

Letter of Credit and implications of UCP 600

FIEO (Northern Region) organized a workshop on “International Terms of Payments – Letter of Credit and Implications of UCP 600” on January 5, 2012 in New Delhi. The main objective of the session was to help the exporters understand the implications of new UCP – the abbreviated form of Uniform Customs and Practice for Documentary Credits – rules and the intricacies of opening L/Cs with the banks as required for international trade. Prof. Harkirat Singh of the Indian Institute of Foreign Trade (IIFT), Mr T.S. Ahluwallia, Managing Committee Member, FIEO, and Mr Sunil Agnihotri, Jt. DDG, were also present in the meeting.

Mr Ahluwallia, while welcoming the participants, informed about the usefulness of doing business under the Letter of Credit mechanism. He said payment is most secure under Letter of Credit payment terms, because the buyer is taken out of the loop and the bank has to make the payment on the basis of complied presentation of documents.

The latest version of UCP 600 has been in force since 2007. UCP is a set of rules which governs the issuance and use of letters of credit. Historically, the commercial parties, particularly banks, have developed the techniques and methods for handling letters of credit in international trade finance.

The role of any payment method is to compensate the seller for his efforts while the buyer would like to protect his interest in getting the products of desired specifications. The L/C is a promise made by a bank to pay the seller the amount as mentioned therein on complying the terms and conditions mentioned in the L/C. It doesn't have the involvement of the buyer. If the documents are presented fully complying with



From left, Mr Sunil Agnihotri, Jt. Deputy Director General, FIEO(NR); Mr T S Ahluwallia, Member, FIEO Managing Committee; and Mr Harkirat Singh, Professor, IIFT.



A view of the participants.

the terms and conditions mentioned in L/C, the bank can't refuse to pay. It is therefore advisable to read the L/C thoroughly after receiving it and get it amended if there are any discrepancies between the sales contract terms and the L/C.

Some golden rules for getting payment and facts about Letter of Credit

1. Always try to get full payment and on time.
2. Advance payment is the best

payment.

3. Next best payment method is the L/C, but it is not a guarantee of payment. There is no substitute of checking the credentials of the buyer.
4. The basis of L/C is the sale contract. Never agree to the terms and conditions which you can't fulfill as it will become a discrepancy later on.
5. The L/C is the undertaking given

by the bank to make payments to the exporter after the shipment of goods, fulfilling terms and conditions. Thus L/C converts goods sales into document sales. Banks deal with documents and not with goods, services or performance to which the documents may relate.

6. All L/Cs are irrevocable unless specified.
7. The L/C should be issued by a bank of repute. The issuing bank is most important as the success of the L/C depends on the issuing bank. It is always advisable to ask from the buyer to get the L/C confirmed from a bank of repute. The confirming bank always makes payment to the beneficiary without recourse.
8. The L/C would be governed by UCP 600 or any other rules when

the text of the L/C expressly indicates that it is subject to these rules.

Conditions for documents to become complied presentation:

1. Documents should be as per the L/C.
2. Documents should be as per UCP 600.
3. International banking practices rules should be followed.
4. There should not be any conflict between the documents and the L/C.
5. The documents should be represented before the expiry date.
6. The bank has 5 banking days to examine the documents after receiving it. On finding any discrepancy, the bank must inform the

presenter to rectify it in writing.

7. If the documents are presented before 5 days or less of the expiry date of the L/C, the bank will still examine the documents in 5 days. If the bank finds any discrepancy, the presenter will not be able to rectify it as the L/C has expired. It is therefore in the interest of the presenter to submit the documents well in advance of the expiry date.
8. The bank has to inform all the discrepancies to the beneficiary in one go. Discrepant documents are the property of the beneficiary.
9. Presenting fewer documents than those mentioned in L/C is a discrepancy. However, giving more information/ documents can't become a basis of discrepancy. ■