为中国人民银行
高级职员开设的
训练计划课程

介绍国际贸易、融资及中央银行业务

一九八五年十月至十一月

国际商业信贷银行

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SPECIAL TYPES OF DOCUMENTARY CREDITS

TRANSFERABLE CREDIT

A credit is transferable only if it specifically indicates that it is transferable. The transferable credit is usually established when the first beneficiary is not supplying the goods himself but wishes to transfer part or all of his rights and responsibilities under the credit to one or more second beneficiaries who will supply the goods. The first beneficiary will instruct the bank with which the credit is available to advise the 2nd beneficiary the amount to be transferred and the terms and conditions of the credit. The credit terms advised in the transferred portion must be identical with those of the principal credit, except that, if so requested by the beneficiary :

- the name and address of the first beneficiary may be substitute for that of the applicant on the second beneficiary' invoices

- the amount of the credit and any unit price stated may be reduced in the transferred portion so that the first beneficiary can draw the difference as his profit

- the period of validity and latest shipment date may be shortened

After receiving a transferred portion of the credit, the second beneficiary may present his shipping documents, in accordance with the credit terms, for payment, negotiation or acceptance..

A transferable credit is often used when the first beneficiary is the agent of, or principal supplier to, the applicant, for goods stated in the credit. These credits are sometimes issued for very large amounts, and are occasionally known as 'shopping bag' credits. Under a shopping bag credit, the first beneficiary will be responsible for distributing the portions of the credit to various suppliers via the advising bank. Depending on the contractual relationship between the applicant and first beneficiary, the first beneficiary may be the commercial attache of the applicant's country, or the principal supplier, or the applicant's representative agent or subsidiary company.

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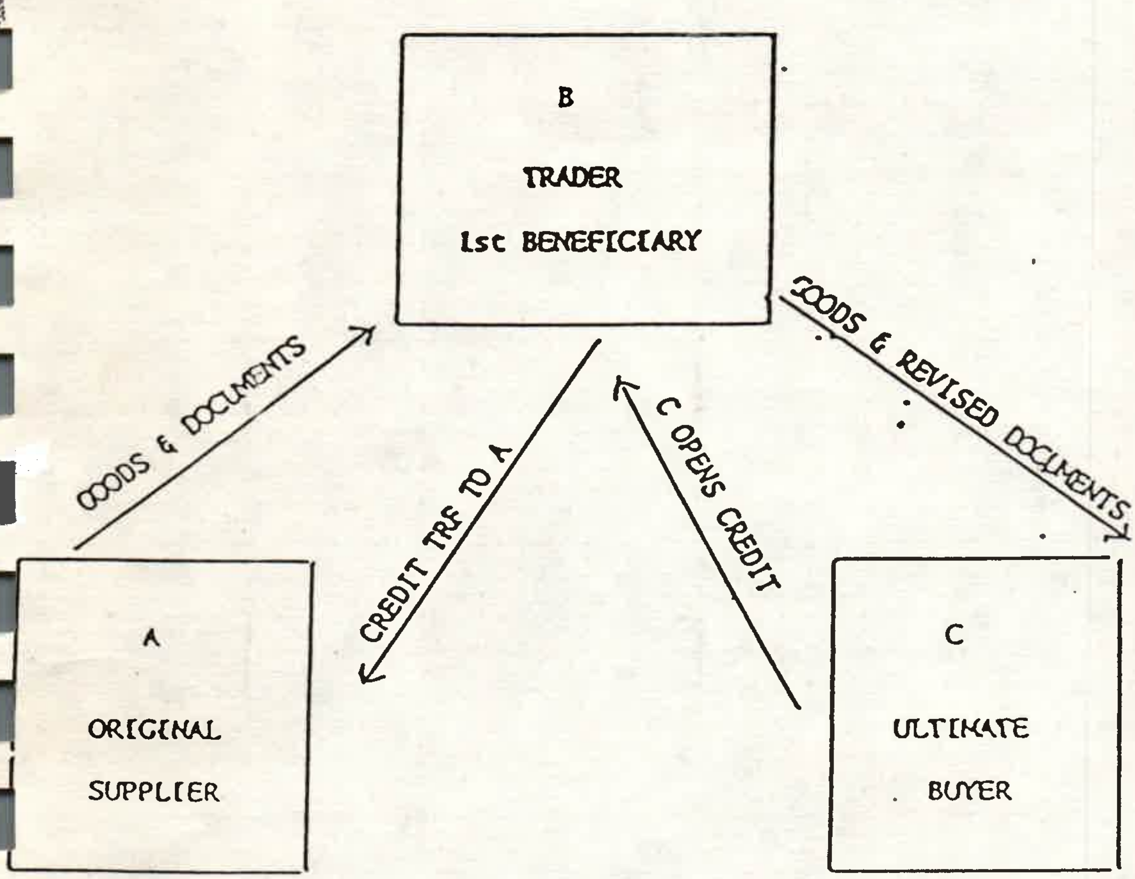

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LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

INTERNATIONAL CHAMBER OF COMMERCE

Introduction :

The International Chamber of Commerce is the world business organization. It acts to promote the greater freedom of world trade, to harmonize and facilitate business and trade practices, and to represent the business community at international levels. The ICC is represented by National Committees or Councils in nearly 60 countries and has members in over 40 others. Its International Secretariat is based in Paris.

Uniform Customs and Practice for Documentary Credits ICC 400

The Uniform Customs and Practice for Documentary Credits were propsed by the ICC Commission on Banking Technique and Practice. This Commission brings together bankers from throughout the world with the object of :

- defining, simplifying and harmonizing the practices and terminology used in international banking;

- expressing the views of bankers before relevant international organizations in particular the United Nations Commission on international Trade Law (UNCITRAL);

- serving as a forum for bankers to discuss common problems.

Each ICC National Committee may appoint members of the Banking Commission, and of the twenty other ICC Commisssions covering most subject areas of interest to international business.

Seminars and concerences on practical aspects of the application of the UCP are also held every year in numerous countries.

The 1983 Revision of UCP

The uniform customs and Practice for Documentary Credits were first published in 1933. Revised Versions were issued in 1951, 1962 and 1974. The Current revision was adopted by the ICC Council in June 1983 and first published as Publication No. 400 in July 1983. The English language edition of publication 400 gives the original text of the 1983 Revision. Official French, German, Spanish and Arabic translations are also published. The 1984 Session of United Nations Commission on International Trade Law (UNCITRAL) formally endorsed the Revision.

Banks in 165 countries adhere to the 1983 Revision. The UCP do not apply atuomatically under law but must be incorporated into the contract between the parties. Although the United States adheres to 1983 Revision, the Uniform Commercial Code, Art 5 contains overriding provisions as to Letter of Credit in Sections 5-101 to 5-117.

ICC Court of Arbitration. The Court is the leading body in international commercial arbitration. Founded in 1923 by businessmen to settle international disputes of a business character, its impartiality is now recognized everywhere. The Court receives over 250 new cases each year, involving parties in some 80 countries, and arbitrations are held throughout the world.

Countless thousands of business contracts incorporate the standard ICC arbitration clause :
"All disputes arising in connection with the present contract shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the Rules".

Internation Centre for Technical Expertise. Offers parties to international contracts the possibility of recourse to independent experts.

Standing Committee for the Regulation of Contractual Relations. Offers facilites for nomination of independent experts qualified to adjust a contract.

ICC/CMI International Maritime Arbitration Organization. Administers rules prepared specifically for the needs of the maritime transport sector.

Institute of International Business Law and Practice. Organizes regular seminars on international commercial arbitration and other subjects. Conducts research projects, eg. legal judgements concerning international trade usages, arbitration and state enterprises, etc.

LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

PURPOSE AND FUNCTIONS OF A CREDIT

Documentary credit is a compromise between banks for settlement of international debts. This compromise can bride the conflicting problems in a trading transaction between buyer and seller. Letters of credit are used when the relationship between buyer and seller is one of less than complete confidence, either, because bsuiness between them is irregular or because the trading situation is disturbed.

The buyer is anxious to receive the goods he has ordered in good condition before a stipulated date so that he may be granted appropriate time to pay for them.

Seller wants to ensure that the goods he is selling will be paid for and, particularly in the case of an international transaction.

It is prudent commercial practice for potential buyers and sellers to take out status reports on one another through banking channels, should either party be in doubt as to the competence or ability of the other to fulfil the terms of the sale contract, even though agreement may have been reached for settlement on a documentary credit basis.

Under letters of credit banks agree to effect payment to a seller against presentation of documents relating to goods specified by the buyer. These documents must conform to the requirements and conditions as spelt out in the credit.

Banks are in on way bound by, and therefore not concerned with, the underlying sales contract upon which the credit requirements are based. If wrong or inferior goods are shipped, but the documents appear to be in order, then the buyer is forged.

PAYMENT FEATURES

International trading under the auspicies of letters of credit offers a variety of payment features. There are essentially three broad categories and the availability of an advantageous combination of these three features determines the satisfactory culmination of a sales contract between the parties. These fategories are :

Security of payment
Speed of payment
Convenience of payment

Security of Payment

The understanding or commitment of bank in a letter of credit is firm and definite. The inherent promise however can either be diluted or strengthened by qualifying the commitment with either of the following terms revocable, irrevocable and confirmed.

- A revocable credit that can be amended or cancelled without prior notice by any one of the parties is least secure, sellers therefore need to examine letter of credit minutely because clues to revocablily are not easy to find.

- An irrevocable credit is a futher affirmation of Issuing Bank's Contractual obligation and its terms are alterable only in case of unanimous agreement of all parties - therefore this is more secure that the above. In the event of dispute over right of payment and especially if Issuing bank is overseas, the security of receiving payment dimmish.

- Irrevocable and Confirmed: The seller obtains maximum possible assurance under a credit that is not only irrevocable but is also confirmed for payment by another bank. This compound payment feature is twice as twice as/

secure as an unconfirmed credit since the confirming bank offers an dependent assurance in addition to issuing banks undertaking.

Security of Payment can be seriously affected in the event of dispute if the banks that are legally bound to pay are outside the jurisdication of the beneficiary's legal system. Therefore the need for confirmation to be done locally.

Speed of Payment

Letters of credit offer many opportunities for negotiating a fair balance between an account party's usual desire for extended payment terms and a beneficiary's usual wish for immediate payment. Since access to cash is valuable, both parties should know which payment feature offers them maximum freedom to advance of retard the moment of payment. Whatever payment date or schedule the principals agree upon will be strictly observed by the participating banks, within the limits of standard letter of credit procedure, and assuming full compliance with the letter of credit terms by the beneficiary.

In every letter of credit, a choice must be made between specifying the beneficiary's demand for payment as payable "on sight", or at some discernible "time" (date) in the future. This choice is likely to have the most immediate impact on the speed of payment".

If the sight payment feature is chosen, the beneficiary's demand for payment must be paid as soon as his documents have been examined and proved to be in compliance with the letter of credit terms.

If the time payment feature is chosen, the buyer obtains extended payment terms. However, the time payment feature may or may not be available to him, depending on (1) the terms of his credit line with the issuing bank, and (2) the willingness of the beneficiary to wait for payment.

for payment/

A number of different considerations influence the actual speed of payment. These are :

The place and manner of expiry :

Letters of credit that expire in the country of beneficiary may speed up payment.

Payment is faster is a nearby bank is authorised to :

(a) examine the documents and if in order

(b) Pay, accept or negotiate without waiting for reimbursement from a a distance-issuing bank.

The location of a confirming bank :

The nearer the location of beneficiary to the confirming bank the faster is the payment process, since the confirming is both authorised and obliged to pay if documents are in order.

The negotiation clause :

Free negotiation clause as against restricted negotiation clause enables the beneficiary to obtain payment faster.

Convenience of Payment

Letter of credit will permit the beneficiary to present documents to a bank of his choice or it will not. A credit that does not permits presentation of documents to any bank besides the issuing bank are 'straight' credits and credits thatpermit presentation to other banks are 'negotiation' credits.

Straight letter of credit are those that do not permit negotiation and therefore the beneficiary cannot choose bank of his convenience for presentation of documents. He can only submit documents to the issuing bank or the authorised correspondent. Any bank choosing to negotiate the beneficiary's draft under such a credit will have no claim directly against the issuing bank.

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issuing bank/

There are, alternatively, 'Negotiation Credits' whereunder the issuing bank's engagement is not confined to the beneficiary alone, but extends to any bank which is the bona fide holder othe the beneficiary's draft, provided also it is able to tender its documents stipulated by the credit.

In a negotiation credit beneficiary's arrangement with the applicant will either expand or limit his choice of banks depending upon which of the two payment features they agree to.

Whether it is free or 'restricted' negotiation. A free negotiation will enable the beneficiary to present documents to a friendly bank besides allowing for shopping for better rates. In a 'restricted' situation, it is less convenient though marginally it may speed up the transmit that of documents.

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LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

The confirmed L/C gives the seller the greatest protection. He has the commitment of two banks agreeing to make payment. The confirming bank will pay even if the issuing bank cannot or will not pay for any reason whatsoever. Thus, the seller not only has the obligation of the foreign issuing bank but also of a bank with which he is familiar and whose credit he trusts. (The issuer being a foreign bank may not be known to the seller while the confirming bank usually being located in the seller's country is known to the seller.) In addition, since the confirming bank will be located in the seller's country, the seller is protected against whatever political risk there may be, i.e. the possibility that the importer's country will restrict or prohibit payments in foreign exchange to persons in the seller's country. A bank which is asked to confirm credits will examine the following risks :

(a) the financial standing of the issuing bank
(b) the economic and political state of the issuing bank's country

LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

ROLE OF ADVISING BANK

In most documentary credit transactions the issuing bank requests a bank carrying on business in the seller's country (the advising/correspondent bank) to advise the credit to the seller/beneficiary and to pay or to accept drafts or to purchase/negotiate in accordance with the provisions of the credit.

In the case of an irrevocable credit the correspondent bank may act as advising bank or confirming bank. Thus an irrevocable credit may be advised to the seller/beneficiary through another bank, the advising bank, without engagement on the part of that bank, but when an issuing bank authorises or requests another bank to confirm its irrevocable credit and the confirming bank does so, such confirmation constitutes a definite undertaking of the confirming bank in addition to the undertaking of the issuing bank, provided that the terms and conditions of the credit are complied with, to pay or to accept drafts or to purchase/negotiate. A revocable credit is of course never confirmed.

The issuing bank may request the correspondent bank to issue a documentary credit in the correspondent bank's name in which case the correspondent bank is a correspondent issuer and the only undertaking that the seller obtains is that of the correspondent issuer.

<u>The contract</u> : The terms of the contract between the issuing bank and the correspondent bank are as set out in the issuing bank's instructions). As between the issuing bank and the correspondent bank the relationship is, unless otherwise agreed, that of principal and agent.

<u>Autonomy</u> : The legal relationship between the issuing bank and the correspondent bank depends solely on the terms of the contract between them and is not affected by the sale or other contract on which the documentary credit transaction is based or by the other contractual relationships of the documentary credit transaction.

ROLE OF CONFIRMING BANK

When an issuing bank authorises or requests another bank to confirm its irrevocable credit and the latter has added its confirmation, such confirmation constitutes a definite undertaking of such bank (the confirming bank), in addition to that of the issuing bank, provided that the stipulated documents are presented and that the terms and conditions of the credit are complied with:

(a) if the credit provides for sight payment - to pay, or that payment will be made;

(b) if the credit provides for deferred payment - to pay, or that payment will be made, on the date(s) determinable in accordance with the stipulations of the credit;

(c) if the credit provides for acceptance - to accept drafts drawn by the beneficiary if the credit stipulates that they are to be drawn on the confirming bank, or to be responsible for their acceptance and payment at maturity if the credit stipulates that they are to be drawn on the applicant for the credit or any other drawee stipulated in the credit;

(d) if the credit provides for negotiation - to negotiate without recourse to drawers and/or bona fide holders, draft(s) drawn by the beneficiary, at sight or at a tenor, on the issuing bank or on the applicant for the credit or on any other drawee stipulated in the credit other than the confirming bank itself [ICC 400 ART 10(B)].

The undertaking of the confirming bank can neither be amended nor cancelled without the agreement of the issuing bank, the confirming bank and the beneficiary. Partial acceptance of amendments contained in one and the same advice of amendment is not effective without the agreement of all the parties [ICC 400 ART 10(d)]. The undertaking of the confirming bank is additional to the undertaking of the issuing bank. A bank does not confirm a credit unless the issuing bank authorises or requests the bank to confirm its irrevocable credit and the latter does so. Where a credit provides that drafts are negotiable by a bank at the sight the mere negotiation by such bank of drafts at sight does not in any sense suggest that the bank is confirming the credit. The reservation by a correspondent bank of a right of recourse against the seller is inconsistent with the concept of a confirmed credit.

FINANCE LOAD VARIATIONS

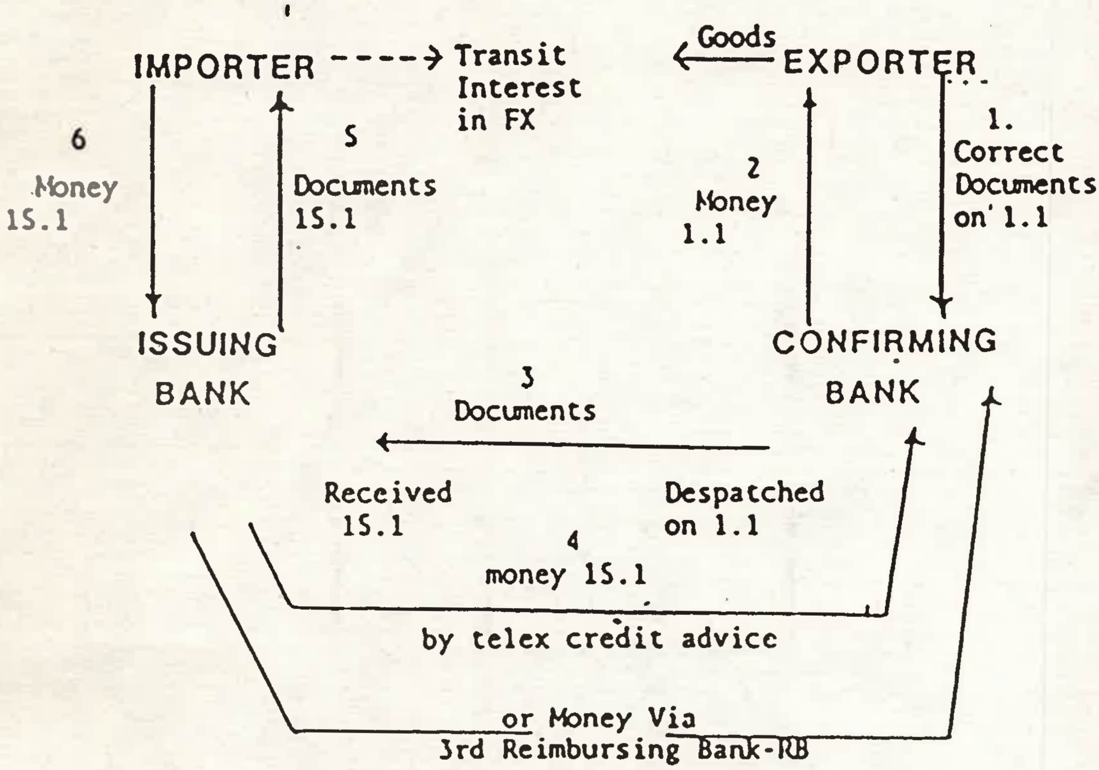
AND

"GARAGING OF INTERNATIONAL TRADE FINANCE"

LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

IRREVOCABLE CONFIRMED NEGOTIATION SIGHT (REIMBURSED) CREDIT WITH BILL ON APPLICANT/ISSUING BANK

There can be several variation in financing load under different credits. Some of these variations are explained below diagramatically. This, in a nutshell, explains how different parties to an export/import transaction can emerge as financiers of pre-post-shipment facility under different type of credits.



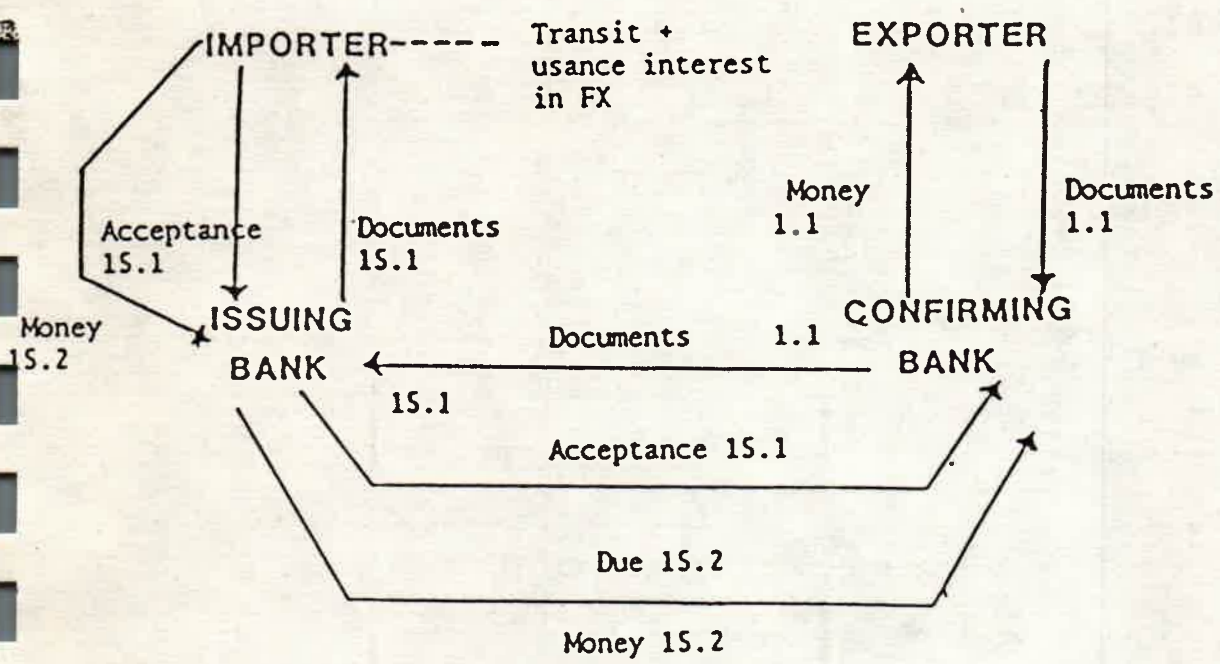
This credit enables under its contractual terms the seller to receive export proceeds immediately on submission of documents to the negotiating bank. Consequently the sellers bank acts as the financier for the transit time, which is in respect of time taken in remitting the document.

Transit time

N.B. This risk relates to the often unquantifiable periods of delay during which documents or funds are in the course of collection or remittance resulting in increased funding costs - a sight collection may take more than 30 days to clear or 30 day usance drawings more than 90 days.

LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

IRREVOCABLE CONFIRMED NEGOTIATION USANCE PAID AT MATURITY WITH BILL ON APPLICANT/ISSUING BANK



Under this credit which is negotiation usance credit with immediate reimbursement,the sellers bank negotiates documents and bill of exchange drawn on the applicant and remmits these documents to the buyers bank and claims immediate reimbursement. At the end of the usance facility the buyer would pay his bank while the sellers bank is reimbursed immediately on a sight basis. Here the sellers bank acts as the financier for the transit time and the usance financing load is carried by the buyers bank.

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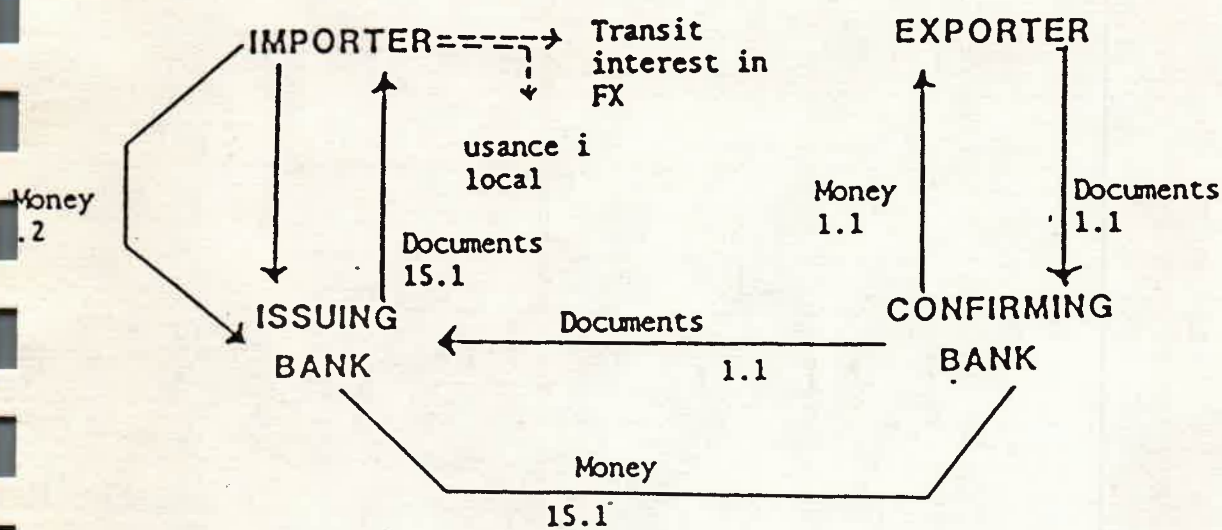
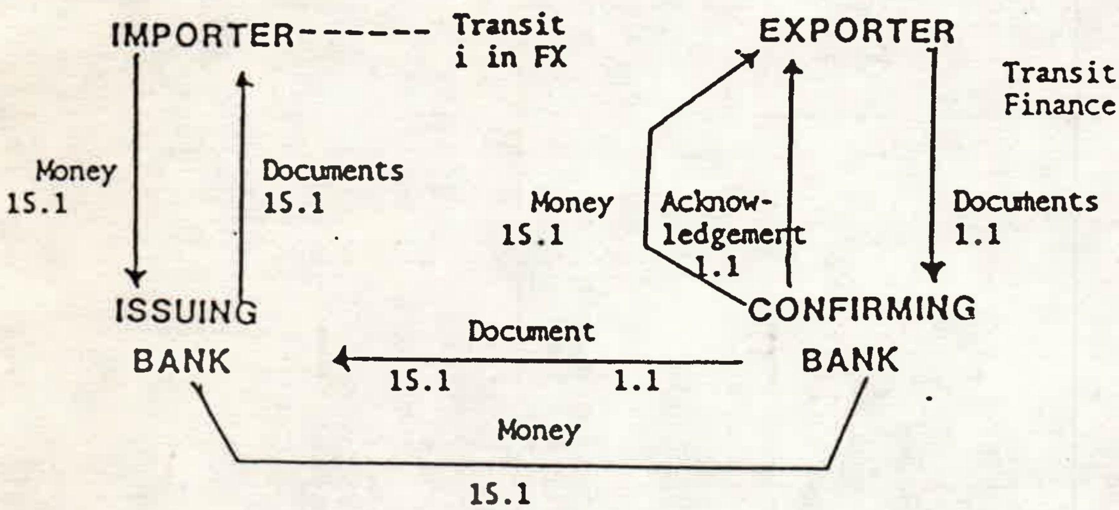
IRREVOCABLE CONFIRMED NEGOTIATION USANCE SIGHT REIMBURSEMENT CREDIT WITH BILL ON APPLICANT/ISSUING BANK



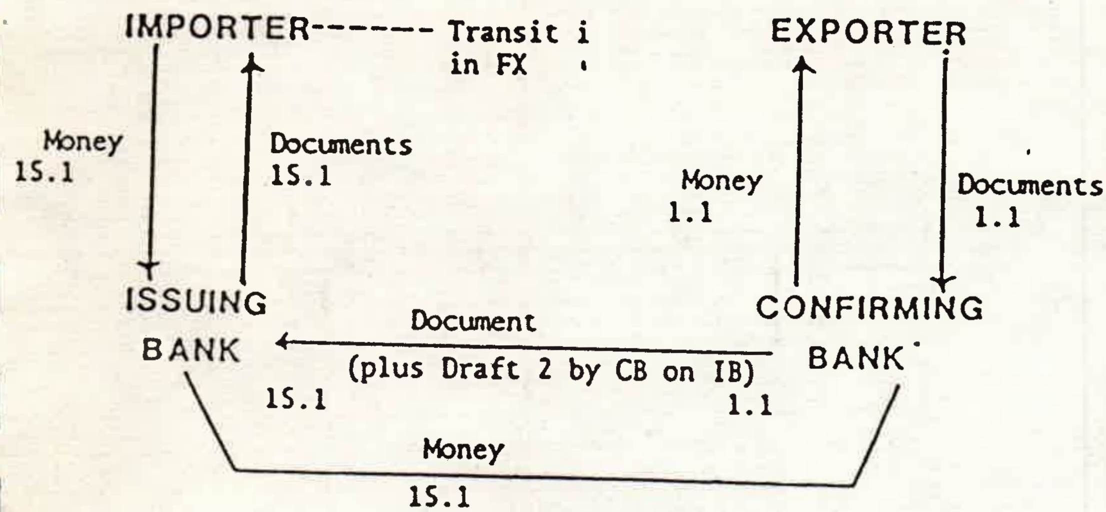
This Letter of Credit is a negotiation credit reimbursed at maturity.Here the sellers bank carries the entire financing load on itself for both transit and usance time period. The buyer and his banker remit funds to the sellers bank at maturity of usance.

IRREVOCABLE CONFIRMED PAYMENT WITH BILL ON APPLICANT/ISSUING BANK



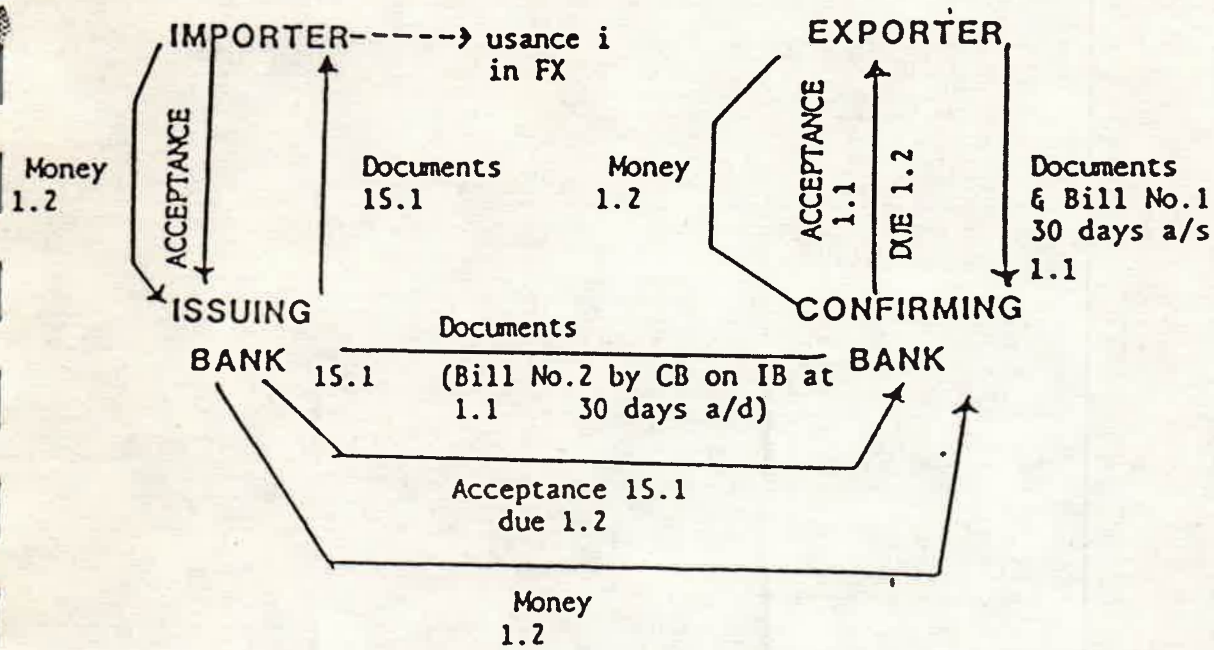
In terms of contractual liability under this payment credit with sight bill on importer or his banker the sellers bank forwards documents to the buyers bank and pays the exporter on receipt of funds. Consequently, under this credit the seller can exercise his option of acting as the financier for the transit time i.e. post poning his receipt for a short duration.

IRREVOCABLE CONFIRMED PAYMENT CREDIT WITH BILL ON CONFIRMING BANK (REIMBURSED)



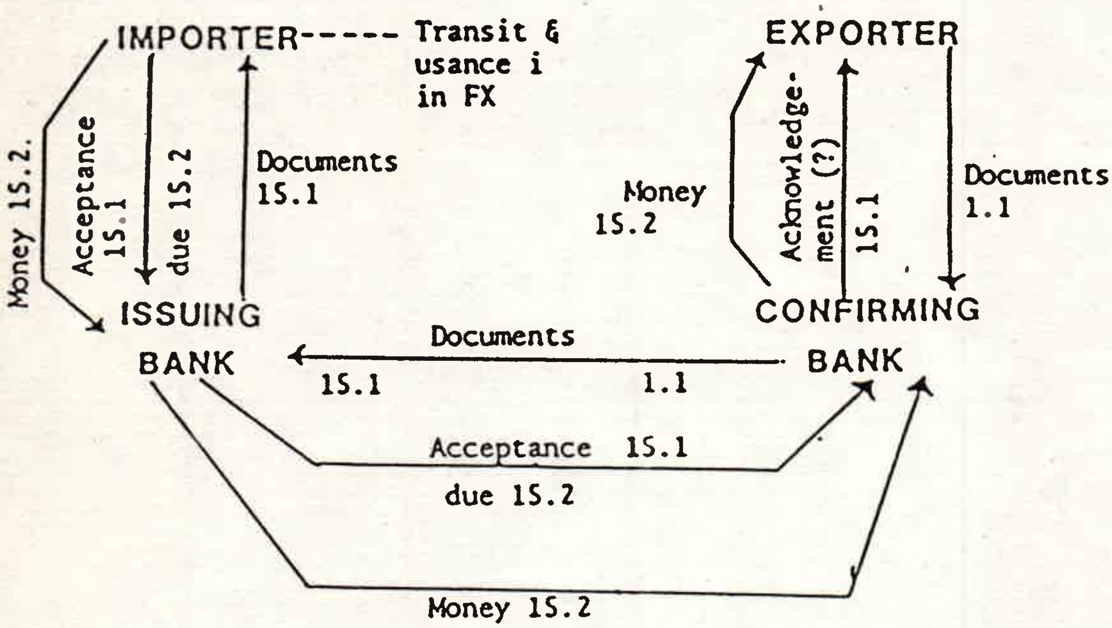
Under this payment credit with bill drawn on the sellers bank the latter makes immediate 'payment' as the 'drawee' and thereafter claims reimbursement from the buyers bank. Hence the sellers bank acts as the (drawee) financier for the transit time period.

IRREVOCABLE CONFIRMED ACCEPTANCE L/C WITH BILL ON APPLICANT/ISSUING BANK



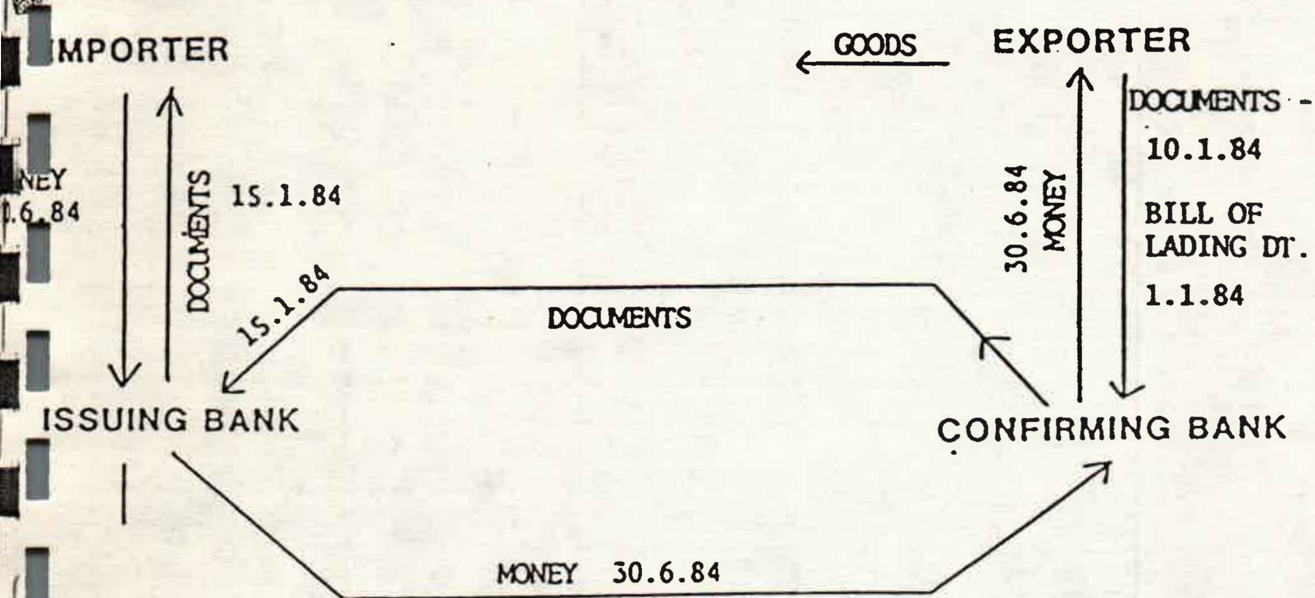
Under this Acceptance credit the sellers bank forwards documents to the buyer's bank and passes on the overseas accepted bill to to the seller who waits for payment at maturity of usance. This is a situation where the seller himself provides the finance to the buyer and prefers to postpone receipt/remain out of fund and thereby increase his bookdebt instead of increasing his cash flow. The seller may then get the overseas accepted bill discounted at the right time when the money market conditions are favourable and return to cash, if necessary. If he does not get his accepted bills discounted then under this credit the seller himself acts as the financier for transit plus usance time.

IRREVOCABLE CONFIRMED ACCEPTANCE CREDIT WITH BILL ON CONFIRMING BANK



Under this credit the seller's bank forwards shipping and other documents to the buyer's bank and directly accepts the bill as the drawee and undertakes to pay at maturity. Consequently, in a situation of an after sight bill on seller's bank the seller acts as the financier and carries the financing load for usance time only. If the seller wishes to obtain cash before maturity of his locally-accepted bill he could return to his banker for getting the bill discounted through the mechanics of 'Own Acceptances Discounted'.

IRREVOCABLE, CONFIRMED, DEFERRED PAYMENT CREDIT
(180 DAYS AFTER B/L DATE)



s another method of payment facility available to the buyer. Under terms of deferred payment L/C, the buyer may take delivery of goods by ing documents and pay later after the expiry of a fixed period of say 180 days after the date of bill of lading or after the date of surrender ocuments to the bank.

ening bank normally will make prior arrangement with the advising bank ry financing of such L/C, so that the exporter may discount the bill obtain payment in advance from the negotiating bank, should he be in f funds. Upon maturity the opening bank will reimburse the negotiating ith the amount of the bill plus interest agreed upon. The interest or unt charges may be on buyer's account or the exporter.

DEFERRED PAYMENT LETTER OF CREDIT

The deferred payment credit developed in the 1950's as a result of specific features of the Far Eastern trade. Its initial function was to meet the need of extending credit terms to importers operating in countries in this region, in which the use of negotiable instruments was uncommon in the context of foreign trade. The beneficiary does not obtain payment when he tenders the documents, but at some later point of time stipulated in the letter of credit. Usually payment is due at a fixed time following either the date of the presentment of the documents or that of the actual shipment of the goods. Furthermore, in many cases payment is due in installments, e.g., 30% of the amount of the credit payable within 30 days after shipment, a further 30% 90 days after that date, and the remaining 40% after the actual delivery of the goods but not later than six months following the date of the bill of lading.
There is no doubt that the arrangement for deferred payment in the context of a documentary credit transaction gives rise to risks. The problems which tend to arise stem from the fact that the goods are usually delivered to the buyer before the date of payment. It is not surprising that if the goods turn out to be defective, the buyer is tempted to resort to any legal steps that may enable him to enjoin payment pending the settlement of his claims against the beneficiary.

However courts of law have always maintained that the basic principle of the autonomy of documentary credits remains intact in deferred payment credits. Deferred payment credit do not have the object of conferring on the buyer a right to examine the goods before the maturity date of the credit with a view to instructing the issuing bank to refuse payment.

The nature of a deferred payment credit and its main function is to grant a period of credit to the buyer. The deferred payment credit saves the buyer from the need of arranging for payment against the tender of the documents. But this arrangement does not result in a modification of the nature of such a documentary credit as there is no ground for disputing that "even in an international sale the buyer might be granted a period of credit with the ensuing effect that the seller would part with the documents before obtaining payment from the issuing bank". The decision demonstrates that the arrangement for deferred payment does not destroy the effectiveness of the beneficiary's rights under a documentary credit. The postponement of the date of payment does not have the object of conferring on the buyer the right to examine the goods before the bank performs its duty to pay. In other words, the deferred credit payment does not purport to afford the buyer the opportunity of stopping the bank from performing its obligation to pay on the basis of any non-conformities in the goods.

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SPECIAL TYPES OF DOCUMENTARY CREDITS

SPECIAL TYPES OF DOCUMENTARY CREDITS

Back to Back Credits

In a back to back credit, the seller as beneficiary of the first credit, offers it as security to the advising/confirming bank for it to open a second credit in favour of the seller's own suppliers. As such these transactions involve two separate documentary credits. The first to be established is in favour of a beneficiary who may not himself wish or be unable to supply the goods, but who asks his bank to issue a credit in favour of another beneficiary who is able and willing to supply the goods. Beneficiary of the first credit becomes the applicant of the second credit.

As against normal credit, in a Back to Back credit the issuing bank of the second credit and the applicant (beneficiary of the first credit) need to pay special attention to the following aspects. All other parties will be concerned with one credit only:-

The issuing bank of the second credit will expect to receive reimbursement for payments it will have to make by presenting the documents, when tendered, under the first credit. The issuing bank of the second credit has to bear in mind that the advising bank under the first credit will not pay for the documents if they are not in order under the first credit. This emphasises the need for the terms and conditions of the second credit to match those of the first credit.

Points that should be noted by the issuing bank and the applicant under the second credit are as follows:-

a. Under a back to back credit the applicant of the second credit requires his bank to take the prime (first) credit as 'security' against which the second credit is to be opened. The issuing bank of the second credit must therefore be sure that reimbursement can be obtained from the advising bank of the prime credit, which is the expected source of funds for their customer.

b. The prime credit should therefore be irrevocable, preferably confirmed and one which authorises the advising bank to pay rather than negotiate documents presented under it.

c. Under a counter credit the bank issuing the second credit is granting a facility to its customer with the right to (and possibility of) debiting that customer for any payments made under the second credit. The bank then merely sees the first credit as a possible source of funds for its customer.

d. The terms and advances of the second credit must be identical to those of the prime credit but with the exception of the following points:-

SPECIAL TYPES OF DOCUMENTARY CREDITS

- The name of the applicant will be the same as that of the beneficiary of the prime credit, and the beneficiary of the second credit will be the supplier of the goods. In order to comply with Article 32 of Uniform Customs and Practice, when documents are submitted in due course under the prime credit the customer will have to substitute his own invoices, made out to the applicant of the prime credit, for the invoices from the supplier which are addressed to him. The issuing bank of the second credit must make sure that there will be no difficulty in obtaining the substituted invoices from their customer which may jeopardise reimbursement under the prime credit.

- If the customer (applicant of the second credit) wishes to make a profit on the transaction, the amount of the second credit which is made available to the supplier will be less than the amount of the prime credit. On presentation of documents, provided all is in order under each credit, the customer will expect to receive the difference between the two invoices referred to above.

- The second credit should have an earlier expiry date than the prime credit to provide sufficient time for the issuing bank of the second credit to examine the documents when they are received, for invoice substitution to take place and other matters mentioned below to be attended to, and to lodge correct documents with the advising bank of the prime credit before that credit expires.

- If the second credit is made payable and expires in the place of issue, the issuing bank of the second credit avoids the risk of documents being delayed in the post after payment and arriving too late for presentation under the prime credit, yet being received and paid under the second credit before expiry of the second credit. Both credits should therefore be available for payment or negotiation in the same centre.

- If the customer requires that the names of the supplier and ultimate buyer be not disclosed to each other, the second credit should call for documents to be issued under it in neutral names.

Certain banks may, however, be prepared to help the customer by issuing a second credit on terms which do not exactly match those of the first credit. These are not pure back to back credits, although the banks concerned may sometimes so describe them. In these cases the following points need to be noted:

SPECIAL TYPES OF DOCUMENTARY CREDITS

- If shipping terms under the prime credit are CIF and under the second credit FOB, the bills of lading coming from the supplier will be marked 'freight collect'; the bills of lading to be good tender under the prime credit must be marked 'freight paid'. At the time of issuing the second credit, the issuing bank might consider taking its customer's authority to debit his account for the freight to be paid and to diarise the lodgement of the bills of lading, when they arrive, with the shipping company's local agent. In due course the bills of lading accompanied by the payment for freight will be lodged to be marked 'freight paid' and returned as quickly as possible to the issuing bank of the second credit for presentation with the other documents under the prime credit.

- If the shipping terms under the prime credit are CIF and under the second credit FOB, the responsibility for insuring the goods under both contracts will be the customer's. The issuing bank of the second credit may consider taking and holding the insurance document required under the prime credit in the correct currency and for the correct amount as set out in that credit, in advance of documents being submitted under the second credit.

- If the terms of each credit are to be CIF then bills of lading will be marked 'freight paid' from the outset, as the supplier will be required to pay the freight through to final destination. The prime credit may also call for insurance cover for say, 10 per cent over the CIF value of the goods. If this be so, the issuing bank of the second credit will have to be careful not to copy this requirement when issuing the second credit. The result is likely to yield insurance cover in an amount insufficient for the prime credit, and the documents when presented under it to be rejected for the discrepancy 'under-insured'. The bank may allow its customer to substitute his insurance document in H.K. when it arrives, or increase the amount of the insured value for the supplier to cover, and have this written into the second credit.

- If the ultimate buyer requires deferred terms by means of an acceptance documentary credit and the supplier is to receive cash against documents presented to a bank locally and therefore a sight credit, the prime credit will be an acceptance credit and the second credit a sight credit. This should pose no real difficulty to a customer who might wish to have immediate payment himself, provided that the prime acceptance credit authorises a first class advising bank to accept the term bills drawn on it by the beneficiary under the prime acceptance credit. Such a bill after acceptance can be readily discounted

SPECIAL TYPES OF DOCUMENTARY CREDITS

to provide cash to meet the reimbursement under the sight second credit and to pay the difference to the customer. The issuing bank of the second credit may consider it appropriate to take inchoate (uncompleted) term bills drawn by their customer on the advising bank of the prime credit, at the time the second credit is opened. It should also consider for whose account the discount charges under the prime credit are to be, and, if they are for its customer's account, whether the discounted proceeds will be enough to meet the sight credit disbursement.

- If one credit is drawn in one currency and the other is to be issued in another, the issuing bank of the second credit might consider it advisable for the customer to cover his exchange risk under a forward contract(s), not only to ensure maintenance of his profit margin but also to guarantee that sufficient proceeds will be received from the prime credit to meet reimbursement commitments under the second credit, irrespective of what may happen on the foreign exchange market.

A special problem can arise in any of the above types of transaction if incorrect documents are presented by the supplier as beneficiary of the second credit. Such documents would not meet the requirements of the first credit. The issuing bank of the second credit could, if so requested by his customer (the beneficiary of the first credit), contact the issuing bank of the first credit for approval of the irregularities. This would, of course, mean that the issuing bank of the second credit might be deemed not to have given its decision to take up or reject the documents under the second credit within the 'reasonable time' allowed to it by Uniform Customs and Practice, Article 8(d) and (e). The issuing bank of the second credit should consider requesting the advising bank of the prime credit to cable the issuing bank of the prime credit for authority to pay thereunder. Issuing banks shall have 'reasonable time to examine documents' presented, but must notify the advising bank as quickly as possible if the documents are not going to be taken up by the applicant. The issuing bank of the second credit can be exposed to excessive delay before being able to notify the advising bank under the second credit, and therefore runs the risk of the doctrine of ratification.

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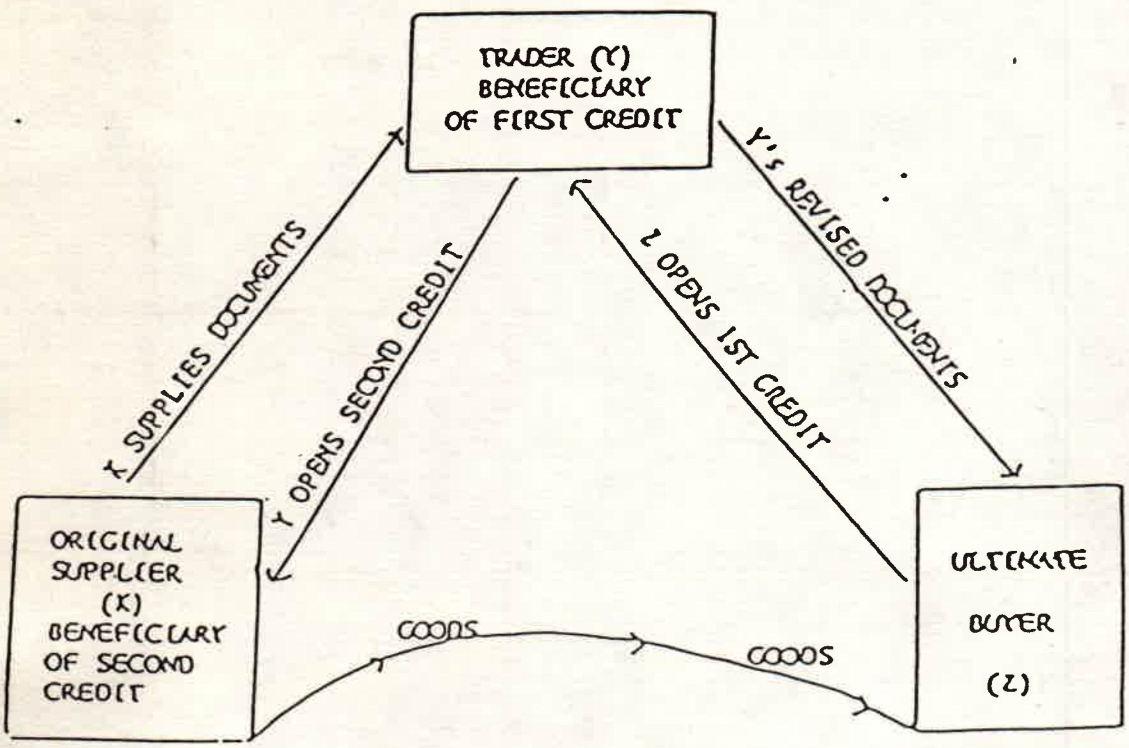
SPECIAL TYPES OF DOCUMENTARY CREDITS

BACK TO BACK CREDITS



SPECIAL TYPES OF DOCUMENTARY CREDITS

REVOLVING CREDITS

A revolving credit is for a specific amount which stays the same without amendment, despite drawings under the credit. Such credits revolve either in time or value.

A credit revolving in time is available for a specific amount every week or month or year until expiry, regardless of whether any amount was drawn in the preceding time period. A credit revolving in time can be cumulative or non-cumlative, cumalative meaning that unused portions are carried forward for availability in the next period.

Revolving credits are useful where a seller has a long-term contract to supply a fixed quantity and value of merchandise over a specific time period.

The term 'revolving' is used to describe a credit which contains a condition that the credit amount is to be renewed or reinstated automatically in stated circumstances without the need for further specific amendment.

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LETTERS OF CREDIT & DOCUMENTARY COLLECTIONS

COLLECTION : **Collection is a service and a method of settlement provided by the bank on behalf of its customer to collect the proceeds through banking channels at low cost in accordance with his instructions.**

PURPOSE OF COLLECTION : **Collection is a compromise mechanism somewhere between open accounts and prepayments, facilitated by the action of the BANKING System as a reliable intermediary.**

Advantages and Disadvantages from Exporter's Point of View

Advantages :
1. Collections are simple and usually cheap
2. Control of the valuable title document is retained
3. Communication with the foreign country of the buyer are usually simplified.

Disadvantages :
1. If the goods are refused by the buyer, substantial demmurage, storage, insurance and other costs may well be incurred.
2. If the shipping vessel docks late, or there is a delay in issuing government import licence, the exporter will not be paid until funds are received by the remitting bank.

Advantages and Disadvantages from Importer's Point of View

Advantages :
1. Collection usually favours the buyer rather than the seller, since the buyer basically has time to inspect the goods, before paying.
2. Payment is deferred until the good arrive or later under a term bill.
3. Collection is cheaper than opening a Documentary Letter of Credit.

Disadvantages : 1. The use of a Bill of Exchange makes the buyer legally liable for his default in payment after acceptance regardless of the underlying contract for sale of goods.

2. If the bill is unpaid in error or protested in error by the seller they buyer's trade reputation maybe seriously damaged.

3. D/P collections must be paid upon presentation perhaps before arrival of goods.

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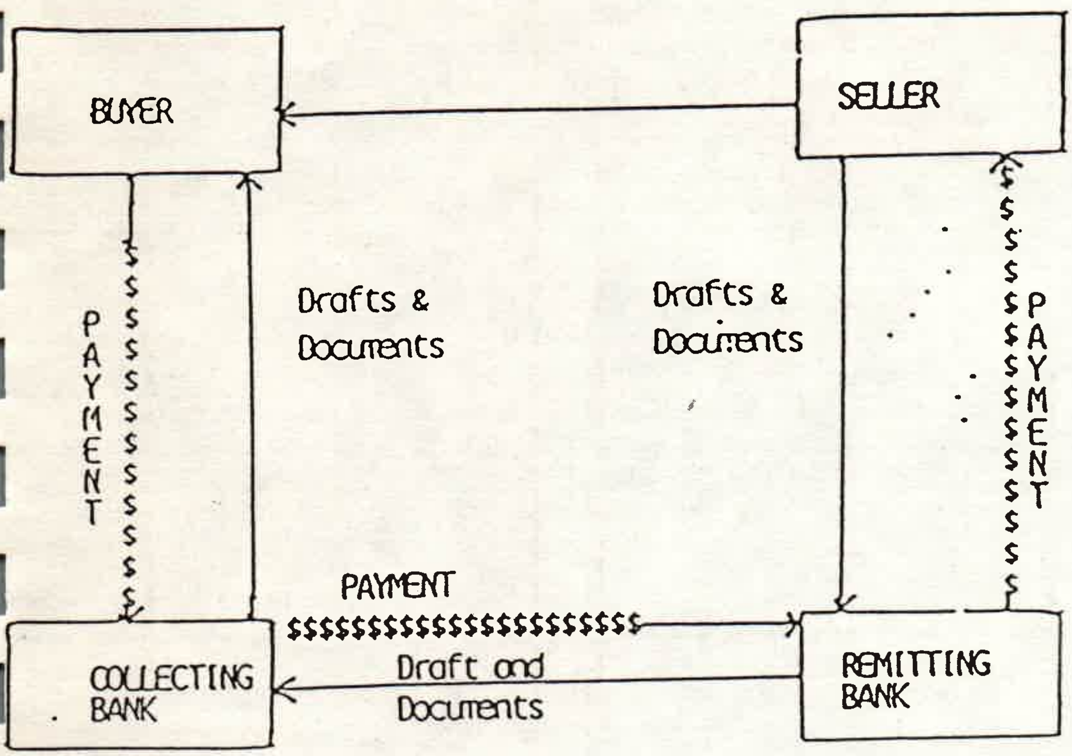
GENERAL STANDARD OF INTERNATIONAL COLLECTION



Seller's bank (Remitting Bank) forwards the Sellers financial and/or Commercial Documents to a bank in buyer's location (Collecting Bank). The presenting bank (collecting bank) informs the buyer that it is holding documents for him against either payment/acceptance (Depending on Sellers instructions). The buyer either pays or accepts the documents. The collecting bank remits the proceeds of the bill to the remitting bank. The path of a bank collection parallels that of the L/C but no contract binds the collecting bank to pay the seller. Only when the buyer pays the collecting bank will they pay to the seller.

FINANCING OF COLLECTION

By Negotiation

When a bank negotiates an outward collection it is buying its customer's bill drawn on an overseas buyer. The bank in agreeing to buy these bills does so relying on the credit worthiness of the exporter, and thereby provides him with his working captial needs. It is to the exporter as the drawee of the bills, the bank will have recourse for payment, if for any reason, the overseas buyer fails to pay. The negotiating bank will, if the payment does not arrive in time, debit its customer's account for the amount advanced plus interest.

Advances Against Collections

This facility is granted to the exporter by the Remitting Bank against the security of bills. The bank retains the right of recourse to the drawer in the event of default by the drawee. Depending on the drawees credit status the remitting bank will advance a proportion of the amount of each bill presented and not finance it fully, leaving the exporter to use his own resources for financing the balance amount. When advancing against bills, the bank becomes holder for value to the extent that it has lien on the bill. The remitting bank will obtain from the exporter a general letter of hypothecation, which pledges as security to the bank, all bills held for the customers account whether advanced against or not.

BANK OF CREDIT AND COMMERCE INTERNATIONAL

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