

SITPRO

International Trade Guides

Financial

Letters of Credit Checklist and Guide for Importers

Letters of Credit - Checklist and Guide for Importers

SITPRO has produced a set of three **Letters of Credit Checklist and Guides** for Importers, Exporters and Export Sales Representatives. The checklist designed for exporters is intended primarily for use in export sales and shipping departments. The export sales representative's guide advises on credits and some of the other responsibilities assumed on overseas visits. We strongly recommend you provide your customers with copies of these guides to back-up your own discussions with them.

This checklist is specifically to assist importers: detailing the recommended procedures to be followed, including an item-by-item reference to completing a letter of credit application form. To ensure a letter of credit is workable, trouble-free and provides security of payment, it is essential to take simple yet effective precautions at the start. Working through the checkpoints set out in the various sections of the guide will help reduce discrepancies and associated unplanned costs. The simple specimen form included in the guide, while only an example, will not be found to be significantly different from those used by the banks themselves.

Successive surveys by SITPRO and others have shown that well in excess of fifty percent of documents presented by exporters to banks for payment under letters of credit are rejected on first presentation. This can cause expensive delays for both the exporter and the importer and may even result in a lesser payment or no payment at all. A great many of those rejections could be avoided if more care was taken to ensure that the documents called for in the credit are properly completed.

The SITPRO **Letters of Credit Checklists and Guides** are designed to minimise unnecessary costs and risk when trading on the basis of letters of credit. They are aligned with and based on interpretation of Uniform Customs & Practice for Documentary Credits (UCP), produced by the International Chamber of Commerce (ICC). The current revision, UCP 600, is available from ICC UK (www.iccuk.net).

Any letter of credit requirements which are still not clear should be referred to your bank for clarification without delay.

Arranging for the Letter of Credit

When negotiating the order or sales contract with your supplier, you should only be thinking of using a letter of credit if your country's exchange control regulations require it or if your supplier insists on it as the means of payment. Otherwise, you should try to avoid the procedure because it can quite often cause problems for both your company and your supplier.

If a letter of credit is unavoidable

- Check with your bank that they are prepared to issue a letter of credit for the value of the intended transaction on the terms of settlement proposed (i.e. "at sight" or at a later date)
- Check whether it is to be confirmed by a bank in the Beneficiary's (supplier) country

Make sure that you

- Have exchange control approval for the importation, if required
- Will be able to obtain any necessary import licence
- Can pay import deposits and Customs duty on time
- Check whether forward exchange cover or a foreign currency account is advisable for credits not in your currency
- Consult other departments in your company to ensure that the terms of the sales contract and credit meet their requirements

Obtain a copy of your bank's application form for opening a letter of credit to see how your supplier's instructions can best be entered onto the form

- In the absence of pre-arranged instructions, try to discuss the sales contract and any requirements for the credit and complete the form with your supplier's representative. If a representative cannot visit, then read the sales contract very carefully and apply the conditions to your bank's form as appropriate. Consult your bank if you have any doubts whatsoever, as UCP 600 requires that they will issue the credit according to your instructions

Note: The L/C should be kept simple and refer to rather than recreate the sales contract. For example, it is preferable to state, "goods provided as per sales contract [number]" rather than reproduce the full goods description.

Points to agree with your supplier

- Who pays the charges for: issuing (and possibly confirming) the credit; amendments and or extensions; and subsequent payment charges
 - Unless you specify otherwise, all those charges will be payable by you as the Applicant (opener), including those in the Beneficiary's country
 - If the credit is in a foreign currency, check with your bank on the matter of reimbursing commission

- The type of letter of credit and its terms
 - If in doubt discuss them with your bank before you proceed

Type of letter of credit

- **Irrevocable:** Where your bank gives a binding undertaking to the Beneficiary provided all the credit terms and conditions are fulfilled
- **Irrevocable and confirmed:** Where a bank usually in the Beneficiary's country, adds its own undertaking for which it will charge
- Once issued, an irrevocable credit can only be amended by joint agreement of your bank and the Beneficiary and, if confirmed, agreement of the confirming bank as well

When is the letter of credit to be payable?

- "At sight": when the Beneficiary presents the correct documents to the paying bank within the time allowed
- At a later date: for example, 90 days after the date of shipment, but only against a correct presentation

Where is the letter of credit payable?

- Under UCP 600 a credit can be available with any bank
 - The credit must either state the bank with which it is available or if it's available with any bank

Are there any special provisions, such as a transferable letter of credit?

- Make sure you fully understand any special requirements (see UCP 600 Article 38 regarding transferable credits)

What documents does the letter of credit need to call for?

- The documents called for should fulfil the requirements stated in the sales contract
- Which, if any, need to be sent direct to you?
- The paying bank will ignore requirements in the credit where a supporting document is not specified (UCP 600 Article 14(h))

The expiry date of the letter of credit

- Must allow time for your supplier as the Beneficiary to: receive the credit; obtain or manufacture goods; complete arrangements for packaging and transport; and assemble documents prior to presentation
- Issuing bank charges are normally levied on a quarterly basis, so an expiry date of 3 months from issue or a multiple thereof will be normal in most cases

- If the validity proves too short this will likely involve amendments and also lead to delay in despatch
- Do not work to the supplier's "Ex Works" date, but allow further time for shipment, inspection or consular work, assembling documents and presenting them to the bank

Check that you have on file the names, full addresses, telephone, email and fax details of the people responsible for the handling of letter of credit operations for both yourself and your supplier

When the letter of credit is to be issued

- If it is to be issued after you have placed your order, ensure your supplier knows as soon as possible what the letter of credit will call for

When applying to your bank for a letter of credit

- Give your bank clear and precise instructions and avoid unnecessary requirements
 - If a latest shipment/despatch date is to be quoted, this should precede the expiry date by the number of days allowed for presentation of documents
 - If a latest shipment/despatch date is not indicated it will be taken to be the same as the expiry date

State clearly

- What type of letter of credit has been agreed
- Who pays what charges, commissions and any other costs
- The correct value (see [Completing the Application Form, Currency and amount](#))
 - Ensure it covers the value as stated in the sales contract, including any agreed variations in quantity, price, or other costs such as freight and insurance, inspection fees
 - "About" and similar expressions used in conjunction with the credit amount or the quantity of goods or the unit price allows a tolerance of up to $\pm 10\%$
- The delivery terms (see [Completing the Application Form, Terms](#)) for example £25,000 CFR Singapore - Incoterms 2000. It is essential to refer to the appropriate Incoterms 2000 in all sales contracts to establish without doubt the responsibilities of the seller and the buyer during the delivery of the goods
 - Remember to match documents to delivery terms. For example: stipulate "freight paid" on transport document where appropriate; do not call for a certificate of insurance for CFR or CPT purchases
- The Beneficiary's name and address
 - Check the company's title (Limited, plc, Inc, GmbH, etc.) and address is written exactly as stated by the supplier (see [Completing the Application Form, Beneficiary](#))

Points to check carefully in the letter of credit

- The goods description should be kept as brief as possible - you only need enough detail for basic identification (see [Completing the Application Form, Goods](#))
 - The description must be consistent with the sales contract
- Do not state, "part shipments prohibited" or "transshipment prohibited" unless you have agreed this with your supplier
- Ensure the expiry date allows time for shipment and presentation of documents to the bank (see [Completing the Application Form, Expiry](#))
- Do not use expiry dates as a way of putting pressure on your supplier to improve delivery times
- Call for the agreed minimum documentation only
 - The bank's application form for letters of credit may have a pre-printed list of documents as a guide - be sure to delete what is not necessary and amend it as appropriate to meet your requirements, as items left on the form may cause problems for your supplier
 - Banks should discourage excessive detail
- Avoid asking for the same information twice
 - For example, packing list details are often included in the commercial invoice and weight certificates can be included as stamps on transport documents
 - The credit must be specific as to what is required (see [Completing the Application Form, Other documents](#))
- Call for a certificate of insurance not a policy, where the supplier is effecting insurance on your behalf i.e. on CIF or CIP terms
 - State which risks are to be covered: if "all risks" is stipulated, banks will accept any "all risks" notation or clause on the document and in the UK, the London Institute Clauses "A" will be applied unless requested otherwise. If you wish for more specific cover, give details (see [Completing the Application Form, Insurance](#))
- Avoid stating "photocopies are not acceptable"
 - Documents, howsoever prepared, are deemed to be originals provided they are properly authenticated (Article 17 of UCP 600 gives details)

Call for the type of transport document you need

UCP 600 clearly defines what banks will accept as meeting the requirements for the transport document you call for (see [Completing the Application Form, Transport documents](#))

- What type of transport is available: sea, air, road, rail, inland waterway, multimodal, courier or postal despatches
 - Include the type of transport document that will be used and who will issue it
 - Will the goods be packed in a container?

- Does your supplier intend to use a freight forwarder's groupage service for small consignments?
 - Where will the goods go from and to?
 - Do not state, "short form transport documents are not acceptable", if your import regulations permit them
 - If you require an "on board" notation to be properly authenticated, stipulate this in the credit
 - "On deck" shipment clause stating goods may be loaded on deck is acceptable, but it must not state that goods are or will be loaded on deck (UCP 600 Article 26(a))
 - "Claused" transport documents: UCP 600 Article 27 states that banks will only accept clean transport documents (i.e. bearing no clause or notation expressly declaring a defective condition of the goods or packaging)
 - If they are usual in your trade, state that transport documents bearing specified clauses are acceptable
 - Through container transport:
 - Specify the place of despatch and the place of delivery, without specifying ports of loading or discharge
 - Do not prohibit transshipment when the goods are being shipped in container or by air
- The points above should be checked carefully and, if necessary, discussed with your bank

Other points:

- In order to help control interest costs with your bank, you may be able to ask them to instruct the overseas bank to notify the Issuing bank on the day they pay your supplier. In the knowledge that the overseas bank has checked and found documents to be in order, you can then decide whether to pay your bank before it receives them
- Request all documents to be sent from the overseas bank by fastest means, preferably registered express mail or courier service. Even if this costs more, it can be much less than demurrage and/or other costs caused by delayed documents
- Ask your bank to telephone you on the day they receive the documents
 - Give your bank the name and contact details of the right person to contact
 - If possible arrange to collect the documents rather than having them posted to you
- If still in doubt about any terms or documents, contact your supplier and refer to your bank for advice before you ask them to open the credit
- As soon as you receive your copy of the credit from your bank, check it carefully and in particular watch for any additions or omissions to your original instructions, which may not be workable for your supplier. If anything is in doubt, contact your bank immediately
- If the checks and suggestions on this Checklist mean that you decide to change some of the practices you have operated with your bank previously, discuss them with the bank first

Completing the Application Form

A specimen application form is included below and may assist you in completing your own bank's form.

A.B.C. Bank plc Application Form For A Documentary Credit	
1. PLEASE ISSUE AN IRREVOCABLE DOCUMENTARY CREDIT <input type="checkbox"/> BY AIRMAIL <input type="checkbox"/> BY AIRMAIL PRE-ADVISE BY TELE-TRANSMISSION <input type="checkbox"/> BY TELE-TRANSMISSION FULL PARTICULARS	2. APPLICANT (full name and address)
3. BENEFICIARY IN FAVOUR OF (full name and address)	4. CURRENCY AND AMOUNT (in figures and words)
	5. EXPIRY DATE In _____ (Country)
6. AVAILABLE BY DRAFT(S) AT <input type="checkbox"/> SIGHT <input type="checkbox"/> DAYS SIGHT <input type="checkbox"/> DAYS FROM DATE OF _____ FOR ____% OF INVOICE DRAWN ON YOU/YOUR CORRESPONDENTS OR BY DEFERRED PAYMENT AT _____	
7. DOCUMENTS REQUIRED WHICH MUST BE PRESENTED NOT LATER THAN _____ DAYS AFTER THE DATE OF THE ISSUANCE OF THE TRANSPORT DOCUMENT	
8. TRANSPORT DOCUMENT	
9. COMMERCIAL INVOICE	
10. INSURANCE	
11. OTHER DOCUMENTS	
12. INSURANCE TO BE EFFECTED BY _____ (BUYERS/SELLERS)	
13. COVERING (GOODS DESCRIPTION)	
14. TERMS OF SHIPMENT (CIF, FOB, ETC.)	
15. SHIPMENT/DISPATCH/TAKING IN CHARGE AT/FROM _____ TO _____ NOT LATER THAN _____	
16. PART SHIPMENTS ALLOWED/NOT ALLOWED TRANSHIPMENT ALLOWED/NOT ALLOWED	
17. SPECIAL CONDITIONS/OTHER INSTRUCTIONS	
EXCEPT AS OTHERWISE EXPRESSLY STATED THIS DOCUMENTARY CREDIT IS SUBJECT TO UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS PROVISIONS OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 600.	

Method of Issue

- Electronic teletransmission will avoid any possibility of delay
- Where the Beneficiary merely requires advance notification of a credit to come and there is no immediate urgency to ship goods and present documents, an electronic pre-advise with the effective credit following by air mail is sufficient
 - Note: under UCP 600 Article 11(b) the pre-advise must be followed by the operative credit - unless the pre-advise says otherwise
 - Pre-advise is rarely used due to the near universal use of SWIFT

Applicant

- This is you, the customer at whose request the bank is to issue the credit
 - Your correct company title and full address should be entered - it is important that this be completed and accurate in every detail

Beneficiary

- The supplier, or exporter, in whose favour the credit is to be issued
 - Full and exact details should be entered in the same way as for the applicant

Currency and Amount

- The amount should be expressed in figures and words ensuring that both are expressed in the same and correct currency
 - In the event of a variation in amount being permitted, this should be expressed in the appropriate terms - e.g. "£1,000 - 3% more or less"
- Care should be taken with both your own and your supplier's exact requirements
 - Variation can be ambiguous: there may be a tolerance in the unit price, quantity of goods and credit amount by the use of 'about' and similar wording - e.g. "10% more or 10% less"
- Note: UCP 600 Article 30(c) allows a tolerance of 5% less in the amount of the drawing, even if the credit prohibits partial shipments, provided that any stated quantity of goods is shipped in full and that any stated unit price is not reduced

- This provision for short-drawing allows for over-estimating freight charges at the time of concluding the sales contract months before actual despatch

Expiry

- The expiry date must allow time for the Beneficiary to receive the credit, produce or manufacture goods, complete arrangements for packaging and transport etc. and to assemble documents prior to presentation under the credit
- The place of expiry should be the country of the Beneficiary
 - UCP does not require a place of expiry, the place of the bank where the credit is available is the place of presentation (UCP600 Article 6(d)(ii)). Bank applications forms may no longer require the 'country' to be included for the Expiry Date information. However, you may wish to assist the Beneficiary in payment by agreeing to inform your bank (the Issuing bank) that the credit will be available at a specified nominated bank (usually the Advising bank) or indeed any bank

Availability

- The availability of the credit will depend upon the terms agreed - normally by means of sight payment with documents accompanied by sight draft
- Alternatively, settlement may be by means of acceptance, when drafts will be drawn at a term (or usance) or 60 days from the date of shipment

- In the event of a deferred payment being arranged no draft will be called for and settlement will be stipulated at a specified or determinable future date
- As the Issuing bank will have correspondent banking relationships in the Beneficiary's country, the choice of correspondent should be left to them
 - If the Beneficiary insists on a bank other than the Issuing bank's choice as Advising bank, this can lead to delay and additional costs

Documents and Presentation Period

- Unless specific documents are required by government regulations, only documents essential to the banking transaction should be stipulated
 - Essential documents are: transport documents; commercial invoice; and possibly insurance (see below)
 - All other documents can be sent direct to you and, if necessary, a statement to this effect should be added to the credit
- UCP 600 stipulates that the presentation of documents must be completed within 21 days of the date of shipment evidenced by the transport document - unless the credit curtails or extends the period depending on circumstances
 - Whatever period is selected does not alter the requirement for documents to be presented within the validity of the credit

Transport Documents (carefully note UCP 600 Articles 19-24)

- Transport may be by sea, air, road, rail, inland waterway, multimodal, courier or postal despatches
 - Specialist advice should be sought from a local freight forwarder, carrier or his agent regarding the different types of transport involved
- Thought should be given to the advantages of stipulating a non-negotiable sea waybill instead of the traditional bill of lading.
 - In such circumstances, the appropriate wording would be: "A full set of 1/1 on board non-negotiable sea waybills stipulating goods to be released at destination to the importer (consignee) and claused to the effect that the shipper has surrendered the right to change the name of the delivery party during the course of transit"
- Normal practice for defining bills of lading would be: "A full set of on board marine bills of lading issued to order and blank endorsed marked 'freight paid' (if CFR or CIF) or 'freight payable at destination (if FOB) and notify (name and full address of consignee)".
- For despatches by air the wording would be "Air Waybill (original No.3 for shipper) evidencing goods consigned to (name and full address of consignee)" marked "freight paid" or "freight payable at destination" indicating flight number and date of despatch"
 - In some cases house bills of lading or house air waybills (HAWBs) may also be used against a letter of credit

- International road transport is covered by another non-negotiable document (as is the air waybill) known as the CMR note
 - A forwarder's certificate or receipt for transport (FCR or FCT) is only acceptable if specifically stipulated in the credit
- Railway authorities belonging to the rail international convention use the CIM consignment note
- It is obviously very important that you and your supplier should agree on the exact method of carriage, as it is essential that you give your bank precise details as to what is to appear on the credit

Commercial Invoice

- Details should be kept as simple as possible
- Where they are required to be signed, certified or legalised, precise instructions should be given

Insurance

- If insurance is to be covered by the supplier - i.e. under CIF or CIP - then a Certificate of Insurance should be called for covering the necessary risks - e.g. London Institute Cargo Clauses 'A'

Other Documents

- Documents other than the above should be avoided or arranged to be sent direct outside the credit
 - However it is often necessary to provide Weight Notes, Packing Lists, Certificates of Origin (issued by either the beneficiary or by a Chamber of Commerce and certified or legalised

depending upon country regulations) and Inspection Certificates (usually issued by independent bodies to indicate that the goods shipped are as described and of the right quantity and quality, and possibly price)

- In the event a condition is stated in the credit e.g. "Goods to be shipped on a vessel not more than 20 years old" without the requirement of a document to substantiate this, banks will ignore it (see UCP 600 Article 14(h) on non documentary conditions)
- Great care should be taken to ensure that all required documents are stipulated

Insurance Effected

- If the supplier is covering the insurance then a certificate will be presented
- If you are covering the insurance then this should be indicated here

Goods

- This should be kept as simple as possible to avoid both actual and typographical errors
- A simple description may also avoid dishonour under the credit if certain items unstated in a general description of goods are not available at the time of shipment and need to be replaced by others

Incoterms

- The advantages of referring to the appropriate term from ICC Incoterms 2000 should be remembered
- The 'traditional' terms for breakbulk - i.e. non-containerised cargoes - are FOB, CFR and CIF

- Other terms are more appropriate for multimodal and containerised traffic, such as FCA, CPT and CIP
- There are also special terms covering delivery through to your premises or other preferred location

Transport Details

- Ports and airports of shipment or despatch are best left in general terms such as "any UK port" or "any UK airport" to avoid difficulties
- If a latest shipment/despatch date is to be quoted and precedes the expiry date, it should be by no more than the number of days allowed for presentation of documents
- If no latest shipment/despatch date is indicated it will be taken to be the same as the expiry date

Part Shipment/Transshipment

- Part shipments should normally be allowed particularly in view of short drawings within the tolerance allowed (see item 4 under "Completing the Application Form".)
- Credits relating to container shipments should not prohibit transshipment and it is not always possible to despatch goods by air without transshipment

Special Conditions/Other Instructions

- Bank charges and who is responsible for payment of these should be entered here
 - It is normal banking practice for the beneficiary to pay all banking charges in his country and for you to pay those on your own - unless agreed otherwise
- Note: If reference to charges is omitted banks will assume that all bank charges are for your account as the Applicant
- If confirmation by the Advising bank is required, this should also be entered here
 - An additional charge will be made and it should be agreed as to who pays this charge
- Any other specific instructions such as 'credit to be transferable' should be entered, as appropriate