

**CHAPTER - 20**

**LETTERS OF CREDIT**

## CHAPTER - 20

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## 20 INTRODUCTION

'Letters of Credit' also known as 'Documentary Credits' is the most commonly accepted instrument of settling international trade payments. A Letter of Credit is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down.

### 20.1. PARTIES TO A LETTER OF CREDIT (LC)

A letter of credit transaction normally involves the following parties :

- i) **APPLICANT / OPENER** - the buyer of the goods / services (Importer) on whose behalf the credit is issued
- ii) **ISSUING BANK** - the Bank which issues the credit and undertakes to make the payment on behalf of the applicant as per terms of the L/C.
- iii) **BENEFICIARY** - the seller of the goods / services (exporter) in whose favour the credit is issued and who obtains payment on presentation of documents complying with the terms and conditions of the LC.
- iv) **ADVISING BANK** - Banks which advises the LC, certifying its authenticity to beneficiary and is generally a bank operating in the country of the beneficiary.
- v) **CONFIRMING BANK** - A bank which adds its guarantee to the LC opened by another Bank and thereby undertakes responsibility for payment/acceptance/negotiation/incurred deferred payment under the credit in addition to that of the Issuing Bank. It is normally a bank operating in the country of the beneficiary and hence its guarantee adds to the acceptability of the LC for the beneficiary. This is being done at the request / authorization of the Issuing Bank.
- vi) **NOMINATED BANK** - A Bank in exporter's country which is specifically authorized by the Issuing Bank to receive, negotiate, etc., the documents and pays the amount to the exporter under the LC.

- vii) **REIMBURSING BANK** - Bank authorised to honour the reimbursement claim made by the paying, accepting or negotiating bank. It is normally the bank with which Issuing Bank has Nostro Account from which the payment is made to the nominated bank.
  
- viii) **TRANSFERRING BANK** - In a transferable LC, the 1<sup>st</sup> Beneficiary may request the nominated bank to transfer the LC in favour of one or more second beneficiaries. Such a bank is called Transferring Bank. In the case of a freely negotiable credit, the bank specifically authorised in the LC as a Transferring Bank, can transfer the LC.

## **20.2. TYPES OF LETTERS OF CREDIT**

### **20.2.1. REVOCABLE LETTER OF CREDIT**

A revocable letter of credit is one which can be cancelled or amended by the issuing bank at any time and without prior notice to or consent of the beneficiary. From the exporter's point of view such LCs are not safe. Besides exporter cannot get such LCs confirmed as no bank will add confirmation to Revocable LCs. However, if any bank has negotiated bills before receipt of notice of revocation, opening bank is liable to honour its commitments. The LC should clearly state that the same is revocable. As per Article-3 of UCP 600, a credit is irrevocable even if there is no indication to that effect. Further UCP 600 does not provide for revocable LCs and therefore such credits no longer exist.

### **20.2.2. IRREVOCABLE LETTER OF CREDIT**

An Irrevocable Letter of Credit is one which cannot be cancelled or amended without the consent of all parties concerned.

### **20.2.3. REVOLVING LETTER OF CREDIT**

A Revolving Letter of Credit is one where, under terms and conditions thereof, the amount is renewed or reinstated without specific amendments to the credit being needed. It can revolve in relation to time and value. This type of credit is generally used in local trade and sometimes for import also. Such credits are opened for a stated amount and the drawings under the LC are reinstated as soon as the documents are paid. The LC can be restricted to the individual amount of drawing at a time as well as aggregate amount of drawings. The Issuing bank has to confirm to the negotiating bank about the acceptance / payment of the documents for reinstatement of the amount in the LC. In revolving LC for import, the maximum drawings and the validity would be to the extent permitted by the import licence, if such imports are backed by Import Licence. Generally, we do not open Revolving LCs for import. However in exceptional cases such L/C may be opened with adequate safeguards / conditions subject to strict compliance of Foreign Trade Policy and Exchange Control Regulations particularly with reference to aggregate drawings under such L/C & shipment dates etc.

#### **20.2.4. TRANSFERABLE LETTER OF CREDIT**

A Transferable Credit is one that can be transferred by the original (first) beneficiary to one or more second beneficiaries. When the sellers of goods are not the actual suppliers or manufacturers, but are dealers/middlemen, such credits may be opened, giving the sellers the right to instruct the advising bank to make the credit available in whole or in part to one or more second beneficiaries. The LC can be transferred to more than one second beneficiary provided LC permits partial shipment and aggregate value of amounts so transferred does not exceed value of original LC. The LC can be transferred only once and only on terms stated in the credit, with the exception of :

- The amount of the Credit,

- Any unit price stated therein,
- The expiry date,
- The latest shipment date or given period for shipment,
- The period for presentation of documents,

any or all of which may be reduced or curtailed.

The percentage for which insurance cover must be effected may be increased to provide the amount of cover stipulated in the credit.

The LC is deemed to be transferable only if it is stated to be 'Transferable' in the LC. Second beneficiary has no right to transfer to third beneficiary. However, he can retransfer to the first beneficiary. As per our Bank's policy, Transferable Import LCs is normally not opened. However, transferable LCs can be opened in exceptional case, by specifying the second beneficiaries in the LC itself or by amendment, provided.

- i) Second beneficiaries should be specific and limited in number,
- ii) Satisfactory credit report on second beneficiary should have been received. Further the second beneficiary must be a shipper / manufacturer or supplier of goods.
- iii) Second beneficiary should normally be residing in the same country. If resident of another country, method of payment of second beneficiary's country should conform to Exchange Control Regulations.
- iv) Underlying contract indent/order should provide for such transfers.

#### **20.2.5. BACK TO BACK LETTER OF CREDIT**

In case of a transferrable LC, the beneficiary can ask the nominated Bank to transfer the credit in favour of his suppliers. But, where the

credit is not transferrable and in cases where in a middle man enters into a contract to supply goods to be obtained from other suppliers but is unwilling to disclose the identity of the buyer and the buyer also is unwilling to open a Transferable Letter of Credit, such Back to Back credits are opened. Irrevocable letter of credit opened by the buyer, is used by the beneficiary as security with his bank against which it agrees to open LC in favour of the actual supplier / manufacturer. The beneficiary of the original L/C will become the applicant for the second set of L/C (back to back L/C). The terms of back to back L/C will be almost identical to the L/C received from the buyer except to the extent of amount, unit price and delivery dates, which will be prior to the expiry of original L/C.

The original credit which is offered as security / backing is called the PRINCIPAL CREDIT or OVERRIDING CREDIT and the credit opened on its backing is called the BACK TO BACK credit or COUNTERVAILING CREDIT.

#### **20.2.6. RED CLAUSE LETTER OF CREDIT**

Such letters of credit contain a clause which enables the beneficiary to avail of an advance before effecting shipment to the extent stated in the LC. The clause used to be printed in red, hence the LC is called Red Clause LC. The nominated bank provides the pre-shipment credit to the beneficiary as per the authority given by the issuing Bank. In case the beneficiary fails to export the goods or fails to repay the advance the nominated bank gets the amount paid by the issuing bank.

#### **20.2.7. GREEN CLAUSE LETTER OF CREDIT**

This is an extension of Red Clause Letter of Credit, in that it provides for advance not only for purchase of raw materials, processing and/or packing but also for warehousing and insurance charges at the port

pending availability of shipping space. Generally advance is granted under this LC only after goods are put in bonded warehouses etc. up to the period of eventual shipment. In such cases warehouse receipts are obtained as security / documentary evidence.

#### **20.2.8.PAYMENT LETTER OF CREDIT**

Payment credit is a sight credit which is available for payment at sight basis against presentation of requisite documents to the issuing bank or the nominated bank. In a payment credit, beneficiary may or may not be called upon to draw a Bill of Exchange. In many countries, because of stamp duties even on sight bills, drawing Bill of Exchange is dispensed with.

#### **20.2.9. DEFERRED PAYMENT LETTER OF CREDIT**

Deferred Payment Credit is an usance credit where, payment will be made by Issuing bank, on respective due dates, determined in accordance with the stipulations of the credit, without the drawing of Bill of Exchange. In a way, it is an extended payment credit. Under deferred payment credit, no Bill of Exchange will be called upon to be drawn, but it must specify the maturity at which payment is to be made and how such maturity is to be determined. Deferred payment arrangements for Imports, providing for payment beyond 6 months from the date of shipment up to a period of less than three years are treated as Trade Credits for which procedural guidelines laid down by RBI for External Commercial Borrowing and Trade Credits are required to be followed.

#### **20.2.10.ACCEPTANCE LETTER OF CREDIT**

Acceptance Credit is similar to deferred payment credit except for the fact that in this credit drawing of a usance Bill of Exchange is a must.

Under this credit, Bill of Exchange must be drawn on the specified bank for specified tenor, and the designated bank will accept and honour the same, by making payment on the due dates.

#### **20.2.11.NEGOTIATION LETTER OF CREDIT**

Negotiation Credit can be a sight credit or a usance credit. A Bill of Exchange is usually drawn in negotiation credit. The draft can be drawn as per credit terms. In a negotiation credit, the negotiation can be restricted to a specific bank or it may allow free negotiation, in which case it is called as 'Freely Negotiable Credit' whereby any bank who is willing to negotiate can do so. Under a negotiation credit, if the bank nominated as a negotiating bank refuses to negotiate, then the responsibility of issuing bank would be to pay as per terms of that credit. However, if the Bill of Exchange is drawn at a tenor (on DA basis) the issuing bank can pay less discount. In other words, in all circumstances under a negotiation credit, responsibility of the issuing bank is to pay and it cannot say that it is the responsibility of the negotiating bank. A bank which effectively negotiates draft(s)/document(s) buys them from the beneficiary, thereby becoming a holder in due course.

#### **20.2.12.CONFIRMED LETTER OF CREDIT**

Confirmed Letter of Credit is a Letter of Credit to which another bank (bank other than the issuing bank) has added its confirmation. This is to say, in a Confirmed Letter of Credit the beneficiary will have a firm undertaking of not only the bank issuing the credit, but also of confirming bank. The bank which adds its confirmation is called a confirming bank and it becomes a party to the contract of LC. Generally the confirmation to a credit is desired by beneficiary from a bank known to him, preferably the one located in his country so that his risk becomes localised and he can deal easily with a

local bank rather than deal with a bank abroad which has issued the credit. But this type of LC is costlier to the parties concerned, since there would be charges of confirming bank. The LC will be confirmed by another bank with prior arrangement, only when it is advised to do so by the opening bank. Confirmation can be added only to irrevocable credits and not to revocable credits. When a bank acts as an advising bank, it has the only responsibility to verify the genuineness of the credit. But when it adds its confirmation, it becomes a prime obligor like the issuing bank and undertakings to pay / negotiate / accept the documents as per the terms of the credit.

### **20.2.13. STANDBY CREDIT**

The standby credit is a documentary credit or similar arrangement however named or described which represents an obligation to the beneficiary on the part of the issuing bank to make payment on account of any indebtedness undertaken by the applicant, money borrowed or for any default by the applicant in the performance of an obligation.

These credits are generally used as a substitute for financial guarantees. In countries like USA, Japan it is not permissible to issue bank guarantees. Therefore, banks in these countries issue standby letter of credit in situations where normally a letter of guarantee should have been issued. The document generally called for under such credits is a simple statement of claim as certificate of non performance. The standby works as a guarantee in the background of the underlying transaction and it is expected that it will never be drawn.

This facility may be extended on a selective banks for applicants with good track record. The nature of transaction is clean and hence is risky.

### **20.3. IMPORT LETTERS OF CREDIT: COMPLIANCE OF REQUIREMENTS**

An import LC is a commitment by the issuing bank to make payment, for the imports which are to be taken place on a future date. While opening import LC, the following requirements of various agencies are to be complied with.

An Import LC is normally opened when

- i) A resident in India is importing goods / software / designs and drawings into India
- ii) A resident merchant trader for the purpose of merchanting trade is importing goods from one country for sale to another country
- iii) An Indian exporter executing a contract abroad, imports goods from a third country into the country where the project is being executed.

### **20.3.1. TRADE CONTROL REQUIREMENTS**

Trade Control lays down the policy and regulations relating to physical movement of goods into India. Hence bank has to first ensure that goods to be imported can be physically brought to India under the Foreign Trade Policy. Import shall be free except in cases where they are regulated by the provisions of the Foreign Trade Policy or any other law in force for the time being. Item wise import policy shall be as specified in ITC (HS) published and notified by DGFT from time to time.

Hence L/Cs should be opened as per the conditions relating to importability of the respective item as stated in ITC (HS) Classification. Valid import licence issued by competent authority should be submitted by the importer, if required under the policy.

### **20.3.2 FEMA GUIDELINES**

Exchange Control Regulations of RBI lay down conditions/procedures of payments to be made for import of goods into India. Detailed EC Regulations pertaining to Import are furnished in Chapter 19 of this manual. Payments are to be made in strict conformity with these regulations.

An Import LC should be opened only on behalf of bank's own customers who are known to be participating in the trade and for whom valid sanctioned limits for issuance of Import LCs are in force. "Know Your Customer" (KYC) rules should be observed while handling import transaction.

### 20.3.3. CREDIT NORMS

Import letter of credit requirements of a customer are to be assessed like any other normal credit proposal in view of the fact that :

- i) Though initially a non funded credit facility, it has the potential to turn into a funded facility.
- ii) Usance LC on DA basis is a substitution of funded facilities.

If imports are of capital goods, availability of adequate long term funds in the form of Term Loan/DPG, Surplus Cash flows etc. are to be ensured.

**The following are also to be considered before sanctioning on Import LC limit**

- i. **ABILITY OF THE APPLICANT** to retire the import bills on due date/presentation and/or availability of funded facilities to meet his import payment obligations including payment duties and taxes. It must be ensured that the applicant will be in a position to clear the goods by payment of duties.
- ii. **STANDING OF THE OVERSEAS SUPPLIER** : Credit standing and capability of the supplier to ship the goods as per the requirements is to be assessed by the branches by obtaining a credit report from the overseas banker of the supplier/Credit rating agency for establishing import LCs of over USD 100000/ or its equivalent. Waiver of Credit report above the cut off limit should be referred to regional office and within the cut off limit should be by the Branch Manager/Officer of Scale IV grade. The field Officials are required to formally record waiver of credit reports after the delegatee has examined such requests for all transactions within the monetary ceiling. The branch has to be satisfied about the standing of the import clients based on their track record for waiver of credit reports. Each transaction is to be carefully scrutinized in relation to the underlying contract and the request of our customer.

- iii. **ECONOMIC IMPORT ORDER** : The minimum economic import order and the accepted level of inventory are to be considered along with the total usance period and total lead time while fixing the quantitative limit.
- iv. **EXCHANGE RISK** : As the import LC is drawn in a freely convertible foreign currency, the importer is exposed to exchange risk. Therefore importer may be advised to consider booking of forward contract to protect himself from adverse movement of the exchange rates. Delegated Authority for approval of waiver would be with the respective sanctioning authority, who has sanctioned the credit limits.

#### **20.3.4. FEDAI/UCPDC PROVISIONS/INTERNAL CONTROL GUIDELINES :**

FEDAI guidelines regarding opening of LC, crystallization of liability etc., are to be followed strictly. Similarly standard formats of LC application/LC documents are suggested by FEDAI which are also adopted by us subject to certain changes.

UCPDC lays down various guidelines for handling LC based international trade transactions. These are also to be borne in mind.

Provisions of URR, (Uniform Rules for Reimbursement) are also to be followed with regard to reimbursement instructions.

In addition, precautions like landed cost, ruling price comparison, manufacturing capability for actual user licence, storage and marketing facility etc. are also to be appropriately considered.

#### **20.4. OPENING OF LC - GENERAL GUIDELINES**

- ◆ Original letter from DGFT allotting an IEC Number is to be scrutinized and a certified copy to be kept on record for all customers desiring to open LCs for import purposes.

- ◆ LC application form (AD 04) and following documents are to be obtained from the importer.
  - i) Underlying contract or indent
  - ii) Exchange Control copy of valid import licence, or Open General Licence (OGL) declaration stating that the goods are freely importable furnishing therein ITC(HS) classification number.
  - iii) Insurance policy or cover note if the imports are on FOB or C&F basis for 110% of LC value, in the currency of the LC to be opened and in favour of the Bank A/c importing customer
  - iv) Declaration under FEMA 1999, Section 10(5), Chapter III
  - v) Credit Report on Overseas Seller from the approved credit rating agency, for LCs value exceeding USD one lac and above or equivalent

**Branch to satisfy that:**

- i) The LC application cum agreement form is adequately stamped as per respective State Stamp Duty Act/Laws
- ii) The LC application is signed by an authorised signatory of the firm, company etc. The signature is to be verified by the processing officer to satisfy the genuineness. However, no rubber stamp/initial for having verified the signature is to be affixed on the application, since it is a stamped security document. In the case of companies, common seal of the Co. is to be affixed as per sealing clause contained in the Articles of Association duly backed by Board Resolution.
- iii) The LC application is complete in all respects with clear and consistent instructions which correspond to the conditions / provisions of accompanying contract / indent / licence. In case of any variance the importer customer should be asked to obtain necessary modifications.
- iv) The beneficiary of the LC should not be importer himself or his nominee or his buying agent. Further, beneficiary should be either a manufacturer, supplier or shipper of the goods. Care should be taken

with regard to method of payment where the beneficiary is in one country and shipment is authorised from a different country.

- v) If the commodity imported is subject to actual user condition or any other condition, its compliance is ensured by the branch.
- vi) If the merchandise is freely importable, the relevant declaration paragraph in the LC application is properly filled in.
- vii) The insurance policy / cover note provides coverage up to 110% of the invoice value, in the currency of invoice in the banks' name and covers risks under Institute Cargo Clause 'A". If 'shipment on deck' is permitted under the LC the risk of jettisoning and washing overboard should be covered in case LC permits transshipment, such risk must be covered by insurance. The validity of the insurance should be in consonance with the LC/contract terms.
- viii) The LC should stipulate a condition that goods should be consigned to the bank with importer as a notify party.
- ix) If the import is from Nepal/Bhutan payment under the LC is to be made only in Indian Rupees. Similarly if imports are from ACU countries, payment under the LC should conform to ACU mechanism.
- x) If the import is covered under licence, the importer must submit Exchange Control copy of the same. The licence must be scrutinised to ensure that:
  - ◆ it has not been cancelled by any notification/order etc.
  - ◆ it is issued on security paper
  - ◆ it has a printed number and date
  - ◆ it has a security seal (including on the annexures, if any)
  - ◆ it is issued in the name of applicant or properly transferred in his name with proper transfer letters where transferer's signature is attested by his bankers.
  - ◆ commodity specified is in agreement with the item specified in the application.
  - ◆ quantity / quality / value limits specified are in agreement with those mentioned in the application. It is pertinent to note that irrespective of

the sale terms for which letter of credit is proposed to be opened, licence must have adequate value to cover CIF value plus agency commission and interest if any.

- ◆ country of origin of goods if stated in the licence agrees with that specified in the letter of credit application.
  - ◆ country of shipment authorised is in agreement with the one stated in the letter of credit application.
  - ◆ it is valid for shipment atleast up to the last shipment date requested for in the letter of credit application.
  - ◆ if licence stipulates any specific conditions, such conditions should be complied with by the holder/applicant.
  - ◆ if licence is issued under any bilateral or multilateral or aid agreements, the conditions stated in the concerned agreements and the relative ITC notification should be complied with. It has to be ensured that licence is operative.
  - ◆ if licence stipulates placement of order within a specified time limit, the sale contract submitted must confirm compliance of the condition.
- xi) The L/Cs to be advised through a bank specified by the opener provided we have prior arrangement with that bank. Alternatively, the L/C should be advised through the bank with whom we have arrangement, with instructions to advise the L/C through the bank specified by the L/C opener subject to his approval.

## **20.5. STANDARD CLAUSES IN LC**

The LC is to be opened incorporating all mandatory/standard clauses listed below and other clauses as per LC application. The terms laid down in the LC should conform to the Exchange Control / Trade Control regulations.

### **LIST OF MANDATORY CLAUSES**

- i) All required documents except transport documents and insurance and in cases specifically stipulated, must be issued by beneficiary only.

- ii) Transport documents / Bills of Lading / Airway bills dated prior to LC date are not acceptable.
- iii) Invoice required to be submitted for a value not exceeding draft/Bill of Exchange amount.
- iv) Short Form and third party Bills of Lading are not acceptable.
- v) Transport documents indicating final place of destination different from port of discharge, documents indicating 'intended' or a similar clause in relation to the vessel, other means of transport and/or port of loading and/or the port of discharge are not acceptable.
- vi) Transport documents or Bill of Lading / Airway bill issued by Clearing and Forwarding agents / Freight Forwarders acting as Carrier Agents/Carriers are not acceptable.
- vii) Transport documents or Bill of Lading / Airway bill to indicate date on which goods loaded on board the vessel / flight no and date.
- viii) LASH transport documents in case of sea shipments are not acceptable.
- ix) Transport documents showing any charges additional to freight charges such as cost of disbursement related to loading, unloading or similar operations are not acceptable
- x) Documents must be presented for negotiation within 21 days of each shipment. (Note: Period may vary based on importer's requirement and mode of transport and transit time from the exporting country).
- xi) Insurance is required to be issued irrespective of percentage, with the following :  
'Insurance Policy / Certificate dated not later than B/l unto order and blank endorsed for 110% over invoice value covering, Institute Cargo Clause (A), Institute War Clause (Cargo), Institute Strikes Clause (Cargo) and Warehouse to Warehouse Clauses with claims payable in India irrespective of percentage. Insurance also to cover the age of the vessel.'
- xii) All documents required in English only.
- xiii) Goods to be shipped by seaworthy vessel and a certificate to that effect as per Llyods or equivalent classification society from Steamship Company or their agent if it is a member of the Conference Line to accompany

documents. ( This clause is to be incorporated only in case of shipment by sea)

xiv) A certificate of inspection by well known international inspection agencies to accompany documents, wherever required

xv) A discrepancy fee clause of US\$ 50 as per the following :

‘Without prejudice to our right to refuse to take up the documents presented which are not in compliance with the terms and conditions of this L/C, discrepancy fee of US\$50 will be deducted from the proceeds of any drawing if documents are presented with discrepancies and same are accepted by us. Notwithstanding any instructions to the contrary, this charge shall be to the beneficiary’s account’.

Branch Head / Chief Managers are permitted to delete those additional clauses which are not mandatory from Exchange control / Trade Control / FEDAI point of view. In such cases following procedure is to be adopted.

- i) Request to delete / change / add any clause is to be considered after assessing the additional credit risk.
- ii) Branch to satisfy itself about credit worthiness / capability of the customer to honour the documents without any reserve, on first presentation.
- iii) Genuine need for such deletion / change / addition to L/C clauses to be ascertained
- iv) Branch to explore the possibility of substitute cover for additional credit risk exposure.

## **20.6 AGE AND SEAWORTHINESS OF SHIPPING VESSEL**

The stipulation regarding shipping vessel not to be older than 20 years can be relaxed subject to availability of Marine Insurance and proper classification of sea worthiness. In such cases LC should contain following clause :

‘Shipment by seaworthy vessels classed 100A1 by Lloyds or equivalent classification society and a certificate from steamship Co. or its agent to that effect to accompany the documents’.

List of few approved classification societies is as under :

**Name**

- i. Lloyds Register
- ii. American Bureau of shipping
- iii. Bureau veritas
- iv. Germanischer Lloyds
- v. Korean Register of Shipping
- vi. Nippon Kaizi Kyokai
- vii. Registro Italiano Navale
- viii. Det Norske Veritas
- ix. China Classification Soceity
- x. Russian Maritime Registrar of Shipping

**20.7. UCP POINTS TO BE REMEMBERED**

The following important provisions of UCP are to be borne in mind while opening Import LC :

- ◆ A credit which does not state whether it is 'REVOCABLE' or 'IRREVOCABLE' will be deemed as an 'IRREVOCABLE' credit (Art.3 of UCP 600)
- ◆ If a LC or an amendment is issued by an authenticated transmission which does not contain words 'FULL DETAILS TO FOLLOW' or similar such phrase or does not state that the mail confirmation is to be operative LC or amendment, then the transmission will be operative LC or amendment. (Art. 11 a & b)
- ◆ Once documents under LC are presented to an issuing branch it must scrutinise them immediately on receipt of the documents and inform the beneficiary or the nominated bank of the discrepancies in the documents and state whether the documents are refused and held at its disposal or are being returned, not later than the close of the Five banking day following the day of the receipt of the documents. In the event of failure, issuing branch will not be able to reject the documents. Even if negotiating bank has pointed out discrepancies, the LC

opening branch should separately scrutinise the documents themselves (Art.14).

- ◆ If LC contains words like 'FIRST CLASS', 'WELL KNOWN', 'QUALIFIED', 'INDEPENDENT', 'OFFICIAL', 'COMPETENT', or 'LOCAL' used to describe the issuer of a document, allow any issuer except the beneficiary to issue the document (Art.3).

- ◆ A bank shall treat as an original any document bearing an apparently original signature, mark, stamp or label of the issuer of the document, unless the document itself indicates that it is not an original (Art.17b)

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.

- ◆ If a LC calls for additional documents (other than commercial invoice, insurance and transport document), without indicating its data content or name of the issuer, branches can accept documents as presented provided they are not inconsistent with other documents (Article 14f)
- ◆ Branches can accept documents bearing dates of issuance, prior to that of the LC, provided LC does not specifically prohibit the same. But such documents have to be presented within the time limits set in the LC. If no such presentation time is laid down in the LC, branches will not accept the documents presented 21 days after date of shipment (Article 14i).
- ◆ Unless specifically stipulated in the LC, branches will accept a transport document which does not indicate that the goods are loaded or will be loaded on deck. However, branches will accept transport documents containing a provision stating that the goods may be carried on deck provided it does not specifically state that they are or will be loaded on deck (Art.26a).

- ◆ Transshipment means unloading and reloading from one vessel to another vessel during the course of ocean carriage from the port of loading to port of discharge. If transshipment is not prohibited by the LC, the branches can accept a transport document indicating that the goods will be transhipped provided the entire carriage is covered by the same transport document. (Art 20b). Even if the LC prohibits transshipment, branches can still accept transport documents of the following type:
  - i) A transport document which contains a printed clause stating that the carrier has right to tranship the goods.
  - ii) Where the LC allows combined or multimodal transport and the transport document indicates that the goods will or may be transhipped, provided the entire carriage is covered by the same CTD/MTD.
  - iii) Transport document (bill of lading) which indicates that transshipment will take place as long as the goods are shipped in contained(s)trailer(s), 'LASH' barge(s) provided that the entire ocean carriage is covered by one and the same bill of lading.
  - iv) An air transport document indicating that transshipment will or may take place provided that the entire carriage is covered by one and the same AWB.
  
- ◆ A clean transport document is one which does not bear any clause or notation expressly declaring a defective nature of goods or its packaging. The word 'clean' need not appear on a transport document, even if a credit has a requirement for that transport document to be 'clean on board' (Art.27)
- ◆ Branches should not accept claused / unclean transport document, unless LC permits acceptance of such transport documents
- ◆ Unless the contrary is provided for in the LC, branches (a)should not accept insurance cover note issued by brokers (b) Insurance documents should be in the currency of the LC (Article 28 c/f(i)).
- ◆ The value of the insurance documents should normally be as stated in the LC. If LC is silent, the minimum amount of insurance cover should be the CIF or CIP value of the goods as the case may be plus 10%, if CIF or CIP value can be determined from the documents. Otherwise branches will accept insurance

cover for 110% of the amount for which payment, acceptance or negotiation is requested under the LC or 110% of the gross amount of the invoice, whichever is the greater (Art.28.f.ii).

- ◆ If the LC states 'Insurance against all risks' branches can accept an insurance document containing any 'all risks' notation or clause, whether or not bearing the heading 'all risks', without responsibility for any risks stated to be excluded (Art.28h).
- ◆ Unless specifically prohibited, the negotiating bank can accept commercial invoices issued for amounts in excess of the amounts permitted by the LC provided, it has not effected payment for an amount in excess of that permitted by the LC (Art.18 b.)
- ◆ Words 'about', 'approximately' or similar expressions used with reference to credit amount, quantity or unit price would be taken to mean as allowing for a 10% variation (+ or -)for that particular aspect only (Art.30a.)
- ◆ If the LC does not stipulate unit price but stipulates that quantity of goods stated therein should not be exceeded or reduced, shipment of exact quantity of goods stated therein should take place (e.g. 100 MT of sugar). If no such clause is there in the LC, a tolerance of 5% more or 5% less is permissible, provided total drawings under the LC does not exceed the LC value. This tolerance is not available if the quantity of goods is expressed in terms of specific number of packing units or individual items (e.g. 100 MT of sugar packed in 1000 bags weighing 100 kgs each) (Art.30b).
- ◆ If the LC which prohibits partial shipment, states otherwise tolerance of 5% less in the amount of drawings is permissible, provided :
  - a) If LC mentions quantity of goods, such quantity has been shipped and
  - b) If LC states unit price, such unit price is not reduced. If words like about, circa, etc. are mentioned, this provision does not apply. (Art.30 c)(Art.29.c. covers the situation where a credit is issued on a CIF basis but the amounts of freight and insurance quoted by the beneficiary are invariably estimates. If the credit details the value of goods and freight / insurance cost separately it can be seen from the documents presented that the full goods have been shipped and that any discrepancy is due to the initial overestimation of freight and insurance)

- ◆ Unless, the LC specifically stipulates otherwise, partial shipments and/or partial drawings are allowed (Art.31 a.)
- ◆ Banks do not accept responsibility for interruption in business due to acts of god, riots, civil commotions, wars, strike, lockout or any other reason beyond their control. If the LC expires during such interruptions, branches should not pay, accept, negotiate, incur deferred payment undertaking under such expired LCs (Art.36).
- ◆ If the expiry date of a LC or the last day for presentation of documents reckoned from the date of issuance of shipping documents falls on a day on which the nominated bank is closed for business for reasons other than those given in Article 36 of UCP (Force Majeure), the date gets extended to the first following day on which such bank is open (Art.29a). But, the shipment date does not get extended for the above reasons.
- ◆ When the LC uses expressions such as 'PROMPT', 'IMMEDIATE', 'AS SOON AS POSSIBLE', and the like, the branches should disregard them. (Art.3)
- ◆ As per Art. 3 of UCP 600, in documentary credit operations, date terminology will be understood or construed as under :
- ◆ Words 'TO', 'UNTIL', 'TILL', 'FROM', and 'between' or words of similar expression referring to shipment will mean to include the date specified. Unless the credit specifically provides that 'FROM' is considered to include the date mentioned, therefore the words 'FROM' or 'AFTER' have the same effect.
- ◆ Word 'AFTER', will exclude the date mentioned.
- ◆ 'FIRST HALF' of the month will mean from the 1<sup>st</sup> to the 15<sup>th</sup> of the month and second half will mean 16<sup>th</sup> to last day of the month (both dates inclusive)
- ◆ 'BEGINNING' 'MIDDLE' or 'END' of a month will mean from the 1<sup>st</sup> to the 10<sup>th</sup> day 11<sup>th</sup> to 20<sup>th</sup> and 21<sup>st</sup> to last day of the month (both dates inclusive).
- ◆ When a credit does not specifically say as 'Transferable' it is deemed as non-transferable (Art.38.b).
- ◆ Unless otherwise specified, bank charges for transfer of LC are payable by the first beneficiary. The transferring bank is under no obligation to effect the transfer until such charges are paid (Art.38.c).

## **20.8. OPENING OF INLAND L/Cs / Guarantees / DPGL**

All 'C' category branches can on behalf their customers establish inland L/C and issue domestic letters of guarantee/deferred payment guarantees on their own without forwarding such requests to 'B' category branches because these transactions do not involve foreign exchange.

### **SFMS - Structure Financial Messaging System**

SFMS is a mechanism for transmitting LCs and BGs to other Bank by leveraging technology and network through Finacle. All branches are instructed to use only SFMS for issuing Inland LCs. Under no circumstances branches should issue manually prepared LCs.

Regarding issuance of BGs through SFMS, certain issues like stamping of Bank Guarantees under the Indian Contract Act, size of the text, etc. are yet to be resolved, till then BGs are required to be issued manually.

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