



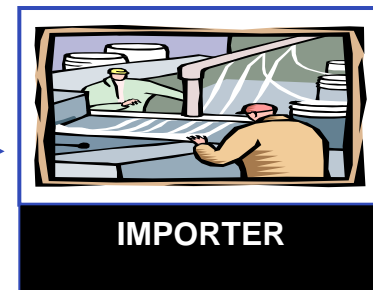
Commercial LC's

Speakers

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International Trades – Key Modes of Payment



1. Cash in Advance

- ✓ Exporter receives funds prior to shipment of goods.

2. Irrevocable Documentary Credit*

- ✓ Exporter ships against a Letter of Credit issued by Importer's Bank which undertakes payment against compliance documents presented.

3. Documentary Collection

- ✓ Exporter ships the goods and instruct Exporter's Bank for Collection through Correspondent Bank located in Importer country.

4. Open Account

- ✓ Exporter places goods at the disposal of the Importer before payment is required.

✓ Least Risky



✓ Most Risky

✓ Most Risky



✓ Least Risky

* Though Importer has a higher security of quality good

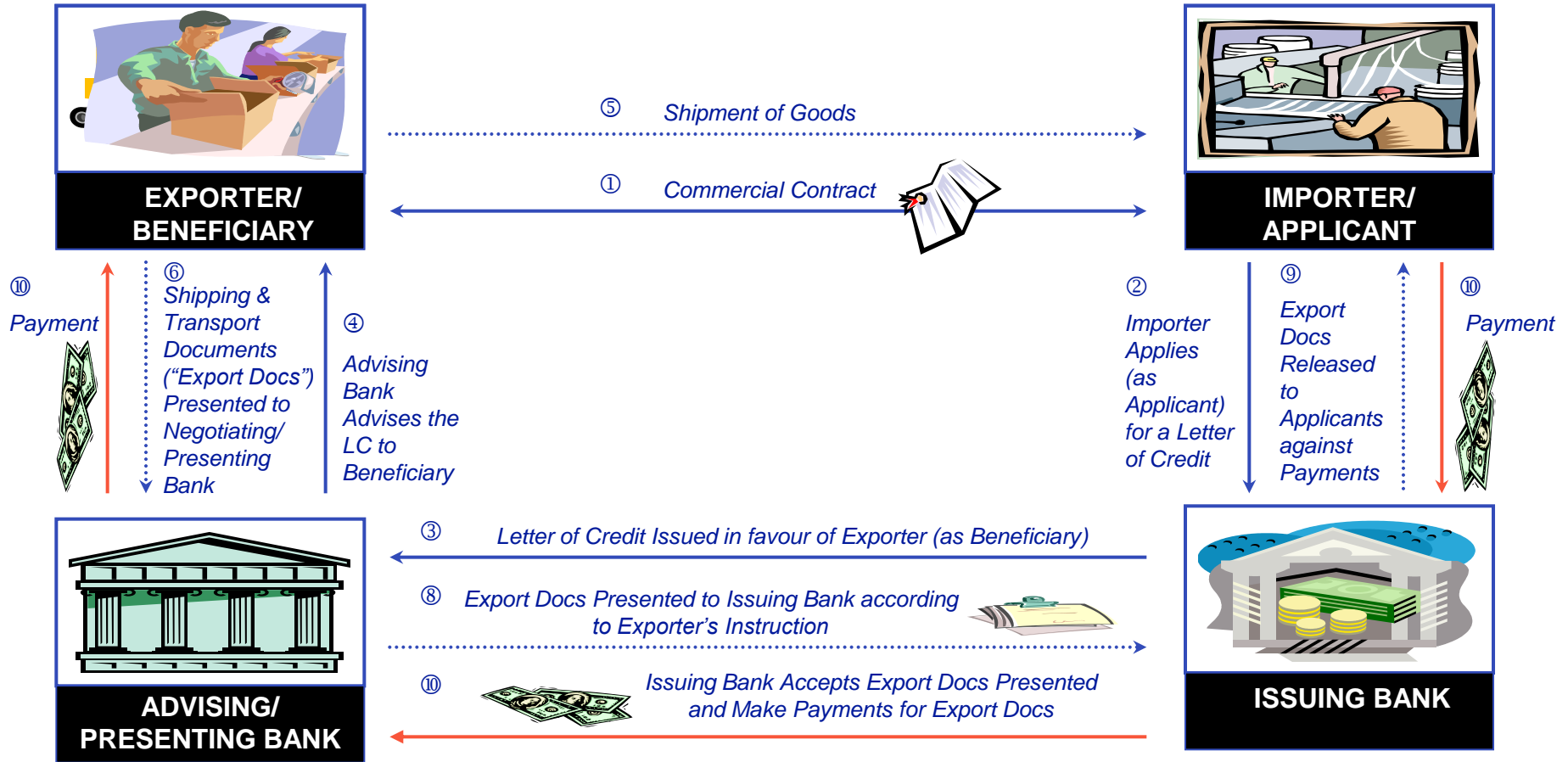
Irrevocable Documentary Credit

*“ An irrevocable credit constitutes a definite undertaking of the issuing bank ,
provided that the terms and conditions of the credit are complied with:...”
(Article 7 A of the UCP)*

- **It is an Independent Payment Undertaking...**
 - Irrevocable
 - Issuing Bank’s Credit and Country Risk must be acceptable
(if not....get your LC confirmed!)
- **Issuing Bank’s payment obligation is only crystallized against submission of compliance documents under LC :**
 - **So please note:**
 - Important to understand all LC terms and conditions **incl. ISBP**
 - Documents required must be obtainable and presentable *
 - Latest Shipment Date & LC Expiry Date must be sufficient *

* Even during Chinese New Year

Documentary Credit – An Overview of LC Flow



⑦ *Negotiating Bank/ Presenting Bank Examines Export Docs Presented and inform Exporter for any discrepancies for rectification*

Confirmed Documentary Credit

“ 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” (Article 7 B of the UCP)

- **Meaning that the beneficiary enjoys two independent recognitions of liability :**
 - **The issuing bank and**
 - **The confirming bank**

However before the confirming bank assumes such obligation certain criteria must be fulfilled:

- a) The credit must clearly instruct or authorize the correspondent bank to add its confirmation
- b) The credit must be available at the confirming bank
- c) The contents of the credit must be unambiguous and should not contain any conditions that allow the buyer to prevent the terms of the credit from being fulfilled (so-called stop clauses)

What is a Documentary Credit

- **Stipulates Key Commercial Terms :**
 - **Payment Terms**
 - Sight
 - Acceptance
 - Deferred
 - Negotiation
 - **Transport Mode & Title of Goods**
 - Ocean Bill of Lading vs Airway Bill vs Delivery Order
 - Full Set BL vs 1/3 BL
 - BL Blank Endorsed vs BL Consigned
 - **Incoterms & Insurance Coverage**
 - FOB
 - CFR
 - CIF

What is a Documentary Credit

- **Stipulates Export Documents Required :**

- **Typical First Party Documents**

- Draft
- Commercial Invoice
- Packing List
- Beneficiary Certificate

- **Typical Third Party Documents**

- Transport Documents, such as Ocean Bill of Lading
- Insurance Certificate
- Inspection Certificate
- Certificate of Origin



**Harder to control quality
of these documents**

What is a Documentary Credit

- **Stipulates Key Conditions for Presentation :**
 - LC Validity Period
 - Latest Shipment Date
 - Document Presentation Period

The Concept of Compliance

- **Rectifiable Discrepancies :**
 - Discrepancies that can be rectified by amending the relevant document(s).

- **Major Discrepancies :**
 - Discrepancies that cannot be rectified by amending document presented, except if LC is amended
 - LC Expired
 - Late Shipment
 - Late Presentation
 - LC Amount underdrawn/overdrawn
 - Partial Shipment



**THIS IRREVOCABLE
PAYMENT
UNDERTAKING IS ONLY
AS GOOD AS YOU
BEING ABLE TO
COMPLY WITH ALL
TERMS AND
CONDITIONS
STIPULTED.**

**THE CONCEPT OF
COMPLIANCE**

Main discrepancies we see in practice

- **documents erroneously copy-pasted**
- **LC amount overdrawn**
- **Quantity overshipped**
- **Tenor incorrect (draft)**
- **Typos in documents**
- **LC no incorrect**
- **Unit price incorrect**
- **Inconsistency between documents (see copy paste)**

Procedures to ensure an LC is handled as efficient as possible

- 1) Create a workflow for handling LC's**
- 2) Create a proforma LC for marketing with various options**
- 3) Create a checklist for the LC when it arrives at your counters**

For instance:

Check list

- Can the goods shipped from the stated port of loading to the stated port of discharge**
- Are the merchandise and unit price correct?**
- Is the amount of the credit correct?**
- Are the contract terms correctly covered by the credit?**
- Can the required documents be obtained in the required form?**
- Are my name and address correct?**
- Do the shipment and expiry dates allow me enough time to ship the goods and prepare the required documents?**

4) After document creation have a “senior” do a final check before presenting to the bank:

- check on completeness**
- consistency of the document**
- check for signatures or stamps missing**

5) If anything is unclear call your contact at the bank (!)

Guesstimate the payment date under an LC

Example 504ELA06504

- **Drafts payable 60 days after sight**
- **Drawee: Chinese bank**
- **Consequence: 60 days will start after documents have been taken up in china (which is quite a black box in practice)**

- **LC should state (for instance):**
- **Drafts payable 60 days after shipment (as this is the actual finance period!!)**
- **Shipment day 1 , maturity day 61**



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25030 – Credit Investigations and Getting to Know Your Customer – Monday, June 13th

25080 – Role of Financial Information in Global Credit Decision Making – Wednesday, June 15th

July

20th, Credit Resources (what to look for in credit reports – what should they contain – what else is needed to help make an assessment of credit risk?)

21st, Trade Credit Financing (factoring, asset based lending, securitization, forfaiting)

August

10th, Corresponding Banking Relationships

Q & A