

# Letter Of Credit



PRESENTED BY:  
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# Define Letter Of Credit

- ▶ Rules are issued and defined by the International Chamber of Commerce through their Uniform Customs & Practice for Documentary Credits (UCP 600)-Article 2
- ▶ The letter of credit is a written promise on behalf of the buyer (importer) by the buyer's bank to make a payment to the seller (exporter) / beneficiary, subject to the fulfillment by the seller of certain conditions.

**(MUST BE ON BANK LETTERHEAD)**

**IRREVOCABLE LETTER OF CREDIT**

Issue Date: \_\_\_\_\_

Irrevocable Letter of Credit # \_\_\_\_\_

Beneficiary:  
Town of Collierville  
500 Poplar View Parkway  
Collierville, TN 38017

Applicant:  
Name \_\_\_\_\_  
Street Address \_\_\_\_\_  
City, State & Zip \_\_\_\_\_

Amount: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

We hereby issue in your favor this Irrevocable standby Letter of Credit which is available by payment of your draft at sight drawn on **(Name of Bank)** bearing the clause "Drawn under Letter of Credit **(Number of Letter of Credit)** issued by **(Name of Issuing Bank)**" when accompanied by the following documents:

1. An official statement from the Town of Collierville that **(Applicant's Name)** has failed to comply with the terms of its development contract with the Town of Collierville in regard to the project known as **(Project name as it appears on the Development Agreement)**.
2. The original Letter of Credit.

Presentation of this Letter of Credit for payment may be made at the office of \_\_\_\_\_ **(Bank)** at \_\_\_\_\_ **(Address)** by causing same to be delivered by recognized national carrier without the necessity of the physical presence of a representative of the Beneficiary. The Issuer and the Beneficiary agree that any litigation with regard to this Letter of Credit shall be held before a Court of appropriate jurisdiction in Shelby County, Tennessee.

This Letter of Credit **(Number)** is valid for one calendar year from **(Date of Issue)** and is automatically renewable for additional one-year periods without any effort on the part of the Town of Collierville until the aforesaid development contract is satisfied in full.

Should **(Name of Bank)** decide not to renew this Letter of Credit **(Number)**, **(Bank)** agrees to notify the Town of Collierville in writing ninety (90) days prior to its expiration date, certified mail return receipt requested, at which time the Town of Collierville can draw up to the full face value of the Letter of Credit **(Number)**.

# Parties To A Letter Of Credit

- **Applicant/Buyer/Importer**
- **Beneficiary/Seller/Exporter**
- **Issuing Bank**
- **Advising Bank**
- **Confirming bank**
- **Nominated Bank**
- **Reimbursing Bank**

# Parties To A Letter Of Credit

- ▶ **Applicant** : Applicant: means the party whose credit is given upon request.

=The buyer, or customer, Applicant.

- ▶ **Beneficiary**: Means the party to which a credit is given in favor of

= Seller of the goods, or the service provider.

# Parties To A Letter Of Credit

## Issuing Bank

- ▶ Issuing Bank is a bank which at the request of an applicant or on his own behalf, issues a letter of credit.

## Advising Bank

- ▶ It is normally a corresponding international bank of the issuing bank
- ▶ Responsible for the dispatch of documents to the issuing bank
- ▶ If the issuing bank does not pay the beneficiary, it has no duty to do so.

# Parties To A Letter Of Credit

## Confirming Bank

- ▶ Correspondent bank may confirm at the request of the issuing bank

- ▶ once it adds its confirmation is irrevocably bound to honor or negotiate even if the issuing bank fails to honor, confirming bank must pay to the beneficiary.

--The Advising Bank is generally the Confirming Bank, but it ensures that the credit exists.

## Nominated bank/Reimbursing Bank

- ▶ The nominated bank is the bank for which the credit is available or in the case of a loan, any bank with whatever money is available.

- ▶ A bank advised and/or approved to provide reimbursement under a reimbursement authorization provided by the issuing bank shall be referred to as the reimbursing bank.



# Types of Letter of Credit

- ▶ **Irrevocable letter of credit :**

(UCP-600 Article 3 states that even though there is no indication to that effect, a credit is irrevocable. It therefore means that there is only one form of credit, called an Irrevocable Letter of Credit, under UCP-600)

# Types of Letter of Credit

- ▶ **Revocable letter of credit**
- ▶ **Sight letter of credit**
- ▶ **Deferred letter of credit**
- ▶ **Confirmed letter of credit :**
- ▶ **Transferred Letter of Credit**
- ▶ **Revolving letter of credit**
- ▶ **Red Clause letter of credit**
- ▶ **Green Clause letter of credit**
- ▶ **Back to Back Letter of Credit**
- ▶ **Standby letter of credit**

# Types of Letter of Credit

## Revocable letter

- ❖ Can be altered at any time by the issuing bank or buyer without any notification to the seller/beneficiary.
- ❖ Rarely used as beneficiary is not provided any protection

## Sight letter

- ❑ Demand payment on the submission of required documents.
- ❑ Bank review the documents and pays the beneficiary if the documents meets the condition of the letter

## Deferred letter

- Ensures payment after a certain period of time
- Bank may review the documents early and payment is made after the agreed time passes.

# Types of Letter of Credit

## Confirmed letter

- ❖ Advising bank at the request of issuing bank makes an addition of confirmation that payment will be made
- ❖ Confirming bank is liable in the same way of issuing bank.

## Transferred Letter

- ❑ Transferred by the beneficiary in whole or part to a second beneficiary which is supplier to the seller and cannot transfer it further to another beneficiary

## Revolving letter

- ❑ For different payments, a revolving letter of credit may be used for
- ❑ This form of letter of credit enables companies to use a single letter of credit before the letter expires (typically up to one year for various transactions).

# Types of Letter of Credit

## Red Clause letter

- ❖ The recipient pays partly before the items are delivered or the services are carried out.
- ❖ The advance is paid against the written confirmation from the seller and receipt.

## Green Clause letter

- ❑ Pays advance payments to the vendor not only against the written undertaking and receipt, but also against evidence of warehousing of the item.

## Back to Back Letter

- ❑ A back to back letter of credit enables buyers and sellers to be connected by intermediaries. Two letters of credit are used to compensate each party individually: the buyer pays an intermediary, and the intermediary pays the supplier.

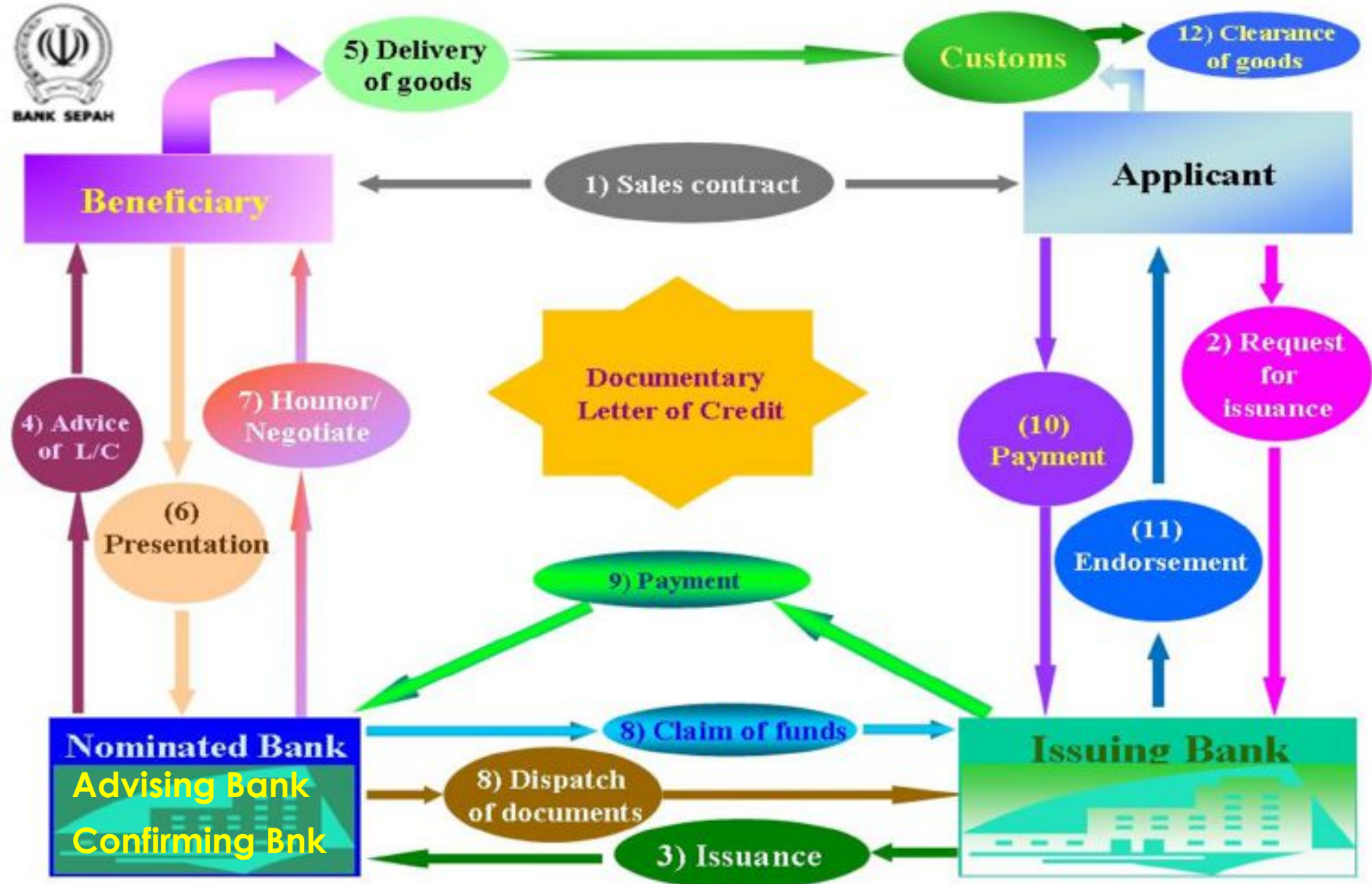
# Types of Letter of Credit

## **Standby letter of credit**

- ▶ Like a performance bond or guarantee issued by the bank in the form of LC
- ▶ Beneficiary can ask claim by providing required documents as mentioned in the LC documents.

# Process of letter of Credit

(collected)



# Requirements for documents presented

- ▶ **Commercial invoice:** Description of merchandise, price, FOB origin, name and address of the buyer and seller. The commercial invoice shall comply with that which appears in the LC (Article 18 UCP 600)
- ▶ **Transport documents (e.g. bill of lading):** transport documents and insurance documents must be dated, clean and signed and indicate the name of carrier.
- ▶ **Originality:** Needs original documents (Article 17 UCP 600)
- ▶ **Compliance:** Unless the misdescription or typing mistake is deemed to be insignificant, documents must strictly adhere to the terms of the LC.



# Continued..

- ▶ **Timing of presentation:** documents must be sent (as the case may be to the verifying or issuing bank within the time limits laid down in the LC and 21 calendar days after the date of shipment. (Article 14(c) of UCP 600)
- ▶ **Consistency:** “The data in a document, when read in relation to the credit, the document itself and the standard international banking practice, need not be the same as, but must not conflict with the data in that document, any other document or credit stipulated in the document.” (UCP 600 Article 14(d))

# Discrepancies

- ▶ If documentary presentations do not specifically comply with the criteria, they are deemed discrepant.

**Ten popular discrepancy examples include: :**

- ▶ The value of the invoice exceeds the available sum under the LC
- ▶ If the Bills of lading are not clean

- ▶ If Bills of lading are not endorsed
- ▶ Lading charges are levied "to order"
- ▶ Not all records required by the LC are submitted
- ▶ Documents are "stale dated," that is not submitted within a fair period of time following issuance.

# CONTINUED..

- ▶ As specified in the LC, the invoice does not specify the terms of shipment (CIF, FOB, etc.).
- ▶ As the LC requires, the invoice is not signed,
- ▶ If it is Late shipment
- ▶ Shipment to/from wrong ports

# Treatment of discrepancies

- ▶ Article 16 of UCP 600 deals with contradictory records, waivers and notices.
- ▶ **Refuse** to honour the credit
- ▶ Ask the claimant for an exemption from the inconsistencies
- ▶ If the bank declines to honor the credit, it must send a notice stating this and suggesting any discrepancy that the bank keeps the documents awaiting further orders from the presenter or the applicant's waiver.

# Remedies in terms of fraud

- ▶ **Claim damages** under Articles 35-37 of CISG if the goods do not conform to the contract.

Seek injunction:

- ▶ UCP600 does not allow
- ▶ Discretionary of the court

## Alessandra Yarns LLC v Tongxiang Baoding Textile Co

- ✓ Doubtful case
- ✓ Evidence of fraud
- ✓ Urgency
- ✓ Irreparable loss



Thank You