

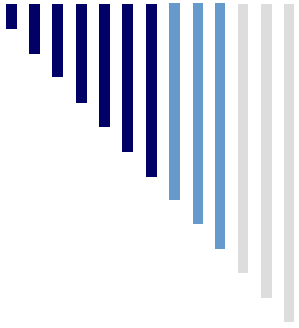
Documentary collection & documentary Credit

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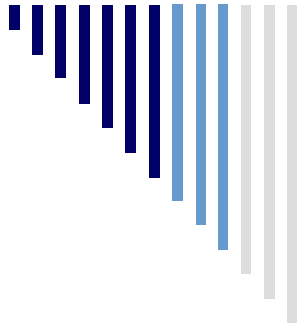


Documentary credit - „L/C“

- A is the written promise of a bank, undertaken on behalf of a buyer, to pay a seller the amount specified in the credit provided the seller complies with the terms and conditions set forth in the credit.
 - Banks act as intermediaries to collect payment from the buyer in exchange for the transfer of documents
 - The terms and conditions of a documentary credit revolve around two issues:
 - (1) the presentation of documents that evidence title to goods shipped by the seller, and
 - (2) payment.
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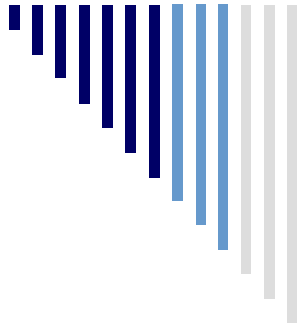


- High level of protection and security to both
 - The seller is assured that payment will be made by a party independent of the buyer so long as the terms and conditions of the credit are met.
 - The buyer is assured that payment will be released to the seller only after the bank has received the title documents called for in the credit.
 - Number of different types of standard and special documentary credits (revocable/ irrevocable, confirmed/ unconfirmed)
 - The most popular variation for sellers is the irrevocable confirmed credit - it cannot be cancelled by the buyer, and a second bank (usually the seller's bank) adds its guarantee of payment to that of the buyer's bank.
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Main Steps

- Contract for sale – payment methods specification
 - Credit application by buyer
 - Issuance of credit by the buyer`s bank
 - Confirmation by the seller`s bank
 - Receipt or review of L/C by the seller
 - Shipment of goods and preparation of documents
 - Examination of documents by the bank
 - Issuing bank reviews the documents
 - Payment
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Parties to the Transaction

- Four main parties - multiple names:



The Buyer (Applicant/Importer)

- Initiates the documentary credit process by applying to his bank to open a documentary credit naming the seller as the beneficiary.



The Issuing (Buyer's) Bank

- Upon instructions from the buyer, the issuing bank (typically the buyer's regular business bank) issues a documentary credit naming the seller as the beneficiary and sends it to the advising bank (typically the seller's bank).



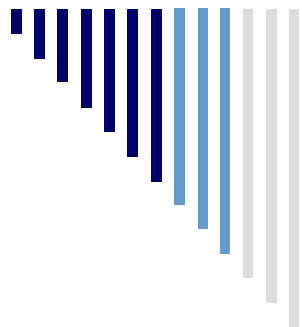
The Advising (Seller's) Bank

- Upon instructions from the issuing bank and the buyer, the advising bank (typically the seller's bank) advises the seller of the credit. The advising bank is typically the seller's regular business bank and is in the seller's country.



The Seller (Beneficiary/Exporter)

- The seller receives notification (advice) of the credit from the advising bank, complies with the terms and conditions of the credit, and gets paid. The seller is the beneficiary of the documentary credit.



Basic Documentary Credit Procedure

□ ISSUANCE

- Issuance describes the process of the buyer's applying for and opening a documentary credit at the issuing bank and the issuing bank's formal notification of the seller through the advising bank.

□ AMENDMENT

- Amendment describes the process whereby the terms and conditions of a documentary credit may be modified after the credit has been issued.

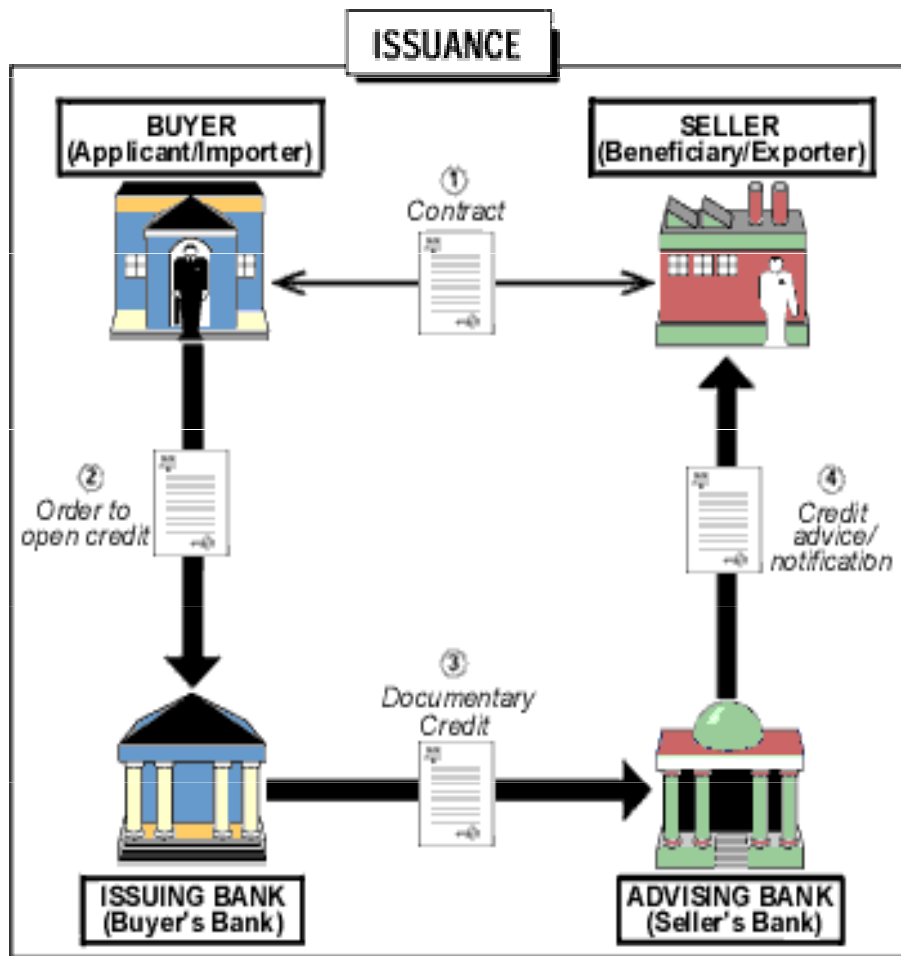
□ UTILIZATION

- Utilization describes the procedure for the seller's shipping of the goods, the transfer of documents from the seller to the buyer through the banks, and the transfer of the payment from the buyer to the seller through the banks (settlement).

□ SETTLEMENT

- Settlement (a subpart of utilization) describes the different ways in which payment may be effected to the seller from the buyer through the banks.
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Issuance



- 1. The buyer and seller agree on the terms of sale: (a) specifying a documentary credit as the means of payment, (b) naming an advising bank (usually the seller's bank), and (c) listing required documents.
- 2. The buyer applies to his bank (issuing bank) and opens a documentary credit naming the seller as beneficiary based on specific terms and conditions that are listed in the credit.
- 3. The issuing bank sends the documentary credit to the advising bank named in the credit.
- 4. The advising bank informs (advises) the seller of the documentary credit



Opening a Documentary Credit

□ **The Importance of Wording**

- The buyer should adhere to the greatest extent possible to the terms and conditions of the original contractual agreement
- The specifications clear and concise and as simple as possible.

□ **Refer to Documents**

- The buyer's instructions to the issuing bank in clear, professional wording, referring only to documentation, not to the goods themselves. It is very important to demand documents in the credit that clearly reflect the agreements reached.
- Remember, the banks are concerned only with the documents presented, not with whether a party has complied with the contract clauses when they check compliance with the documentary credit terms.

□ **Be Clear and Concise**

- The more detailed the documentary credit is, the more likely the seller will reject it as too difficult to fulfill. It is also more likely that the banks will find a discrepancy in the details, thus voiding the credit

□ **Do Not Specify Impossible Documentation**

- Not require documents that the seller cannot obtain
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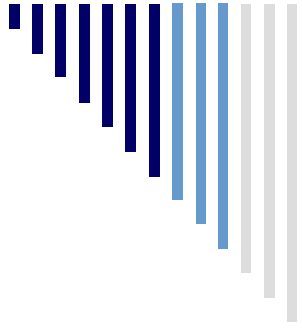
Documentary Credit Application

- Beneficiary:** write the seller's company name and address completely and correctly.
 - Amount:** State the actual amount of the credit, a maximum amount , APPROXIMATE, CIRCA, or ABOUT to indicate an acceptable 10 percent plus or minus, connection with the quantity as well.
 - Validity Period** for presentation of the documents following shipment of the goods should be sufficiently long
 - Beneficiary's Bank:** Either leave blank to indicate that the issuing bank may freely select the correspondent bank or name the seller's bank.
 - Type of Payment Availability:** Sight drafts, time drafts, or deferred payment may be used, as previously agreed to by the seller and buyer.
 - Desired Documents:** The buyer specifies which documents are needed. Buyer can list, for example, a bill of lading, a commercial invoice, a certificate of origin, certificates of analysis, and so on.
 - Notify Address:** An address is given for notification of the imminent arrival of goods at the port or airport of destination. The buyer's business or shipping agent is most often used.
 - Merchandise Description:** A short, precise description of the goods is given, along with quantity.
 - Confirmation Order:** If the foreign beneficiary (exporter) insists on having the credit confirmed by a bank in his or her country it will be so noted in this space.
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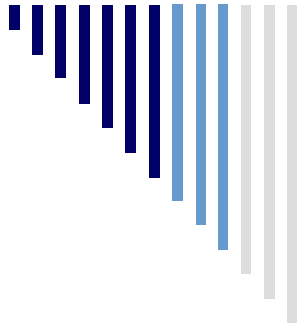
The Issuing (Buyer's) Bank

- Upon receiving the buyer's application, the opening bank checks the credit of the applicant, determines whether cash security is necessary - to evaluate the creditworthiness of the buyer:
 - Excellent: a credit for the full value.
 - Good, but not excellent: percentage of the value of the documentary credit in cash funds.
 - Less established: 100 percent in cash funds in advance.
 - The documentary credit must be in conformity with the underlying sales contract between the parties.
 - If the application is satisfactory to the bank, the buyer and the opening bank will sign an agreement to open a documentary credit.
 - The credit must be written and signed by an authorized person of the issuing bank.
 - The issuing bank usually sends the original documentary credit to the seller (called the beneficiary) through an advising bank, which may be a branch or correspondent bank of the issuing (opening) bank.
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The Advising (Seller's) Bank

- Upon receipt of the credit from the issuing bank, the advising bank informs the seller that the credit has been issued.
- The advising bank will examine the credit upon receipt.
- The advising bank could simply
 - "advise the credit,,: no obligation or commitment to make payment,
 - „confirms“ (adds its guarantee to pay) the seller.
- If the advising bank confirms the credit it must pay without recourse to the seller when the documents are presented, provided they are in order and the credit requirements are met.



Amendment

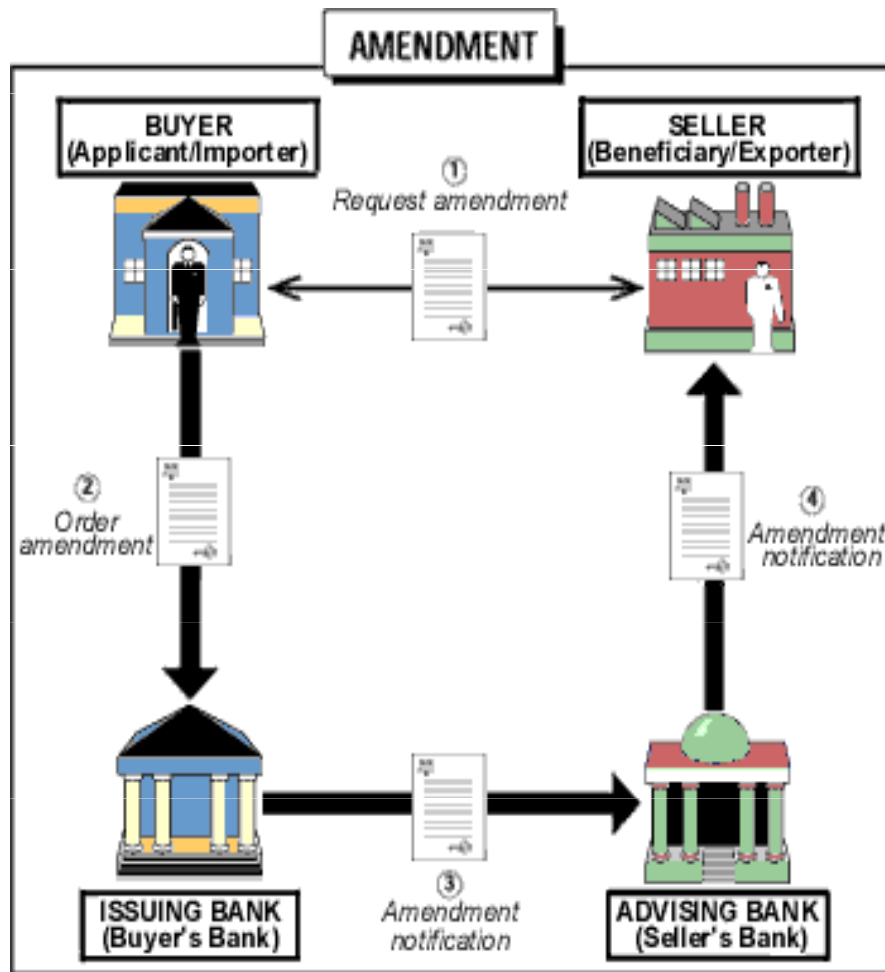
- When the seller receives the documentary credit it must be examined closely to determine if the terms and conditions
 - (1) reflect the agreement of the buyer and seller, and
 - (2) can be met within the time stipulated.

- Upon examination, the seller may find problems.

- If the seller still wants to proceed with the transaction, but with modification to the terms of the credit, he or she should contact the buyer immediately and **request an amendment.**

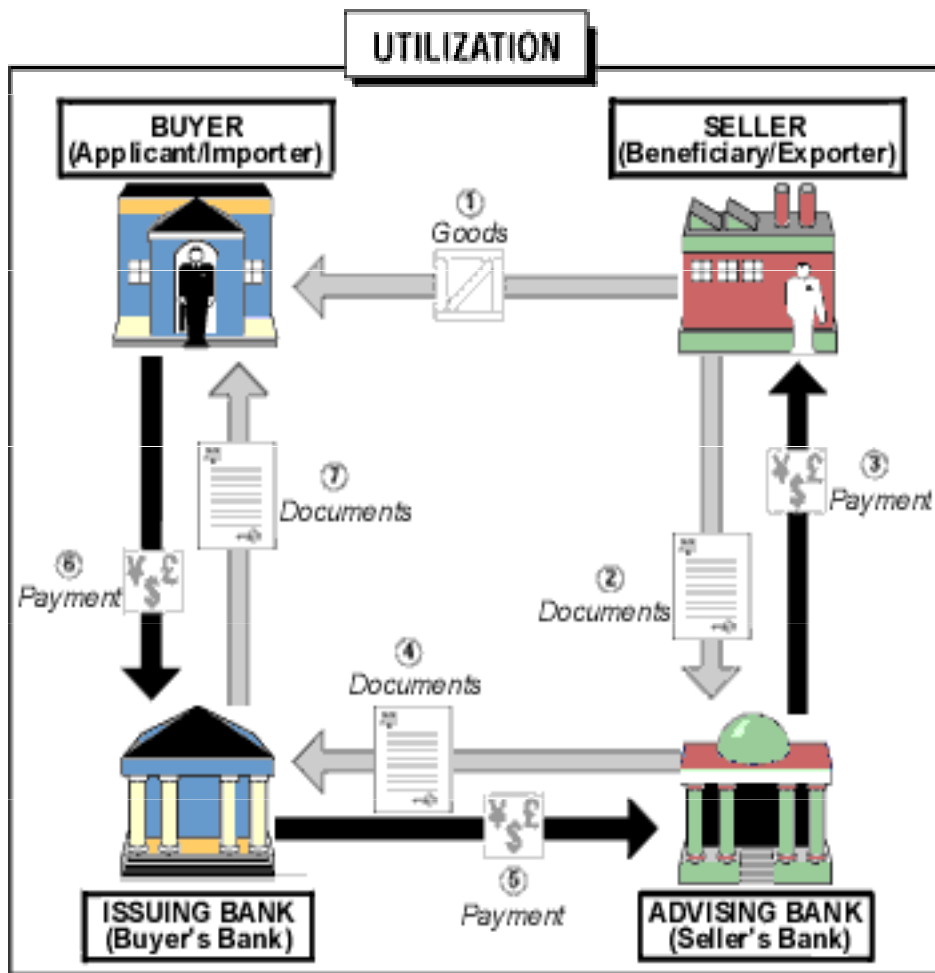
- Amendments must be authorized by the buyer and issued by the issuing bank to the seller through the same channel as the original documentary letter of credit. This can be an involved undertaking so any amendments should be initiated only when necessary and as soon as a problem is identified.

Amendment



- 1. The seller requests that the buyer make an amendment to the credit. This can be effected by a telephone call, a fax letter, or by face-to-face negotiation.
- 2. If the buyer agrees, the buyer orders the issuing bank to issue the amendment.
- 3. The issuing bank amends the credit and notifies the advising bank of the amendment.
- 4. The advising bank notifies seller of the amendment.

Utilization



- 1. The seller (beneficiary) ships the goods to the buyer and obtains a negotiable transport document (negotiable bill of lading) from the shipping firm/agent.
- 2. The seller prepares and presents a document package to his bank (the advising bank)
- 3. The advising bank (a) reviews the document package making certain the documents are in conformity with the terms of the credit and (b) pays the seller (based upon the terms of the credit).
- 4. The advising bank sends the documentation package by mail or by courier to the issuing bank.
- 5. The issuing bank (a) reviews the document package making certain the documents are in conformity with the terms of the credit, (b) pays the advising bank (based upon the terms of the credit), and (c) advises the buyer that the documents have arrived.
- 6. The buyer (a) reviews the document package making certain the documents are in conformity with the terms of the credit, and (b) makes a cash payment (signs a sight draft) to the issuing bank,
- 7. The issuing bank sends the document package by mail or courier to the buyer who then takes possession of the shipment.

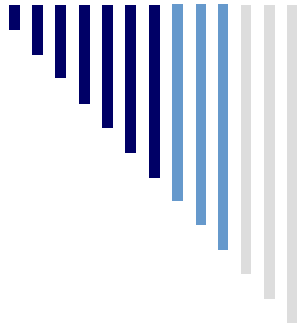


Limitations of Letters of Credit

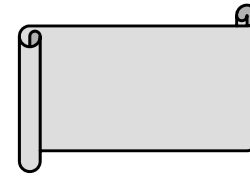
- Do not ensure the conformity of goods with the contract provisions
- Do not insulate buyers and sellers from other disagreements or complaints arising from their relationship.
- It is up to the parties to settle questions of this nature between themselves.
- Banks deal with documents and not goods
- Banks are not concerned if a shipment is in conformity with the documents, only that the documents are in conformity to the wording of the credit.



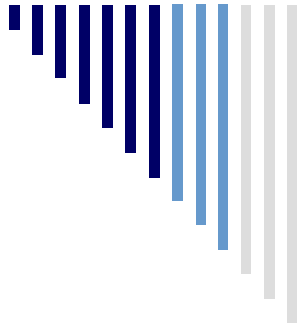
Fundamental principles!



UCP 500

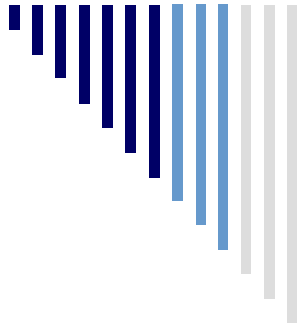


- ❑ The Uniform Customs and Practice for Documentary Credits
- ❑ Internationally recognized codification of rules unifying banking practice regarding documentary credits
- ❑ Developed by a working committee attached to the International Chamber of Commerce (ICC)
- ❑ Example of how the international business self-regulation can be more efficient than treaties
- ❑ The most successful act of commercial harmonisation in the history of world trade



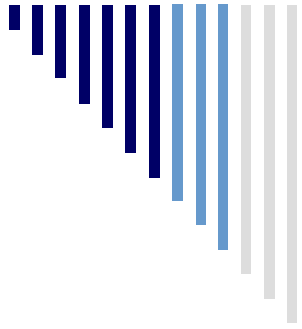
UCP 500

- ❑ Ratification of an international treaty can take decades
- ❑ UCP 500 is not binding law, but applies because the banks voluntarily incorporate it into the contracts
- ❑ In essence codifications of actual business practices, based on experiences of trade banks, exporters and importers
- ❑ Periodic revisions
- ❑ Statement that the L/C will be subject to UCP
- ❑ In some countries recognised as having force of law or at least that of trade custom, in other is necessary the explicit inclusion



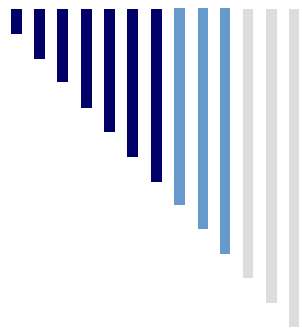
UCP 500 - rules

- Credit is deemed to be irrevocable when it is silent in this respect
- The bank examining the documents has reasonable time to control the documents – seven banking days following the receipt of the documents
- The compliance of the documents with the terms of „L/C“ will be judged according to international standart banking practice



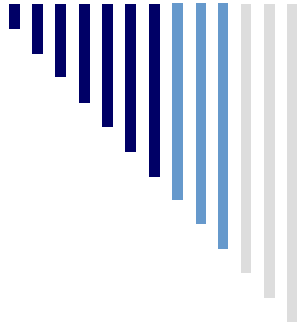
Types of L/C

- Revocable vs. Irrevocable Documentary Credits
- Confirmed vs. Unconfirmed Documentary Credits
- Special Letters of Credits
 - Standby Credit
 - Revolving Credit
 - Red Clause Credit
 - Transferable Credit
 - Back-to-Back Credit



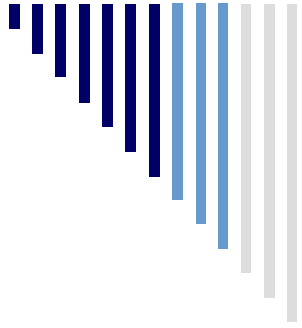
Complying With the Documentary Credit -checklist

1. The buyer's and seller's names and addresses are correct.
2. The amount of the credit is in accordance with the contract, including unit prices, shipping charges, handling costs, and total invoice amounts.
3. The merchandise description is consistent with the sales contract.
4. The credit's payment availability agrees with the contract conditions.
5. The shipping, expiration, and presentation dates allow sufficient time for processing the order, shipping the merchandise, and preparing the documents for presentation to the bank.
6. Partial or transshipments are specified correctly.
7. The point of dispatch, taking charge of the goods, loading on board, or of discharge at final destination are as agreed.
8. Insurance coverage and party to pay charges are as agreed.
9. Instructions on whom the drafts are to be drawn, and in what tenor (maturity dates), are correct.
10. The credit is confirmed or unconfirmed as agreed.
11. There are no unacceptable conditions.
12. The specified documents can be obtained in the form required. 1
13. The issuing (or confirming) bank is known to the seller.



Golden Rules for Seller

- Make sure that you have implemented a good document and verifications system
- Specify precisely the type of credit that you require
- Carefully evaluate the credit as soon as you receive it. Request the buyer to amend it if you think you may have difficulty to comply with
- Prepare exact documents
- Verify if you need Insurance certificate or Insurance policy
- Present documents well before the time limits
- Is your company properly listed as the beneficiary?
- If possible, ensure that you have one person who has central responsibility for controlling L/C.



Golden Rules for Buyer

- Do not include excessive details, avoid complex technical specifications
- Make sure that the credit exactly reflects the contract
- Do not include non-documentary provisions
- Do not include documents the seller can not provide
- Request the bank for advice or assistance
- Consider whether you will use L/C without using any inspections certificate