

Global Transaction Services

Cash Management Trade Services and Finance Securities Services Fund Services

Assuring Quick Payments under Export Letters of Credit

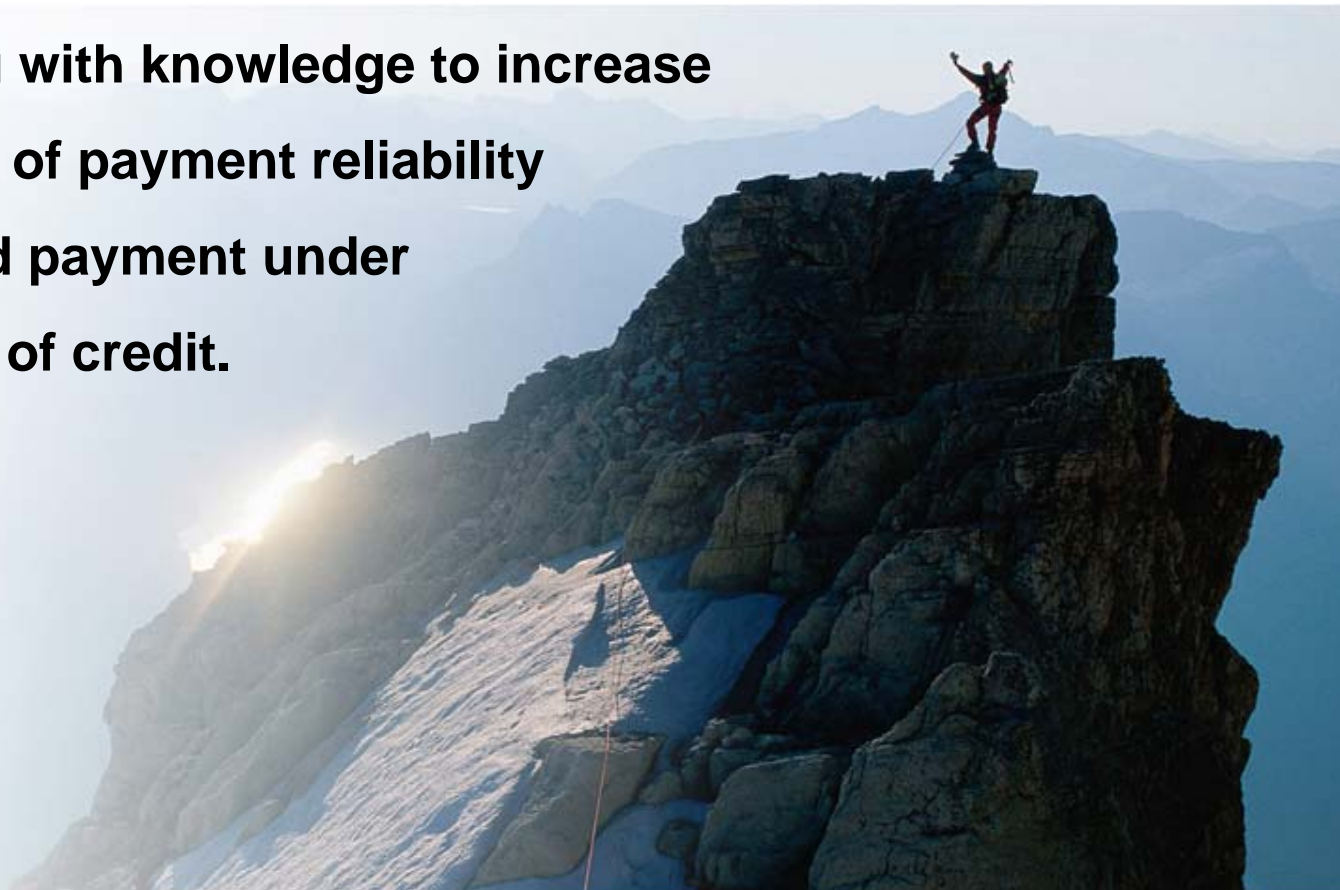
February 28, 2007

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Objective

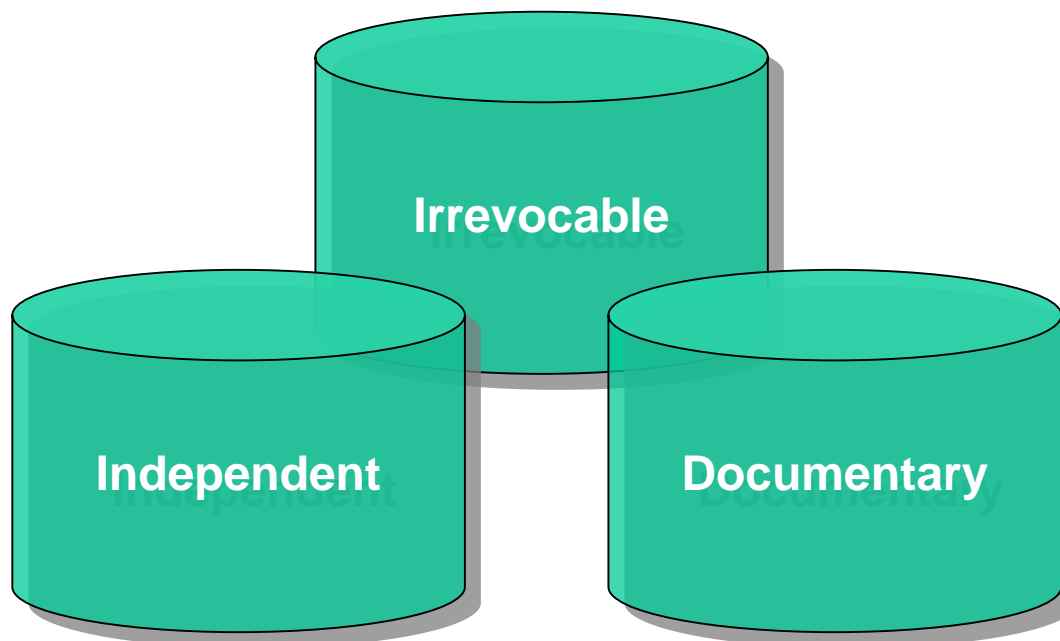
Empower you with knowledge to increase the likelihood of payment reliability and expedited payment under export letters of credit.



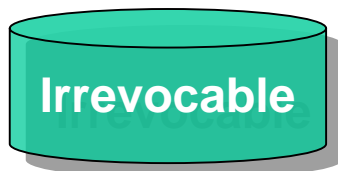
Overview

- **Core Principles of Documentary Credits**
- **Understanding Types of Letters of Credit**
- **Finding the Opportunities**
- **Future developments to improve payment turnaround**

Core Principles of Documentary Letters of Credit



Core Principles of Documentary Letters of Credit



- **Irrevocable**—Cannot be canceled, without Beneficiary's agreement
- **Revocable**—Can be canceled, without Beneficiary's agreement
- **UCP 500 Article 6**
 - If the Letter of Credit does not state, then the Letter of Credit is irrevocable

Core Principles of Documentary Letters of Credit

Independent

- Article 4 - Credits v. Contracts (*UCP 500 - Art. 3*)

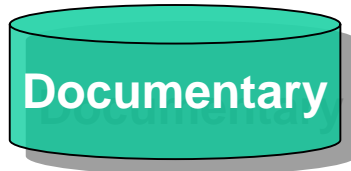
Discourage

Details as per Contract No.123, which is appended and forms an integral part of the credit.

L/C

Contract No.123

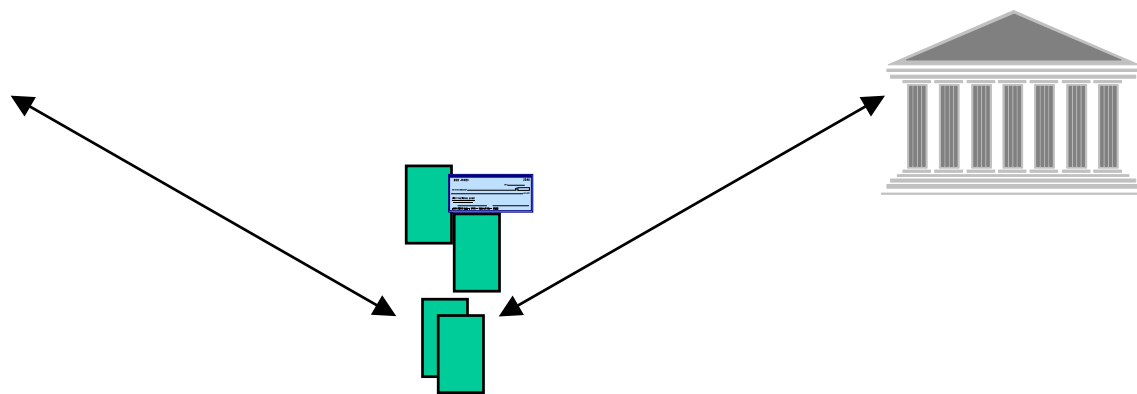
Core Principles of Documentary Letters of Credit



**Payment against
conforming documents**

Exporter

Bank



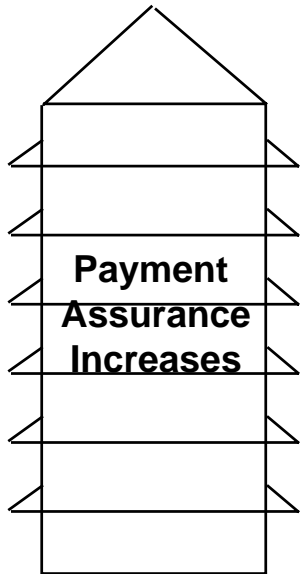
Understand Types of Letters of Credit

What Type of Letter of Credit Will Achieve Your Objective?



Understand types of Letters of Credit

Irrevocable Sight Letters of Credit:



Confirmed Straight Credit

Unconfirmed Correspondent's Straight Credit

Unconfirmed Correspondent's Negotiation Credit

Understand types of Letters of Credit

Confirmed Irrevocable Straight Credit

Issuing Bank's Letter of Credit

“... issued an **Irrevocable** Credit in your favor for the account of APPLICANT for a sum not exceeding U.S. \$100,000.00 available by your drafts at Sight on Citibank N.Y. subject to the following: ...

The Issuing Bank engages with you that each presentation in compliance with the terms of the above-specified documents will be duly honored by it if presented to Citibank, N.A. New York on or before the Expiry Date.”

Citibank, N.A. Confirmation

Citibank, N.A. New York hereby confirms the credit and undertakes to honor each presentation made in compliance with the terms and conditions of the credit ...

Understand types of Letters of Credit

Correspondent's Irrevocable Straight Credit

Issuing Bank's Letter of Credit

“... issued their Irrevocable Credit in your favor for the account of Applicant for a sum not exceeding U.S. \$100,000.00 available by your drafts at Sight on Citibank N.Y. subject to the following: ...”

Citibank, N.A. New York's Advice:

The Issuing Bank engages with you that each presentation in compliance with the terms and conditions of the credit will be duly honored by it if presented to Citibank, N.A. New York on or before the Expiry Date.

This is solely an advice of the issuance of the above Letter of Credit and conveys no engagement by us.

Understand types of Letters of Credit

Correspondent's Irrevocable Negotiation Credit

Issuing Bank's Letter of Credit

“...to advise you they have issued **their Irrevocable** Credit in your favor for the account of FORTUGA ROPA for a sum not exceeding U.S. \$100,000.00 available by negotiation of your drafts at sight on Issuing Bank. subject to the following: ...”

Citibank, N.A. New York's Advice:

The Issuing Bank engages with the drawer, endorsers and bona fide holders that each presentation made in compliance with the terms and conditions of the credit will be duly honored by it if presented to the counters of the Negotiating Bank on or before the Expiry Date.

This is solely an advice of the issuance of the above Letter of Credit and conveys no engagement by Citibank, N.A. New York.

Understand types of Letters of Credit

Roles Banks Play:

■ Issuing Bank

- undertaking to honor provided stipulated documents are presented and all terms and conditions of Credit complied with

■ Confirming Bank

- undertaking, in addition to that of the Issuing Bank, to honor provided stipulated documents are presented and all terms and conditions of Credit are complied with

■ Nominated Bank

- No obligation to honor, unless added confirmation to the Credit

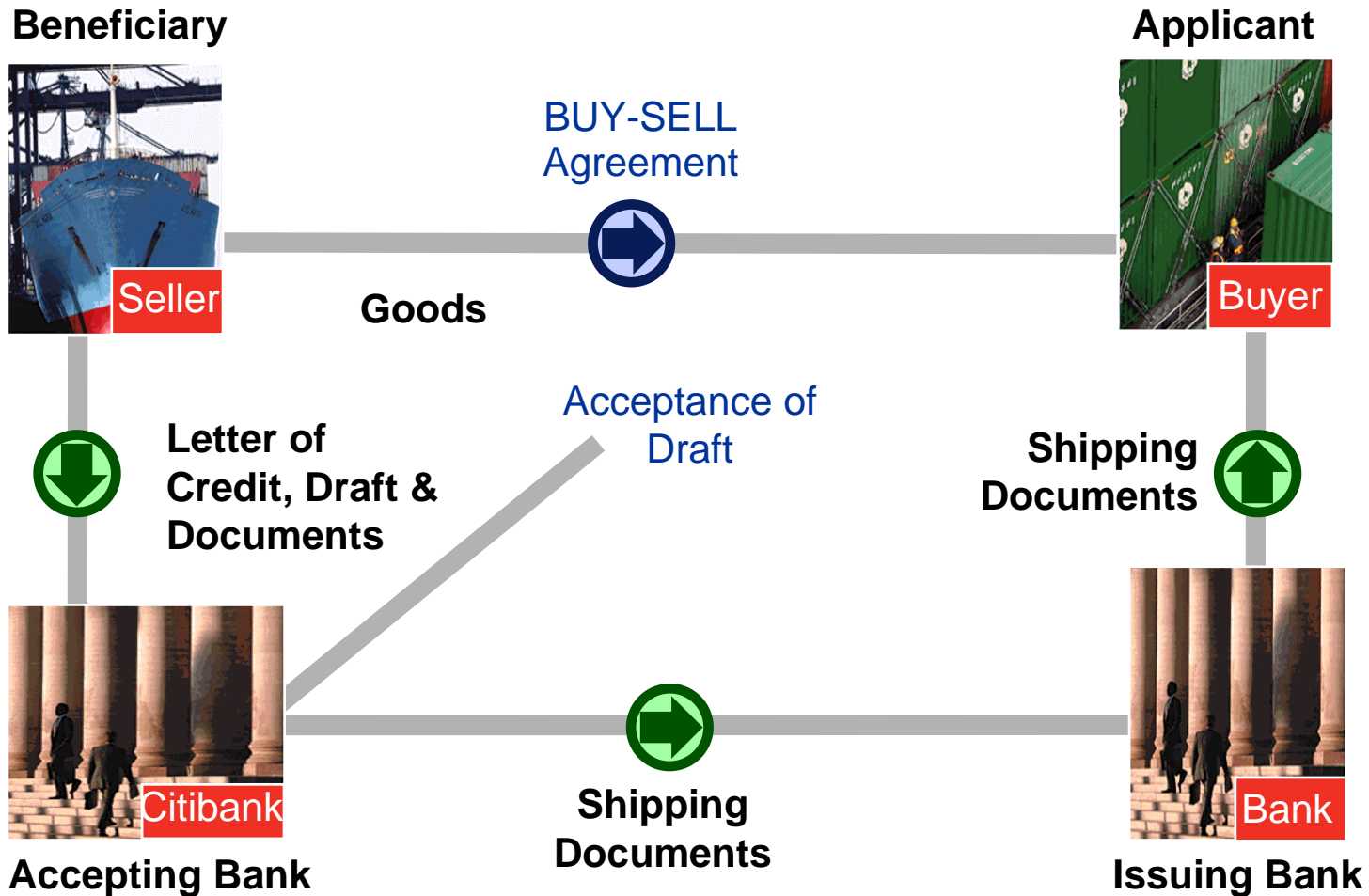
Understand types of Letters of Credit

Sight versus Time Credits

- **Sight—Payment effected against conforming documents**
- **Time—To pay at a future date established against conforming documents**

Understand types of Letters of Credit

Time Letter of Credit: Banker's Acceptance Creation Flow



Understand types of Letters of Credit

Beneficiary



Acceptance

ACCEPTED
February 28, 20—
Citibank, N.A.
— Joseph Smith —
Authorized signature

At 120 Days After Sight
Pay To The
Order Of Ourselves \$ 100,000.00
One Hundred Thousand DOLLARS
For Value Received And Charge To Account Of Citibank Reference No. 10076312
Citibank, N.A.
111 Wall Street
New York, NY 10043
Arthur's
Arthur's Clothes for Export



Discount
with Bank



Finding the Opportunities

Where do you have an Opportunity to expedite your payment?



Opportunity: Negotiating Sales Contract



- **Clear and simple LC terms/conditions**
- **Reduce number of documents required**
- **Avoid non-documentary conditions**
- **Avoid applicant issued and/or signed documents**
- **Be specific in your requirements (e.g. type of credit, currency, documents)**
- **Provide a proforma letter of credit if possible.**
- **If you don't ask for it, you will not get it.**

Opportunity: Upon receipt of LC

Verify:

- **Names and addresses of all parties**
- **Irrevocable LC**
- **LC operative**
- **Subject to UCP**
- **Which bank is giving irrevocable commitment**
- **LC terms comply with terms of commercial contracts if not may request amendment**
- **Shipping schedule realistic**
- **Where, and by when, documents must be presented**
- **Latest shipment date, presentation period and expiry dates are acceptable**
- **Who pays charges**

Make copies and distribute same to other departments involved with the shipment.

Opportunity: Upon receipt of LC

Considerations:

- **What kind of letter of credit have you received?**
- **What are the terms and conditions?**
- **When/where/how do you get paid?**
- **What Rules are applicable?**
- **Who is the Issuing Bank?**

Opportunity: Preparing Documents

Considerations:

- **Prepare your documents in accordance with the Letter of Credit (not the contract)**
- **Examine all Letter of Credit conditions THOROUGHLY – do not assume Advising Bank has performed a thorough job of ensuring LC is workable**
- **Apply UCP 500 and ISBP 645**
- **Data in documents must not conflict with each other**

Opportunity: Preparing Documents

Considerations:

- **Beware of non-documentary conditions in LC**
- **Track quantity of goods shipped**
- **Give the bank what it needs to see (not more and not less)**
- **Have the documents reviewed before presenting to the bank**
- **Prepare an effective Cover Letter with all pertinent information**

Opportunity: Preparing Documents

Beware—Common Discrepancies:

- **Expiry date**
- **Late Shipment**
- **Late Presentation**
- **Amount over drawn**
- **Amount under drawn**

Opportunity: Preparing Documents

Beware—Common Discrepancies:

- **Goods description**
- **Goods shortage**
- **Installment Shipments/Drawings**
- **Partial shipments/drawings**

Opportunity: Presenting Documents

Dates in a Letter of Credit:

- **Latest Shipping Date**
- **Presentation Period**
- **Expiration Date**

Opportunity: Presenting Documents

Expiry Date and Place for Presentation:

- **Documents must be presented on or before expiry date**
- **Place of presentation stated in LC**
- **Presentation in compliance by that date, even if not examined or paid, satisfies expiry**
- **Re-Presentation of documents correcting discrepancies after expiry or last date for presentation is not complying**

Opportunity: Presenting Documents

Presentation Period:

- **Applies to LC with transport document—stipulated in LC or UCP 500 Article 43 applies**
- **If multiple shipments same conveyance / journey / destination use last transport document date**

Opportunity: Presenting Documents

Additional Considerations:

- **Present Original LC and amendments if required**
- **Communicate Clearly Acceptance or Rejection of Amendments**

Opportunity: Communicating with Bank

Cover Letter with pertinent information:

- **Contact name, telephone and fax**
- **Clear/precise instructions**
- **Listing of documents being presented**
- **Payment instructions, e.g. bank information**
- **Other, e.g. instructions to expedite handling if uncorrectable discrepancies**

Opportunity: Communicating with Bank

Reasonable Time—Examination of Documents:

- **Reasonable time not to exceed seven banking days after receipt**
- **Take up documents or Refuse documents**
 - Inform presenting party

Opportunity: Communicating with Bank

Discrepancy Notice

- **To presenting party**
 - Bank presenting documents, or
 - Party presenting on behalf of beneficiary, or
 - Beneficiary

- **Notice to indicate:**
 - Documents “refused”
 - Listing of discrepancies
 - Status of documents
 - Held at disposal
 - Returned to presenter

Future Developments To Improve Payment Turnaround

- **Uniform Customs & Practice for Documentary Credits**
- **International Standard Banking Practices for the Examination of Documents under Documentary Credits**
- **UCP and ISBP to be revised effective July 1, 2007**

ICC Uniform Customs
and Practice for

**Documentary
Credits** 2007 REVISION



ICC
International Chamber of Commerce
The world business organization

Future Developments To Improve Payment Turnaround

ISBP No. 645—General Principles:

- **Abbreviations**
- **Certifications and declarations**
- **Corrections and alterations**
- **Dates**
- **Documents for which the UCP Transport Articles do not apply**
- **Expressions not defined in UCP**
- **Issuer of documents**

Future Developments To Improve Payment Turnaround

ISBP No. 645—General Principles:

- **Mathematical calculations**
- **Misspellings or typing errors**
- **Multiple pages and attachments or riders**
- **Originals and copies**
- **Shipping marks**
- **Signatures**
- **Title of documents and combined documents**

Future Developments To Improve Payment Turnaround

ISBP No. 645—Specific Documents Addressed:

- **Drafts and calculation of maturity Date**
- **Invoices**
- **Ocean/marine bills of lading**
- **Charter party bills of lading**
- **Multimodal transport documents**
- **Air transport documents**
- **Road, rail or inland waterway transport documents**
- **Insurance documents**
- **Certificates of origin**

Future Developments To Improve Payment Turnaround

Impact of ISBP:

- **Reduce disputes**
- **Reduce discrepancies**
- ➔ **Speed payments to beneficiary**

Any Questions?

Our **Technical Trade Specialists** are happy to answer your technical LC questions. Please mention that you attended our Assuring Expedite Payments under Export LC's Webinar!

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Our **Trade Bankers** are available to provide additional information about our trade services, our trade finance capabilities, and our global network. Please contact:

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