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School of Business for Global Commerce & Logistics

SHORT COURSES

INTRODUCTION TO
LETTERS OF CREDIT

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Understanding the **basics** of “Letters of Credit”

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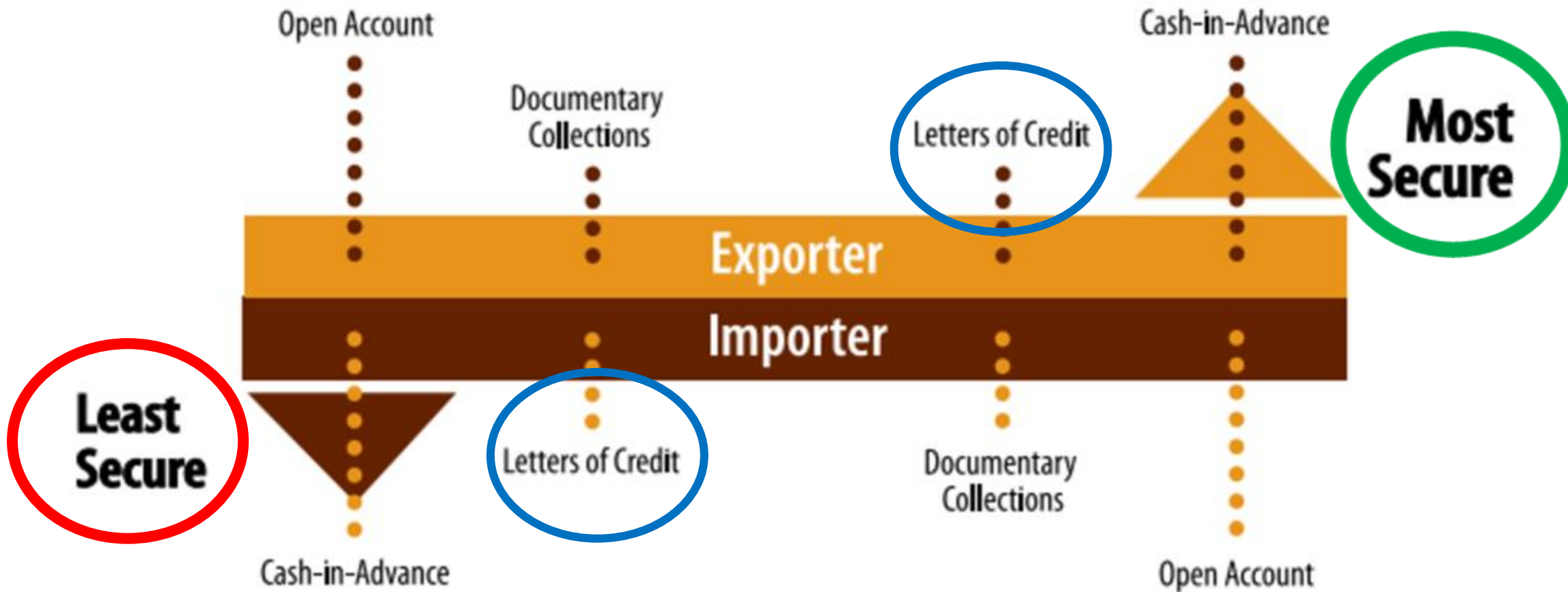
We will discuss

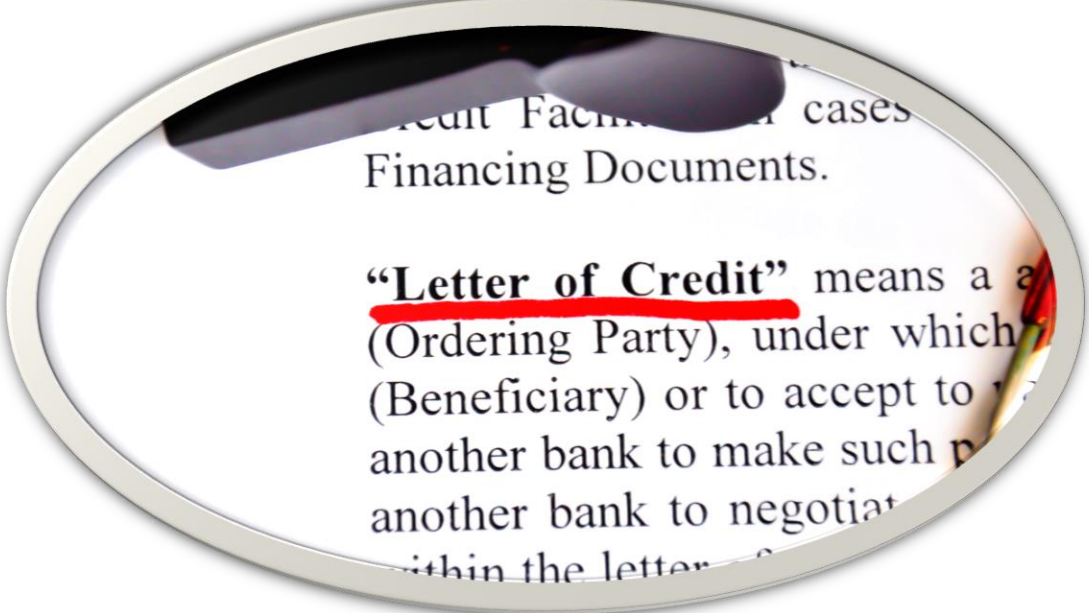


- What is a Letter of Credit?
- Why is Letter of Credit important?
- Features / Characteristics of letter of credit
- Documents required for a Letter of Credit
- How does Letter of Credit Work?
- Letter of Credit - Process
- Letter of Credit with Example
- Letter of credit Sample Format
- Types of Letter of Credit/ checking
- Bank guarantee vs letter of credit

Sri Lanka :on the fertilizer shipment and payment

Safety of payments





Credit Facility cases
Financing Documents.

“Letter of Credit” means a
(Ordering Party), under which
(Beneficiary) or to accept to
another bank to make such p
another bank to negotiat
within the letter

If the buyer cannot pay, then the issuing bank will be required to **cover the full or remaining amount of the purchase.**

So, you could summarize the letter of credit definition by saying that it's a bit like **having a co-signer on a loan.**

A letter of credit is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the normal sense, LC is an authorization letter (recommending bank) to pay a specified person upon the completion of conditions stated in letter of credit. Due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade.



Why do you
need a letter
of credit

Letter of Credit Rules

- ICC, International Chamber of Commerce, publishes letter of credit rules.
- Letter of credit rules are called UCP, Uniform Customs and Practice for Documentary Credits.
- Letter of credit rules are regularly updated by ICC.
- Latest set of letter of credit rules is called UCP 600.

UCP 600



Uniform Customs and Practice for Documentary Credits

The Uniform Customs and Practice for Documentary Credits (“UCP”) 600 are international rules published by the International Chamber of Commerce (ICC) with the aim of **standardizing** international banking practice in relation to LCs.

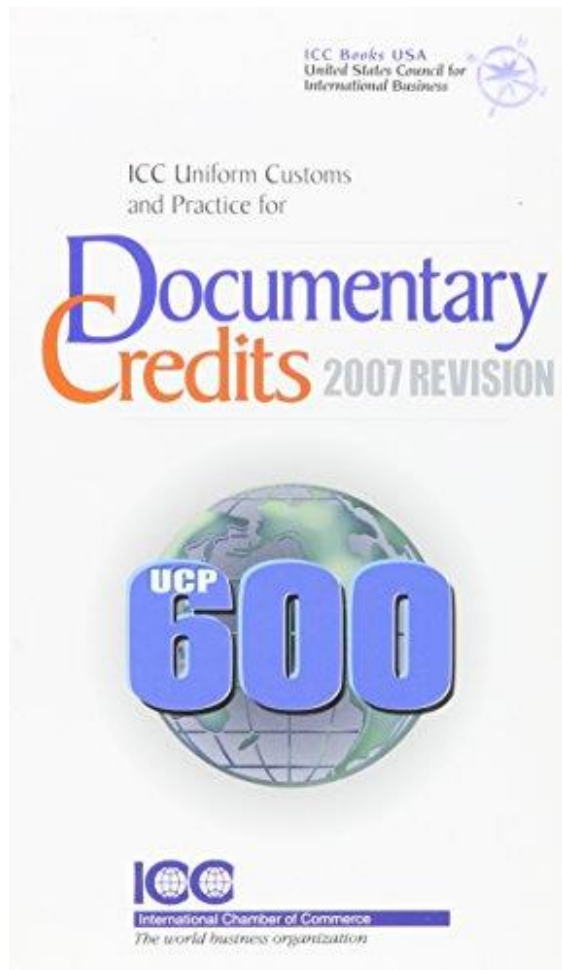
It’s a set of rules on the issuance and use of letters of credit. The UCP is utilized by bankers and commercial parties in more than 175 countries in trade finance

Why is UCP 600 important?

UCP 600 contains important new provisions in the fields of **transport, insurance and compliance**, which will form the basis of letter of credit transactions for years to come.

What is UCP in banking?

Historically, the commercial parties, particularly banks, have developed the techniques and methods for handling letters of credit in international trade finance.



Summery of USP 600

- Here are a few of the key elements which make up the UCP 600:
- Definition of key terms which are prevalent in international trade (e.g. honouring [of payments], applicants, banking days, presentation)
- How international trade documents (Letters of Credit) can be signed and acknowledged by all parties
- The difference between documents, goods and services (and which parties deal with these)
- Which parts of a Letter of Credit are negotiable and non-negotiable
- How credit works, and how payment is made
- How banks can communicate the confirmation of goods (tele transmission)
- Transportation of the goods, modes of transport, and who bears responsibility
- How to deal with discrepancies, waivers and giving notice
- The provision of original documents or electronic copies
- Bills of Lading
- Insurance and covering the cost of goods
- Loss of shipping documents in transit

Letter of Credit Definition

- *UCP 600 defines letter of credit as follows*

*“Credit means any arrangement, **however named or described**, that is **irrevocable** and thereby constitutes a definite undertaking of the issuing bank to honour a **complying presentation.**”*

An LC is a contract by which a bank agrees to pay the beneficiary upon the happening of a specific event or, in connection with the export of specific goods, against the presentation of specified documents.

Who uses LC's?

- Governments
- Private sector exporters and importers
- Traders or Service providers

- Who issues LC's?
- A letter of credit is essentially a financial contract between a bank, a bank's customer and a beneficiary. Generally issued by **an importer's bank**, the letter of credit guarantees the beneficiary will be paid once the conditions of the letter of credit have been met.

Other Names of Letter of Credit

Common definitions used to identify letter of credit term with the same meaning.

- Documentary Credit
- Documentary Letter of Credit
- Documentary Commercial Letter of Credit
- Credit
- Commercial Letter of Credit
- Standby Letter of Credit

Basics you must remember on a Letter of Credit?

A letter of credit or LC is a written document issued by the importer's bank (opening bank) on importer's behalf.

Through its issuance, the exporter is assured that the issuing bank will make a payment to the exporter for the international trade conducted between both the parties.

The importer is the applicant of the LC, while the exporter is the beneficiary.

In an LC, the issuing bank promises to pay the mentioned amount as per the agreed timeline and against specified documents.

A guiding principle of an LC is that the issuing bank will make the payment based solely on the documents presented,

Bank is not required to physically ensure the shipping of the goods. If the documents presented are in accord with the terms and conditions of the LC, the bank has no reason to deny the payment.

Features / Characteristics of letter of credit

- **Negotiability**
 - A letter of credit is a transactional deal, under which the terms can be modified/changed at the parties' assent. In order to be negotiable, a letter of credit should include an unconditional promise of payment upon demand or at a particular point in time.
- **Revocability**
 - A letter of credit can be revocable or irrevocable. Since a revocable letter of credit cannot be confirmed, the duty to pay can be revoked at any point of time. In an [irrevocable letter of credit](#), all the parties hold power, it cannot be changed/modified without the agreed consent of all the people.
 - Under the latest UCP 600 (Uniform Customs & Practice for Documentary Credits) rule, all Letters of Credit are irrevocable. These letters are further classified into Unconfirmed and Confirmed Irrevocable Letters of Credit.
- **Transfer and Assignment**
 - A letter of credit can be transferred, also the beneficiary has the right to transfer/assign the LC. The LC will remain effective no matter how many times the beneficiary assigns/transfers the LC.

Things to consider before getting an LC

A key point that exporters need to remind themselves of is the need to submit documents in strict compliance with the terms and conditions of the LC. Any sort of non-adherence with the LC can lead to non-payment or delay and disputes in payment.

The issuing bank should be a bank of robust reputation and have the strength and stability to honor the LC when required.

Another point that must be clarified before availing of an LC is to settle the responsibility of cost-bearing. Allotting costs to the exporter will escalate the cost of recovery. The cost of an LC is often more than that of other modes of export payment. So, apart from the allotment of costs, the cost-benefit of an LC compared to other options must also be considered.



Parties in a Letter of Credit

- Main parties involved in a letter of credit transaction are indicated below;
 - Issuing Bank
 - Beneficiary
 - Applicant
 - Advising Bank
 - Nominated Bank
 - Confirming Bank
 - Reimbursing Bank

LC Issuing Bank

- Issuing Bank is the **bank who opens letter of credit**. Letter of credit is created by issuing bank who takes responsibility to pay amount on receipt of documents from supplier of goods (beneficiary under LC).

- The Beneficiary is **the person or company who will be paid under the letter of credit**; this will normally be the seller (UCP600 Art. 2 defines the beneficiary as "the party in whose favour a credit is issued"). The Issuing Bank is the bank that issues the credit, usually following a request from an Applicant.

The applicant

- **The importer is** the applicant of the LC, while the exporter is the beneficiary. In an LC, the issuing bank promises to pay the mentioned amount as per the agreed timeline and against specified documents

Advising bank

- An 'advising bank (also known as a notifying bank) advises a **beneficiary (exporter) that a letter of credit (L/C) opened by an issuing bank for an applicant (importer) is available**. An advising bank's responsibility is to authenticate the letter of credit issued by the issuer to avoid fraud.

Confirming bank

- Confirming bank is one of the parties involved in Letter of Credit. Confirming bank as a party of letter of credit confirms and **guarantees to undertake the responsibility of payment or negotiation acceptance under** the credit. The bank adds its confirmation to a credit upon the issuing bank's authorization or request

Nominated bank

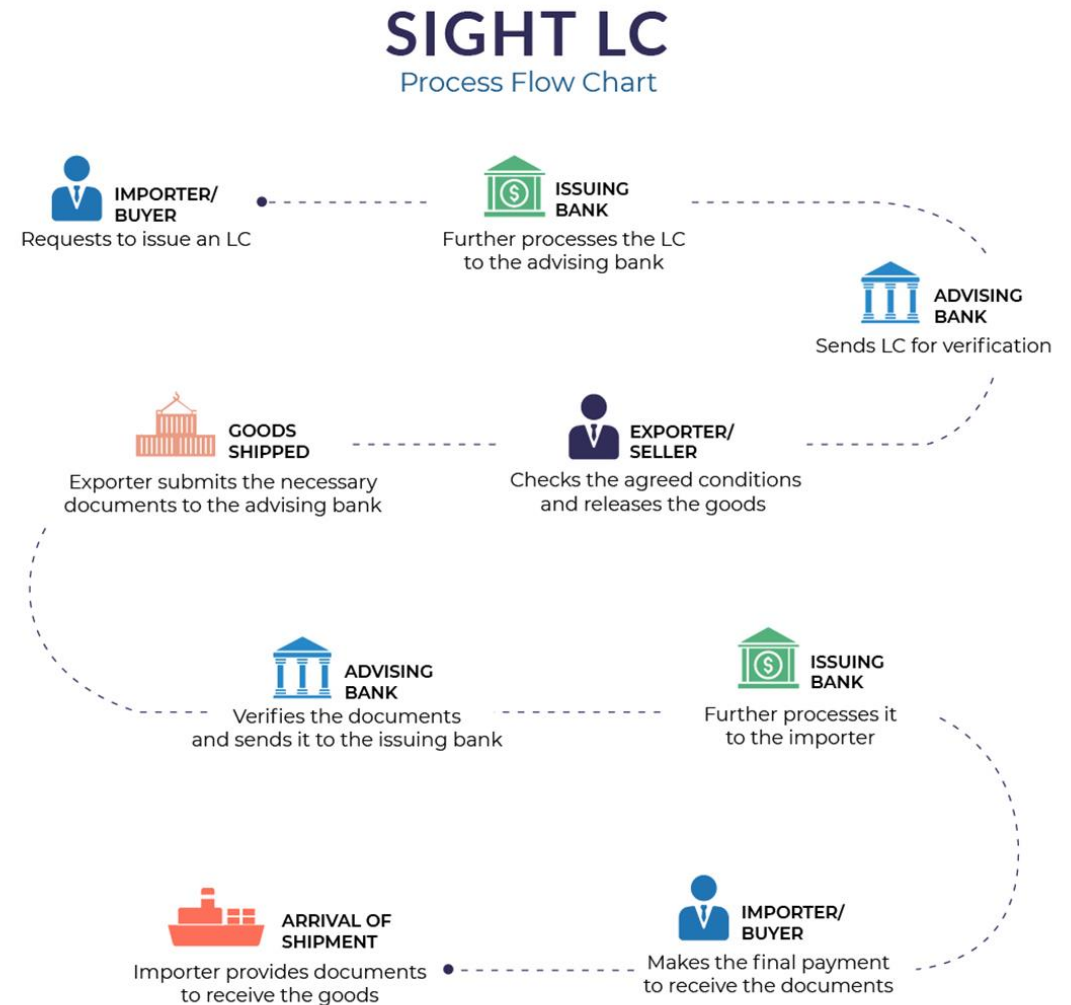
- The Nominated Bank is a **bank mentioned within the letter of credit at which the credit is available**. In this respect, UCP 600 Article 2 reads: “Nominated bank means the bank with which the credit is available or any bank in the case of a credit available with any bank
- What is the role of nominated bank?
- The term nominated bank refers to **the financial institution that receives payment on behalf of a beneficiary to a letter of credit**. Nominated banks are typically used to facilitate the receipt of payment when goods or services are provided to the importer.

Reimbursing bank

- In letter of credit arrangements, the reimbursing bank is the bank that serves as a source of funds payment to the beneficiary. Upon presentation of credit conforming documents nominated bank would need to pay the beneficiary and claim reimbursement from reimbursing bank or issuing bank.

Sight-LC- seeing

- An LC at sight is a **letter of credit** (LC) that is payable immediately (within five to ten days) after the seller meets the requirements of the letter of credit. This type of LC is the quickest form of payment for sellers, who are often exporting to overseas buyers



Time Drafts -also known as Usance LC

What is the meaning of Usance LC ?

A Usance or a Deferred Letter of Credit; means that even after the buyer has received the goods or services the buyer gets a grace period to do the payment to the financial institution or the bank i.e. 30, 60, 90 or more days as per agreed during the process.

A time draft is a form of payment that is guaranteed by an issuing bank but is not payable in full until a specified amount of time after it is received and accepted. ... A time draft allows the importer (or buyer) time to pay for the goods received from the exporter (or seller).

A Typical Time Draft

Payee

Whiteacre, Minnesota	
<u>January 16 20⁰¹</u>	<u>\$1,000.00</u>
<u>Ninety days after above date</u>	
PAY TO THE ORDER OF	
<u>THE FIRST NATIONAL BANK OF WHITEACRE, MINNESOTA</u>	
<u>One thousand and no/100</u> _____ DOLLARS	
VALUE RECEIVED AND CHARGE THE SAME TO ACCOUNT OF	
<u>Eastman Supply Company</u>	
To <u>Bank of Ourtown</u>	By <u>Stephen L. Eastman, Pres.</u>
<u>Ourtown, Michigan</u>	<u>Stephen L. Eastman</u>

Drawee

Drawer

Chapter 19

Documents required for a Letter of Credit

Documents Required Under a Letter of Credit

- Draft
- Commercial Invoice
- Consular or Customs Invoice
- Bill of Lading
- Air Waybill
- Packing List
- Certificate of Origin
- Inspection Certificate



How can I prepare for LC?

How to get an Irrevocable Letter of Credit?

Step 1

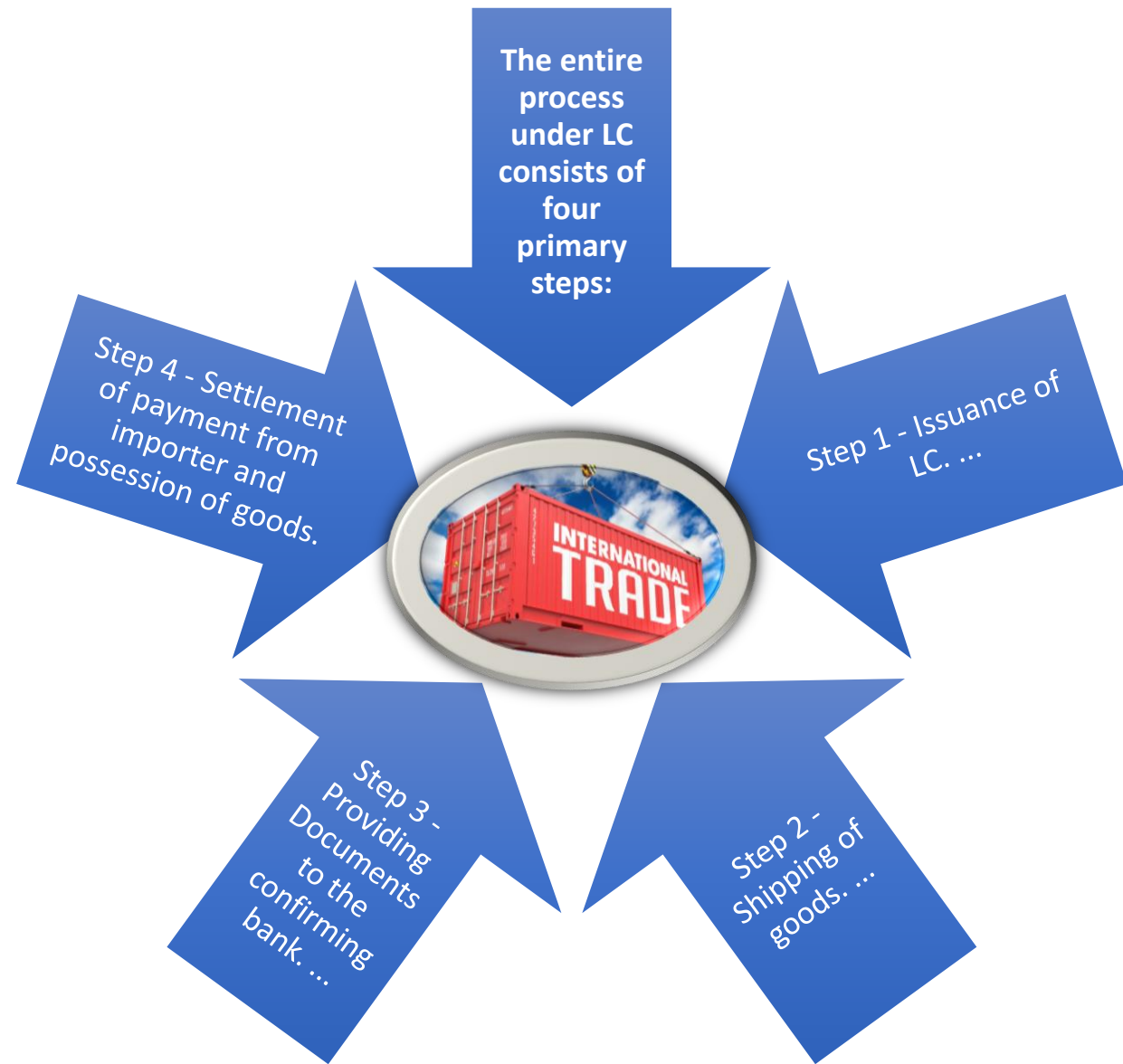
To obtain an ILOC, you need to reach out to your bank who will provide you with a representative. This representative has prior experience in international trade or hails from such a similar background and will work with you to fulfill your requirements.

Step 2

Don't try to draft an LC on your own or attempt to copy someone else's. This may lead to a greater legal and financial complication in the future even in case of a minor error. You may also not be able to claim your goods for which you have paid a fortune.

Step 3

Writing your ILOC may seem right in the short run to save money. However, it can quickly escalate into an expensive affair and damage your business. Hence, it is advised to take help from your bank.



Letter of Credit - Process

- The entire process under LC consists of four primary steps:
- **Step 1 - Issuance of LC**
- After the parties to the trade agree on the contract and the use of LC, the importer applies to the issuing bank to issue an LC in favor of the exporter. The LC is sent by the issuing bank to the advising bank. The latter is generally based in the exporter's country and may even be the exporter's bank. The advising bank (confirming bank) verifies the authenticity of the LC and forwards it to the exporter.

Letter of Credit - Process

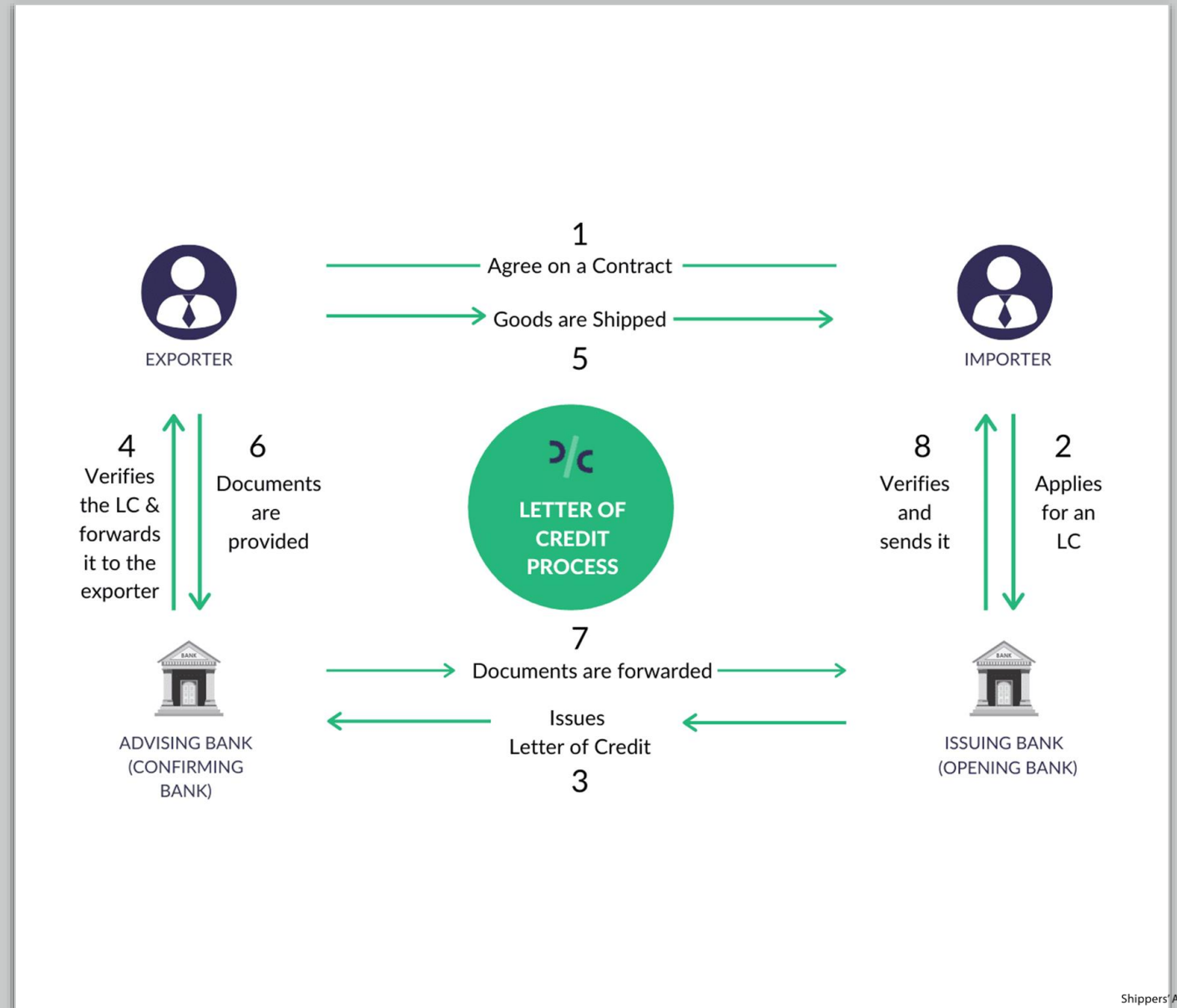
- **Step 2 - Shipping of goods**
- After receipt of the LC, the exporter is expected to verify the same to their satisfaction and initiate the goods shipping process.
- **Step 3 - Providing Documents to the confirming bank**
- After the goods are shipped, the exporter (either on their own or through the [freight forwarder](#)) presents the documents to the advising/confirming bank.

Letter of Credit - Process

- **Step 4 - Settlement of payment from importer and possession of goods**
- The bank, in turn, sends them to the issuing bank and the amount is paid, accepted, or negotiated, as the case may be. The issuing bank verifies the documents and obtains payment from the importer. It sends the documents to the importer, who uses them to get possession of the shipped goods.



- Suppose Mr A (an Indian Exporter) has a contract with Mr B (an importer from the US) for sending a shipment of goods. Both parties being unknown to each other decide to go for an LC arrangement.
- The letter of credit assures Mr A that he will receive the payment from the buyer and Mr B that he will have a systematic and documented process along with the evidence of goods having been shipped.
- From this point on, this is how a letter of credit transaction would unveil between Mr A & Mr B:-
- Mr B (buyer) goes to his bank that is the issuing bank (also called an opening bank) and issues a Letter of Credit.
- The issuing bank further processes the LC to the advising bank (Mr A's bank).
- The advising bank checks the authenticity of the LC and sends it to Mr A.
- Now that Mr A has received the confirmation he will ship the goods and while doing so he will receive a Bill of Lading along with other necessary documents.
- Further, he will send these documents to the negotiating bank.
- The negotiating bank will make sure that all necessary requirements are fulfilled and accordingly make the payment to Mr A (the seller).
- Additionally, the negotiating bank will send all the necessary documents to the issuing bank.
- Which again the issuing bank will send to Mr B (Buyer) to confirm the authenticity.
- Once Mr B has confirmed he will make the payment to the issuing bank.
- And the issuing bank will pass on the funds to the negotiating bank.



Applicant duty to give letter of instructions

LC Payment Terms and Conditions

1. Exporter and issuing bank should confirm the LC
2. Clear mention of the due date by exporter for such receipt
3. Clear specification of risk associated with the LC
4. It should be precise and clear
5. All relevant information should be drafted properly

This format is for use in designing a Letter of Credit Instructions form appropriate for your own company.

LETTER OF CREDIT INSTRUCTIONS

Date: _____

To: _____

From	_____
Address	_____
City & State	_____
Country	_____ Zip Code _____
Attn	_____
Telephone	_____
Fax	_____

RE: Our Pro-Forma Invoice# _____ Dated _____
 Your Purchase Order# _____ Dated _____
 Commercial Contract# _____ Dated _____

Gentlemen:

In connection with your above-referenced purchase, the following terms and conditions are for inclusion in your irrevocable letter of credit. We are providing you with these details as a confirmation of our understanding of the terms of sale covering this transaction. If these details do not agree with your understanding or if you are unable to comply with these terms and conditions, please notify us prior to the issuance of your letter of credit to avoid unnecessary delays and costs. Thank you for your patronage and cooperation.

1. The letter of credit must be issued no later than _____ by a bank acceptable to us.
2. The letter of credit must be irrevocable and be subject to the 2007 Revision of the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce (UCP600).
3. The letter of credit must state that it is available with any bank by negotiation.
4. The letter of credit must be opened with full details by SWIFT

In favor of: _____ [indicate the company name and address you will use in your invoices; if this is not the address you want your L/Cs mailed to, give separate instructions for where this L/C is to be sent]
Attn: _____
Telephone: _____

We will not initiate shipment until the actual letter of credit is received but it may expedite processing if you will fax a copy of the letter of credit to [name] at [e-mail address]. This must be a copy of your bank's actual SWIFT message sent to the advising bank. A copy of your letter of credit application is not sufficient.

5. The letter of credit must be payable in U.S. dollars for
 up to an amount of _____
 an approximate amount of _____

Types of Letter of Credit

- Following are the most used or known types of letter of credit:-
- Revocable Letter of Credit
- [Irrevocable Letter of Credit](#)
- Confirmed Letter of Credit
- Unconfirmed Letter of Credit
- [LC at Sight](#)
- Usance LC or Deferred Payment LC
- [Back to Back LC](#)
- Transferable Letter of Credit
- Un-transferable Letter of Credit
- [Standby Letter of Credit](#)
- Freely Negotiable Letter of Credit
- Revolving Letter of Credit
- Red Clause LC
- Green Clause LC

Types of LC

1 REVOCABLE LETTER OF CREDIT

Revocable LC can be modified or revoked independently by the issuing bank or the buyer without any notice.

2 IRREVOCABLE LETTER OF CREDIT

Irrevocable LC cannot be revoked or modified without the consent of the issuing bank, the beneficiary, and the confirming bank.

3 CONFIRMED LETTER OF CREDIT

Confirmed LC is an arrangement where another bank or financial institution adds its guarantee to the LC.

4 UNCONFIRMED LETTER OF CREDIT

Here, there is no added guarantee from another bank or financial institution.

5 LC AT SIGHT

Sight Credit LC requires the advising bank or seller's bank to make the payment at sight, on-demand, or upon presentation of documents.

6 USANCE LC OR DEFERRED PAYMENT LC

Usance LC or Deferred Payment LC is where the draft is drawn on the issuing or corresponding bank at the end of the agreed usance period.

7 BACK TO BACK LC

Back-to-back Letter of Credit is where a second LC is opened with another LC as security.



Types of LC

8 TRANSFERABLE LETTER OF CREDIT

Transferable LC is used when there is a middleman involved or where a company sells the product of another company/producer.

9 UN-TRANSFERABLE LETTER OF CREDIT

An un-transferable letter of credit cannot be transferred to another beneficiary.

10 STANDBY LETTER OF CREDIT

The seller can obtain payment from the bank even in the case of the buyer's failure to perform as per the agreement.

11 FREELY NEGOTIABLE LETTER OF CREDIT

Freely Negotiable LC allows any bank to become a nominated bank as long as it is willing to pay, accept, incur deferred payment undertaking, or negotiate the LC.

12 REVOLVING LETTER OF CREDIT

Revolving LC is one where the amount mentioned gets reinstated after payment, reducing the need to create a new LC.

13 RED CLAUSE LC

In a Red Clause LC the seller or beneficiary is partly paid or is paid an advance before the goods are shipped.

In red clause LC, the percentage of advance would be 20% to 25% of the face value of LC, where green clause LC percentage would be up to 75% to 90% of the face value of LC.

14 GREEN CLAUSE LC

Green Clause LC is another type of Red Clause LC with some additional features.

Letter of Credit Control Process for Exporters

Letter of credit control process for exporters can be grouped under 3 main categories.

- Preliminary Investigation Stage: You should check your customer's background and credibility at this stage.
- Sales Contract Stage: You should draft and sign a sales contract at this stage.
- Letter of Credit Control Stage: You should control the letter of credit draft at this stage.

Stage 1: Preliminary Investigation Stage:



Learn Who Your Customer Really Is: Nothing can protect you against an ill will customer.

As a result, you need to make sure that your customer is a valid company with a proven track of business and has a financial credibility to complete the transactions.

How to investigate your customer?

In order to understand that you are dealing with a genuine customer, who has a financial strength to start and complete the transaction, you should follow below steps:

- Check your customer's country risk:** Customer's country risk is one of the key elements that you should check before entering any contractual relationship with your customer. Be aware of political risks, economic risks as well as risks associated with sanctions, embargoes and anti money laundering regulations.

Check your customer's references: Check your customer references by asking the potential customer to the other companies that you have been working with, freight forwarders, custom brokers and governmental organizations such as Commercial Counselors.

Buying a credit report: You can buy credit reports from "International Business Intelligence" companies.

Stage 2 : Sales Contract Stage:

After you investigate your customer, you can proceed to the sales contract drafting stage. Letter of credit is not a sales contract. As a result, you must have a sale contract regardless of the payment method you will be choosing.

Stage 3: Draft LC:

After checking your customer's credibility and signing a sale contract, now you can proceed to the letter of credit control phase.

Experienced exporters demand a "draft letter of credit" from the importers in order to make the revisions without paying extra costs for the amendments.

A draft letter of credit is prepared by the issuing bank in swift format contains all the aspects of the actual letter of credit with couple of exceptions.

It is not an operative instrument because the issuing bank intentionally indicates so.

Additionally, the draft letter of credit does not secure the issuance of an actual letter of credit

A check list

Step 1 – Checking Irrevocable Structure of the Letter of Credit: Irrevocable means that the issuing bank cannot amend or cancel the letter of credit without the written consent of the beneficiary. Ac per UCP 600 all letters of credit are irrevocable unless otherwise explicitly stated in the credit.

Step 2 – Verifying the Date of Issue, Latest Date of Shipment and Date of Expiry: Each letter of credit should contain a date of issue, latest date of shipment and date of expiry.

Step 3 – Verifying the Issuing Bank: According to the letter of credit rules non-bank organizations could issue letters of credit, which leaves exporters vulnerable to fraud risk originated from the non-bank letter of credit issuers.

Step 4 – Checking the Beneficiary's and Applicant's Name and Address: Issuing banks usually indicate beneficiary's name and address with errors.

A check list

Step 5 – Checking the Letter of Credit

Currency and Amount: The letter of credit amount and currency must match the amount and currency stated in the [sales contract](#). Be aware of close currency symbols such as USD, AUD, CAD are being shown by the same USD (\$) symbol.

Step 6 – Checking the Description of

Goods/Services: Description of goods and services is very important article especially when completing the commercial invoice.

Step 7 – Checking the Documents Requested

by the Letter of Credit: Documentation is the core of the letters of credit. Banks decide to pay or reject the presentation by checking the documents only.

Step 8 – Checking the Payment

Terms: Payment terms in a letter of credit transaction define how sooner the beneficiary can reach to the payment. It is also known as “Tenor”.

A check list

Step 9 – Checking the Incoterms: Trade terms have been grouped into two main categories under the Incoterms 2010 rules: Incoterms that can be used only by sea transportation (FAS, FOB, CFR and CIF) and Incoterms that can be used with all modes of transport (EXW, FCA, CPT, CIP, DAT, DAP and DDP).

Step 10 – Checking the Port of Loading / Port of Discharge: Port of loading and port of discharge are the two main elements of a marine bill of lading.

Step 11 – Checking the Letter of Credit Fees: Letter of credit is not a cheap payment option.

Step 12 – Checking the Presentation Period: Current letter of credit rules gives 21 days to the exporters to make their presentations to the nominated banks.

A check list

Step 13 – Checking the Partial Shipments: The letter of credit rules allow partial shipments.

Step 14 – Checking the Transshipment: The letter of credit rules allow transshipments.

Step 15 – Checking the Reimbursement Instructions: Reimbursement instructions are very important to the exporter, as they determine how and when payment will be received.

Step 16 – Non-Documentary Conditions: A non-documentary condition can be defined as any instruction or condition that is not clearly attributable to a document to be stipulated in a documentary credit.

A check list

Step 17 – Jocker Clause: A credit should not require presentation of documents that are to be issued, signed or countersigned by the applicant.

Step 19 – Checking the Reimbursement

Bank: The reimbursing bank Reimbursing Bank” of S.W.I.F.T. 700 message.

Step 18 – Checking the

Confirmation: Confirmation means a definite undertaking of the confirming bank, in addition to that of the issuing bank, to honour or negotiate a complying presentation

Step 20 – Conclusion: Do not assume anything when working with a letter of credit

FAQs on Letter of Credit

1. Is Letter of Credit safe?

Yes. Letter of Credit is a safe mode of payment widely used for international trade transactions.

2. How much does it cost for a letter of credit?

Letters of credit normally cost 1% of the amount covered in the contract. But the cost may vary from 0.25% to 2% depending on various other factors.

3. Can a letter of credit be cancelled?

In most cases letters of credit are irrevocable and cannot be cancelled without the agreed consent of all parties.

4. Can a letter of credit be discounted?

A letter of credit can be discounted. While getting an LC discounted the supplier or holder of LC should verify whether the issuing bank is on the approved list of banks, with the discounting bank. Once the LC is approved, the discounting bank releases the funds after charging a certain amount as premium.

5. Is a letter of credit a not negotiable instrument? & What is discrepancy in letter of credit?

A letter of credit is said to be a negotiable instrument, as the bank has dealings with the documents and not the goods the transaction can be transferred with the assent of the parties.

When documents presented do not conform to the requirements of the letter of credit (L/C), it is referred to as a "discrepancy." Banks will not process L/C's which have discrepancies. They will refer the situation back to the buyer and/or seller and await further instructions.

FAQs on Letter of Credit

6. Are letters of credit contingent liability?

It would totally depend on future circumstances. For instance, if a buyer is not in a condition to make the payment to the bank, then the bank has to bear the cost and make the arrangement on behalf of the buyer.

7. A letter of credit is with recourse or without recourse?

A 'without recourse' letter of credit to the beneficiary is a confirmed LC. Whereas an unconfirmed or negotiable letter of credit is 'with recourse' to the beneficiary

8. Can advising bank refuse to advise LC?

If a bank is requested to advise a credit or amendment but cannot satisfy itself as to the apparent authenticity of the credit, the amendment or the advice, **it must so inform**, without delay, the bank from which the instructions appear to have been received

9. On what basis LC is issued?

A Letter of Credit (LC) is issued **at your request to assure payment to your supplier up to a stated amount**, within a prescribed time.

10. Can an LC have 2 beneficiaries?

When a letter of credit is transferable, the original or first beneficiary is allowed to transfer all or a part of the value of the letter of credit to a third party, otherwise known as the second beneficiary. For an LC to be transferable, the **LC must specifically state it to be transferable**. A transferred LC cannot be transferred at the request of a second beneficiary to any subsequent beneficiary ...

An Import LC can be transferred only if the Applicant and Beneficiary are customers of your bank.

There are 10 most frequent seen discrepancies in letter of credit (LC) transactions

- **Inconsistency in Documents :**

*UCP 600 states that "Data in a document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, but must not conflict with, data in that document, any other stipulated document or the credit." So if banks find inconsistency between documents they raise a discrepancy.

- **Incorrect Data :**

Information any one of the documents presented does not comply with the letter of credit terms and conditions.

- **Late Shipment:**

Goods shipped after the permitted shipment date or period. If the date of the transport document such as the bill of lading date falls a later date than the latest date of shipment than banks raise late shipment discrepancy.

- **Late Presentation :**

Documents presented later than 21 days after shipment or after the number of dates stipulated in the letter of credit.

- **Letter of Credit Expired :**

Documents presented after the letter of credit has expired. Normally banks should not accept any document that has been presented after the expiry date of the credit. But banks left the ultimate decision to the applicants on the regard and evaluate late presentation after the expiry date as a discrepancy.

There are 10 most frequent seen discrepancies in letter of credit (LC) transactions

The absence of Documents :

Documents required by the letters credit is missing. Missing document discrepancy could also cover the insufficient number of original document presentation. i.e. UCP 600 demands presentation of all original insurance documents if insurance document states that it issued more than one original.

Carrier not defined on the bill of lading / bill of lading signed by improper Authority :

Name of the carrier is not mentioned on the bill of lading or bill of lading is not signed by the master, the carrier or an agent on behalf of the carrier or master.

Incorrect Description of Goods :

Description of the goods on the invoice and other trade documents differs from the description of goods mentioned on the credit.

Incorrect Endorsement / Absence of Endorsement :

Bill of lading, insurance policy or draft (bill of exchange) not endorsed by the beneficiary of the credit.

Partial shipment or transshipment affected despite L/C terms

We have to be careful with the partial shipments and transshipment. Please read credit text and determine if credit allowed the partial shipments and transshipment.

Bank guarantee vs letter of credit

KEY TAKEAWAYS

- A bank guarantee is a promise from a lending institution that ensures the bank will step up if a debtor can't cover a debt.
- Letters of credit are also financial promises on behalf of one party in a transaction and are especially significant in international trade.
- Bank guarantees are often used in real estate contracts and infrastructure projects, while letters of credit are primarily used in global transactions.