaid:

- **FCA** Free Carrier (named place) FCA Mumbai
- **FAS:** Free Alongside Ship (named port of shipment) FAS, Mumbai port
- **FOB:** Free On Board (name port of shipment) FOB, Mangalore

(d) Arrival:

- **DAT**-Delivered At Terminal (named terminal at port or place of destination) DATS
- **DAP** - Delivered At Place (named place of destination) DAP Sharjah
- **DDP** Delivered Duty Paid (named place of destination) DDP Sharjah

Case Study

Case 1. Case of Date of documents

Bank A issues LC dated 1.10.2016, in favour of a beneficiary in UK. The last date of shipment as per LC is 15.10.2016 and last date of negotiation 31.10.2016.

The beneficiary presents documents to Bank B, for negotiation on 05.10.2016, with documents evidencing shipment of goods on 30.09.2009, which sends the documents to the opening bank, asking to reimburse as per LC terms.

The opening bank, on receipt of documents notices that, the shipment was made on 30.09.2009 and the invoice was dated 2.09.2016, while the inspection certificate, analysis certificate and packing list were dated 25.09.2016.

The issuing bank on receipt of documents rejected the documents, notifying discrepancy that documents were dated prior to date of credit.

Article 14(i), specifically provides that documents could be dated prior to the date of LC, but should not be dated after the date of presentation.

While, the LC is silent about the date of documents, documents presented need to be dated as per LC terms, if so provided in the LC.

As such, assuming that the LC did not provide for dates of the documents, the rejection by the opening bank is not as per UCPDC. Hence as per Article 14(1), the negotiating bank has acted correctly and there is no discrepancy in the documents presented by the beneficiary/exporter.

Case 2. Notice of Dishonor

The LC issuing bank on receipt of documents on 07.03.2017 (Tuesday) took two days to examine the same and referred the documents to the applicants for their acceptance on 09.03.2017 (Thursday). The applicants came up with a discrepancy in documents, on 14.03.2017 (Tuesday) evening, stating that the documents need to be rejected as the BL was not stamped with "On board" stamp and initialed by the shipping company.

The issuing bank sent a Swift message of rejection to the negotiating bank on 15.03.2017.

On receipt of Swift message from the issuing bank, informing rejection of documents and discrepancy, as informed by the applicant, the negotiating bank referred the matter back to the opening bank stating that the message of refusal and notification of discrepancy was not received within the time period of 5 working days, and as such claimed to be reimbursed as per LC terms.

Article 16d of UCP states that the notice of refusal and discrepancy must be given latest by the closing hours of the 5th working day from the date of presentation. In the instant case, the opening bank was correct in sending the swift message on 15.03.2017, which was 5th working day, subsequent to the date of receipt of documents.

Since, 11th and 12th were Saturday and Sunday and 13.03.2017, being a holiday in India, on account of Holi, the opening bank was right in sending the notice of refusal/discrepancy on 15.03.2017, which was in compliance with the meaning of the said article.

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