Bank of America
Solutions for Exporters
An Exporter’s Guide to Global Trade Services
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The material presented in this guide is for informational purposes only, and is not intended as an exhaustive treatise on international banking, nor is it intended to explore all the possible risks involved in using import letters of credit or other services mentioned.
Chapter 01
Introduction to Global Trade Services
Chapter 01

Introduction to Global Trade Services

Trade Services

What do we mean by trade services?
Trade is a broad term covering a variety of transactions linked to the export and import of goods. Traditional trade services include letters of credit, international collections, and bankers’ acceptances, as well as short, medium and long-term export-related lending.

What is the history of trade?
To understand trade services it is helpful to understand the world of international banking and trade. The economic history of man has led us from self-sufficiency to division of labor, from provision of bare necessities to satisfaction of sophisticated needs. The primitive caveman attended to his own needs only, but civilization soon progressed to a stage in which each man specialized in what he could do best and exchanged his surplus output for that of his neighbor. This was the beginning of trade.

When small city-states developed into nations, the need for trade increased. No nation could supply all of its needs with its own resources. Consequently, these small city-states had to begin trading with one another. What may have started as barter led to the development of currency, silver and gold coins and eventually to paper notes. Today, business is conducted not only domestically but also abroad. As the search for new markets and lower-cost labor has led to international commerce, so it has led to finding alternative ways to do financial business overseas. The buyers and sellers in international trade are confronted with diverse geographic, social, economic, and political conditions. The dynamic interplay of these forces requires the trading partners to assess the risks of the transaction and decide how they may be reduced or eliminated.

What is the primary role of a bank in international trade?
The primary role is to provide risk mitigation and financing alternatives to the buyer and seller—ergo the creation of the letter of credit, post shipment financing, etc.

What happens in a trade transaction?
A seller approaches or is approached by a potential buyer. Trade transactions begin with the negotiation of a contract between a buyer and a seller and end with the exchange of goods or services for monetary payment. Why do you need Bank of America Merrill Lynch Global Trade Services?

As noted above, trade can be domestic or international. Clients utilize Bank of America Merrill Lynch Global Trade Services specifically to overcome the risks of doing business abroad, where the cultures, regulations, and payment conventions may differ significantly from those in the United States. In the United States, you could potentially perform your own credit ratings for your customers, and, with a sense of security, offer payment terms on an “open account” basis, so that your bank would get involved only in the collection and/or disbursement of funds. Overseas, you need greater protection due to dealing with buyers who are less well known, and the potentially limited legal ability to collect. Hence, a bank provides up-front financial protection in the form of letters of credit.
What are the methods of payment?

Nations, companies and individuals have engaged in trade for centuries and from the beginning have searched for the best means of securing payment. Today an exporter has four basic alternatives for obtaining payment for goods shipped to a buyer. Each method addresses certain levels of risk for the buyer and the seller.

Cash in Advance: The buyer pays in advance of shipment of goods or according to the terms, such as cash on delivery. Buyers do not prefer this option because they are out the cash well before they receive the goods.

Open Account: The seller ships the goods in advance of payment or according to the negotiated terms. In this instance, the seller relies on the buyer’s good faith that the payment will be made after the buyer has received the goods.

Letters of Credit (LC): This is a trade finance instrument issued by a buyer’s bank in favor of a beneficiary/seller, which substitutes the bank’s creditworthiness for that of the buyer. In a narrow sense, it is a specialized instrument used to guarantee payment for a shipment of goods or services from one party to another. An LC is payable against conforming documents.

Collection: There are two types of collections: clean, and documentary.

• Clean:
  – Check: Payment by check is typical for domestic open account transactions, but less appropriate for international transactions. This is because sellers must give the check to their banks for collection and conversion to their home currency, a process that can take three to six weeks. A more satisfactory method therefore is the wire transfer; the buyers instruct their banks to arrange for the seller’s bank account to be credited directly.
  – Draft: A draft is an instrument much like an ordinary check in appearance which in this circumstance is used as a formal demand for payment. It is also known as a “bill of exchange.”

• Documentary: A documentary collection provides a buyer and seller with a measure of protection whereby a bank intermediates to exchange payment for documents of title to the goods. The collecting bank releases the documents, which normally allows the buyer to take delivery of the goods. The bank then either wires the buyer’s payment to the remitting/seller’s bank for credit of the seller’s account or creates an acceptance covering the transaction. There are two forms of documentary collections, regular and direct:
  – Regular: After making a shipment, sellers present the shipping documents to their banks, who in turn send them to the buyer’s bank for payment or acceptance.
  – Direct: The seller/exporter delivers the documents with a collection letter to the foreign collecting bank directly and sends a copy of the collection letter to the seller’s bank for follow-up (tracing and payment settlement). The collection letter or form is provided by the seller’s bank and bears that bank’s letterhead.

If a seller selects “Open Account” or “Cash in Advance” as the payment method, documentation covering shipment of merchandise is handled outside of the banking channels. The banking system is only involved in the remittance of funds. However, if the seller selects payment under a collection or letter of credit, a bank adds its service and documentary expertise on behalf of either the buyer, the seller, or both. In all cases, the actual movement of funds is done via one of our traditional cash management products such as direct debit or credit to the account, wire transfer, or check.
What types of agreements are made between the buyer and the seller?
The sales contract is an agreement between the buyer and the seller in which the various terms, conditions and
details of the transaction are specified. Given the complexities of international trade, it is important that the sales
contract states, in terms clear to all parties, the requirements involved in the transaction. In the simplest form, the
sales contract is an accepted order to buy or offer to sell that arises from correspondence between the buyer and
seller. The agreement may be made verbally or in writing. The buyer may initiate the correspondence by inquiring as to
the price and terms of sale for specific merchandise or by simply placing an order for the merchandise when the price
and terms have previously been established.

The sales contract has four main components: description of the goods, price, method of payment and timing of
delivery. Although contracts can be verbal, they are more likely to be in writing in those situations where there are
more unknowns. The sales contract should clearly specify the documents required for any international transaction.
The letter of credit must specify the documents required for presentation. The seller is responsible for the production
and procurement of all documents. Documents required under letters of credit will be more thoroughly discussed in
Chapter 6.

How does Bank of America Merrill Lynch support its Global Trade & Supply Chain Services clients?
• As discussed on the following pages, Bank of America Merrill Lynch is able to act in many ways for our clients.
  We act as financial service consultants.
• We provide import and export transaction processing and handling services to our clients.
• We act on our clients behalf both domestically and overseas via our global branch network.
• We provide various credit and financing services to support their import/export needs.
• We provide economic analyses and forecasts about various countries around the world

Trade & Supply Chain Solutions

What international trade & supply chain services are available with Bank of America Merrill Lynch?
As a powerful global organization, Bank of America Merrill Lynch is uniquely positioned to serve corporations’ needs
in markets worldwide with trade & supply chain services and expertise to help them seize international opportunities
wherever they arise.

Our services range from trade processing services and lending to liquidity management, payment services, export
finance, structured trade finance, and foreign exchange services. We deliver what your organization needs to succeed
in international business by offering innovative, tailored solutions, a wealth of trade expertise, the latest in technology,
and a network of offices around the world.

Bank of America Merrill Lynch finances international trade through bankers’ acceptances, receivables finance and
many types of letters of credit. We also offer collections and reimbursement services.

Bankers’ Acceptances
A bankers’ acceptance is a negotiable instrument that is drawn on, and accepted by, a bank to finance a trade-
related transaction. They are often an inexpensive way to finance trade transactions. Bankers’ acceptances are
versatile and can be used for several purposes: acceptances can cover both documentary letter of credit and open
account transactions. They can finance imports, exports, and domestic transactions. They offer a source of funds at
competitive rates since banks are not required to provide reserves for funding such transactions. Acceptances are
very liquid—they can readily be sold in secondary markets.

• Non-Discounted Bankers’ Acceptances: Bank of America Merrill Lynch either creates and accepts or accepts
  a time draft drawn on us which relates to a specific financial transaction in which our client is involved. We are
obligated to pay the specified amount on the maturity date of the draft. Our obligation for payment to any holder of the draft at maturity date is absolute and unconditional, independent of the underlying financial transaction.

- **Discounted Bankers’ Acceptances**: A time draft under a trade transaction such as a documentary letter of credit issued by us or by another bank. The draft is drawn on, accepted and discounted by us. Drawer is paid at time of acceptance of draft.

**Letters of Credit**

A letter of credit is an instrument issued by a bank by which the bank furnishes its credit in place of the buyer’s credit. Letters of credit have many variations.

- **Standby Letters of Credit**: Standby LCs usually provide a type of monetary assurance to compensate a beneficiary in the event of non-compliance by the applicant with the terms of a contract. They are often used instead of cash deposits or as performance or bid bonds in international and domestic transactions. Like other letters of credit, standby LCs provide a bank’s name and credit support for a specific transaction. In a standby letter of credit, the beneficiary usually looks first to the account party for payment before seeking payment from the bank. Standby LCs can cover either financial, performance or trade-related transactions.

- **Financial Standby Letters of Credit**: We issue a standby letter of credit for our client, or add our confirmation to a standby LC issued by a correspondent bank. Financial obligations involve repayment funds borrowed or advanced in the event the applicant fails to do so. In effect, we add our own credit standing to that of our client (or our correspondent bank) and assure that payment will be made in the event that our client fails to pay.

- **Performance Standby Letters of Credit**: We issue a standby letter of credit for our client or add our confirmation to a standby LC issued by a correspondent bank. In this type of obligation, we assure compensation to the beneficiary in the event that the applicant does not perform the contractual agreement the applicant has entered into with the beneficiary. We add our credit standing to that of our client (or our correspondent bank) and assure that payment will be made in the event of default under bid bonds or performance bonds.

- **Commercial Letters of Credit**: Commercial letters of credit involve payment in exchange for compliant documents required under a letter of credit. The beneficiary obtains payment from the issuing bank or confirming bank (if any). Import and export letters of credit are types of commercial LCs.

- **Import Letters of Credit**: We issue a new documentary LC for our client. By doing so, we substitute our own credit standing for that of the buyer and assure that payment will be made to the seller if terms and conditions of the LC have been fulfilled.

- **Export Letters of Credit**: Export letters of credit when properly executed may help protect an exporter’s (beneficiary’s) interests against the risk of losing title to the goods until payment is made. Bank of America Merrill Lynch assists with structuring letters of credit, arranges for their confirmation and identifies discrepancies in documents that may delay payment.

- **Confirmed Export Letters of Credit**: Our correspondent bank issues its own letter of credit and asks us to authenticate it, add our confirmation to it and advise it to the beneficiary. When we confirm another bank’s LC, we add our credit standing to that of the issuing bank and guarantee that payment will be made to the seller if terms and conditions of the LC have been fulfilled.

- **Unconfirmed Export Letters of Credit**: A bank issues its own letter of credit and asks us to authenticate it and advise it to the beneficiary without adding our own confirmation.
Deferred Payments

- **Confirmed Export Deferred Payments**: Sometimes payments under letters of credit issued by correspondent banks are postponed (after presentation of documents) for periods of time as stipulated in the letter of credit. If we add our confirmation to the correspondent bank’s LC, (in the case of confirmed LCs) we are obligated to make payment on the designated maturity date whether or not the funds have been made available to us by the issuing bank. The advantage of a negotiable instrument (i.e., a draft) is not present and, therefore, the beneficiary cannot obtain payment prior to the future date, as discounting is not possible. See this guide’s chapter on Bankers’ Acceptance Financing for more information about drafts.

- **Unconfirmed Export Deferred Payments**: As in the case of unconfirmed letters of credit, we will pay only when and if funds have been made available to us by the issuing bank. Again, the advantage of a negotiable instrument (i.e., a draft) is not present and, therefore, the beneficiary cannot obtain prior to the future date, as discounting is not possible. See this guide’s chapter on Bankers’ Acceptance Financing for more information about drafts.

- **import LCs Deferred payments**: Deferred payments are created under import LCs, which we issue. We are obligated to make payment on the designated maturity date. The advantage of a negotiable instrument (i.e., a draft) is not present and, therefore, the beneficiary cannot obtain payment prior to the maturity date, as discounting is not possible. See this guide’s chapter on Bankers’ Acceptance Financing for more information about drafts.

Reimbursements

- **Unconfirmed Reimbursements**: An issuing bank authorizes us to debit its account and to pay claims made by paying, accepting or negotiating banks. We will make such payments only if the issuing bank has sufficient funds on deposit with us to cover the claim.

- **Confirmed Reimbursements**: An issuing bank asks us to confirm their obligations under an LC it has issued and authorizes us to debit its account and to pay claims made by paying, accepting or negotiating banks. By adding our confirmation, we add our creditworthiness to that of the issuing/authorizing bank and are obligated to make payment whether or not they have sufficient funds on deposit with us to cover the claim.

Air Release

This offering pertains to import letters of credit and incoming collections. We issue our indemnity on behalf of and for the account of our client in favor of an airline for the purpose of authorizing the carrier to release a shipment of goods when the air waybill has been consigned to the bank. In return for our bank issuing the indemnification on our client’s behalf, our client must provide us with an indemnity in our favor.

Shipside Bonds/Steamship Guarantees

This offering pertains to import letters of credit. We issue our indemnity on behalf of and for the account of our client in favor of an ocean carrier for the purpose of authorizing the carrier to release a shipment of goods without the normally required shipping documents. In return for our bank issuing the indemnification on our client’s behalf, our client must provide us with an indemnity in our favor.

Collections

- **incoming Clean Domestic Collections**: When we receive a clean collection from a domestic bank, we will serve as collecting bank and communicate with the obligor to facilitate payment to the domestic remitting bank.

- **incoming Clean international Collections**: When we receive a clean collection from a foreign bank, we will serve as collecting bank and communicate with the obligor to facilitate payment to the foreign remitting bank.

- **Outgoing Clean Domestic Collections**: We open/send a request for payment to a domestic collecting bank. When paid by the collecting bank, we remit funds to the drawer (our client).
• **Outgoing Clean international Collections:** We open/send a request for payment to a foreign collecting bank. When payment is received from the collecting bank, we will remit funds to the drawer (our client).

• **Incoming Documentary Collections:** We receive a documentary collection from another bank. We will serve as the collecting bank and communicate with the drawee to facilitate payment to the remitting bank.

• **Outgoing Documentary Collections:** We open/send a request for payment of documents to a collecting bank. When paid by the collecting bank, we will remit funds to the drawer (our client).

• **Export Bills Collections:** We create a collection instrument for tracking and receiving funds due a correspondent bank in exchange for documents sent to a third bank. Delivery of documents may be an integral part of the service.

**Receivables Finance**
The Receivables Finance program is a seller-centric trade finance solution under which Bank of America Merrill Lynch will purchase open account receivables/ invoices from sellers that are due from their current buyers. This program strikes a balance between the seller client’s need to monetize their receivables immediately at a competitive rate and improve their cash flow and also keep their customers (buyers) happy by sticking to existing payment terms or in some cases to offer more competitive payment terms. The Receivables Finance solution can be used for both domestic and cross-border sales in all major currencies.

**Trade Acceptances**
A trade acceptance is a time draft that is accepted for payment by a party other than a bank. This could apply to any of the types of collections, as defined above.

**Risks**
Trade involves buyers and sellers seeking to exchange goods or services despite their differences in language, national custom, credit procedures, and accounting practices. Merchants have always had and continue to seek ways of minimizing the risk of nonpayment and/or risk of non-shipment.

**What are some of the decision factors used in determining payment terms?**
Is the buyer creditworthy? Can a buyer trust the seller to deliver promptly with the correct goods if the buyer pays first (cash in advance terms)? Will the buyer pay promptly if goods are shipped first (open account terms)? The answers to these questions will depend on how well the parties know each other. This knowledge can be gained through experience or research. Alternatively, intermediaries can be used to mitigate the risks. This has been the traditional role of bankers.

The decision regarding the method of payment or means by which the buyer will pay the seller takes into account several factors:
- Physical location of buyer and seller
- Extent of competition from other sellers
- Level of personal knowledge or prior experience between the buyer and seller
- Availability of other buyers
- Accounting, payment, and regulatory restrictions between countries
- Reputation of buyer and seller
- Creditworthiness of buyer and seller
- Customary practices in the individual country or industry
- Dollar amount of transaction and the urgency to receive payment
What are the risks associated with making the payment?
The shipment of goods abroad involves greater risks for you as an exporter than those associated with domestic trade. In domestic trade, you may be willing to ship on open account terms due to good credit information, reliable bank checks, easy communication and an understandable legal system. However, you will often require greater protection in international trade. The documentary collection and the letter of credit are two such alternatives to open account and the usually unacceptable cash-in-advance method of payment. Both of these alternative methods of payment protect the seller and the buyer from losses in varying degrees and offer both the seller and the buyer convenience in making payments. In general, the greater the protections for the seller, the less convenient and the more costly the payment terms are for the buyer.

One of the most important determinants of the payment method to be utilized in any particular transaction is the level of risk in the transaction. You must always weigh the risks and the amount of protection desired against being noncompetitive with the buyer. During the negotiation process, both sides must:
- Analyze the major risks they encounter in international trade transactions.
- Review alternative payment methods, the levels of protection and the types of financing provided with each one
- Understand the various factors that the seller must consider in the formulation of his sales contract
- Understand international credit policy as related to their transaction.

What overriding risks are factors to consider?
01. Commercial Risk: financial strength, credit rating and reliability
02. Political Risk: political stability
03. Economic Risk
Which are the riskiest payment methods?

Open account is riskiest to the seller. Payment in advance is riskiest to the buyer. You must weigh the pros and cons of using the various payment methods against the risks. The chart below should help to visualize the risks.

**Table 1.1: Comparison Of Payment Terms***

<table>
<thead>
<tr>
<th>Method of Payment</th>
<th>Timing of Payment to Seller</th>
<th>Goods Available to Buyer</th>
<th>Risk to Seller</th>
<th>Risk to Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in Advance</td>
<td>Prior to shipment</td>
<td>Upon Arrival</td>
<td>None</td>
<td>Full reliance on the exporter to ship goods as ordered</td>
</tr>
<tr>
<td>Sight Letter of Credit</td>
<td>When documents have been presented and found to comply with LC terms (normally after shipment)</td>
<td>Upon settlement of LC, unless goods consigned direct to buyer</td>
<td>Very little or none, based on conditions in the LC, and provided no discrepancies between documents and LC</td>
<td>Has assurance of shipment but relies on seller to ship goods as described in the documents</td>
</tr>
<tr>
<td>Time Letter of Credit</td>
<td>Upon maturity of payment terms, or upon discounting of a Bankers’ Acceptance</td>
<td>Upon the bank releasing documents of title, unless goods consigned direct to buyer</td>
<td>Very little or none, based on conditions in the LC, and provided no discrepancies between documents and LC</td>
<td>Actual payment is due after possession of goods, but must be made regardless of product quality</td>
</tr>
<tr>
<td>Sight Draft for Collection¹</td>
<td>Upon presentation of draft and documents to buyer, and payment by buyer</td>
<td>After payment, unless goods consigned direct to buyer</td>
<td>Possible nonpayment by buyer</td>
<td>Has assurance of shipment but relies on seller to ship goods as described in the documents</td>
</tr>
<tr>
<td>Time Draft for Collection²</td>
<td>Upon maturity of time draft trade acceptance</td>
<td>Upon acceptance of time draft, unless goods consigned direct to buyer</td>
<td>Possible nonpayment by buyer at maturity of trade acceptance, but buyer has possession of the goods</td>
<td>Buyer undertook obligation to pay when accepted time draft</td>
</tr>
<tr>
<td>Open Account</td>
<td>Upon payment of invoice</td>
<td>Upon delivery</td>
<td>Full reliance on buyer to pay invoice as agreed</td>
<td>None</td>
</tr>
</tbody>
</table>

* None of these payment methods protect against fraud. This chart is provided for information and illustration only. It does not purport to encompass all of the possible risks to a buyer or seller involved in any given trade transaction.

¹ Also known as Documents Against Payment or Cash Against Documents (CAD).

² Also known as Documents Against Acceptance, Time Draft, and Trade Acceptance.
Table 1.2: Payment Options

<table>
<thead>
<tr>
<th></th>
<th>Cash in Advance</th>
<th>Letter of Credit</th>
<th>Documentary Collections</th>
<th>Open Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relationship</strong></td>
<td>new</td>
<td>new</td>
<td>established</td>
<td>well established</td>
</tr>
<tr>
<td><strong>Type of Goods</strong></td>
<td>custom made</td>
<td>custom made</td>
<td>stock items</td>
<td>stock items</td>
</tr>
<tr>
<td><strong>Political</strong></td>
<td>unstable*</td>
<td>unstable*</td>
<td>stable</td>
<td>stable</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td>unstable</td>
<td>unstable*</td>
<td>stable</td>
<td>stable</td>
</tr>
</tbody>
</table>

* Confirmation by U.S. or other major bank suggested.

**How do you determine the appropriate Payment Option?**

In addition to the very important risk of payment receipt versus risk of shipment receipt, Table 1.2 gives some guidelines on determining which payment options may be appropriate for a particular trade transaction. Please note that the key determinants are: Relationship, Type of Goods (Stock or Custom), Political and Economic environment and the Timing of both Cash Flow and Delivery.

**What are the advantages of letters of credit for the seller (exporter)?**

By requiring that buyers have their banks issue letters of credit, sellers can benefit in the following ways:

- Minimize credit risk by shifting risk from the buyer to the buyer’s bank.
- Provide for assured and prompt payment by reducing the risk that payment for the goods might be delayed or otherwise jeopardized by political or foreign exchange problems in the buyer’s country.
- Improve ability to obtain bank financing.

**What are the risks of letters of credit for the seller?**

The seller’s documentation must conform exactly to the terms and conditions of the LC, otherwise there is no guarantee of payment.

**What are the advantages of letters of credit for the buyer (importer)?**

By agreeing to request letters of credit from their banks, buyers can benefit in the following ways:

- Assurance that their banks will pay the seller only when the seller’s documents conform to the terms and conditions of the LC
- Potential opportunity to receive extended payment terms from the seller, by arranging for an LC which is payable at a future date
- Ability to delay payment until documents are received
- Improved ability to plan sales and distribution because latest shipping date is known
- Barring fraud, payment is limited to what was ordered

**What are the risks of letters of credit to the buyer?**

Letters of credit deal only in documents, not in goods. There is a risk that the merchandise may not be as it is represented in the documentation.
Payment Method/Risk

<table>
<thead>
<tr>
<th>Risk to Seller</th>
<th>Risk to Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Account</td>
<td>RISKIEST</td>
</tr>
<tr>
<td>Documentary Collection</td>
<td></td>
</tr>
<tr>
<td>Letter of Credit</td>
<td></td>
</tr>
<tr>
<td>Cash in Advance</td>
<td>RISKIEST</td>
</tr>
</tbody>
</table>
Chapter 02
Export Letters of Credit Defined
From the seller’s (beneficiary’s) perspective, a commercial letter of credit (LC) from a foreign country is an export credit. To the buyer (applicant), the same letter of credit is an import credit. An export LC is a conditional payment mechanism under which the issuing bank irrevocably promises to pay the seller if presented documents comply with all of the LC terms and conditions.

All letters of credit have similar attributes and this chapter will restate some of those attributes. It is important not only to understand the attributes, but also the principles that lead to them. Because of the risks involved in international trade, specifically the lack of guaranteed payment, prepayment and open account are not always the preferred means of payment. A commercial LC offers protection to both the buyer and seller and, for this reason is often used as a means of payment. An export LC offers the seller a high degree of protection for goods and services delivered and a reduction of trading and credit risks.

In the LC process, the bank is the intermediary between the seller (an exporter) and the buyer (an importer). The issuing bank issues the LC on behalf of the importer, examines the documents received to determine conformity to the terms and conditions of the LC, and makes payment, either immediately or at a specified future date.

When the bank issues the LC, it substitutes its credit for that of the importer. In doing so, the bank promises to pay the exporter upon proper presentation of certain documents, as specified in the LC. The bank deals only with the documents called for in the LC, not with the actual goods involved. For example, if an LC specifies that the exporter ship a container of steel and the quality of the steel does not meet the buyer’s expectations, the exporter will nevertheless be paid as long as documents are presented in conformity with the terms and conditions of the LC.

Typically the exporter’s bank acts as the advising, examining and paying bank. It may also confirm and negotiate LCs on its client’s behalf.
Letter of Credit Overview

Prior to any letter of credit transaction, the buyer and seller should negotiate and agree to the terms and conditions to be specified.

Letter of Credit Flow Chart
**Letter of Credit Flow Chart – Step 1 through Step 4**

**STEP ONE**
Buyer Applies for Letter of Credit

**STEP TWO**
Buyer’s Bank Issues LC and...

**STEP THREE**
Transmits LC to Seller’s Bank

**STEP FOUR**
Advises LC to Seller

---

01 The buyer fills out a letter of credit application from the buyer’s bank which satisfies the terms of the purchase agreement plus the requirements of customs law, shipment and document coordination.

02 The issuing bank, usually the buyer’s bank, rechecks the application to ensure that it is complete and workable.

03 The issuing bank transmits the credit to a correspondent bank or the beneficiary’s bank by S.W.I.F.T., telex, or (rarely) airmail and asks it to advise and/or confirm the instrument.

04 The correspondent bank receives the letter of credit, checks authenticity, records, and transmits the instrument to the seller/beneficiary, adding their confirmation if requested and if they agree to do so. Upon receipt of the letter of credit, the seller should carefully review it to determine whether the seller can comply with its performance requirements and whether it is acceptable.
Upon determination that the letter of credit is acceptable, the seller should ship the goods precisely pursuant to its terms and conditions.

The seller must prepare documents exactly as required and present them to the bank where the LC is available. The proper paying bank may be any bank specified in the credit to accept, pay or negotiate. This may be an advising bank, confirming bank, issuing bank or (on a freely negotiable credit) any bank that is willing to negotiate. See Chapter 6 of this guide for an explanation of the term “negotiate.”

When the bank where presentation is made receives the documents, it will examine them to determine if they are in order pursuant to the credit’s terms and conditions. If in order, the bank may pay, accept, or negotiate as required by the letter of credit. The negotiating bank will transmit the documents to the issuing bank and request reimbursement. Under an LC payable at sight, the issuing bank may effect reimbursement to the seller’s bank by remitting funds directly to the seller’s bank, authorizing the seller’s bank to debit the issuing bank’s account, or by authorizing the seller’s bank to claim from a third bank where the issuing bank maintains an account.
Upon receipt of the documents, the issuing bank will examine them to ensure that they are in order as specified and then reimburse the negotiating bank. (For time drafts, reimbursement is made at maturity of the bankers’ acceptance.)

Issuing bank debits the buyer’s account and releases documents. (For a time draft, the buyer’s account will be debited at maturity.) The seller’s bank pays the exporter after being reimbursed by the buyer’s bank.

The buyer exchanges the shipping documents for the goods.
What agreements are involved in an export LC transaction?

- **Sales Contract.** An agreement between the seller (beneficiary) and the buyer (account party or applicant) which gives rise to the use of an LC. The agreement may be in the form of a sales contract or other agreement.

- **Application for Credit.** An agreement between the buyer (applicant) and the issuing bank which spells out their mutual obligations, including that of the applicant to reimburse the issuing bank when payments are made to the beneficiary in accordance with the terms of the LC.

- **Letter of Credit.** An agreement between the issuing bank and the seller (beneficiary) which specifies conditions that must be met before the issuing bank will pay the beneficiary.

What is the difference between an Advised and a Confirmed Export LC?

The LC transaction usually involves two banks, the buyer’s bank issuing the LC and a bank in the seller’s country that advises the LC to the beneficiary. The advising bank may also assume the role of confirming bank. Whether advising and/or confirming, the seller’s bank assumes certain responsibilities.

**Advising:** An advising bank acts as the agent of the issuing bank. The function of the advising bank is to take reasonable care to verify the authenticity of the letter of credit it received and then to accurately transmit them the letter of credit to their beneficiaries. When advising a letter of credit, the bank assumes no liability. On receipt of the documents for examination and payment, the advising bank will pay the seller only if it received good funds and has received reimbursement from the issuing bank, even if it was specifically nominated as paying bank in the letter of credit.

**Confirming:** By confirming a letter of credit, the advising bank or another bank assumes the same responsibilities as the issuing bank, including the obligation to pay against presented documents (if they are in order and all of the letter of credit terms are met). In effect, the beneficiary has the individual promise of two banks – the issuing bank and the confirming bank – to pay against conforming documents. Confirmation of a letter of credit is an extension of credit and requires credit approval of the issuing bank by the confirming bank. When a bank confirms a letter of credit, it takes the credit risk of the issuing bank and must have in place a credit limit for that issuing bank.

How is an LC confirmed?

When negotiating the terms of sale, the seller sometimes wants an LC to be issued that requests the advising bank to add its confirmation. The buyer includes this request when submitting the application for LC issuance to its bank. In most instances the issued credit states: “Please advise beneficiary adding your confirmation” or words to similar effect.

Note, this is a request, not a requirement. The advising bank, for various reasons, may decline to add its confirmation and simply advise the LC without confirmation.

Is the payment assured?

If the terms and conditions of the LC are met, by using LCs the seller has the issuing bank’s guarantee of timely payment. Through the use of an LC, the issuing bank substitutes its credit for that of the buyer and assures the seller that payment will be made by the bank in accordance with the terms of the LC if such terms are properly met. An advising bank assumes the economic and political risk if it confirms a credit.

A confirmed LC affords a high level of protection to the seller. The seller is assured of payment from the advising and confirming bank if the documents are in order, while the buyer’s assured payment will only be effected by the bank in accordance with the terms of the LC.
What documents are usually required under a letter of credit?
The documents for an international sale can vary significantly from transaction to transaction depending on the destination and the product being shipped. See Chapter 6 for a detailed discussion of letter of credit documents.

Letter of Credit Parties and Roles

What are the parties and roles in a letter of credit?

- **Beneficiary:** The seller of goods or services to whom the letter of credit is addressed and who is entitled to its benefits.

- **Account Party/Applicant:** The buyer of goods or services who requested the letter of credit to be opened under its liability.

- **Issuing Bank:** The financial institution that writes the letter of credit, which creates its obligation to pay the beneficiary if the terms and conditions are fulfilled.

- **Advising Bank:** The bank, usually in the beneficiary’s country, whose primary job is to pass on the letter of credit to the beneficiary. The advising bank is normally a correspondent bank of the issuing bank which means that the two banks have exchanged authenticating procedures, and may have also established accounts with each other. An important part of passing on a letter of credit to a beneficiary is verifying the authenticity of the letter of credit. When the advising bank authenticates the credit, it is saying it is a genuine instrument from the named issuing bank. It is not commenting on the credit worthiness of the bank or its country. This procedure gives the seller an amount of protection against fraudulent instruments. That is why it is common practice to have letters of credit advised to a seller through a correspondent bank. Letters of credit may be received by the advising bank by mail, telex, cable, or most often by S.W.I.F.T. (S.W.I.F.T. is the acronym for Society for Worldwide Interbank Financial Telecommunications, a telecommunications network of member banks.)

- **Drawee Bank or Paying Bank:** This is the bank named in the credit as duly authorized to make payment. Drafts are drawn and/or documents presented to this bank as a general rule. However, special instructions might modify this procedure.

- **Examining Bank:** Both the issuing bank and the seller’s bank must examine all documents stipulated in the credit with reasonable care to ascertain whether they appear, on their face, to be in compliance with the terms and conditions of the credit.

- **Confirming Bank:** A confirming bank is a financial institution requested by the issuing bank to add its guarantee of payment or acceptance to the credit instrument. In order to do so, the confirming bank must have a credit limit established in favor of the issuing bank. The confirming bank is usually but not always the advising or drawee bank. If the seller wants the letter of credit to be confirmed by the advising bank, then the seller must ask the buyer to instruct the issuing bank to ask the advising bank to add its confirmation. Letters of credit issued by Bank of America Merrill Lynch normally do not require confirmation, due to our strong credit rating.
• **Reimbursing Bank:** At times, the issuing bank names a bank where the issuing bank keeps funds in the currency of the letter of credit to pay on its behalf, drawee or negotiating banks to whom payment is due. This bank, named in the letter of credit, is known as a reimbursing bank and is usually named under the special instructions portion of the letter of credit. (See I.C.C. Publication No. 600, Article 13.)

• **Negotiating Bank:** Negotiation is the process whereby a bank examines the documents and actually pays funds to the beneficiary. (This is not very common in the United States. Check with your Trade Sales Officer to discuss possibilities.) Whether the beneficiary is paid immediately upon examination of documents conforming to the LC, or only after approval by the issuing bank, is determined by the payment terms stipulated in the LC. The negotiating bank is either nominated by the beneficiary under a freely negotiable letter of credit or designated as a restricted negotiating bank by the issuing bank. The concept of a negotiating bank allows more flexibility into the payment mechanism and enables beneficiaries to present documents for payment to their local bank.

### 20 Important Characteristics of an Export Letter of Credit

**What should I look for when I receive an export letter of credit in my favor?**

01. **Irrevocable:** This term means that the issuing bank cannot cancel or amend an LC without the consent of the beneficiary.

02. **Expiry Date and Issue Date:** Make sure that you can make shipment and present documents before the expiry date of the letter of credit. Commercial export letters of credit generally expire in the seller’s country. Verify the expiration location of the letter of credit. If the letter of credit expires at the counters of the issuing bank, or in the buyer’s country, allow extra time for forwarding of documents. Understand the special rules that apply when the expiry date falls on a weekend day or holiday. (UCP 600, Article 29.b)

03. **Issuing Bank/Advising Bank:** Make sure that the banks here are banks with whom you are comfortable and familiar with.

04. **Exporter/Importer:** Make sure that the full name of your company and its address, as well as the full name and address of your buyer, are correctly stated on the letter of credit.

05. **Value/Currency:** The amount of your letter of credit should conform to the amount in your sales contract. Verify that the currency denomination is indicated next to the amount.

06. **Description of Goods/Services:** We recommend that you ask your buyer for a very simple merchandise description in your letter of credit. Excessive details may cause discrepancies and delays; if the nature of your sale requires a detailed description of merchandise, it belongs in the sales contract between you and your buyer. The sales contract number or agreement can then be

07. **Required Documents:** See Chapter 6, “How You Get Paid.” Make sure that you understand and can provide all documents required under the letter of credit.

08. **Payment Terms:** Also known as “Tenor.” Make sure that payment terms quoted in the letter of credit agree with your sales contract. The payment term “At Sight” indicates that you as the exporter will be paid within a reasonable time after you present your draft if your documents are in order. If a letter of credit indicates “90 Days Sight,” with discount charges for beneficiary’s account, the exporter agrees to give 90 day terms to the buyer, and you will be paid 90 days after presenting the draft or upon agreement between yourself and the accepting bank the draft may be discounted. If the discount charges are for the buyer’s account, the exporter will be paid “At Sight” and the buyer will pay discount charges at the point of negotiation and the face value of the draft at maturity. See Chapter 8 for a complete discussion of usance terms.
Chapter 02

Export Letters of Credit Defined

09. **Incoterms:** Shipment terms. See Incoterms, Chapter 2.

10. **Port to Port Shipments (Dispatch to Destination):** Make sure that your letter of credit correctly states the port of loading and the port of unloading, as indicated in your sales contract. You as the exporter may benefit from the use of a very generalized port of shipment, such as “U.S. West Coast Port” or “U.S. port” or even North American Port.

11. **UCP 600:** Your letter of credit must state that it is subject to the Uniform Customs and Practice for Documentary Credits Publication No. 600 (UCP 600).

12. **Who pays fees?:** Unless otherwise stipulated in the letter of credit, all banking charges including charges outside the buyer’s country, are for the account of the applicant. If any of these charges are for the beneficiary’s account, they are normally deducted from the face amount of the drawing at the time of payment.

13. **Latest Shipment Date:** The latest shipment date should be the same as that agreed to in your sales agreement. Make sure that you can comply with the latest shipment date. If your letter of credit does not contain a latest shipment date, it is understood as the same date as the expiry date.

14. **Presentation Date or Stipulation:** The presentation date is usually a stipulation such as “Documents must be presented for negotiation within 15 days after the on board validation date of the ocean bill of lading and within the validity of the letter of credit.” A 21-day presentation stipulation is understood, in the absence of any statement to this effect. Make sure that you are able to comply with this presentation stipulation.

15. **Partial Shipments Allowed/Not Allowed:** If your letter of credit is silent concerning partial shipments, it is understood that partial shipment is allowed. Make sure that this information agrees with your original sales contract, and that you can comply.

16. **Transshipment Allowed/Not Allowed:** If your letter of credit is silent concerning transshipments, it is understood that transshipment is allowed. Make sure that this information agrees with your sales contract, and that you can comply.

17. **Reimbursement Instructions:** This is important to the seller, as reimbursement instructions determine when payment will be received. Four major types of reimbursement instructions are: a) Issuing Bank authorizes Bank of America Merrill Lynch to debit its account; b) Issuing Bank instructs Bank of America Merrill Lynch to claim reimbursement from a third bank (Reimbursing Bank); c) Issuing Bank requires Bank of America Merrill Lynch to send the issuing bank a cable notifying it that documents have been received and found to be in compliance with the LC terms, after which the Issuing Bank remits funds to Bank of America; d) Issuing Bank requires Bank of America Merrill Lynch to send documents to them for payment (slowest method of payment).

18. **Availability:** A letter of credit is either freely available or straight. A freely available LC will indicate that it is “...available with any bank by negotiation, sight payment, by deferred payment, or by acceptance...” A negotiating bank may play various roles pursuant to the latitude extended by the letter of credit, but it normally is allowed to take the documents in charge and pay the beneficiary against funds received from the issuing bank. A straight, or restricted, LC will indicate that it is “...available with (named bank) by sight payment, by deferred payment, by acceptance or by negotiation.” The beneficiary must present documents at the counters of the named bank.

19. **Confirming Bank:** For all intents and purposes, beneficiaries normally present their documents to the confirming bank, and regard it as the primary source of payment. The confirming bank is obligated to pay against compliant documents, regardless of whether or not funds are received from any reimbursement source. See page 18 for a complete explanation of the confirming bank’s role.
Chapter 02
Export Letters of Credit Defined

20. **Reimbursing Bank:** The reimbursing bank is usually named under the “Special Instructions” portion of a letter of credit, or in field :78: of a S.W.I.F.T. 700 message. See page 19 for a complete explanation of the reimbursing bank’s role.

**Understand and Control Your Export Letters of Credit**

**How can you, the exporter, make sure that the letter of credit process works for you?**

As an exporter, you should strive to exercise control over this process. That’s why it is so important to understand the process and to establish a written contract or sales agreement with your buyer before your buyer applies to the issuing bank for a letter of credit.

Upon receipt of a new letter of credit, always read it thoroughly. Make sure that you understand its terms and conditions completely and that you can comply. If any part of your letter of credit is not clear to you, contact your local Bank of America Merrill Lynch Global Trade Operations representative, who is knowledgeable in the field and dedicated to facilitating the process for you.

Also make sure that you understand any additional wording which Bank of America Merrill Lynch has added to the export advice letter. Often this wording points out special reimbursement and/or payment arrangements which you should be aware of as it can affect your Days Sales Outstandings.

If you cannot comply with the letter of credit or the letter of credit does not appear to support your sales agreement, contact your buyer directly to request that an amendment be issued through the advising bank. The advising bank has no responsibility in the amendment process except to forward received amendments to the beneficiary after verifying their authenticity.

Do not ship until you receive the letter of credit and/or amendments.

As the exporter, you will then contact a freight forwarder to arrange delivery, as described in the LC, of the merchandise to the port/airport. The goods are delivered to the departure point and you or your forwarder (or document preparation service) prepares the necessary documentation, in compliance with the letter of credit terms and conditions. Complying documents and the original letter of credit should then be presented to the advising bank by you or your freight forwarder within the time stipulations in your letter of credit.

**The Role of the Freight Forwarder**

Freight forwarders are international shipping specialists who you can hire for export assistance. A good international freight forwarder can save you time and money through its contacts and experience.

Freight forwarders must be bonded and licensed through the Federal Maritime Commission (FMC). They are regularly audited by the FMC. Many air freight forwarders belong to a Cargo Network System or Civil Aeronautics Board.

While it’s always a good practice to manage your own export transactions, your forwarder can act as your agent to move your cargo from your warehouse to its destination. Many small export firms, in fact, consider the freight forwarder the external shipping department for their company. Here’s how a freight forwarder can help your organization:

- **Handling and transportation**—your freight forwarder can:
  - Act as your agent.
  - Advise on different methods of shipping, routing and modes of transport.
  - Arrange for packing, marking, and containerizing your goods at the port.
  - Research and negotiate for the best carrier rates.
  - Book air and ocean freight shipments.
– Arrange for loading and unloading of your product.
– Arrange for receipt of bill of lading or air waybill.
– Arrange for insurance.
– See shipments through customs.
– File damage claims with carriers or insurance companies.

• **Preparing price quotations:** A forwarder can assist with preparation of your price quotation by its knowledge of direct and incidental costs, such as loading, freight and insurance.

• **Regulations:** As an exporter, you should know the laws of both the U.S. and your buyer’s country. One of the freight forwarder’s responsibilities is to know the governing regulations, and how to obtain U.S. and foreign licensing.

• **Documentation:** Your freight forwarder can help ensure that you have all the documents your shipment requires and that they conform to the conditions of the letter of credit.

• **Getting paid:** Your freight forwarder normally will review new letters of credit that you receive to see if the terms can be met. A freight forwarding firm will also present documents to your bank and work with your bank as your agent in resolving discrepancies.

### Determining Your Need for a Freight Forwarder

When deciding whether you need a freight forwarder, your organization should consider the distance, handling, and cultural exchanges involved in your export shipment. As a general rule, it is to your advantage to allow a freight forwarder to handle larger and more complicated transactions. The following questions may help guide your decision:

• **What is the size of your shipment?**
  Small shipments require less attention to intricate shipping arrangements. Larger shipments necessitate more documentation and closer attention to cost-effective means of packaging, shipment arrangements and handling.

• **Is your shipment of high or low value?**
  Shipments of lower value are often paid for by less complex payment methods. Consider the increased risk of high-value shipments due to loss or other problems.

• **Is the delivery date a condition of the terms of the export transaction?**
  An experienced freight forwarder can determine the best way for your shipment to arrive on time.

• **Are there unusual circumstances involved with your shipment?**
  If you are shipping non-typical materials which are subject to special packaging, shipping regulations and documentation, a freight forwarder will know what you need.

• **Is your foreign market susceptible to trade barriers?**
  A freight forwarder can guide you in the best ways of entering a foreign market that imposes trade barriers or restrictions.

• **Does your company have an experienced shipping department?**
  If your organization has experience with shipping your product to your market, you may be able to manage all aspects of your export transactions in-house. It’s certainly wise to retain export specialists within your organization.

• **How frequently do you ship to certain destinations?**
  As an exporter you need to stay on top of changes in export and country regulations. If you ship to certain destinations infrequently, the use of a freight forwarder may be less costly than arranging for shipment yourself.

• **Can you afford a freight forwarder?**
  Freight forwarders’ fees normally fluctuate with the value of the shipment. Certain forwarders receive commissions from shipping companies for selling cargo space. The negotiated savings can be passed on to you. Out of pocket
expenses such as messenger fees, telex, telephone and direct overhead are billed to you separately. When shopping for a freight forwarder, ask for a detailed listing of services and fees, and decide whether you can perform these services within your organization with an acceptable level of expertise and accuracy. Typically freight forwarders are independent businesses and are competitive in rates and scope of services.

Finding a freight forwarder
To find a freight forwarder:

• Call or write The National Customs Brokers & Forwarders Association of America or visit http://www.ncbfaa.org
• Visit your local U.S. Department of Commerce office and ask for a list of air and ocean forwarders in your area.
• Check your local Yellow Pages under “Freight Forwarders.”
• Ask an experienced exporter who deals in similar products for a reference to a good freight forwarder.

Incoterms—International Shipping/Trade Terms

What are Incoterms?
When buying or selling in international markets, it is critical that all parties to the transaction know and understand the terms of sale. For example, a seller may think that he has quoted a price to a buyer exclusive of the freight costs. If the buyer thought that the price included the freight charges then a costly misunderstanding has occurred. For this reason the ICC has developed a set of trade terms that are used worldwide. They come under the general heading of Incoterms. Some of the more frequently used terms are outlined below. The most recent Incoterms, Incoterms 2010, was published on January 1, 2011.

There are 11 Incoterms subdivided into 2 categories: rules for any mode of transport and rules for seas and inland waterway. The following is a summary of the highlights of the Incoterms, which is not intended to furnish Incoterms in their entirety. For a more complete understanding please refer to the Guide to Incoterms 2010 published by ICC Publishing Co. in New York, which can be ordered through ICC’s website at www.iccbooksusa.com.

RULES FOR ANY MODE OF TRANSPORT

EXW (ExWorks…named place)
Ex Works means that the seller fulfills his obligation to deliver when he has made the goods available at his premises (that is, works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. This term thus represents the minimum obligation for the seller, and the buyer has to bear all costs and risks involved in taking the goods from the seller’s premises. If the parties wish the seller to be responsible for the loading of the goods on departure and its risks and costs, this should be made clear by adding explicit wording to this effect to the contract of sale. This term should not be used when the buyer cannot carry out the export formalities directly or indirectly. In such circumstances, the FCA term should be used, provided the seller agrees that he will load at his cost and risk.
FCA (Free Carrier . . . at the named point)
This term has been designed to meet the requirements of modern transport, particularly such multimodal transport as container or roll on-roll off traffic trailers and ferries. It is based on the same main principle as FOB except that sellers fulfill their obligations when they deliver the goods into the custody of the carrier at the named point. If no precise point can be mentioned at the time of the contract of sale, the parties should refer to the place or range where the carriers should take the goods into their charge. The risk of loss or damage to the goods is transferred from seller to buyer at that time and not at the ship's rail. A “Received for Shipment” bill of lading is acceptable in lieu of an “On Board” bill of lading. This allows exporters to receive shipping documents more quickly and to get paid in a more timely manner. “Carrier” means any person by whom or in whose name a contract of carriage by road, rail, air, sea or a combination of modes has been made. When the seller has to furnish a bill of lading, waybill or carrier’s receipt, he/she duly fulfills this obligation by presenting such a document issued by a person so defined.

CPT (Carriage Paid To . . . named place of destination)
This term means that the seller delivers the goods to the carrier nominated by him, but the seller must also pay the cost of carriage to bring the goods to the named destination. The buyer bears all risks and any other costs occurring after the goods have been so delivered. “Carrier” is defined as any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of methods. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. This CPT term requires the seller to clear the goods for export.

CIP (Carriage and Insurance Paid To . . . named place of destination)
This term is the same as “Carriage Paid To . . .” but with the addition that the seller has to procure transport insurance against the risk of loss or damage to the goods during the carriage. The seller contracts with the insurer and pays the insurance premium. CIF is used for goods carried by sea, while CIP is used irrespective of the mode of transport. This term allows the exporter the greatest control over all aspects of shipment.

DAT (Delivered At Terminal. . . named terminal at port or place of destination)
This term is the same as CPT “Carriage Paid To . . .” but with the addition that the seller must pay for the unload main carrier charges. The seller’s obligation ends when the goods are delivered to the disposal of the buyer, unloaded from the arriving carrier at the named destination terminal, cleared for export, but not cleared for import. The buyer is responsible for the import clearance of the goods. If the seller is also to be responsible for delivering the goods past the terminal to another place, then DAP or DDP terms should be used.

DAP (Delivered At Place. . . named place of destination)
This term is the same as DAT “Delivered At Terminal. . . .” but with the addition that the seller must pay for the destination terminal charges. The seller’s obligation ends when the goods are delivered to the disposal of the buyer at the named destination place, cleared for export, but not cleared for import. The seller and buyer should agree which party will be responsible for unloading. The buyer is responsible for the import clearance of the goods.

DDP (Delivered Duty Paid. . . named place of destination).
This term means that the seller delivers the goods to the buyer (cleared for import) but not unloaded from any arriving means of transport at the named place of destination. The seller must bear all costs and risks involved in bringing the goods thereto including, where applicable, any “duty” (which includes the responsibility for and the risk of carrying out of customs formalities, customs duties, taxes and other charges) for import in the country of destination. While the EXW term signifies the seller’s minimum obligation, the DDP term represents the maximum obligation.
RULES FOR SEA AND INLAND WATERWAY

FAS (Free Along Side . . . named port of shipment)
This means that the sellers fulfill their obligation to deliver when the goods have been placed alongside the vessel on the dock or quay at the named port of shipment. The buyer has to bear all costs and risks of loss or damage to the goods from that moment. The FAS term requires the seller to clear the goods for export.

FOB (Free on Board . . . named port of shipment)
FOB means “Free on Board.” The goods are placed on board a ship by the seller at a port of shipment named in the sales contract. The risk of loss or damage to the goods is transferred from the seller to the buyer when the goods pass the ship’s rail. All costs from that point forward, including freight and insurance, are for the buyer’s account. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship’s rail, the FCA term should be used.

CFR (Cost and Freight . . . named point of destination)
CFR means “Cost and Freight.” The seller must pay the costs and freight necessary to bring the goods to the named destination, but the risk of loss or damage to the goods, as well as any cost increases, is transferred from the seller to the buyer when the goods pass the ship’s rail in the port of shipment. The CFR term requires the seller to clear the goods for export. This term should only be used for sea and inland waterway transportation. If the parties do not intend to deliver the goods across the ship’s rail, the CPT term should be used.

CIF (Cost, Insurance and Freight . . . named port of destination)
CIF means “Cost, Insurance and Freight.” This means that the seller delivers when the goods pass the ship’s rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination, but the risk of loss or damage, as well as additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. In CIF the seller also has to procure marine insurance against the buyer’s risk of loss or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the premium. The buyer should note that under the CIF term the seller is required to obtain insurance only on minimum cover. The CIF term requires the seller to clear the goods for export. This term should be used only for sea and inland waterway transport. If the parties do not intend to deliver the merchandise across the ship’s rail, the CIP term should be used.
## Incoterms summary of seller’s and buyer’s charges/fees responsibilities

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### Export Letters of Credit Defined

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A Discussion of UCP 600

All commercial LCs should be issued subject to a set of rules established by the ICC, and known officially as “The Uniform Customs and Practice for Documentary Credits.” The current version is referred to as UCP 600 and went into effect July 1, 2007. The following discussion is intended to only summarize the 39 articles that comprise UCP 600 and is not intended to be advice. Partial quotes and comments are given in this chapter and should not be interpreted as a full summary. For a complete understanding and review of UCP 600, as well as the URC 522 (“Uniform Rules for Collections”), please refer to the ICC publications, available for purchase on ICC’s website at www.iccbooksusa.com.

Art. 01. Application of UCP

UCP 600, applies to all LCs that specifically state that they are issued subject to its terms. You may want to great care to avoid accepting commercial credits that are not issued subject to UCP 600. Please note that standby LCs can be issued subject to UCP 600, they are generally issued subject to another set of rules issued by the International Chamber of Commerce, ISP 98.

Art. 02. Definitions

This article gives 14 definitions relative to this publication.

Art. 03. Interpretations

This article gives 12 interpretations to use within the framework of the rules.

Art. 04. Credits vs. Contracts

A credit by its nature is a separate transaction from the sales or other contract on which it may be based.

• This article makes a distinct difference between the credit itself and any underlying contract to which the transaction is connected. Banks are not concerned with any underlying contracts, and an applicant cannot prevent a bank from paying on a credit simply because the applicant asserts that the underlying contract has been broken or not fulfilled.

• There may be various contractual relationships which exist between banks or between the applicant and the issuing bank. Beneficiaries may not avail themselves of such relationships (see Art. 5).

Art. 05. Documents v. Goods/Services/Performance

This article clarifies that banks deal only with documents, and not with goods, services or other performances relative to those documents.

For example: A credit calls for shipment of “5 blade ceiling fans,” and the applicant (buyer) learns that the beneficiary shipped “4 blade ceiling fans.” The applicant cannot instruct the bank to deny payment. So long as the documents being submitted describe the goods as “5 blade ceiling fans,” the bank is obligated to pay (assuming all other terms and conditions were complied with). Likewise, if a standby credit contains a clause that requires the beneficiary to submit a statement certifying that “The applicant is in default under their contract No. 1234 dated May 15, 2006,” then the applicant is precluded from instructing the bank to deny payment simply on the basis that the applicant claims not to be in default.

Art. 06. Availability, Expiry Date and Place For Presentation

“A credit must state the bank with which it is available or whether it is available with any bank.” This article gives specific guidance on the various availability structures, expiry conditions and place for presentation of documents. Properly structured, a credit will effectively tie these items to one another. Issuing Bank Undertaking
**Chapter 02**

**Export Letters of Credit Defined**

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**Art. 07. Bank Undertaking**

A credit is an obligation of the issuing bank to honor, provided that a complying presentation is made. The article outlines the various scenarios which will engage the issuing bank’s obligation depending on the availability of the credit.

**Art. 08. Confirming bank undertaking**

By adding its confirmation to a credit, a bank is obligated to honor a complying presentation. The article outlines the various scenarios which will engage the confirming bank’s obligation depending on the availability of the credit.

**Art. 09. Advising**

A credit may be advised to a beneficiary through another bank without engagement on the part of that bank. This bank may act in the role of either an advising bank or as a confirming bank. The advising bank’s responsibility is limited to taking reasonable care to help ensure the authenticity of the credit and the accuracy of the credit as it is passed to the beneficiary. If it is unable to verify authenticity, it must notify the issuing bank right away. Should the advising bank choose to advise an unauthenticated credit, they must so indicate this on their cover letter to the beneficiary. This responsibility on the part of an advising bank is very important. Unfortunately, there have been numerous documented cases of bogus LCs being issued, and then advised or confirmed by yet another bogus bank in the beneficiary’s country. This is just one good reason to arrange for LCs to be advised/confirmed by the beneficiary’s bank whenever possible.

**Art. 10. Amendments**

A credit cannot be amended or cancelled without the agreement of the issuing bank, the confirming bank (if any), and the beneficiary. The only minor exception is covered under transferable credits, Article 38. An issuing bank is bound by any amendments as soon as it has issued them. A confirming bank is likewise bound from the moment that it extends its confirmation to any amendment. However, a confirming bank may decline to extend its confirmation to an amendment, and, if it does so, it must inform the issuing bank and the beneficiary without delay. An amendment does not become effective until the beneficiary accepts the amendment. Acceptance may be in writing or deemed acceptance. If the beneficiary wishes to reject the amendment, rejection should be done in writing prior to presenting documents. If there is more than one change covered in the same amendment advice, the beneficiary must accept or reject all changes in that particular amendment.

**Art. 11. Teletransmitted and pre-advised credits**

sent by an issuing bank to an advising bank via a teletransmission are considered the operative instrument and no confirmation is expected to follow.

**Art. 12. Nomination**

“An authorization to honor or negotiate does not impose any obligation on that nominated bank.” This article describes the options of a bank who has been nominated to honor or negotiate. It is also the article that authorizes a nominated bank that has accepted a draft or incurred a deferred payment undertaking to prepay or purchase that undertaking from the beneficiary. Lastly, this article makes it clear that the act of receiving, examining and forwarding documents does not constitute honor or negotiation.

**Bank-to-Bank Reimbursement Arrangements**

**Art. 13. Standard for Examination of Documents**

This article only applies to those credits which arrange for bank-to-bank reimbursement where the LC does NOT indicate that the reimbursement is subject to URR 525 (ICC Rules for Bank-to-Bank Reimbursements).

- When an issuing bank opens a LC that is available with a bank other than itself, the issuing bank will frequently indicate the name of a reimbursing bank. The issuing bank maintains an account with the
reimbursing bank and authorizes them to honor reimbursement claim(s) from the nominated bank that has acted in accordance with its nomination under the credit. This article simply states that the issuing bank must provide authorization instructions to the reimbursing bank in a timely manner. The bank that requests reimbursement is called the claiming bank.

- A claiming bank shall not be required to supply a certificate of compliance with the terms and conditions to the reimbursing bank.
- If the reimbursing bank fails to pay the claiming bank, then the issuing bank is still obligated to pay the claiming bank if all terms and conditions of the credit have been complied with.
- The issuing bank shall be responsible to the claiming bank for any loss of interest if reimbursement is not provided by the reimbursing bank on first demand, or as otherwise specified in the credit or mutually agreed, as the case may be.
- The reimbursing bank’s charges are to be paid by the issuing bank unless specified for the account of the beneficiary. If so specified, the reimbursing bank’s charges will be deducted from the payment to the claiming bank. In the event that the credit is not drawn under the reimbursing bank, charges remain for the account of the issuing bank.

**Art. 14. Standard for examination of documents**

This article gives exporters a clear idea of how banks will perform the examination of their documents and sets a strong foundation for how to prepare complying documents. It deals with the following topics.

- Banks must determine compliance on the basis of documents.
- Each bank that has a specific duty in the LC (issuing bank, confirming bank, nominated bank that is acting on its nomination) has a maximum of five banking days following the day of presentation to examine the documents and determine compliance.
- A presentation must be made no later than 21 days after the goods have been shipped, but in no case later than the expiry date of the credit. **Example:** An LC is issued with an expiry date of Saturday, August 25, 2007, but does not stipulate a latest shipping date. Documents could be presented as late as Monday, August 27, 2007; however, the latest shipping date could be no later than Saturday, August 25, 2007. Note: Sometimes documents are presented on or before the expiry date or latest day for presentation, and are subsequently found to contain discrepancies. On occasion, the beneficiary must re-present corrected documents. If the corrected documents are submitted after the expiry date or latest day for presentation then they will not have been made on or prior to the date of expiration and should not be honored. For this reason it is highly advisable to present documents at least seven days prior to the expiry date of the credit.
- The data content in any required document in the presentation must not conflict with data
- The description of goods in documents other than the commercial invoice may be in general terms.
- Except for the transport document, commercial invoice and insurance document (if any), unless the credit stipulates otherwise, banks will accept documents as presented if the content appears to fulfill the function of the required document.
- Documents presented that are not required by the credit will be disregarded and likely will be returned to the presenter.
- If a credit speaks to a condition and does not indicate which document would contain information to show compliance, that condition will be disregarded.
- Information such as beneficiary and applicant addresses and contact details and the named shipper or consignor on any document may vary from that shown in the credit.
Art. 15. Complying presentation
This article describes the actions around negotiation, honor and forwarding of documents required of a bank when a presentation is found to be in compliance.

Art. 16. Discrepant documents, waiver and notice
This article describes the actions permitted or required of a bank when a presentation does not comply.
- The bank may refuse to negotiate or honor.
- The issuing bank may approach the applicant for waiver of discrepancies.
- The bank deciding to refuse must give a single notice to the presenter, by expeditious means, sent by the close of the 5th banking day after presentation that includes: a statement of refusal, a listing of each discrepancy and a notice of how the documents will be handled.
- If the bank fails in any of these responsibilities they may be precluded from claiming that the documents do not comply.

Art. 17. Original Document and Copies
This article explains the issues around original vs. copy documents:
- At least one (1) original of each document called for in a credit must be presented.
- Guidelines are described regarding how to determine if a document is an original for the purposes of these rules.

Art. 18. Commercial Invoice
This article describes the basic features of a compliant commercial invoice. It is important to note that the requirement for merchandise description has a higher threshold for compliance than that for other documents—"must correspond with that appearing in the credit."

Art. 19. Transport Document Covering at Least Two Different Modes of Transport
This article describes the required characteristics for the transport document we often call the multimodal or combined transport document. Here you will find information on:
- Signature requirements
- Shipment or dispatch information
- Logistic information
- Terms of carriage
- Transshipment information

Art. 20. Bill of Lading
This article describes the basic required characteristics for the transport document often referred to as a Marine or Ocean Bill of Lading (B/L) and that indicates a port-to-port shipment. Here you will find information on:
- Signature requirements
- Shipment or dispatch information
- Logistic information
- Terms of carriage
- Transshipment information

Art. 21. Non-Negotiable Sea Waybill
This article describes the basic required characteristics of the document often referred to by its shorter name—sea waybill. This document must not be confused with the non-negotiable copy of a bill of lading or multimodal transport document nor with a bill of lading or multimodal transport document that has been issued in straight or non-negotiable form. In the article you will find information on:
Chapter 02
Export Letters of Credit Defined

- Signature requirements
- Shipment or dispatch information
- Logistic information
- Terms of carriage
- Transshipment information

Art. 22. Charter Party Bill of Lading
This article describes the basic required characteristics of this private agreement transport document—the bill of lading that is subject to a charter party contract. In the article you will find information on:
- Signature requirements
- Shipment or dispatch information
- Logistic information

Art. 23. Air Transport Document
This article describes the basic required characteristics of the document often referred to as an air waybill (AWB). In the article you will find information on:
- Signature requirements
- Shipment or dispatch information
- Logistic information
- Terms of carriage
- Transshipment information

Art. 24. Road, Rail or Inland Waterway Transport Document
This article describes several transport documents where, for the purposes of LCs, the basic required characteristics are similar. You might see the documents referred to as (including but not limited to):
- Truck/ Road—Bill of Lading or Waybill
- Rail Bill of Lading or Waybill
- Barge Waybill:
- Signature requirements
- Shipment or dispatch information
- Logistic information
- Transshipment information

Art. 25. Courier Receipt, Post Receipt or Certificate of Posting
This article describes the basic required characteristics for transport documents that indicate shipment of goods by courier or postal services. In this article you will find information on:
- Signature requirements
- Shipment or dispatch information
- Logistic information

This article describes certain wording that typically is found on transport documents and details how banks will deal with this circumstance.

Art. 27. Clean Transport Document
This article provides a rule that says that bank will accept only clean transport documents and what constitutes a transport document that is not clean. The word “clean” need not appear on the document.

Art. 28. Insurance Document and Coverage
Insurance documents come into play when the shipment requires the seller to provide proof that the goods have been insured as they move from seller to buyer. This article gives an overview of what
basic requirements must be met when an insurance document is required and conditions for certain characteristics.

- Insurance document types
- Signature requirements
- Dates of coverage
- Logistics covered
- Value of coverage
- Risks covered
- Exclusions and deductibles

**Art. 29. Extension of Expiry; Last Date or Day for Presentation**

Control of the critical dates in a credit is one of responsibilities of the beneficiary that will help ensure they retain the protection of the credit. This article gives the beneficiary the right to make their presentation on the banking day following the latest day for presentation, whether that is tied to a shipping date or is actually the expiry date of the credit.

**Art. 30. Tolerance in Credit Amount, Quantity and Unit Prices**

This article provides for tools within the credit that create allowances often necessary with regard to the details of amount, quantity and unit prices, while also providing for protection of unit prices where necessary. This is a very useful article in helping credits adapt to the needs of the buyer and seller when exact values are undetermined until goods are actually shipped.

**Allowances in Credit Amount, Quantity and Unit Price**

- Sometimes an LC will refer to the amount or the quantity as “about,” or “approximately.” When this happens, the amount or quantity may be up to 10% more or less than the amount or quantity (including unit prices) stated in the credit.
- Banks will accept documents which show that the quantity of goods being shipped has a variance of 5 percent more or less than that stipulated in the credit unless it would cause the amount of the drawing to exceed the available balance under the credit, or the credit states the quantity in terms of a stipulated number of packing units.

**Example:**
The LC calls for 5,000 gallons of orange juice valued at $100,000. Unless specifically prohibited in the credit, banks will accept documents showing the amount of product within a range of 4,750 gallons up to 5,250 gallons. Note: The amount being drawn could be reduced to $95,000 (for 4,750 gallons), but could not exceed $100,000 even though between 5,000 and 5,250 gallons were shipped.

**Example:**
The LC calls for 5,000 cartons of orange juice. Banks will reject documents which indicate a shipment of either less than or more than 5,000 cartons. (Exception: Banks will accept documents for less than 5,000 cartons if the credit allows for partial shipments).

- UNLESS a credit stipulates otherwise, or unless Article 30 (a) or (b) applies, banks will accept documents with an amount up to 5 percent less than the amount of the credit. However, if the credit calls for a specific quantity or unit price, then the full quantity must be shipped and the unit price must not be reduced.

**Example:**
The LC calls for a shipment of 5,000 cartons of orange juice totaling $100,000. Partial shipments are prohibited. Banks will accept documents totaling between $95,000 and $100,000 provided that the invoices still indicate that 5,000 cartons have been shipped.

**Art. 31. Partial Drawings or Shipments**

While the standard credit makes no restrictions around partial shipments and/or partial drawings, credits can and often do restrict partial shipments and/or drawings. This article helps all parties concerned understand what constitutes a partial shipment in order to control partial shipment restrictions.
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Art. 32. Installment Drawings or Shipments
Some credits contain conditions for required installment drawings and/or shipments. This article tells us that if any such installments are not drawn or shipped according to the time requirements in the credit, the credit CEASES to be available for that and any further drawings.

Art. 33. Hours of Presentation
Banks have no obligation to be available to take in presentations outside of normal business hours (see Article 2 for definition of banking days).

Art. 34. Disclaimer on Effectiveness of Documents
This article establishes that, banks deal in documents only with regard to the transaction covered by the LC and they do not have any responsibility to go outside of those documents to establish their genuineness or accuracy or descriptions therein, etc.

Art. 35. Disclaimer on Transmission and Translation
This article establishes that banks are not responsible for consequences of loss in transit or mutilation of documents arising out of transmission or delivery.

Art. 36. Force Majeure
This article relieves banks of responsibility for consequences arising during force majeure events.

This article covers a few separate issues related to the use of another bank’s services to complete the work needed to process the LC.
• Banks often will utilize the services of another bank to effect instructions given by the applicant. This is done so at the applicant’s risk.
• Neither the issuing bank nor the advising bank assumes responsibility should instructions it transmits to another bank not be fulfilled, even if the bank was at their choice.
• A bank performing services at the request of an instructing bank is entitled to claim their charges from the instructing bank; if the credit states that the charges are for account of the beneficiary and these charges cannot be collected from them, the instructing bank remains liable for these charges.

Art. 38. Transferable Credits
A credit may be issued allowing for transfer by the issuing bank or by a bank nominated in the credit. This article describes the governing rules for the transfer process:
• A bank is not obligated to transfer even though the LC states it is transferable
• Transferable credit is defined
• Transferring bank is defined
• Charges for transfer must be paid by the beneficiary
• Transfer in whole or in part
• How to handle amendments
• More than one second beneficiary
• Terms that may be changes as the transfer is made
• Substitution of invoice and draft by the first beneficiary; failure to substitute when demanded
• Second beneficiary presentation of documents must be made to the transferring bank
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Art. 39. Assignment of Proceeds
The beneficiary may instruct that the proceeds (some or all) of a credit be paid to another party. Local law governs such transactions.

This paraphrased version of the UCP 600 is intended to summarize and clarify its articles only, and is not to be construed as the entire document. Partial quotes are made in this section. Bank of America Merrill Lynch Merrill Lynch assumes no liability for any misunderstanding arising from the use of or the reliance by the reader on this condensed version. Nothing in this condensed version should be considered giving of advice, legal or otherwise. For a complete reading of UCP 600, URC 522, ISP98 and International Standard Banking Practice (ISBP), please refer to the ICC publications available for purchase on ICC’s website at http://www.iccbooksusa.com.

A Discussion of the e-UCP
(Reference to UCP 500 can be carried over to UCP 600)

As an importer, you are probably aware that digital developments are shrinking the world and creating new opportunities for your success in the global marketplace. New technologies can help increase cash flow, strengthen supply chain relationships and streamline your trade activity.

With a basic understanding of these new guidelines for electronic document presentment (eUCP), you can start to consider how digital developments will affect the future of your organization.

The ICC’s rules governing documentary credits now include an electronic supplement that caters to the growing number of documents that are presented electronically. The eUCP came into force on March 31, 2002, and was updated in July 2007 to bring it current with the UCP 600. It is now titled eUCP 1.1. The eUCP, several pages in length, covers items such as the relationship of the eUCP to UCP 600, electronic formats for electronic documents, amendments, place of presentation and notice of dishonor and preclusion.

These new articles supplement the UCP 600 rules and in no way replace them; they are to be used in conjunction with the UCP 600. The eUCP provisions shall prevail to the extent that they would produce a result different from the application of the UCP 600.

Parties wishing to use the eUCP will specifically have to incorporate it into the credit. However, a credit subject to the eUCP is also subject to the UCP without express incorporation of the UCP.

The eUCP contains a number of definitions of terms that have totally different meanings in the electronic and paper-based contexts. Terms such as “appears on its face,” “place for presentation,” and “sign”—all common features of the UCP—are redefined to take an electronic environment into account. The full-text publication of the eUCP can be ordered from the ICC at www.iccbooksusa.com.

At Bank of America Merrill Lynch we constantly evaluate new technology and consider future relationships. Our e-Solutions are scalable, interoperable and are designed with the client in mind. Because we are not locked in to a single solution and a single vendor, we can provide sound recommendations to help you manage increased volumes and complexity and expand your global trade opportunities.
General statements from the eUCP Working Group—ICC Banking Commission, March 2002

“The Working Group concluded that its task is to create a supplement to the UCP that will deal with the issues of electronic presentation. The official name for the work is ‘UCP Supplement for Electronic Presentation.’ It uses the acronym ‘eUCP.’ The eUCP provides definitions to allow current UCP terminology to accommodate the presentation of the equivalent of paper documents electronically and to provide necessary rules to allow the UCP and the eUCP to work together. The eUCP has been written to allow for presentation completely electronically or to allow for a mixture of paper documents and electronic presentation. While practice in this area is evolving, the Working Group believes that providing exclusively for electronic presentation is not entirely realistic, nor will it promote the transition to total electronic presentation.

The Working Group has not seen the need to address any issues relating to the issuance or advice of credits electronically, since current market practice and UCP have long allowed for credits to be issued and advised electronically.

It is important for the reader of the eUCP to understand that many of the articles of the UCP are not affected by the presentation of the electronic equivalent of paper documents and do not require any changes to accommodate electronic presentation.

When read together, the UCP and the eUCP will provide the necessary rules to allow for electronic presentation and are broad enough to allow for developing practice in this area. Where specific words or phrases used in the UCP are defined in the eUCP, these definitions, unless otherwise stated, apply wherever the terms appear in the UCP. The Working Group, in drafting the eUCP, has reviewed and considered definitions used in other ICC documents as well as rules and regulations promulgated by governmental and international bodies. These definitions have been used or partially used to the extent possible. Because the business is evolving, it is necessary in many cases to modify these definitions or to create new definitions specifically to address the unique requirements related to the presentation of the electronic equivalents of paper documents under the UCP.

The eUCP is specific to UCP 500 and, if necessary, may need to be revised as technologies develop, perhaps prior to the next revision of the UCP. For that purpose, the eUCP is issued in version numbers that will allow for a revision and subsequent version if the need arises. The eUCP has been specifically drafted to be independent of specific technologies and developing electronic commerce systems. That is, it does not address specific technologies or systems necessary to facilitate electronic presentation.

These technologies are evolving and it is left to the specific parties to agree on the technology or systems to be used to provide for presentation of electronic records in compliance with the requirements of the eUCP.

The eUCP has been created to anticipate the needs of the market for the presentation of electronic documents. The market, as it is developing, has created a higher standard in anticipation of increased processing efficiencies when the electronic equivalents of paper documents are presented. In anticipation of this demand and to meet the market expectation, several changes to the standards established by the UCP have been deemed necessary when an entirely electronic presentation occurs. These changes are consistent with current practice and the expectations of the marketplace. In order to avoid confusion between the articles of the UCP and the eUCP, the articles of the eUCP are numbered with an ‘e’ preceding each article number.”
Examination of Documents under the UCP 600

Documents under letters of credit could be examined by document examiners of the negotiating, confirming and issuing banks. The responsibility of a document examiner involves understanding the purpose of all documents, and the three categories that form a basis for rejecting documents.

The three categories are:

01. Format—This includes the form of the document and its clauses, especially the precise requirements for negotiable instruments.

02. The terms and conditions of the involved letter of credit.

03. “Uniform Customs and Practice for Documentary Credits” currently in use. Excerpts from UCP 600 are partially quoted in this chapter so as to highlight certain key points. In all cases the document examiner is responsible for checking documents to help ensure that they comply in full with the UCP 600.

Standard for examination of documents

The objective in examining documents is to ascertain whether the documents comply strictly with the terms and conditions in the Credit. No assumptions should be made by the document examiner; the examination must be only from the information contained on the documents. (Refer to Article 14.)

In 2002 the ICC Banking Commission published a document that supports UCP, titled International Standard Banking Practice for the Examination of Documentary Credits (ISBP). This publication was revised in 2007 as an update based on UCP 600. It details, in 180 paragraphs, many of the practices followed by document examiners worldwide and has greatly assisted in leveling the way the UCP 600 is used. The full-text publication of the ISBP can be ordered from the International Chamber of Commerce at [www.iccbooksusa.com](http://www.iccbooksusa.com).

Discrepant documents

UCP Article 14 describes in detail the responsibilities of banks with regard to discrepant documents. If you are notified that your documents are discrepant you generally have several options available to you:

01. Assuming the discrepancy is due to some error or omission in your documents, if there is sufficient time available within the latest presentation or expiry date window, you could prepare and present corrected documents.

02. If the documents are with a local bank that is handling the document presentation to the issuing bank on your behalf, you could ask them to send a message to the issuing bank detailing the discrepancies they have found and asking for the issuing bank’s approval of the discrepancies before the documents are forwarded on to the issuing bank.

03. If the documents are with a local bank that is handling the document presentation to the issuing bank on your behalf, you could ask that bank to send the documents to the issuing bank for their approval and payment.

04. If the documents are with the issuing bank and you will not be representing corrected documents, you could ask that the issuing bank approach the applicant for approval of the discrepancies and payment. (Note: This action is solely at the discretion of the issuing bank. There could be reasons they choose not to do this.)
Letter of Credit Sample and Comments on Specific Fields

The following pages provide a sample of a confirmed letter of credit. This sample is for illustration purposes only. The letter of credit is presented in S.W.I.F.T. format (Society for Worldwide Interbank Financial Telecommunications) which is commonly used by major international banks.

**SAMPLE OF AN LC ISSUED BY BANK OF AMERICA MERRILL LYNCH**

**SENDER:** BANK OF AMERICA
TRADE OPERATIONS CENTER
1000 WEST TEMPLE STREET
LOS ANGELES, CALIFORNIA 90012

**RECEIVER:** BANQUE AVISANT
PARIS, FRANCE

**SWIFT AUTHENTICATED MESSAGE**

**ISSUE OF DOCUMENTARY CREDIT (TYPE: 700)**

:27: SEQUENCE OF TOTAL:
1/1

:40A: FORM OF DOCUMENTARY CREDIT:
IRREVOCALE

:20: DOCUMENTARY CREDIT NUMBER:
123456

:31C: DATE OF ISSUE:
071024

:40E: APPLICABLE RULES:
UCPLV

:31D: DATE AND PLACE OF EXPIRY:
071130 LOS ANGELES, CA

:50: APPLICANT:
RANDALL COMPUTER, INC.
321 OAK STREET
LOS ANGELES, CALIFORNIA 90000

:59: BENEFICIARY:
PRODUITS ELECTRONIQUES S.A.
15 RUE GEORGES DUMAS PARIS 75009, FRANCE

:32B: CURRENCY CODE, AMOUNT:
USD 134,000.00

:41A: AVAILABLE WITH ... BY ... :
BANK OF AMERICA
TRADE OPERATIONS CENTER
1000 WEST TEMPLE STREET—7TH FLOOR
LOS ANGELES, CALIFORNIA 90012
BY ACCEPTANCE
Chapter 02
Export Letters of Credit Defined

42C: DRAFTS AT ... :
   90 DAYS SIGHT
   FOR 100 PCT INVOICE VALUE

42A: DRAWEE:
   BANK OF AMERICA
   LOS ANGELES, CALIFORNIA

43P: PARTIAL SHIPMENTS:
   PERMITTED

43T: TRANSSHIPMENT:
   PERMITTED

44A: PLACE OF TAKING IN CHARGE/DISPATCH FROM/PLACE OF RECEIPT :
   PARIS, FRANCE

44E: PORT OF LOADING/AIRPORT OF DEPARTURE:
   LE HAVRE, FRANCE

44F: PORT OF DISCHARGE/AIRPORT OF DESTINATION:
   LOS ANGELES, CALIFORNIA

44B: PLACE OF FINAL DESTINATION/FOR TRANSPORTATION TO/PLACE OF DELIVERY:
   FRESNO, CALIFORNIA

44C: LATEST DATE OF SHIPMENT:
   07/11/20

45A: DESCRIPTION OF GOODS AND/OR SERVICES:
   COMPUTER EQUIPMENT ACCORDING TO P.O. NO. 87654
   FCA PARIS, FRANCE

46A: DOCUMENTS REQUIRED:
   SIGNED COMMERCIAL INVOICE IN ORIGINAL AND TWO COPIES.
   PACKING LIST IN ORIGINAL AND TWO COPIES.
   FULL SET OF CLEAN MULTIMODAL TRANSPORT DOCUMENTS CONSIGNED TO THE ORDER OF SHIPPER,
   BLANK ENDORSED, MARKED FREIGHT COLLECT AND NOTIFY BUYER.

71B: CHARGES:
   BANKING CHARGES ARE FOR ACCOUNT OF APPLICANT, EXCEPT FOR DOCUMENTARY DISCREPANCY
   CHARGES, IF ANY, WHICH ARE FOR ACCOUNT OF BENEFICIARY.

48: PERIOD FOR PRESENTATION:
   DOCUMENTS MUST BE PRESENTED FOR PAYMENT, ACCEPTANCE / NEGOTIATION WITHIN 10 DAYS
   AFTER THE DATE OF SHIPMENT, BUT WITHIN THE VALIDITY OF THIS CREDIT.

49: CONFIRMATION INSTRUCTIONS:
   WITHOUT

78: INSTRUCTIONS TO THE PAYING/ACCEPTING/NEGOTIATING BANK:
   1) ALL DOCUMENTS MUST BE FORWARDED IN ONE MAILING, VIA COURIER OR EXPRESS MAIL
   SERVICE, TO BANK OF AMERICA, TRADE OPERATIONS CENTER, 1000 WEST TEMPLE STREET,
   LOS ANGELES, CALIFORNIA 90012.
Chapter 02
Export Letters of Credit Defined

Comments on Specific Fields in Preceding Sample—
Confirmed Letter of Credit

**SENDER: ISSUING BANK**

This is the bank that issues the letter of credit (LC) at the request of their client, the buyer (Applicant), in favor of the seller (beneficiary). In the LC sample attached, the issuing bank is Banque Emettrice Internationale.

**RECEIVER: ADVISING BANK**

This is the bank that receives the LC from the issuing bank. In the LC sample attached, Bank of America is the bank that would receive the LC and, consequently, is the advising bank. Letters of credit are normally sent by the issuing bank to the beneficiary through an advising bank. The advising bank has the means to verify the authenticity of the LC before forwarding it to the beneficiary. However, the advising bank is not responsible for payment. The responsibility for payment rests with the issuing bank. If you require that the advising bank in the United States also undertakes the responsibility to pay, you should inform the buyer that you require that the LC be confirmed by the advising bank. In the LC sample attached, the issuing bank has also requested Bank of America to confirm the LC. See Field 49. For more information on confirmation of LCs, please refer to the comments under Field 49 in this chapter.

**40A: FORM OF DOCUMENTARY CREDIT**

This field should read IRREVOCABLE. It means that the issuing bank cannot cancel the LC prior to its expiration date (31D). Although an LC can be issued as “Revocable,” it is rarely issued as such since most beneficiaries would not accept a revocable LC.

**40E: APPLICABLE RULES**

This field describes the governing body of law to which the LC is subject with the use of codes. “UCPLV”, as shown in the example, indicates “UCP LATEST VERSION”.

**31D: DATE AND PLACE OF EXPIRY**

**DATE**—The expiry date should allow the beneficiary enough time to make the shipment, and present the required documents (46A) to the bank where the LC is available (41A), before the LC expires.

**PLACE**—The place where the LC expires should be the same as the location of the bank where the LC is available (41A). If the LC states that it is available “With Any Bank,” the expiry place would be the country of the beneficiary. Both the place where the LC expires, and the place where the LC is available to the beneficiary, should be where the beneficiary is located or where it would be reasonably convenient for the beneficiary to present documents.

In the sample attached, the LC expires in the United States, the place where the beneficiary, ABC Computer Exports, Inc. (59) is located.
50: APPLICANT
This is the party, usually the buyer, on whose behalf the LC is issued. In the sample attached, the Applicant is XYZ Produits Electroniques S.A. On an LC issued in your favor, check that the name and address of the applicant are correct. Any difference between the information in the LC and the information in your documents will be considered a discrepancy. Discrepancies eliminate your payment protection under the LC and, at the very least, will delay payment.

59: BENEFICIARY
This is the party, usually the seller, in whose favor the LC is issued. In the sample attached, the beneficiary is ABC Computer Exports, Inc. On an LC issued in your favor, also check this field carefully that your company’s name and address are correct.

32B: CURRENCY CODE, AMOUNT
The amount specified in the LC should be sufficient to cover the cost of the merchandise, plus any other expenses to be incurred by the seller. The expenses may include freight, insurance, and other charges. In the LC sample attached, the shipment is to be made FCA Paris, France (44A). The costs to the seller extend only to the point of “taking in charge” of the merchandise. With an FCA shipment, the buyer assumes the costs of freight and insurance to destination. Besides specifying the amount of the LC, this field will also specify the currency in which the LC is payable. In the sample attached, the LC has been issued in USD. If the LC amount is stated in a foreign currency, you bear the risk of exchange rate fluctuations.

41A: AVAILABLE WITH . . . BY . . .
This field identifies the bank with which the credit is available (the place for presentation) and an indication of how the credit is available.

WITH—The LC should name a specific bank where the presentation of the document under the letter of credit must be made (46A). Alternatively, the LC may state that it is available “With Any Bank,” thus allowing the beneficiary to present documents at any bank of their choice. For practical purposes, however, if the LC states that it is available “With Any Bank,” the beneficiary would want to present documents at a bank that is involved in the LC transaction, such as the advising bank. If the LC is restricted to the issuing bank, or names a bank outside of the beneficiary’s area as the bank where the LC is available, payment may be delayed. In the sample attached, the LC is available to the beneficiary with Bank of America, Los Angeles, California.

BY—All LCs must clearly indicate whether they are available by sight payment, by deferred payment, by acceptance, or by negotiation. In the sample attached, the LC is available by acceptance because it requires the beneficiary to present a time draft, payable at 90-days sight (42C). After the beneficiary presents the draft and required documents to Bank of America, and Bank of America has determined that the draft and documents are in compliance with the terms of the LC, Bank of America would accept to pay the beneficiary 90 days later. Hence, the LC is available by acceptance.

42C: DRAFTS AT . . .
A draft is the document that represents the demand for payment that the beneficiary makes under the LC. A draft may be payable at sight, meaning at the time when it is presented for payment, or it may be payable at some future time after being presented for payment. In the sample attached, the LC requires drafts payable at 90 days sight, which could be eligible for discounting if drawn on Bank of America.

The time when payment is to be made to the beneficiary is usually determined between buyer and seller. If the seller gives payment terms to the buyer, or if the buyer requires bank financing of the merchandise, the LC would require the beneficiary to present a time draft. NOTE: The issuing bank may not always require presentation of a draft. If payment under the LC is to be made at some future time, and no draft is required, the LC is referred to as a “Deferred Payment Letter of Credit.” Under this type of LC, since no draft is required, the beneficiary
does not have the option of having a draft discounted, that is, of obtaining payment prior to maturity at an advantageous interest rate.

42A: DRAWEE
This is the bank on whom the beneficiary is instructed to draw the drafts. An LC may require the beneficiary to draw drafts on the issuing bank, on the advising or confirming bank, or on the reimbursing bank (53A). In the sample attached, the LC requires drafts to be drawn on Bank of America Merrill Lynch, Los Angeles, California, the issuing bank.

43P: PARTIAL SHIPMENTS
Partial shipments may or may not be permitted, or may be permitted within a stated schedule. The beneficiary should make sure that he can meet the shipping requirements.

43T: TRANSSHIPMENT
This term means that the merchandise is loaded and reloaded from one carrier to another during the course of carriage. When a shipment is made by air or by combined transport, transshipment should be permitted. In the LC sample attached, transshipment is permitted.

44A: PLACE OF TAKING IN CHARGE/DISPATCH FROM/PLACE OF RECEIPT:
This field is commonly used when a multimodal bill of lading is required. It describes the inland point of taking in charge, dispatch from or initial place of receipt of the merchandise, for onward travel.

44E: PORT OF LOADING/AIRPORT OF DEPARTURE:
This field describes the port of loading or airport of departure of the merchandise shipment.

44F: PORT OF DISCHARGE/AIRPORT OF DESTINATION:
This field describes the port of discharge or airport of destination of the merchandise shipment.

44B: PLACE OF FINAL DESTINATION/FOR TRANSPORTATION TO/PLACE OF DELIVERY:
This field is commonly used when a multimodal bill of lading is required. It describes the inland place of final destination or place of delivery of the merchandise. General comments about fields 44A, 44E, 44F and 44B: depending on the type of transport document required under a letter of credit and the shipment terms (Incoterms), either all or some of these fields may be included in the S.W.I.F.T. 700 message.

44C: LATEST DATE OF SHIPMENT
Dates are very important in the LC. The latest date of shipment specified in this field should allow enough time for the beneficiary to be able to meet the shipment deadline.

45A: DESCRIPTION OF GOODS AND/OR SERVICES
The merchandise description in the LC must be brief. Specific details can be included in the purchase order or sales contract, but have no place in the LC. If an LC contains excessive details in the description of the merchandise or in the terms, the advising bank may decline to advise it. Also, complex details in the LC can result in documentary discrepancies. Since the issuing bank could not pay against discrepant documents, the buyer would have the option to refuse payment. Documents presented under an LC containing excessive details may be sent to the issuing bank as presented without review by the bank where the documents are presented. The price basis is usually stated in this field and should be correct. Whether the shipment is to be made FOB port of departure, or CIF port of destination, or under any other basis, the price basis stated in the LC should be according to the trade terms specified in the International Chamber of Commerce Publication No. 715, “Incoterms 2010.” Also, the price basis should be reflected in the documentary requirements. In the LC sample attached, the price basis has been stated as “FCA Fresno, California.” Accordingly, under Field 46A, the transport document is to be marked “Freight Collect” and no insurance document is required.
Use of an incorrect price basis, not in conformity with the “Incoterms 2010” may result in misunderstandings between buyer and seller and a possible delay in payment. For a complete set of the international rules covering trade terms, please refer to the International Chamber of Commerce Publication No. 715, “Incoterms 2010.” A copy can be ordered via the internet at www.iccbooksusa.com.

**46A: DOCUMENTS REQUIRED**

The documents required for payment should be kept to a minimum. When presented, the documents must be in strict compliance with the LC terms.

**48: PERIOD FOR PRESENTATION**

The number of days allowed for presentation of documents after the shipment is made should allow enough time for the beneficiary to receive shipping documents from the carrier or the freight forwarder, and present all documents to the bank where the LC is available, within the validity of the LC. The number of days allowed for presentation of documents should be the difference in the number of days between the latest date of shipment (44C) and the expiry date (31D). In the LC sample attached, the latest date for shipment is November 20 and the expiry date is November 30. Consequently, the number of days allowed for presentation of documents is 10 days. If a letter of credit does not contain a reference to the number of days allowed for presentation of documents, the number of days allowed for presentation defaults to 21 days, per UCP 600, Article 14C.

**49: CONFIRMATION INSTRUCTIONS**

This field indicates whether or not the issuing bank is requesting the advising bank to confirm the LC. The advising bank would only consider confirming an LC at the request of the issuing bank. The beneficiary may or may not require confirmation of an LC. It would depend on the strength of the issuing bank, the country where the issuing bank is located, and the amount of the transaction. If the seller requires confirmation of the LC, the buyer, in turn, will have to inform the issuing bank, so that the issuing bank will request the advising bank to confirm the LC. If the advising bank agrees to confirm it, the LC would carry the engagement of the advising bank, in addition to the engagement of the issuing bank. When the LC is sent to the beneficiary, the advising bank would notify them if it has confirmed the LC.

**53A: REIMBURSING BANK**

This field provides information to the bank where the LC is available (41A) as to where to obtain funds to pay the beneficiary. In the LC sample attached, the issuing bank has named Bank of America, San Francisco, as the reimbursing bank. If the LC is to be confirmed, the confirming bank will require that the LC provide acceptable reimbursement instructions. Usually, the confirming bank requires that the issuing bank name a reimbursing bank in the United States. Even if the LC is not confirmed, you may still require that the issuing bank name a reimbursing bank in the United States, to help expedite payment.

**78: INSTRUCTIONS TO THE PAYING/ACCEPTING/NEGOTIATING BANK**

This field is commonly used for the issuing bank to provide instructions concerning the mailing of documents. When used to indicate pre-notification of a reimbursement claim, or that pre-debit notification to the issuance bank is required, the number and type (i.e. banking or calendar) of days within which the issuing bank has to be notified should also be indicated.

**ADDITIONAL COMMENTS:**

Upon receiving an LC, the beneficiary should read it carefully to determine if the LC has been issued in a manner that is satisfactory to the beneficiary. The terms should be clear, brief, and unambiguous. A letter of credit containing excessive details or unclear terms can cause payment problems for the beneficiary.

If any terms need to be changed, the beneficiary should contact the buyer immediately and request an amendment to the LC.
Chapter 03
Payment to a Third Party—
Transfers and Instructions to Pay Proceeds
What Is a Transferable Letter of Credit?

Transferable letter of credit—an overview.
A transferable letter of credit (LC) allows the beneficiary (first beneficiary) to have the LC transferred in whole or in part to one or more other beneficiaries. The party to whom an LC is transferred becomes the second beneficiary, and acquires the same rights under the LC as the first beneficiary, for the amount transferred. In order to be transferable, the LC must state in a conspicuous place that it is “transferable.”

A request for transfer must be made in writing by the first beneficiary to the bank authorized to transfer the LC. That would be the bank named in the LC as the bank where the LC is available to the beneficiary. It is a requirement of letters of credit that the issuing bank must name the bank where the LC is available to the beneficiary. The LC may be available with the issuing bank only, it may be available with a specific bank named in the LC, or it may be available with any bank. Additionally, the issuing bank must state how the LC is available to the beneficiary.

The LC may be available by sight payment, by deferred payment, by acceptance, or by negotiation. If an LC is available with any bank by negotiation, with no specific bank named as the bank where the LC is available, the issuing bank must then specifically nominate the bank authorized to transfer the LC.

Who uses a transferable LC?
An intermediary who wishes to use an LC issued to it, as the source of payment to the actual manufacturer or supplier of the merchandise, normally uses a transferable LC. The intermediary has contracted with a buyer to provide certain merchandise. A portion of, or perhaps the entire shipment, may be made by someone other than the intermediary.

The actual supplier is willing to provide goods once the LC has been transferred to it, since a transferred LC, like an original LC, carries the engagement of the issuing bank to pay upon presentation of LC conforming documents.

If the original LC was sent to the intermediary (first beneficiary) through an advising bank who confirmed the LC, the transferred LC would also carry the engagement of the confirming and transferring banks.

Bank of America’s conditions for transferring LCs.
01. The LC must state that it is “Transferable.”
02. The LC must be irrevocable and subject to the UCP 600.
03. The LC must be an original LC, not a previously transferred LC.
04. The LC must be advised or confirmed by Bank of America.
05. The LC must be available with Bank of America Merrill Lynch by sight payment, by deferred payment, by acceptance, or by negotiation. If the LC is available with any bank by negotiation, it must specifically nominate Bank of America Merrill Lynch as the transferring bank.
06. The LC must state an expiration date and place. The expiration place should be at the counters of Bank of America. Alternatively, the expiration place may be stated somewhere in the United States or just generally as the United States. The expiration place must not be at the counters of the issuing bank (unless Bank of America Merrill Lynch is the issuing bank).
07. The LC must not contain excessive details.
08. The LC terms must be acceptable for transfer by Bank of America.
09. If the LC contains a condition that makes it non-operative, a request for transfer cannot be accepted until an amendment to the LC is received making it operative.
10. The LC can be transferred only on the terms and conditions specified in the original LC, with the exception of the following:
   a. The amount of the LC
   b. Any unit price(s), if stated in the LC
   c. The expiry date
   d. The latest shipment date, if stated in the LC
   e. The number of days for presentation of documents NOTE: Any or all of the preceding terms, a. through e., may be reduced or curtailed.
11. In the event of a partial transfer of the LC, if the original LC requires presentation of an insurance document, the percentage of insurance coverage must be increased in the transferred LC in order to provide the amount of cover stipulated in the original LC.
12. The first beneficiary must complete the applicable request for transfer form (partial transfer or entire transfer) using a Bank of America Merrill Lynch form. The forms are shown at the end of this section. After completing the applicable form, the first beneficiary must take it to the branch of the bank where they have an account in order to have their signature(s) authenticated as authorized signer(s) of the beneficiary. The first beneficiary can then submit their request for transfer to a trade operations unit of Bank of America Merrill Lynch for processing.
13. The second beneficiary named in the request for transfer must be acceptable to Bank of America Merrill Lynch and, if required, to the issuing bank of the original LC.
14. The first beneficiary must pay the transfer fee, and the charges relative to the transfer, at the time it submits the request for transfer. Charges relative to the transfer include any courier or cable charges incurred in transmitting the transferred LC to the second beneficiary. Also, if the original LC indicates that banking charges are for account of the beneficiary, the first beneficiary must pay all banking charges outstanding under the LC at the time it submits the request for transfer. If the first beneficiary has an account with Bank of America, it can authorize Bank of America Merrill Lynch to debit its account. Otherwise, it must send an official check issued by a bank as payment of Bank of America’s fees and charges.
15. The original LC and amendments, if any, must be attached to the request for transfer when submitted to Bank of America. Bank of America Merrill Lynch reserves the right to decline a request for transfer of a letter of credit. For further information on transfers, please refer to Article 38 of the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600.

Bank of America Merrill Lynch reserves the right to decline a request for transfer of a letter of credit. For further information on transfers, please refer to Article 38 of the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600.
What Are the Options for Transferring an LC?

Entire transfer of an LC.
If the first beneficiary decides to remove itself from the LC transaction, it can request the transferring bank to transfer the LC in its entirety to a second beneficiary. In that case, the original LC is transferred exactly as it was issued, with no changes from the original LC. The transferring bank endorses over the original LC to the second beneficiary, and mails it to the second beneficiary directly or through an advising bank. In the case of an entire transfer of the LC, the first beneficiary’s rights under the LC are transferred entirely to the second beneficiary, and the first beneficiary no longer has any rights or claims under the LC. An example of a “Request for Entire Transfer of Credit Without Substitution of Invoices” application form can be found at the end of this section, along with instructions for its completion.

Partial transfer of an LC—with or without substitution of invoices.
The first beneficiary may request that only a portion of the amount of the LC be transferred to a second beneficiary. The difference between the amount of the LC and the amount to be transferred to the second beneficiary is the first beneficiary’s portion of the proceeds. In the case of a partial transfer of the LC, the first beneficiary can substitute its invoice and draft, usually for a higher amount, for the invoice and draft presented by the second beneficiary. When payment is effected under the LC, the first beneficiary receives its portion of the net proceeds.

An example of a “Request for Partial Transfer of Credit With or Without Substitution of Invoices” application form can be found at the end of this section, along with instructions for its completion.

In some instances, the first beneficiary may want to have the entire amount of the LC transferred to a second beneficiary, but still remain a party to the LC transaction. The first beneficiary may also want to substitute its invoice and draft for those of the second beneficiary, even though its invoice and draft will be for the same amount as the invoice and draft of the second beneficiary. This type of transfer is processed as a partial transfer of the LC.

If the first beneficiary wants to have portions of the LC transferred to more than one supplier, the original LC must allow for partial shipments.

NOTE: If the original LC does not require presentation of a draft, the first beneficiary would only need to substitute its invoice for the invoice of the second beneficiary. In such case, the statements in this material relative to substitution of the invoice and draft are to be considered as substitution of the invoice only.

Transferring the LC

In a typical LC transfer transaction, the following steps take place:

01. An intermediary negotiates a sales agreement with a buyer and a purchase agreement with a supplier.
02. The intermediary and the buyer agree on the terms of an irrevocable transferable letter of credit.
03. The buyer requests their bank to issue an LC in favor of the intermediary.
04. After receiving the LC, the intermediary (first beneficiary) checks it to verify that the terms are satisfactory for transfer. If they are, the first beneficiary obtains a request for transfer form from the bank authorized by the issuing bank to transfer the LC (the transferring bank). Exhibits I and II in this section are samples of Request for Transfer forms.
05. The first beneficiary completes the applicable form and takes it to the branch of the bank where it has an account in order to have its signature(s) authenticated as authorized signer(s) of the LC. The first beneficiary sends the request for transfer form, along with the original LC and amendments, if any, to the transferring bank for processing. The first beneficiary must pay the transferring bank charges at that time.
06. **Entire Transfer:** If the first beneficiary submits to the transferring bank a request for entire transfer of the LC, the transferring bank endorses the original LC over to the second beneficiary, and forwards it to the second beneficiary. There will be no further involvement on the part of the first beneficiary in the LC transaction.

07. **Partial Transfer:** If the first beneficiary submits to the transferring bank a request for partial transfer of the LC, the transferring bank prepares a transfer of the original LC and sends it to the second beneficiary. The transferred LC specifies the same terms and conditions stated in the original LC, with the exception of the permitted changes indicated by the first beneficiary in the request for transfer.

08. After receiving the transferred LC, the second beneficiary checks it to verify that the terms are acceptable to it. If they are, the second beneficiary arranges for shipment of the merchandise. Once shipment is effected, the second beneficiary sends the required documents to its bank, for forwarding to the transferring bank. If the second beneficiary is located in the same area as the transferring bank, it can present the documents direct to the transferring bank.

09. Upon receipt of the second beneficiary’s documents, if the LC was partially transferred, the transferring bank notifies the first beneficiary to substitute its invoice and draft for those of the second beneficiary. Generally, the first beneficiary’s invoice and draft will be for a higher amount than those presented by the second beneficiary. The first beneficiary must submit its substitute invoice and draft on first notification by the transferring bank.

10. All documents are examined by the transferring bank to verify compliance with the LC terms.

11. When the transferring bank is satisfied that all documents comply with the terms of the original LC, the transferring bank forwards the documents, with the first beneficiary’s substitute invoice and draft, to the issuing bank. The second beneficiary’s invoice and draft are not sent to the issuing bank. However, if the first beneficiary fails to respond on first demand to the transferring bank’s request for the first beneficiary’s substitute invoice and draft, the transferring bank has the right to send all of the second beneficiary’s documents to the issuing bank without further responsibility to the first beneficiary. In that case, payment will be effected to the second beneficiary only, based on the amount of its invoice and draft. The first beneficiary will have forfeited any proceeds it may have been entitled to receive otherwise.

12. The transferring bank claims funds from the issuing bank to be paid at sight or at some future time, depending on the terms of the original LC.

13. Upon receipt of funds, the transferring bank effects payment to the second beneficiary based on the amount of its invoice and draft. The remainder of the funds are paid to the first beneficiary.
What Are the Benefits and the Risks of Using a Transferable LC?

For the Intermediary

Benefits:
A transferable LC permits the intermediary to source and re-sell goods without having to use its own funds, or credit, to purchase goods.

Risks:
Normally, the intermediary is dependent on the supplier’s ability to ship the merchandise that the buyer has contracted to purchase. Also, the intermediary is dependent on the supplier to present documents in compliance with the terms of the LC. In the event that the supplier is unable to perform, the intermediary will forfeit its portion of the proceeds and could lose the confidence of the buyer.

For the Supplier

Benefits:
A transferred LC, like an original LC, provides a supplier with the assurance that it will be paid by the issuing bank, or the confirming bank, upon presentation of documents complying with the LC terms. The supplier is not relying on the ability of the intermediary, or the ultimate buyer, to pay it for a shipment effected. In addition, the supplier has control of the merchandise, since it actually receives an LC, and can review it to determine if it can comply with the LC terms, prior to effecting shipment.

Risks:
There is greater risk than shipping under an LC that is not transferred. However, in the event of documentary discrepancies, it is up to the ultimate buyer to make the decision as to payment. Since the supplier does not have a direct contract with the ultimate buyer, the supplier may have to rely on the intermediary to endeavor to obtain the ultimate buyer’s approval of payment, in spite of the discrepancies. If there is a substitution of documents, the supplier is counting on the first beneficiary to present non-discrepant drafts and invoices.

For the Buyer

Benefits:
A transferable LC allows the buyer to purchase goods through an intermediary, without having to locate a supplier itself. It also affords the buyer the protection of paying for merchandise through an LC, rather than making a cash prepayment, especially since the supplier is not known to them.

Risks:
The buyer is dependent upon the intermediary to select a reputable supplier, and one who has the ability to perform under the LC. The buyer does not normally have the benefit of knowing who the supplier is. Usually, a buyer selects this method of purchase because it may afford an opportunity to purchase merchandise at a lower cost than may be presently available through the buyer’s own suppliers, or to procure merchandise that the buyer is presently unable to obtain. The buyer may be at a higher risk in terms of the quality and quantity of the merchandise received, than if the buyer were dealing direct with the actual supplier.
Confidentiality Issues

It is essentially impossible to avoid disclosure of information that the intermediary may consider as confidential when transferring an LC. Therefore, it is important to deal with disclosure issues before the original LC is issued, or before the LC is transferred.

The first beneficiary should understand that a transferable LC cannot guarantee confidentiality objectives.

Confidentiality of the buyer’s identity.

The buyer’s name and address, shown as the applicant in the original LC, can be substituted with the name and address of the intermediary in the transferred LC. However, if the original LC requires the name of the buyer to be indicated on any document, the same requirement has to be stated in the transferred LC. For instance, the original LC may require that the goods be consigned to the applicant, or that the “notify party” on the transport document be the applicant. In that case, the applicant’s name and address must be stated in the transferred LC. The intermediary may prefer to have the original LC require that the goods be consigned to the issuing bank (except for land shipments), or consigned to the buyer’s customhouse broker. Also, the “notify party” on the transport document could be the buyer’s customhouse broker. This way, the name of the buyer is not disclosed to the supplier.

Confidentiality of the supplier’s identity.

Another cause for disclosure of the parties involved in the LC transaction is that, when the supplier ships the merchandise, the intermediary’s profit is in the transaction. Most intermediaries reach an agreement with the buyer that the intermediary’s name is indicated on the transport document as the shipper. The transport document is eventually sent to the ultimate buyer. However, the supplier may not agree to this. In the event of documentary discrepancies that the buyer does not approve, the supplier will not be paid, and will not be able to claim the merchandise from the carrier, since the supplier is not the shipper of record on the transport document.

There may be other reasons why the supplier would not agree to have the intermediary’s name on the transport document as the shipper. In some countries, the name of the shipper on the transport document must be the supplier who has been granted an export license by the governmental authorities. The identity of the supplier is generally disclosed to the ultimate buyer, since the only documents that the intermediary is allowed to substitute are the intermediary’s invoice and draft. Any other documents required by the original LC, for example, packing list, certificate of origin, etc., will show the supplier’s name. After payment, those documents are sent to the ultimate buyer.

Confidentiality of the intermediary’s portion of the proceeds.

The intermediary’s portion of the proceeds is disclosed to the supplier and/or to the buyer, when the LC has the following requirements:

- **Shipment insurance:** If the intermediary agrees with the buyer that the shipment will be insured to the place of destination, and quotes a CIF or CIP price, the LC will require presentation of an insurance document. If the original LC requires an insurance policy or certificate, the transfer LC must also have an insurance policy or certificate. Under LCs, the standard insurance cover required is 110% of the CIF (Cost, Insurance and Freight) or CIP (Carriage and Insurance Paid To...) invoice value of the merchandise shipped. Since the intermediary usually requests a partial transfer of the LC, the percentage of insurance must be increased in the transferred LC. This will ensure that the shipment is insured for an amount that will correspond to the 110% cover required in the original LC. For example, a Transferable LC is issued for $100,000 covering a CIF shipment. The original LC requires presentation of an insurance document for 110% of the invoice value of the shipment. Consequently, the shipment must be insured for $110,000. At the beneficiary’s request, the LC is transferred to the supplier for $80,000. The transferred LC must require the supplier to insure the shipment for 137.5%, in order to provide the amount of cover required under the original LC. From the percentage of insurance required in the transferred LC, the supplier can determine the intermediary’s profit in the transaction. Most intermediaries reach an agreement with the buyer that
the buyer will insure the shipment, in order to protect the confidentiality of their portion of the proceeds from the supplier.

• **Customs invoice:** The original LC may require presentation of a customs invoice for the buyer’s country. This document states the value of the merchandise being imported into the buyer’s country. Since this document will be provided by the supplier, it will state the supplier’s value of the merchandise. Unless it is legally required in the buyer’s country, the intermediary may ask the buyer to have the LC amended, deleting this document.

• **Fax to Buyer:** The original LC may require the beneficiary to send a fax, or other notification, to the buyer, giving the buyer the details of the shipment, including the invoice value. This requirement has to be made part of the transferred LC. Consequently, the supplier will have to be provided with the buyer’s name and fax number or address. The buyer, in turn, will receive the required information directly from the supplier, including the supplier’s value of the shipment.

• **Documents to Buyer:** The original LC may require the beneficiary to send copies of documents, sometimes original documents, directly to the buyer. This requirement has to be made part of the transferred LC. Consequently, the supplier will have to be provided with the buyer’s name and address in order to comply with this requirement. The buyer, in turn, will receive the required documents direct from the supplier, including the supplier’s invoice for the shipment.

• **Legalized Documents:** The original LC may require legalization of the commercial invoice, or other document, by the consulate of the buyer’s country. This requirement has to be made part of the transferred LC. The required legalized document presented by the supplier must be sent to the buyer, once the documents are accepted.

• **Air Shipment:** The original LC may cover a shipment by air. Usually, an air waybill indicates the value of the shipment for customs purposes in the buyer’s country. Since this document will be provided by the supplier, it will show the supplier’s value of the shipment. Also, on air shipments, the original LC usually requires that a set of documents accompany the shipment. Since the supplier will be making the shipment, its documents will accompany the shipment.

**NOTE:** Confidentiality of the intermediary’s portion of the proceeds may also be jeopardized if it is the supplier’s practice, on any shipment, to enclose a copy of its invoice with the shipment. Since the supplier will be making the shipment directly to the buyer, not to the intermediary, the buyer will find the supplier’s invoice when it opens the cartons.

**Other Considerations**

The original LC must be issued in a manner that will be satisfactory, not only to the first beneficiary, but also to the second beneficiary. Otherwise, a transfer of the LC may not be acceptable to the second beneficiary.

For example, an LC is issued on behalf of a buyer in Denver to an intermediary in Los Angeles. The LC requires shipment to be made from Los Angeles to Denver and also requires presentation of a truck bill of lading to evidence the shipment. The transferred LC to the supplier would have to state the same shipment requirements and require presentation of the truck bill of lading. The supplier, however, is located in another country.

The foreign supplier will surely not accept the transferred LC, due to requirements that they could not comply with.

The original LC would have to be issued requiring shipment from the country where the supplier is located to the United States. It would also have to require presentation of a transport document appropriate to that shipment. The supplier would then be able to comply with the LC requirements.

The transfer of a letter of credit has the advantages mentioned previously for the parties involved in the transaction. However, the intermediary must be aware that confidentiality is essentially not feasible. When confidentiality is not an issue, a transfer of an LC may be a satisfactory means of accomplishing a purchase/sale transaction.
NOTE: The material presented in this chapter is for informational purposes only, and is not intended as an exhaustive treatise on the transfer of letters of credit, nor is it intended to explore all the possible risks involved in using transferable letters of credit.

**Transferable Letter of Credit Sample and Comments on Specific Fields**

The following pages provide a sample transferable letter of credit from the seller/exporter’s perspective. Comments indicate terms which are most favorable to the seller/exporter. This sample is for illustration purposes only. The letter of credit is presented in S.W.I.F.T. format (Society for Worldwide Interbank Financial Telecommunications) which is commonly used by major international banks.

**SAMPLE OF A CONFIRMED TRANSFERABLE LETTER OF CREDIT**

**SENDER:** BANK OF AMERICA  
TRADE OPERATIONS CENTER  
1000 WEST TEMPLE STREET  
LOS ANGELES, CALIFORNIA 90012

**RECEIVER:** BANQUE AVISANT  
PARIS, FRANCE

**SWIFT AUTHENTICATED MESSAGE**

**ISSUE OF DOCUMENTARY CREDIT (TYPE: 700)**

:27: SEQUENCE OF TOTAL:  
1/1

:40A: FORM OF DOCUMENTARY CREDIT:  
IRREVOCABLE

:20: DOCUMENTARY CREDIT NUMBER:  
123456

:31C: DATE OF ISSUE:  
071024

:40E: APPLICABLE RULES:  
UCPLV

:31D: DATE AND PLACE OF EXPIRY:  
071130 LOS ANGELES, CA

:50: APPLICANT:  
RANDALL COMPUTER, INC.  
321 OAK STREET  
LOS ANGELES, CALIFORNIA 90000

:59: BENEFICIARY:  
PRODUITS ELECTRONIQUES S.A.  
15 RUE GEORGES DUMAS PARIS 75009, FRANCE

:32B: CURRENCY CODE, AMOUNT:  
USD 134,000.00
Chapter 03
Payment to a Third Party— Transfers and Instructions to Pay Proceeds

:41A: **AVAILABLE WITH ... BY ... :**
BANK OF AMERICA
TRADE OPERATIONS CENTER
1000 WEST TEMPLE STREET—7TH FLOOR
LOS ANGELES, CALIFORNIA 90012
BY ACCEPTANCE

:42C: **DRAFTS AT ... :**
90 DAYS SIGHT
FOR 100 PCT INVOICE VALUE

:42A: **DRAWEE:**
BANK OF AMERICA
LOS ANGELES, CALIFORNIA

:43P: **PARTIAL SHIPMENTS:**
PERMITTED

:43T: **TRANSSHIPMENT:**
PERMITTED

:44A: **PLACE OF TAKING IN CHARGE/DISPATCH FROM/PLACE OF RECEIPT :**
PARIS, FRANCE

:44E: **PORT OF LOADING/ AIRPORT OF DEPARTURE:**
LE HAVRE, FRANCE

:44F: **PORT OF DISCHARGE/ AIRPORT OF DESTINATION:**
LOS ANGELES, CALIFORNIA

:44B: **PLACE OF FINAL DESTINATION/FOR TRANSPORTATION TO/PLACE OF DELIVERY:**
FRESNO, CALIFORNIA

:44C: **LATEST DATE OF SHIPMENT:**
071120

:45A: **DESCRIPTION OF GOODS AND/OR SERVICES:**
COMPUTER EQUIPMENT ACCORDING TO P.O. NO. 87654
FCA PARIS, FRANCE

:46A: **DOCUMENTS REQUIRED:**
SIGNED COMMERCIAL INVOICE IN ORIGINAL AND TWO COPIES.
PACKING LIST IN ORIGINAL AND TWO COPIES.
FULL SET OF CLEAN MULTIMODAL TRANSPORT DOCUMENTS CONSIGNED TO THE ORDER OF SHIPPER,
BLANK ENDORSED, MARKED FREIGHT COLLECT AND NOTIFY BUYER.

:71B: **CHARGES:**
BANKING CHARGES ARE FOR ACCOUNT OF APPLICANT, EXCEPT FOR DOCUMENTARY DISCREPANCY
CHARGES, IF ANY, WHICH ARE FOR ACCOUNT OF BENEFICIARY.

:48: **PERIOD FOR PRESENTATION:**
DOCUMENTS MUST BE PRESENTED FOR PAYMENT, ACCEPTANCE / NEGOTIATION WITHIN 10 DAYS
AFTER THE DATE OF SHIPMENT, BUT WITHIN THE VALIDITY OF THIS CREDIT.

:49: **CONFIRMATION INSTRUCTIONS:**
WITHOUT
INSTRUCTIONS TO THE PAYING/ACCEPTING/NEGOTIATING BANK:
1) ALL DOCUMENTS MUST BE FORWARDED IN ONE MAILING, VIA COURIER OR EXPRESS MAIL SERVICE, TO BANK OF AMERICA, TRADE OPERATIONS CENTER, 1000 WEST TEMPLE STREET, LOS ANGELES, CALIFORNIA 90012.

SENDER TO RECEIVER INFORMATION:
PLEASE NOTIFY TO BENEFICIARY UNDER ADVICE TO US
ATTN: XYZ SMITH
PHONE: (012) 200—3000
FAX: (012) 200—4000

REGARDS

This sample of a letter of credit is provided for information and illustration only and does not convey any engagement or responsibility on the part of Bank of America. The names of the institutions used in this sample, except for the name of Bank of America, and the transaction represented herein are fictitious. Any similarity with actual institutions and transactions is unintentional and coincidental.

For additional information, please refer to the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600. Article 38 applies to transfers under letter of credit. An excerpt of Article 38 of the Uniform Customs and Practice for Documentary Credits can be found on page 34 of this guide.

Comments on Specific Fields in Preceding Sample—Transferable Letter of Credit

SENDER: ISSUING BANK
This is the bank that issues the letter of credit (LC) at the request of their client, the buyer (applicant), in favor of the seller (beneficiary). In the LC sample attached, the issuing bank is Banque Emettrice Internationale.

RECEIVER: ADVISING BANK
This is the bank that receives the LC from the issuing bank. In the LC sample attached, Bank of America is the bank that would receive the LC and, consequently, the advising bank. Letters of credit are normally sent by the issuing bank to the beneficiary through an advising bank. The advising bank has the means to be able to verify the authenticity of the LC before forwarding it to the beneficiary. However, the advising bank is not responsible for payment. The responsibility for payment rests with the issuing bank. If you require that the advising bank in the United States also undertake the responsibility to pay, you should inform the buyer that you require that the LC be confirmed by the advising bank. In the LC sample attached, the issuing bank has also requested Bank of America to confirm the LC. See Field 49. For more information on confirmation of LCs, please refer to the comments under Field 49 in this section.

40A: FORM OF DOCUMENTARY CREDIT
This Field should read IRREVOCABLE. It means that the issuing bank cannot cancel the LC prior to its expiration date (31D). Although a letter of credit can be issued as “Revocable,” it is rarely issued as such, since most beneficiaries would not accept a revocable LC. In the LC sample attached, the word “Transferable” has also been stated in this field, thus making it possible for the LC to be transferred to a second beneficiary. Please refer to the section on “Transferable Letters of Credit” in the accompanying material, for additional information on transferring an LC.
40E: APPLICABLE RULES
This field describes the governing body of law to which the letter of credit is subject, with the use of codes. “UCPLV,” as shown in the example, indicates “UCP LATEST VERSION.”

31D: DATE AND PLACE OF EXPIRY
This field specifies the latest date for presentation under the documentary credit and the place where documents may be presented.

DATE—The expiry date should allow the beneficiary enough time to make the shipment, and present the required documents (46A) to the bank where the LC is available (41A) before the LC expires. If the LC is transferred, the second beneficiary would have to comply with the expiry date stated in the transferred LC.

PLACE—The place where the LC expires should be the same as the location of the bank where the LC is available (41A). If the LC states that it is available “With Any Bank,” the expiry place would be the country of the beneficiary. Both the place where the LC expires, and the place where the LC is available to the beneficiary, should be where the beneficiary is located, or where it would be reasonably convenient for the beneficiary to present documents. In the sample attached, the LC expires in United States, the place where the beneficiary, ABC Computer Exports, Inc. (59) is located.

Under a Transferable LC, the transferring bank would require that the LC expire at the place where the transferring bank is located.

50: APPLICANT
This is the party, usually the buyer, on whose behalf the LC is issued. In the sample attached, the applicant is XYZ Produits Electroniques S.A. On an LC issued in your favor, check that the name and address of the applicant are correct. Any difference between the information in the LC and the information in your documents will be considered a discrepancy. Discrepancies eliminate your payment protection under the LC and, at least, will delay payment.

59: BENEFICIARY
This is the party, usually the seller, in whose favor the LC is issued. In the sample attached, the beneficiary is ABC Computer Exports, Inc. On an LC issued in your favor, also check this field carefully to ensure that your company’s name and address are correct.

32B: CURRENCY CODE, AMOUNT
The amount specified in the LC should be sufficient to cover the cost of the merchandise, plus any other expenses to be incurred by the seller. The expenses may include freight, insurance, and other charges. In the LC sample attached, the shipment is to be made FCA Fresno, California (44A). The costs to the seller extend only to the point of “taking in charge” of the merchandise. With an FCA shipment, the buyer assumes the costs of freight and insurance to destination.

Besides specifying the amount of the LC, this field will also specify the currency in which the LC is payable. In the sample attached, the LC has been issued in U.S. Dollars. If the LC amount is stated in a foreign currency, you (and the supplier, if the LC is transferred) bear the risk of exchange rate fluctuations.

41A: AVAILABLE WITH…BY...
This field identifies the bank with which the credit is available (the place for presentation) and an indication of how the credit is available.

WITH—The LC should name a specific bank where the LC is available to the beneficiary for presentation of the documents required in the LC (46A). Alternatively, the LC may state that it is available “With Any Bank,” thus
allowing the beneficiary to present documents at any bank of their choice. For practical purposes, however, if the LC states that it is available "With Any Bank," the beneficiary would want to present documents at a bank that is involved in the LC transaction, such as the advising bank. If the LC is restricted to the issuing bank, or names a bank outside of the beneficiary’s area as the bank where the LC is available, payment may be delayed. In the sample attached, the LC is available to the beneficiary with Bank of America, Los Angeles, California.

If the LC is to be transferred, only the bank where the LC is available may transfer it. If the LC states that it is available “With Any Bank,” the issuing bank must specifically nominate the bank authorized to transfer the LC.

BY—All LCs must clearly indicate whether they are available by sight payment, by deferred payment, by acceptance, or by negotiation. In the sample attached, the LC is available by acceptance because it requires the beneficiary to present a time draft, payable at 90 days sight (42C). After the beneficiary presents the draft and required documents to Bank of America, and Bank of America has determined that the draft and documents are in compliance with the terms of the LC, Bank of America would accept to pay the beneficiary 90 days later. Hence, the LC is available by acceptance.

42C: DRAFTS AT...

A draft is the document that represents the demand for payment that the beneficiary makes under the LC. A draft may be payable at sight, meaning at the time when it is presented for payment, or it may be payable at some future time after being presented for payment. In the sample attached, the LC requires drafts payable at 90 days sight. The time when payment is to be made to the beneficiary is usually determined between buyer and seller. If the seller gives payment terms to the buyer, or if the buyer requires bank financing of the merchandise, the LC would require the beneficiary to present a time draft.

NOTE: The issuing bank may not always require presentation of a draft. If payment under the LC is to be made at some future time, and no draft is required, the LC is referred to as a “Deferred Payment Letter of Credit.” Under this type of LC, since no draft is required, the beneficiary does not have the option of having a draft discounted, that is, of obtaining payment prior to maturity, at an advantageous interest rate.

42A: DRAWEE

This is the bank on whom the beneficiary is instructed to draw the drafts. An LC may require the beneficiary to draw drafts on the issuing bank, or on the advising or confirming bank, or on the reimbursing bank (53A). In the sample attached, the LC requires drafts to be drawn on Bank of America, Los Angeles, California, the advising and confirming bank.

43P: PARTIAL SHIPMENTS

Partial shipments may or may not be permitted, or may be permitted within a stated schedule. Beneficiaries should make sure that they, or the supplier if the LC is transferred, can meet the shipping requirements.

43T: TRANSSHIPMENT

This term means that the merchandise is loaded and reloaded from one carrier to another, during the course of carriage. When a shipment is made by air or by combined transport, transshipment should be permitted. In the LC sample attached, transshipment is permitted.

44A: PLACE OF TAKING IN CHARGE/DISPATCH FROM/PLACE OF RECEIPT:

This field is commonly used when a multimodal bill of lading is required. It describes the inland point of taking in charge, dispatch from or initial place of receipt of the merchandise, for onward travel.
**44E: PORT OF LOADING/AIRPORT OF DEPARTURE:**
This field describes the port of loading or airport of departure of the merchandise shipment.

**44F: PORT OF DISCHARGE/AIRPORT OF DESTINATION:**
This field describes the port of discharge or airport of destination of the merchandise shipment.

**44B: PLACE OF FINAL DESTINATION/FOR TRANSPORTATION TO/PLACE OF DELIVERY:**
This field is commonly used when a multimodal bill of lading is required. It describes the inland place of final destination or place of delivery of the merchandise.

General comments about fields 44A, 44E, 44F and 44B:
Depending on the type of transport document required under a letter of credit, and the shipment terms (Incoterms), either all or some of these fields may be included in the SWIFT 700 message.

**44C: LATEST DATE OF SHIPMENT**
Dates are very important in the LC. The latest date of shipment specified in this field should allow enough time for the beneficiary to be able to meet the shipment deadline. If the LC is transferred, the second beneficiary will have to observe the latest date of shipment stated in the transferred LC.

**45A: DESCRIPTION OF GOODS AND/OR SERVICES**
The merchandise description in the LC must be brief. Specific details can be included in the purchase order or sales contract, but have no place in the LC. If an LC contains excessive details in the description of the merchandise, or in the terms of the LC, the advising bank may decline to advise it. Also, complex details in the LC can result in documentary discrepancies. Since the issuing bank could not pay discrepant documents, the buyer would have the option to refuse payment. Documents presented under an LC containing excessive details may be sent to the issuing bank as presented, without review by the bank where the documents are presented.

The price basis is usually stated in this field and should be correct. Whether the shipment is to be made FOB port of departure, or CIF port of destination, or under any other basis, the price basis stated in the LC should be according to the trade terms specified in the International Chamber of Commerce Publication No. 715, “Incoterms 2010.” Also, the price basis should be reflected in the documentary requirements. In the LC sample attached, the price basis has been stated as “FCA Fresno, California.”

Accordingly, under Field 46A, the transport document is to be marked “Freight Collect” and no insurance document is required. Use of an incorrect price basis, not in conformity with the “Incoterms 2010,” may result in misunderstandings between buyer and seller and a possible delay in payment.

**46A: DOCUMENTS REQUIRED**
The documents required for payment should be kept at a minimum. When presented, the documents must be in strict compliance with the LC terms.
48: PERIOD FOR PRESENTATION
The number of days allowed for presentation of documents, after the shipment is made, should allow enough time for the beneficiary, or the supplier if the LC is transferred, to receive shipping documents from the carrier or the freight forwarder, and present all documents to the bank where the LC is available, within the validity of the LC. The number of days allowed for presentation of documents should be the difference in the number of days between the latest date of shipment (44C), and the expiry date (31D). In the LC sample attached, the latest date for shipment is October 21 and the expiry date is October 31. Consequently, the number of days stated for presentation of documents is 10 days. If a letter of credit does not contain a reference to the number of days allowed for presentation of documents, the number of days allowed for presentation defaults to 21 days, per UCP 600, Article 14C.

49: CONFIRMATION INSTRUCTIONS
This field indicates whether or not the issuing bank is requesting the advising bank to confirm the LC. The advising bank would only consider confirming an LC at the request of the issuing bank. In the LC sample attached, the issuing bank has requested Bank of America to confirm their LC. You may or may not require confirmation of an LC. It would depend on the strength of the issuing bank, the country where the issuing bank is located, and the amount of the transaction. If you require confirmation, you need to let the buyer know. The buyer, in turn, will have to inform the issuing bank, so that the issuing bank will request the advising bank to confirm the LC. If the advising bank agrees to confirm it, the LC would carry the engagement of the advising bank, in addition to the engagement of the issuing bank. When the LC is sent to you, the advising bank would notify you if it has confirmed the LC.

53A: REIMBURSING BANK
This field provides information to the bank where the LC is available (41A), as to where to obtain funds to pay the beneficiary. In the LC sample attached, the issuing bank has named Bank of America, San Francisco as the reimbursing bank. If the LC is to be confirmed, the confirming bank will require that the LC provide acceptable reimbursement instructions. Usually, the confirming bank requires that the issuing bank name a reimbursing bank in the United States. Even if the LC is not confirmed, you may still require that the issuing bank name a reimbursing bank in the United States, to help expedite payment.

78: INSTRUCTIONS TO THE PAYING/ACCEPTING/NEGOTIATING BANK
This field is commonly used for the issuing bank to provide instructions concerning the mailing of documents. When used to indicate prenotification of a reimbursement claim, or that predebit notification to the issuance bank is required, the number and type, i.e., banking or calendar, of days within which the issuing bank has to be notified should also be indicated.

ADDITIONAL COMMENTS:
Upon receiving an LC, the beneficiary should read it carefully to determine if the LC has been issued in a manner that is satisfactory to it. The terms should be clear, brief, and unambiguous. A letter of credit containing excessive details or unclear terms can cause payment problems for the beneficiary. If any terms need to be changed, the beneficiary should contact the buyer immediately and request an amendment to the LC.

If the LC is transferred, the terms would also have to be acceptable to the second beneficiary.
Transferred Letter of Credit Sample

The following pages provide a sample of a transferred letter of credit. The sample incorporates the permitted changes to the original letter of credit. This sample is for illustration purposes only.

The letter of credit is presented in S.W.I.F.T. format (Society for Worldwide Interbank Financial Telecommunications) which is commonly used by major international banks.

SAMPLE OF A CONFIRMED TRANSFERRED LETTER OF CREDIT

**SENDER:** BANK OF AMERICA

LOS ANGELES, CALIFORNIA

**RECEIVER:** SAN JOSE LOCAL BANK

SAN JOSE, CALIFORNIA

**SWIFT AUTHENTICATED MESSAGE**

TRANSFER OF A DOCUMENTARY CREDIT (TYPE: 720)

:40B: FOR MOF DOCUMENTARY CREDIT:

IRREVOCABLE

:20: TRANSFERRING BANK'S REFERENCE:

2000001

:21: DOCUMENTARY CREDIT NUMBER:

123456

:31C: DATE OF ISSUE:

071003

:40E: APPLICABLE RULES:

UCPLV

:31D: DATE AND PLACE OF EXPIRY:

071031U.S.A.

:52A: ISSUING BANK OF THE ORIGINAL D/C:

BANQUE EMETTRICE INTERNATIONALE

PARIS, FRANCE

:50: FIRST BENEFICIARY:

ABC COMPUTER EXPORTS, INC.

321 OAK STREET

LOS ANGELES, CALIFORNIA 90000

:59: SECOND BENEFICIARY:

DEF COMPUTERS INC.

2745 COURT ROAD

SAN JOSE, CALIFORNIA 94000

:32B: CURRENCY CODE, AMOUNT:

USD 100,000.00

:41A: AVAILABLE WITH...BY...:

BANK OF AMERICA

TRADE OPERATIONS CENTER

1000 WEST TEMPLE STREET, 7TH FLOOR
LOS ANGELES, CALIFORNIA 90012

BY ACCEPTANCE

:42C: DRAFTS AT...:
90 DAYS SIGHT
FOR 100 PCT INVOICE VALUE

:42A: DRAWEE:
BANK OF AMERICA
LOS ANGELES, CALIFORNIA

:43P: PARTIAL SHIPMENTS
PERMITTED

:43T: TRANSSHIPMENT:
PERMITTED

:44A: PLACE OF TAKING IN CHARGE/DISPATCH FROM/PLACE OF RECEIPT:
FRESNO, CALIFORNIA

:44E: PORT OF LOADING/AIRPORT OF DEPARTURE:
LOS ANGELES CALIFORNIA PORT

:44F: PORT OF DISCHARGE/AIRPORT OF DESTINATION:
LEHAvRE, FRANCE PORT

:44B: PLACE OF FINAL DESTINATION/FOR TRANSPORTATION TO/PLACE OF DELIVERY:
PARIS, FRANCE

44C: LATEST DATE OF SHIPMENT:
071021

:45A: DESCRIPTION OF GOODS AND/OR SERVICES:
COMPUTER EQUIPMENT ACCORDING TO P.O. NO. 87654
FCA FRESNO, CALIFORNIA

:46A: DOCUMENTS REQUIRED:
1. SIGNED COMMERCIAL INVOICE IN ORIGINAL AND TWO COPIES.
2. PACKING LIST IN ORIGINAL AND TWO COPIES.
3. FULL SET OF CLEAN MULTIMODAL TRANSPORT DOCUMENTS CONSIGNED TO THE ORDER OF SHIPPER, BLANK ENDORSED, MARKED FREIGHT COLLECT AND NOTIFY AGENT DOUANIERMICHEL LEBlANC, 122 RUE LASALLE, PARIS 75006, FRANCE.

:47A: ADDITIONAL CONDITIONS:
2. THE BENEFICIARY OF THE ORIGINAL LETTER OF CREDIT HAS RESERVED THE RIGHT TO AUTHORIZE US TO ADVISE THE SECOND BENEFICIARY OF ANY AMENDMENTS TO
3. WE CONFIRM THIS LETTER OF CREDIT TRANSFER. ACCEPTANCE OF DRAFTS DRAWN HERE UNDER IS DEPENDENT UPON OUR RECEIVING CREDIT CONFORMING DOCUMENTS AT OUR COUNTERS.
4. IF DOCUMENTS ARE PRESENTED TO US WITH DISCREPANCIES, WE WILL NOTIFY THE PRESENTER OF THE DISCREPANCIES AND SEND THE DOCUMENTS TO THE ISSUING BANK ON APPROVAL BASIS. WE WILL NOTIFY THE PRESENTER OF THE ISSUING BANK'S DECISION.

5. THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, 2007 REVISION, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 600.

:71B: CHARGES
BANKING CHARGES ARE FOR THE APPLICANT EXCEPT DISCREPANCY CHARGES WHICH ARE FOR THE ACCOUNT OF TRANSFEEE.

:48: PERIOD FOR PRESENTATION:
DOCUMENTS MUST BE PRESENTED FOR PAYMENT/ACCEPTANCE/NEGOTIATION WITHIN 10 DAYS AFTER THE DATE OF SHIPMENT, BUT WITHIN THE VALIDITY OF THIS CREDIT.

:49: CONFIRMATION INSTRUCTIONS:
WITHOUT

:78: INSTRUCTIONS TO THE PAYMENT/ACCEPTING/NEGOTIATING BANK:
ALL DOCUMENTS MUST BE FORWARDED IN ONE LOT, BY COURIER OR EXPRESS MAIL SERVICE, AT TRANSFEEE’S EXPENSE, TO BANK OF AMERICA, TRADE OPERATIONS CENTER 1000 WEST TEMPLE STREET, 7TH FLOOR, LOS ANGELES, CALIFORNIA 90012.

:72: SENDER TO RECEIVER INFORMATION:
PLEASE NOTIFY TO BENEFICIARY UNDER ADVICE TO US
ATTN: XYZ SMITH
PHONE: (012) 200 – 3000
FAX: (012) 200 – 4000
REGARDS

This sample of a transferred letter of credit is provided for information and illustration only, and does not convey any engagement or responsibility on the part of Bank of America. The names of the institutions used in this sample, except for the name of Bank of America, and the transaction represented herein are fictitious. Any similarity with actual institutions and transactions is unintentional and coincidental.

For additional information, please refer to the Uniform Customs and Practice for Documentary Credits, 2007 Revision, International Chamber of Commerce Publication No. 600. Article 38 applies to transfers of letters of credit. An excerpt of Article 38 of the Uniform Customs and Practice for Documentary Credits can be found on page 34 of this guide.
Instructions for Completion of “Request for Entire Transfer of Credit without Substitution of Invoices”

See Exhibit I on page 63.

01. Name and address of advising bank of the Letter of Credit that you wish to transfer. Bank from which you received the Letter of Credit.

02. Issuing bank’s Letter of Credit number.

03. Name and address of issuing bank.

04. Bank of America Merrill Lynch advice number, or reference number, as indicated on our Export Letter of Credit advice to you.

05. Second beneficiary advising bank name and address.

06. Second beneficiary name and complete address. Bank of America Merrill Lynch will advise this transfer through one of its correspondents, unless otherwise instructed by you.

07. You may choose to have Bank of America Merrill Lynch debit your account to cover the charges for this “Request for Transfer” arrangement or enclose your check. Contact your local Trade Services representative for current pricing for this type of transaction.

08. Date of this application.

09. Complete name of your company, as beneficiary of the original letter of credit.

10. Authorized signature of the signer for your company.

11. Signer’s printed name, title, and telephone number. The box on the left-hand bottom of this is reserved for verification of your signer’s signature; to be completed by your banker.

NOTE: To obtain a fillable e-mail version of this document, please contact your Bank of America Merrill Lynch Global Trade and Supply Chain Sales Officer.
Request for Entire Transfer of Credit Without Substitution of Invoices

<table>
<thead>
<tr>
<th>Bank of America</th>
<th>Trade Operations</th>
<th>Letter of Credit No.</th>
<th>02</th>
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<tbody>
<tr>
<td>ADDRESS</td>
<td></td>
<td>Issued By:</td>
<td>03</td>
</tr>
<tr>
<td>SECOND BENEFICIARY’S ADVISING BANK NAME</td>
<td></td>
<td>Your Advice No.:</td>
<td>04</td>
</tr>
<tr>
<td>ADDRESS</td>
<td></td>
<td>TO: Bank of America, N.A.</td>
<td></td>
</tr>
</tbody>
</table>

We request you to transfer all of our rights as beneficiary under the Letter of Credit referenced above to a second beneficiary, named below:

<table>
<thead>
<tr>
<th>NAME OF SECOND BENEFICIARY</th>
<th>ADDRESS</th>
</tr>
</thead>
</table>

By this transfer, all our rights as the original beneficiary, including all rights to make drawings under the Letter of Credit, go to the second beneficiary. The second beneficiary shall have sole rights as beneficiary, whether existing now or in the future, including sole rights to agree to any amendments, including increases or extensions or other changes. All amendments will be sent directly to the second beneficiary without the necessity of consent by or notice to us.

We enclose the original letter of credit and any amendments. Please indicate your acceptance of our request for the transfer by sending the second beneficiary your customary notice of transfer.

For your transfer fee:

- Enclosed is our check for: $ __________
- You may debit my/our account No.: __________

We also agree to pay you on demand any expenses which may be incurred by you in connection with this transfer.

The signature and title at the right conform with those shown in our files as authorized to sign for the beneficiary. Policies governing signature authorization as required for withdrawals from customer accounts shall also be applied to the authorization of signatures on this form.

<table>
<thead>
<tr>
<th>NAME OF BANK</th>
<th>08 Date: / /</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTHORIZED SIGNATURE AND TITLE</td>
<td></td>
</tr>
</tbody>
</table>

The authorization of the Beneficiary’s signature and title on this form also acts to certify that the authorizing financial institution (i) is regulated by a U.S. federal banking agency; (ii) has implemented anti-money laundering policies and procedures that comply with applicable requirements of law, including a Customer Identification Program (CIP) in accordance with Section 326 of the USA PATRIOT Act; (iii) has approved the Beneficiary under its anti-money laundering compliance program; and (iv) acknowledges that Bank of America, N.A. is relying on the foregoing certifications pursuant to 31 C.F.R. Section 103.121 (b)(6).
Instructions for Completion of “Request for Partial Transfer of Credit with or without Substitution of Invoices”

See Exhibit II on page 65.

01. Name and address of advising bank of the letter of credit that you wish to transfer. Bank from which you received the letter of credit.

02. Issuing bank’s letter of credit number.

03. Name and address of issuing bank.

04. Bank of America Merrill Lynch advice number, or reference number, as indicated on our Export Letter of Credit advice to you.

05. Second beneficiary advising bank name and address.

06. Indicate here the amount to be transferred to the second beneficiary. Currency must agree with that of the original letter of credit.

07. Merchandise description as indicated in the letter of credit.

08. Second beneficiary name and complete address. Bank of America Merrill Lynch will advise this transfer through one of its correspondents, unless otherwise instructed by you.

Terms and Conditions Changes

09. Unit price may be reduced to reflect difference between transferred amount and letter of credit amount (units to be shipped X new unit price must not exceed the amount of the transfer). Use only if unit price stated in original letter of credit.

10. Expiry date: this date must be at least five business days before the expiration date of the letter of credit if substitution of invoices is intended.

11. Latest shipment date may also be curtailed.

12. The number of days allowed for presentation of documents, after the shipment is made.

13. Insurance percentage (if letter of credit terms call for insurance by shipper). The percentage of insurance coverage must be increased in the transferred letter of credit, in order to provide the amount of cover stipulated in the original letter of credit.

Substitution of Invoices and Amendment Authorization

14. Indicate to us whether or not you intend “substitution of invoices.”

15. Indicate to us your authorization that we notify the second beneficiary of any amendments to the letter of credit, or restrict Bank of America Merrill Lynch from doing so without your express authorization.

16. You may choose to have Bank of America Merrill Lynch debit your account to cover the charges for this “Request for Transfer” arrangement, or enclose your check. Contact your local Trade Services representative for current pricing for this type of transaction.

17. Indicate the method by which we should advise the second beneficiary of the terms and conditions of the transferred letter of credit.

18. Verification of your signer’s signature; to be completed by your banker.

19. Date of this application.

20. Complete name of your company, as beneficiary of the original letter of credit.

21. Authorized signature of the signer for your company.

22. Signer’s printed name, title, and telephone number

NOTE: To obtain a fillable e-mail version of this document, please contact your Bank of America Merrill Lynch Global Trade and Supply Chain Sales Officer.
Exhibit II

Bank of America

Request for Partial Transfer of Credit
With or Without Substitution of Invoices

Bank of America Trade Operations

02 Letter of Credit No.: __________________________

03 Issued By: __________________________

04 Your Advice No.: __________________________

TO: Bank of America, N.A.

We request you approve and agree to the transfer of part of the amount of the transferable letter of credit referenced above to a second beneficiary.

06 AMOUNT TO BE TRANSFERRED: $ __________________________

07 MERCHANDISE SUBJECT TO TRANSFER:

08 NAME AND ADDRESS OF SECOND BENEFICIARY:

We enclose the original letter of credit and any amendments. The transfer letter of credit is subject to the terms and conditions as shown in the original letter of credit except for the following:

09 UNIT PRICE: $ __________________________

10 EXPENSION DATE: / /

(This date must be at least five business days before the expiration date of the above referenced letter of credit if substitution of invoices is required)

11 LATEST SHIPMENT DATE: / /

12 DOCUMENTS must be presented within days after the date of shipment.

13 INSURANCE PERCENTAGE (if applicable): __________

(The second beneficiary must submit an insurance document covering at least 110% of CIF, CIP, or CPT value of the merchandise or such lesser amount as required by the issuing bank)

14 There will be no substitutions of invoices.

☐ There will be substitution of invoices. At any time on your first demand, we will deliver to you within one (1) banking day our draft, commercial invoice and any other required documents in compliance with the terms and conditions of the original letter of credit. The draft and documents are in substitution of those presented by the second beneficiary. If our draft and documents are in compliance, you are then requested to deliver the second beneficiary’s invoice to us. You are also requested to credit our account or mail us your check for the difference between our draft and the draft of the second beneficiary. If we fail, at your demand, to deliver to you our drafts, invoices and other required documents as stated above, we acknowledge your right to present invoices and other documents received from the second beneficiary in accordance with the instructions of the original letter of credit. We also understand that you will not use us the difference between the amount of the draft of the second beneficiary and the amount authorized to be paid to us under the original letter of credit.

We understand that Bank of America, N.A. may, at its sole discretion, refuse to approve the transfer to the Second Beneficiary.

We hereby acknowledge that due to conditions of the original letter of credit, certain proprietary information may be disclosed to the second beneficiary and/or to the buyer under the original letter of credit. Bank of America, N.A. will have no liability to us in the event of such disclosure, and in such event we will indemnify and hold Bank of America, N.A. harmless from all claims of third parties.

We hereby acknowledge that our rights as beneficiary in the original letter of credit up to the amount shown above are irrevocably transferred to the second beneficiary(ies) who shall have the sole right up to that amount. However, for any future amendments(s) received under the original letter of credit:

15 We reserve the right to refuse to allow Bank of America, N.A. to notify the second beneficiary(ies) of any amendment(s) to the original letter of credit.

16 We irrevocably authorize Bank of America, N.A. to notify the second beneficiary(ies) of any amendment(s) to the letter of credit.

17 For your transfer fee:

18 Enclosed is our check for: $ __________________________

19 You may debit my/our account No.:

We also agree to pay you on demand any expenses which may be incurred by you in connection with this transfer.

Please advise the second beneficiary of the terms and conditions of the transferred credit by:

20 Full Text Teletransmission ☐ Mail/Airmail ☐ Airmail with Brief Preliminary Teletransmission Advice ☐ Courier ☐

The signature and title at the right conform with those shown in our files as authorized to sign for the beneficiary. Policies governing signature authority as required for withdrawals from customer accounts shall also be applied to the authorization of signatures on this form.

22 Signature of Bank

Authorized Signature

The authorization of the Beneficiary’s signature and title on this form also acts to certify that the authorizing financial institution (i) is regulated by a U.S. federal banking agency; (ii) has implemented anti-money laundering policies and procedures that comply with applicable requirements of law, including a Customer Identification Program (CIP) in accordance with Section 326 of the USA PATRIOT Act; (iii) has approved the Beneficiary under its anti-money laundering compliance program; and (iv) acknowledges that Bank of America, N.A. is relying on the foregoing certifications pursuant to 11 C.F.R. Section 103.12 (3)(b).
Redirecting the Proceeds of a Letter of Credit

An “Instruction to Pay Proceeds to a Third Party” is a request issued by the beneficiary to the bank to pay a portion or all of the letter of credit to a third party, if and when documents are presented and found to be in compliance with the terms and conditions of the letter of credit. To redirect proceeds of your letter of credit to a third party, you must apply to the advising/paying bank. A copy of the Bank of America Merrill Lynch Instruction to Pay Proceeds form is included here, along with instructions for completion of the form. The advising/paying bank must accept your request before it becomes operative.

The designated third party, or the party whom the beneficiary wishes to be paid, does not obtain any interest in the letter of credit by involvement in the “Instruction to Pay Proceeds.” For example: the designated third party may not draw on the letter of credit.

Either a specific dollar amount or a percentage of each drawing under your letter of credit can be designated as payable to a third party.

If it is the bank authorized to pay the LC, Bank of America, at its discretion, may accept an Instruction To Pay Proceeds from the Beneficiary of a Letter of Credit (LC), provided that the LC and the Instruction To Pay Proceeds meet the following criteria:

A. THE LETTER OF CREDIT:
- The LC must be irrevocable.
- The LC must have been advised by Bank of America.
- The LC is not expired.
- The LC must be available with Bank of America Merrill Lynch by sight payment, by deferred payment, by acceptance, or by negotiation. The LC may also be available with any bank by negotiation, freely negotiable LC.
- The LC must not be a transferred LC.
- The LC must not contain excessive or unclear details.
- The LC must be operative. If the LC contains a condition that makes it inoperative, an Instruction To Pay Proceeds cannot be accepted until an amendment to the LC is received making it operative.

B. THE INSTRUCTION TO PAY PROCEEDS
- Multiple Instructions To Pay Proceeds under the same LC are not acceptable.
- An Instruction To Pay Proceeds cannot be accepted if the LC has been transferred.
- The designated payee must be acceptable to Bank of America.
- The mailing address of the designated payee cannot be in care of another company, individual, or bank, including any Bank of America Merrill Lynch branch.
- The amount of the Instruction To Pay Proceeds cannot exceed the amount available under the LC.
- The amount of the Instruction To Pay Proceeds cannot leave an amount to be paid to the LC beneficiary that would be insufficient to cover the fees and charges to be collected at the time of presentation of documents, if such fees are to be paid by the LC beneficiary.
- In the event of partial shipments, the LC beneficiary must state the percentage of the amount of each drawing to be paid to the designated payee, or the amount to be paid based on the unit price of each item shipped.
- The LC beneficiary must complete our Instruction To Pay Proceeds form, and have its signature guaranteed on the form by the bank where it maintains an account.
- The LC beneficiary must return to us the Instruction To Pay Proceeds form, together with the original LC and amendments, if any.
The LC beneficiary must pay the applicable Instruction To Pay Proceeds fee, plus our out of pocket expenses. Also, if the LC states that bank charges are for account of the beneficiary, the beneficiary must pay all fees and charges outstanding under the LC, at the time the Instruction To Pay Proceeds is submitted to us. The beneficiary must indicate on the Instruction To Pay Proceeds form whether it authorizes us to debit its account, or it encloses a check in payment of our fees and charges. The check should be an official or cashier’s check issued by a bank. Bank of America Merrill Lynch reserves the right to decline an Instruction To Pay Proceeds if the letter of credit, or the beneficiary’s request, does not meet any one or all of the criteria mentioned herein, or for any other reason.

For additional information, please call our Customer Service Department, Global Trade Services Operations, or your local Trade Services Office.

Instructions for Completion of “Instruction to Pay Proceeds”

See Exhibit III on page 68.

01. Bank of America Merrill Lynch trade office that will process your “Instruction to Pay Proceeds.”
02. Letter of Credit number (Issuing bank’s number).
03. Name of issuing bank.
04. Bank of America Merrill Lynch reference number, as indicated on our “Advice of Export Letter of Credit.”
05. Designated payee-name and address of party to be paid according to your instructions.
06. You must choose one of these options for the redistribution of your letter of credit payment:
   1. A dollar amount, as you indicate here; or
   2. A percentage of the proceeds of each drawing. You must also define a cap, not to exceed a specified amount, for all drawings; or
   3. A set dollar rate per unit shipped. You must define a cap for all proceeds to be paid to the third party
   07. Date of this application.
08. Your company’s name, as beneficiary of the letter of credit.
09. Authorized signature for your company.
10. Signer’s name, title, and telephone number.
11. Verification of your signer’s signature; to be completed by your banker.
12. Our confirmation of acceptance of the “Instruction to Pay Proceeds.” This portion of the form is to be completed by Bank of America.
13. You may choose to have Bank of America Merrill Lynch debit your account to cover the charges for this “Instruction to Pay Proceeds” arrangement, or enclose your check. Contact your local Trade Services representative for current pricing for this type of transaction.

NOTE: To obtain a fillable e-mail version of this document, please contact your Bank of America Merrill Lynch Global Trade and Supply Chain Sales Officer.
Chapter 03
Payment to a Third Party— Transfers and Instructions to Pay Proceeds

Exhibit III

Instruction to Pay Proceeds

Bank of America, Trade Operations

TO: Bank of America, N.A.

We hereby authorize you to pay
to the Designated Payee, the proceeds of any drawing(s) by us, under and in compliance with the above described Letter of Credit, if and when payment of the proceeds is made by you, as follows:

☐ 1. $____________________, or
☐ 2. __________________ percent of the proceeds of each drawing, but not exceeding the aggregate amount of $____________________ for all such drawings, or
☐ 3. At the rate of $____________________ for each (unit), but not exceeding the aggregate amount of $____________________ for all drawings, and to pay the balance, if any, of such proceeds to us.

Please advise the Designated Payee of your acceptance of this Instruction, and in consideration thereof, we agree that this Instruction is irrevocable and cannot be canceled or amended without the agreement of the Designated Payee and yourselves. However, this Instruction and your acceptance thereof does not constitute an assignment of the Credit, does not give to the Designated Payee any interest therein, or in any documents presented by us under the Credit and does not affect our or your right to agree to amendments of the Credit, the cancellation thereof, or any substitution therefor, or any settlement outside the Credit. We undertake to advise the Designated Payee and you immediately upon any such amendment, cancellation, substitution or settlement outside the Credit.

We warrant to you that we have not, and will not, by negotiation of drafts or otherwise, assign the right to receive the whole or any part of the proceeds instructed to be paid to the Designated Payee hereunder, or give any other authorization or direction to make any payment of the proceeds of the Credit to any other third party.

We transmit to you herewith the original of the Credit, including amendments, if any. The Credit and its amendments may be held by you until all payments authorized hereunder have been made. We hereby request that you note thereon the foregoing authorization and direction.

We agree to immediately return to you any funds inadvertently paid to us. We further agree to indemnify you against, and hold you harmless from all losses, damages, liabilities, claims, demands, obligations, penalties, actions, suits, judgments, costs and expenses paid, suffered or incurred by you, or imposed on you, directly or indirectly, as a result of, or in any way connected with, this Instruction or your compliance with this Instruction.

We represent and warrant that this Instruction has been duly and validly executed and delivered and that the transaction covered by the Credit and this Instruction will not violate United States Treasury Department Foreign Asset Control Regulations or any other laws, rules or regulations of the United States or any other government having jurisdiction over the transaction.

The signature and title at the right conform with those shown in our files as authorized to sign for the beneficiary. Policies governing signature authorization as required for withdrawals from customer accounts shall also be applied to the authorization of signatures on this form.

We accept the foregoing instruction

Bank of America, N.A.

By: X

To cover your charges:
☐ You may debit my/our account No.: ____________________________
☐ Enclosed is a check for: ____________________________
Chapter 04
Working with Your Buyer
**What instructions should I give my buyer?**
After you have come to a sales agreement or contract with your buyer, fill out the Letter of Credit Issuance Guidelines form on page 71. Ask your buyer to sign it as part of his agreement with you and return it to you.

Remember that you, as the seller, should control the sales transaction and the letter of credit. With knowledge and care, you can make letters of credit work for you.

**What if my buyer doesn’t follow my instructions?**
Contact the buyer for an amendment if your instructions have not been followed to the letter. Remember that the buyer’s failure to follow your instructions could cause discrepancies, delays, or even non-payment to you.

**How do I minimize financial risk?**

**Know your buyer:**
The best way for sellers to protect themselves from financial risk is a thorough credit investigation of buyers, which will help determine ability to pay and payment history. Factors to consider include the ability or cash flow to pay. The payment history reflects the reliability of the buyer in meeting past payment obligations. Additionally, the seller must decide how much of a credit limit to extend and what the payment terms will be.

**Know the country:**
Additionally, exporters should familiarize themselves with information concerning the economic and political stability of the country in which they are doing business. This information should also include current and future trends of the country’s economy, political situation, and possibly the implementation of exchange controls. Bank of America Merrill Lynch can be used as a source for this type of information. Other sources are foreign country consulate offices and various publications produced by Dun and Bradstreet International, U.S. Department of Commerce International Trade Administration, Moody’s, local Chambers of Commerce or World Trade Centers.
### LETTER OF CREDIT ISSUANCE GUIDELINES

<table>
<thead>
<tr>
<th>Date:</th>
<th>/ / (Month/Day/Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer:</td>
<td></td>
</tr>
<tr>
<td>Address:</td>
<td></td>
</tr>
</tbody>
</table>

Please instruct your Bank to issue an IRREVOCABLE Letter of Credit in accordance with the following terms:

The Letter of Credit (LC) should be issued by SWIFT or Telex, with full details, and subject to the UCP 600.

**Beneficiary:**

| Address:      |                      |

The LC to be:  

- [ ] Advised
- [ ] Confirmed*

**By the Bank of America office marked below:**

- **BOFAUS6S**
  - **Bank of America Trade Operations**
  - **1000 W. Temple Street, 7th Floor**
  - **Los Angeles, CA 90012**
  - **Tel: 800.541.6096**

- **BOFAUS3N**
  - **Bank of America Trade Operations**
  - **1 Fleet Way**
  - **Scranton, PA 18507-1999**
  - **Tel: 800.370.7519**

**LC Amount:** US$  

- [ ] Amount Tolerance +/- _____ Pct

**Expiry Date:** / / (Month/Day/Year)  

- Expiry Place: Bank of America, Trade Operations Office, USA

**The LC Must be Available:**  

- [ ] With Bank of America, Trade Operations Office, USA

**By:**

- [ ] Negotiation
- [ ] Sight Payment
- [ ] Deferred Payment
- [ ] Acceptance*

**Drafts to be payable at:**

- [ ] Sight
- [ ] Days Sight
- [ ] Days from Shipment
- [ ] Other: _____

**Drafts to be drawn on:**

- Bank of America, Trade Operations Office, USA (Optional for Sight LCs.)

**Partial Shipments:**

- [ ] Permitted
- [ ] Not Permitted

**Transshipment:**

- [ ] Permitted
- [ ] Not Permitted

**The LC should be Transferable:**

- [ ] Yes
- [ ] No

If Yes, Bank of America must be nominated as the transferring bank

**Shipment:**

- Place of Receipt:  
- Port/Airport of Loading:  
- Port/Airport of Unloading:  
- Final Destination:  

**Latest Date of Shipment:** / / (Month/Day/Year)

- Shipment by:  
- [ ] Ocean
- [ ] Air
- [ ] Other:  

- Freight:  
- [ ] Collect
- [ ] Prepaid

**Insurance:**

- [ ] Seller  
- [ ] Buyer

**Ocean Shipments:**

- [ ] FOB
- [ ] CFR
- [ ] CIF
- [ ] Other:  

**Named Point:**

- [ ] Other:  

**Air, Truck, or Rail Shipments:**

- [ ] FCA
- [ ] CPT
- [ ] CIP
- [ ] Other:  

**Named Point:**  

---

**Chapter 04**

Working with Your Buyer
Chapter 04
Working with Your Buyer

Documents Required

<table>
<thead>
<tr>
<th>Documents Required</th>
<th>Originals</th>
<th>Copies</th>
<th>Transport Documents</th>
<th>Originals</th>
<th>Copies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Invoice</td>
<td></td>
<td></td>
<td>Multimodal Transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packing List</td>
<td></td>
<td></td>
<td>Ocean B/L</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate of Origin</td>
<td></td>
<td></td>
<td>Air Waybill</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Policy or Certificate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forwarders Cargo Receipt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other Documents:

(Name of Document)                   |           |        | (Name of Document)  |           |        |

Other Documents:

(Name of Document)                   |           |        | (Name of Document)  |           |        |

Description of Goods and/or Services:

Documents to be presented to the negotiating bank within _______ days after shipment but not later than the expiry date of the letter of credit.

Bank Charges:

Issuing Bank charges for:          | Applicant |        | Beneficiary         |          |
Advising Bank charges for:        | Applicant |        | Beneficiary         |          |
Reimbursing Bank charges for:     | Applicant |        | Beneficiary         |          |
Acceptance Commission for:        | Applicant |        | Beneficiary         |          |
Discount charge for:              | Applicant |        | Beneficiary         |          |

The LC must provide one of the following reimbursement instructions, shown in order of preference:

☐ Debit the Issuing Bank’s account. ☐ Obtain reimbursement by telegraphic transfer from another U.S. Bank.

Shipment will be effected after we receive a Letter of Credit satisfactory to us, and acceptable to our bank. If you are unable to comply with any of the preceding terms, please let us know by:

Fax No.: ___________ Telephone No.: ___________

E-Mail Address: ___________________________

Any deviation from the terms stated here, without our agreement, may result in a delay in the shipment until the Letter of Credit is amended.

*Subject to approval by Bank of America
### INSTRUCTIONS FOR COMPLETING LETTER OF CREDIT ISSUANCE GUIDELINES FORM

<table>
<thead>
<tr>
<th>Field</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Order No.</td>
<td>Used if customary for buyer to send their Purchase Order to the seller.</td>
<td>Optional</td>
</tr>
<tr>
<td>Pro-Forma Invoice No.</td>
<td>Used if customary for the seller to send their Pro-Forma Invoice to the buyer.</td>
<td>Required</td>
</tr>
<tr>
<td>Beneficiary</td>
<td>Seller/Exporter</td>
<td>Required</td>
</tr>
<tr>
<td>Letter of Credit (LC) to be:</td>
<td>Buyer’s bank (Issuing Bank) sends LC to Bank of America</td>
<td>Choose option</td>
</tr>
<tr>
<td>Advised</td>
<td>Advised – The Advising Bank is responsible for verifying authenticity of LC, is not responsible for payment. Payment is subject to Beneficiary presenting LC conforming documents to the bank where the LC is available (see below), and upon that bank’s receipt of funds from the Issuing Bank.</td>
<td>* Confirmation may or may not be needed, depending on source of LC. If the LC is issued by a major bank in an industrialized country, the Beneficiary may elect not to require confirmation by a U.S. bank. Banks charge a confirmation fee.</td>
</tr>
<tr>
<td>Confirmed</td>
<td>Confirmed – The Confirming Bank undertakes responsibility for payment of LC conforming documents, in addition to the responsibility of the Issuing Bank. The request for confirmation must come from the Issuing Bank, and is subject to approval by the bank requested to confirm the LC. * Confirmation may or may not be needed, depending on source of LC. If the LC is issued by a major bank in an industrialized country, the Beneficiary may elect not to require confirmation by a U.S. bank. Banks charge a confirmation fee.</td>
<td></td>
</tr>
<tr>
<td>By: Bank of America Office</td>
<td>Optional – use this address if you intend to present your documents to Los Angeles CA, Anaheim CA, Palo Alto CA, Seattle WA, Portland, OR, to Houston TX</td>
<td></td>
</tr>
<tr>
<td><strong>BOFAUS6S</strong></td>
<td>Recommended – use this address if you intend to present your documents to Scranton, PA, New York NY, Atlanta GA, Miami FL, or Chicago IL</td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>The amount quoted should include all costs to be incurred by the Beneficiary, including transportation and insurance costs, if applicable.</td>
<td>Required</td>
</tr>
<tr>
<td>Tolerance</td>
<td>If the exact amount of the LC cannot be determined, a tolerance in the amount would give the Beneficiary the option of drawing a stated percentage, plus or minus of the LC amount.</td>
<td>Optional</td>
</tr>
<tr>
<td>Expiry Date</td>
<td>How long should the LC be valid? The validity period should include the time needed by the Beneficiary to prepare goods for shipment and to prepare documents to present to the bank.</td>
<td>Required</td>
</tr>
<tr>
<td>Expiry Place</td>
<td>The LC should expire in the same location as the location of the bank where the LC is available.</td>
<td>Required</td>
</tr>
<tr>
<td>LC Available: With By</td>
<td>Available By – the LC must also state how it is available: By Negotiation of Sight Draft or By Sight Payment. Either one applies when the Beneficiary’s agreement with the Buyer is that the Beneficiary should be paid once the shipment is made (payable “at sight” basis). Most LCs payable “at sight” are available By Negotiation. By Deferred Payment or By Acceptance, or by Negotiation of Time Draft. Either one applies when the Beneficiary has agreed to give the buyer payment terms, for example 60 days to pay. If the LC is available By Acceptance with a bank other than the Issuing Bank, it would be subject to approval by the nominated bank.</td>
<td>Required</td>
</tr>
</tbody>
</table>

* Subject to approval by Bank of America

Note: To obtain a fillable e-mail version of this document, please contact your Bank of America Global Trade and Supply Chain Solutions Officer.
| Draft | Usually required in LC. It is the document that represents the Beneficiary’s demand for payment under the LC. The demand for payment is made on the bank named in the LC as the “Drawee.” If payment is to be made “at sight” basis, the LC would require presentation of a Draft payable “At Sight.” If payment is to be made at some future time (Beneficiary finances the transaction), the LC would require presentation of a Time Draft. No Draft is required when the LC is available by Deferred Payment. We recommend that Time Drafts be drawn on Bank of America. * | Recommended |

**Partial Shipments – Transshipment**

| Subject to agreement between buyer and seller. Will be permitted unless the LC specifically prohibits. | Optional |

**Shipment**

| Complete any or all of the four fields shown as appropriate for the type of Transport Document that will be required in the LC, i.e., for Multimodal Transport Document you will likely use three or four of the fields, for an Ocean B/L or Air Waybill you will likely use only the Port/Airport of Loading and Port/Airport of Unloading. | Required |

**Latest Date of Shipment**

| The LC will usually state the buyer’s requirement that the Beneficiary ship the merchandise no later than this date. | Optional |

**Shipment By**

| Buyer and seller agree how the merchandise will be shipped to the buyer: by sea, air, or land. The type of transport document that the LC will require will be based on this information. | Choose option |

**Freight Insurance**

| Buyer and seller agree who will pay for freight and insurance. The LC terms will reflect this agreement. | Optional |

**Ocean, Air, Truck or Rail Shipments (Terms of Sale)**

| Buyer and seller agree on the mode of transport, and who will pay for the transportation and insurance costs. The LC must reflect the proper “Incoterm”. This information must be included in the LC terms when a transport document is required. | Optional |

**Documents Required**

| Specify the number of originals and copies required for each document. | Choose option |

**Description of Goods and/or Services**

| The LC must include a brief description of the merchandise and/or services covered by the LC. A detailed description should not be used since it may result in documentary discrepancies, which would jeopardize payment to the Beneficiary. A reference may be made to a Purchase Order or Pro-Forma Invoice, but neither one of these documents is an acceptable documentary requirement under an LC. | Required |

**Time for Presentation**

| If the LC requires presentation of a transport document, the LC should state the number of days after the date of shipment, that the Beneficiary is allowed to present documents to the bank where the LC is available. If the LC does not stipulate, 21 days will be allowed. Presentation of documents must always be made within LC validity. | Optional |

**Bank Charges**

| Who pays the banking charges, the Buyer/Applicant or the Seller/Beneficiary? Applicable only to Time Drafts. The Drawee Bank will charge an acceptance fee for undertaking the prolonged obligation to pay at a future time. If the Beneficiary wants to pay prior to maturity, the Drawee Bank may, at its option, discount the Banker’s Acceptance it created out of the Beneficiary’s Time Draft. The Drawee Bank will charge interest (discount charge), in addition to the acceptance fee, on the number of days being financed. Discounting of a Deferred Payment obligation is not possible since no Draft is required. See your Trade Sales Officer to discuss financing. | Choose option |

**Transferable**

| If the Beneficiary needs to use the LC as the source of the funds needed to pay the actual supplier of the merchandise. The issuing Bank should specifically authorize Bank of America to transfer the LC. * | Choose option |

**Reimbursement**

| The instructions that the Issuing Bank should give to the Negotiating/Paying Bank as to where to obtain funds to pay the Beneficiary. Very important information to help expedite payment. | Recommended |

* Subject to approval by Bank of America

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**Bank of America Disclaimer:**

These guidelines are provided for general guidance purposes only. For each transaction, the buyer, the seller and the issuing bank may have different requirements which must be satisfied. In providing this guidance, we do not assume any liability for the issuing bank, its letter of credit, the obligations of buyer or seller in connection with the letter of credit or for any other related matters. Parties to the letter of credit and the underlying transaction are advised to make themselves familiar with the procedures, practices and risks associated with letters of credit and, as appropriate, consult their own bank or counsel.
Chapter 05
Working with Your Bank
Trade Banking

Greater competition around the world is forcing many companies to rethink international strategies. As technology makes the world smaller and the significance of regional economic blocs continually develops, companies are being challenged to increase productivity and customer responsiveness. Bank of America Merrill Lynch can assist your company in navigating this rapidly changing global marketplace.

Bank of America Merrill Lynch provides business solutions to strengthen your commercial relationships and help you compete on a worldwide basis. We deliver what you need to succeed in international business by offering innovative, tailored solutions, a reservoir of trade expertise, the latest in technology, and a network of offices around the world. As one of the world’s most experienced and respected international banks, Bank of America Merrill Lynch can be one of your most important financial assets.

Trade Expertise

Bank of America Merrill Lynch global trade expertise and desire to assist you is the cornerstone of our business and your satisfaction. Our large team of dedicated trade product specialists located around the world is comprised of the highest caliber industry leaders in international trade banking and is ready to serve you.

World-Class Technology

Identifying and taking advantage of financial opportunities as they arise, quickly and in real-time, is the objective of trade finance systems. Bank of America Merrill Lynch has invested heavily in technology to meet this objective.

Bank of America Merrill Lynch Trade Pro™ is our next generation PC-based client access system for electronic advising, tracking and management reporting of all your trade transactions including export letters of credit and outgoing collections. The system’s products can be used alone, or electronically linked to your back-room system, helping you realize fast transaction execution, reduced processing costs, and enhanced cash flow. Bank of America Merrill Lynch CashPro® Online is our client access product which provides comprehensive trade reporting and data extracts on your desktop.
Chapter 05
Working with Your Bank

What to Expect from Bank of America Merrill Lynch

Bank of America Merrill Lynch Global Trade Operations normally performs the following functions when working with the beneficiary of an export letter of credit:

• Authentication of export letters of credit, whether received by mail, telex, or S.W.I.F.T.
• Review of export letters of credit for general workability.
• Confirmation of export letters of credit when requested by the issuing bank and with appropriate credit availability.
• Timely advising of export letters of credit and amendments.
• Assistance with letter of credit terms and conditions through “client service centers” dedicated to you.
• Accurate document checking by skilled letter of credit technicians.
• Skilled discrepancy resolution and professional, knowledgeable client communications.
• Rapid payment mechanisms, due in part to our global network of correspondent bank relationships.
• Ability to provide reporting as requested.

Bank of America Export Advice

Bank of America Merrill Lynch Trade Operations takes special pride in the way we pass your export letter of credit along to you.

Did you know that all letters of credit are read in our operations unit in an attempt to ensure that there are no inconsistencies, errors, or unreadable text? We preliminarily attempt to make sure that you can get paid under the letter of credit without any problems caused by miswording.

It is also your responsibility to read the letter of credit and to make sure that you can comply with its terms and conditions. Our knowledgeable Trade Operations staff are always available, should you have any questions about the terms or the wording.

In addition to reviewing and understanding the text of your letter of credit as sent by the issuing bank to Bank of America, you should pay attention to occasional additional wording and instructions that Bank of America Merrill Lynch adds. Often these additional instructions or comments can give you an indication of how soon you will be paid against documents in order.

If it says:
“Please note that this letter of credit is available with ABC bank. Documents and draft(s), if required, will be sent to them for negotiation without responsibility or engagement on our part. Upon receipt of funds by us, payment will be effected to you accordingly.”

Explanation:
This letter of credit is not payable at the counters of Bank of America. Keeping your interests in mind, Bank of America Merrill Lynch will check the documents and attempt to ensure that they are in compliance before they are presented to the issuing bank. Trade Operations will normally give you the opportunity to correct any problems before the documents are sent to the bank where the letter of credit is available. Our checking of documents in this instance carries no obligation on our part; it is a courtesy to you. We do not certify to the bank that the documents are in order. Only the findings of the opening bank are binding in this situation.

Once the opening bank deems the documents to be in order, or contacts the applicant and obtains its approval of any discrepancies, the opening bank normally wires funds to us and we in turn remit the proceeds to you. If discrepancies exist on the documents, the opening bank may charge a discrepancy fee. When compliant documents are received, payment normally takes approximately 7–10 days.
As you can see, this method does not provide for quick payment of your letters of credit. If at all possible, you may want to urge your buyer to open letters of credit in your favor at a Bank of America Merrill Lynch correspondent bank. Contact your Global Trade Sales representative for a list of our correspondent banks.

If it says:
“Payment will be effected after receipt of funds by us from the reimbursing bank.”

Explanation:
The opening bank does not maintain an account relationship with Bank of America, and we must obtain funds by sending a telecommunication to the reimbursing bank (the bank with whom they do maintain an account relationship). You will be paid when we receive the funds from the reimbursing bank. Normally our reimbursement charges will be deducted from your proceeds.

Bank of America Merrill Lynch normally releases your documents to the opening bank before we have received the funds from the reimbursing bank, unless we are otherwise instructed by the beneficiary. The elapsed time period is normally 3–7 days. This method, while preferable to our sending documents on approval, still does not provide quick turn-around. If possible, your buyer should open letters of credit with one of our correspondents, who will authorize us to debit its account against documents in order.

If it says:
“This credit is confirmed by us and we undertake that all drafts drawn and presented in accordance with the terms of the credit will be honored. As the confirming bank, it is our practice that presentation of documents under this LC will be restricted to our counters.”

Explanation:
We have added our obligation and creditworthiness to that of the issuing bank. If the issuing bank should fail to pay against documents in order, Bank of America Merrill Lynch will be obligated to pay you. You will not receive this favored treatment under our confirmed letter of credit if you present the documents to another bank.

Please remember that discrepancies found in documents, which are uncorrectable and for which we must cable the issuing bank or send the documents on approval, nullify our confirmation of the letter of credit.

If it says:
“The original letter of credit (operative credit instrument) must be submitted with each presentation of documents. Also, please provide one copy of each document for our files.”

Explanation:
Bank of America Merrill Lynch must endorse the original letter of credit with each drawing and must do its best to prevent fraud. Failure to present the original letter of credit as indicated in the instructions will cause delay in processing your documents.

Understanding Export Letter of Credit Processing

Prompt processing and payment of your letters of credit is our goal. At times, however, there are unavoidable delays that you should be aware of.

Delays in advising the letter of credit:
There may be a problem in the transmission from the issuing bank or irregularities in the text of the letter of credit. The issuing bank may request our confirmation of their letter of credit, but we cannot accept their request due to imprecise information in the letter of credit. Until we receive a clarification from the issuing bank of any problem with the letter of credit, we will not be able to advise or confirm it. You can count on us to contact the issuing bank immediately, by S.W.I.F.T. or Telex, to resolve any problems in the terms that are apparent to us.
As previously indicated, you should review your letter of credit carefully to ascertain that it has been issued in accordance with your instructions and with terms you can fulfill. If you find any problems, you should contact the buyer immediately and request an amendment.

**Common causes for delay in processing letters of credit:**
(We will contact issuing bank for resolution.)

**The Transmission:**
- S.W.I.F.T. or cable message is garbled.
- Test/authentication on incoming message is incorrect or cannot be verified.
- Issuing bank’s signatures on a letter of credit sent by airmail cannot be verified.

**The Text:**
- Name and/or address of beneficiary (your company) is incorrect.
- Amount of letter of credit does not agree with extension of unit prices of merchandise.
- Expiration date is too early.
- Expiration place is at the office of the issuing bank, although letter of credit is available with Bank of America Merrill Lynch or with any bank.
- Latest shipment date is too early.
- Shipment instructions incorrect.
- Price basis (FOB, CIF, etc.) does not agree with documentary requirements.
- Excessive details in the letter of credit.
- Letter of credit contains boycott-related clauses or any other compliance concerns.

**Problems with a Request for Confirmation:**
- Issuing bank does not have a relationship with us to confirm letters of credit.
- Letter of credit expires at the office of the issuing bank.
- Letter of credit does not provide reimbursement instructions.
- Letter of credit issued as deferred payment letter of credit, instead of requiring time drafts on us.
- Letter of credit requires time drafts on the buyer or on the issuing bank

**Delays in payment under the letter of credit:**
The most common cause for delays in payment under letters of credit is that documents don’t comply with the terms of the letter of credit. The implications of rejection of documents are frequently underestimated. Discrepancies in the documents are a major cause of delays in payment and extra expense for all parties concerned. In order to avoid delays in the payment of your document presentations, you need to ensure that your documents are in strict compliance with the letter of credit terms. Discrepancies, and how to minimize them, are discussed in further detail in Chapter 6, page 92 of this manual. Additionally, the reimbursement instructions in the letter of credit will have a bearing on how promptly payment can be effected.
**Common Causes for Delay in Payment Under Letters of Credit:**
(We will contact beneficiary or his agent for resolution.)

**Discrepancies in Documents:**
- Documents inconsistent with letter of credit terms.
- Documents inconsistent with one another.
- Absence of required documents.
- Draft not drawn correctly.
- Original letter of credit not presented.

**Reimbursement:**
(Issuing bank’s instructions as to where funds are available for payment.)
- Letter of credit does not provide reimbursement instructions.
- Letter of credit provides reimbursement through a third bank, but issuing bank did not provide appropriate instructions promptly to the reimbursing bank.
- Funds not immediately available from the issuing bank and letter of credit not confirmed.
- Letter of credit requires that documents be sent to the issuing bank for payment.
- Reimbursement on a third bank—average collecting time is three to seven working days.

**Processing Locations and Contacts**
Documents under letters of credit may be presented for examination and payment at any of our convenient locations. The location nearest to you is normally noted on Bank of America’s export letter of credit advice.

**Export LC Document Transmittal Letter**
As an added convenience, an Export Document Transmittal Letter has been specifically designed to expedite the delivery and processing of your export letter of credit documents. This transmittal letter is available at all Bank of America Merrill Lynch processing locations in paper or electronic form, either of which will be provided to you upon request. An example is provided on the following page.

Learn more ways that Bank of America Merrill Lynch can help with your export business by contacting your local Global Trade and Supply Chain Sales representative.
Figure 5.1: Export LC Document Transmittal Letter

<table>
<thead>
<tr>
<th>Bank of America</th>
<th>Export Letters of Credit Documents Transmittal Letter</th>
<th>Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>TO: Bank of America, N.A.</td>
<td>(See Instructions Below)</td>
<td></td>
</tr>
<tr>
<td>Beneficiary</td>
<td>Forwarder</td>
<td></td>
</tr>
<tr>
<td>Beneficiary Reference Number</td>
<td>Forwarder Reference Number</td>
<td>Bank of America Advice Number</td>
</tr>
<tr>
<td>Payment Instruction:</td>
<td>with Bank of America</td>
<td></td>
</tr>
<tr>
<td>☐ Credit beneficiary’s account #</td>
<td></td>
<td></td>
</tr>
<tr>
<td>or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>☐ Pay via Fedwire by crediting beneficiary’s account #</td>
<td>with</td>
<td></td>
</tr>
<tr>
<td>or</td>
<td>other Bank</td>
<td>ABA #:</td>
</tr>
<tr>
<td>☐ Pay via CHIPS by crediting beneficiary’s account #</td>
<td>with</td>
<td></td>
</tr>
<tr>
<td>or</td>
<td>other Bank</td>
<td>CHIPS UID #:</td>
</tr>
<tr>
<td>☐ Pay via check, send to:</td>
<td>Other:</td>
<td></td>
</tr>
<tr>
<td>Discrepancy Instruction:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>☐ Send for approval</td>
<td>☐ Cable for authority to pay</td>
<td></td>
</tr>
<tr>
<td>Contact:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>☐ Forwarder</td>
<td>☐ Beneficiary</td>
<td>☐ Other:</td>
</tr>
<tr>
<td>☐ Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Documents Presented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Instruction/Comments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Please attach securely to documents presented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type Preparer (forwarder or beneficiary company name)</td>
<td>Signature/Title</td>
<td></td>
</tr>
</tbody>
</table>

Bank of America DRAFT

Drawn under Issuing Bank

Letter of Credit Number Place of drawing Date Number

At Pay To The Order of

US $ United States Dollars

Amount in Words

To: Beneficiary Name Signature/Title

05/25/2005
Instructions for Completion of “Export Letters of Credit Document Transmittal Letter”

01. Today’s date or date of mailing of documents.

02. Mailing address of Bank of America Merrill Lynch Trade Processing office to which you are sending documents. A recommended location for presentation has been indicated on the Bank of America Merrill Lynch Letter of Credit Advice to you.

03. Your company’s full name and address.

04. Complete this field only if your freight forwarder is presenting your documents to us.

05. Your reference number. This can be any number that will help you identify this document presentation or transaction in future correspondence or at the time of payment.

06. Optional, and only if your documents are being presented by your freight forwarder.

07. The Bank of America Merrill Lynch reference number from our Export Letter of Credit Advice to you.

08. The amount of this drawing; draft/invoice amount.

Payment Instructions

09. Note here your preference for method of payment of the proceeds of this Letter of Credit. Choose one, and we will deduct current charges based on your request.

Discrepancy Instructions

10. We attempt to make payment to you as quickly as possible. Choose one of these available options:

   Send for approval: Documents will be couriered to the issuing bank to be released only against payment/acceptance.

   Cable for authority to pay: List of discrepancies is sent by teletransmission to the issuing bank requesting authority to pay/accept. Documents are held by Bank of America Merrill Lynch until authority is received, or returned to you in the event authority is rejected. Be sure to also indicate in this section of the form the name, telephone number, and fax number of the person authorized by your company to make decisions regarding correction of documents.

11. List documents as presented/attached to this transmittal letter.

12. Include here any other instructions that you have for the Bank of America Merrill Lynch Trade processing center, such as “Original Letter of Credit and amendments on file with you.”

13. Typed full name of your company or freight forwarding company if documents presented by your freight forwarder. Signature and title of authorized representative of your company or your freight forwarding company.

Draft

Refer to page 91, Chapter 6, of this Guide for draft completion instructions.
Chapter 06
How You Get Paid
What is “Negotiation”?  

Negotiation is the process whereby a bank examines the documents presented under a letter of credit by the beneficiary; if the documents comply with the terms of the letter of credit, the bank advances funds to the beneficiary.

The time of payment depends on the reimbursement instructions in the letter of credit. The term “negotiation” arises from the form in which a letter of credit is issued. A letter of credit payable “at sight” must stipulate whether it is available by sight payment or by negotiation. The letter of credit must also nominate the bank where the letter of credit is available to the beneficiary for presentation of documents, or the letter of credit may state that it is available with any bank without naming a specific bank. Either way, a named bank or any bank is the “nominated bank.” Although a letter of credit may be issued as available by negotiation, the nominated bank is not obligated to advance funds to the beneficiary. In fact, U.S. banks generally do not advance funds to the beneficiary; they do not negotiate the drafts and/or documents. U.S. banks normally examine documents and effect payment of compliant documents only after receipt of funds from the issuing bank or from a reimbursing bank. In the case of a confirmed letter of credit, the confirming bank is responsible for effecting payment of compliant documents regardless of whether they receive funds from the issuing bank or not.

In the event a U.S. exporter receives a letter of credit which is “available by negotiation at any bank,” the exporter may present the documents with the original letter of credit to the bank that advised the letter of credit (advising bank) or to the exporter’s own bank. Many banks are reluctant to accept documents under a letter of credit not advised by them because the letter of credit may have been amended and the bank receiving the documents would not be aware of all the amendments. At Bank of America, we will be pleased to handle such transactions on your behalf. We will examine your documents and, if in order, we will claim payment for you in accordance with the instructions in the letter of credit.
How Long Does it Take to Get Paid?

Once documents are found to conform to the terms of the letter of credit, the timeliness of payment to the exporter is dependent on the reimbursement instructions in the letter of credit. Unless the letter of credit has been confirmed, the U.S. bank is under no obligation to pay. It will pay only after receiving funds from the issuing bank. Listed below are the four most common methods of reimbursement, from fastest to slowest. The issuing bank, and its relationship with the bank who is handling the documents for the beneficiary, determines the settlement method:

A. The issuing bank may authorize Bank of America Merrill Lynch to debit its account and pay. This is the fastest way for the beneficiary to receive payment.

B. The issuing bank may instruct Bank of America Merrill Lynch to claim reimbursement from a third bank (the reimbursing bank). The issuing bank may choose this method of reimbursement because it may not have a deposit account with Bank of America Merrill Lynch or, if it does, it may not want to use it for effecting reimbursement under its LCs. In this case, Bank of America Merrill Lynch sends a wire to the reimbursing bank and claims reimbursement. Only infrequently does an issuing bank instruct Bank of America Merrill Lynch to claim reimbursement by mail. In that case, Bank of America Merrill Lynch sends a reimbursement claim by mail to the reimbursing bank. For the beneficiary, this method of reimbursement is the second-best method of reimbursement. It usually implies a delay of only a couple of additional banking days to receive payment.

C. The issuing bank may require Bank of America Merrill Lynch to send it a cable notifying the issuing bank that documents have been received and found to be in compliance with LC terms. The issuing bank then remits the funds to Bank of America. This method of reimbursement may be less appealing to the beneficiary than the previous two, but in fact this method only adds a few days to the previous two methods.

D. The issuing bank may require Bank of America Merrill Lynch to send the beneficiary’s documents to it for payment. After it receives the documents at its office and examines them, it then remits the payment. This method of reimbursement is the least attractive because of the delay involved in receiving payment. However, banks in some countries such as China use this method of reimbursement almost exclusively.

Regardless of which reimbursement method is used, payment under an LC presupposes presentation of documents which are in compliance with the LC. Also, issuing banks often specify a certain number of days after which payment may be effected to the beneficiary. For example, the issuing bank may authorize Bank of America Merrill Lynch to debit its account and pay the beneficiary three banking days after Bank of America Merrill Lynch has notified it by cable that documents have been presented and found to be in compliance with the LC terms.
Assured and Prompt Payment

Using letters of credit will provide the exporter with assured and prompt payment, protect against cancellation of the underlying sales contract and provide a bank guarantee to pay substituted for the buyer’s guarantee.

When trading under a letter of credit, a bank substitutes its credit for that of the buyer and assures the seller that payment will be made by the bank in accordance with the terms of the letter of credit if such terms are properly met. The advising bank assumes the economic and political risks when it confirms a letter of credit on behalf of the foreign bank.

The highest level of mutual protection is afforded the buyer and seller in that the seller is assured of payment if the documents are in order, while the buyer is assured that payment will only be effected in accordance with the terms of the letter of credit.

One of the greatest services that Bank of America Merrill Lynch does for its exporters when advising letters of credit is to check the letter of credit for workability. Of course, the bank cannot determine if an exporter can comply with the terms and conditions of a letter of credit, but Bank of America Merrill Lynch will check for inconsistencies and errors in the letter of credit.

Occasionally exporters make shipment and find that they cannot produce a compliant set of documents under the letter of credit because of the contradictory conditions contained therein. Payment is thus delayed due to discrepancies between the documents and the letter of credit or, worse still, not forthcoming at all.

To mitigate the risks of non-payment, both the negotiating bank and the beneficiary should partner in understanding the underlying transaction. As an exporter you should be comfortable that your trading partner will honor his commitment. “Know thy customer and his/her trading pattern” is probably the best advice for an exporter. Like any other sale, there is no substitute for common sense.
Chapter 06
How You Get Paid

Letter of Credit Payment Flowchart and Explanation

STEP ONE
The seller (exporter) ships goods to the buyer (importer) pursuant to the terms and conditions in the letter of credit.

STEP TWO
The seller (exporter) prepares documents exactly as required and presents them to the proper paying bank. The proper paying bank may be any bank specified in the letter of credit to accept, pay or negotiate the documents. It may be the advising bank, issuing bank or any bank (on a freely negotiable credit) that is willing to negotiate.

STEP THREE
When the paying bank receives the documents, it will examine them to determine if they are in order pursuant to the credit’s terms and conditions. If in order, the bank may pay, accept, or negotiate as required by the letter of credit. The negotiating bank will transmit the documents to the issuing bank and request reimbursement.

STEP FOUR
The issuing bank will examine the documents to ensure that they are in order as specified, and will release documents to the buyer (importer).

STEP FIVE
The buyer (importer) receives the documents and uses them to obtain the goods.

STEP SIX
At the time of the release of the documents, the issuing bank debits the buyer’s account or sets up an arrangement of payment of the time draft at maturity.

STEP SEVEN
The issuing bank reimburses the paying bank.

STEP EIGHT
The paying bank pays the seller (exporter).
Documents Typically Required Under an Export Letter of Credit

In general, the following discussion on International Trade Documents is intended to provide the issuer of these documents with some useful information as to the preparation. However, please note, this chapter should not be used as a Document Examiner’s checklist for letter of credit purposes. Documents presented under letters of credit will be examined in accordance with the terms and conditions of UCP and should be constructed according to those guidelines.

The below discusses the preparation of the following International Trade Documents:

**Commercial Invoice**

The commercial invoice is a record of transactions that occur between the seller and buyer which operates as a seller’s request for payment. The invoice is important to any third party that may have an interest or a right in determining a shipment’s value. For example, a bank becomes an interested third party when it is asked to discount a draft. While in some countries the commercial invoice is sufficient for customs purposes, generally, a consular invoice or a certificate of origin must be produced for appraisement and entry of goods. When countries accept the commercial invoice as a basis for customs appraisal, they may insist that the description of the goods contained on the invoice fit the corresponding category or description of their active customs tariff. Additionally, a number of countries require that the commercial invoice be obligatorily sent and require a signature oath at the foot of the document attesting that the values shown on the invoice are entirely in accordance to the facts present.

The commercial invoice should state the terms, pricing and quantities of the shipment. The letter of credit may mandate that it also state the number of packages, marks and numbers, weights and measurements, and tare. In fact, it must include all details necessary for proper description of the merchandise, in accordance with the merchandise description and any special instructions found on the letter of credit. Additionally, the invoice should be numbered and contain the date of when it was filled out. Plus, it must contain the address of the shipper as indicated on the letter of credit, as well as that of the buyer. Further, when the buyer is required to pay for freight, insurance, and/or any other items, the letter of credit may require that these are itemized on the commercial invoice.

**Consular Invoice**

For the exportation of goods, various countries require consular invoices for customs, statistical and/or other purposes. These invoices must contain full details/descriptions of the goods exported, and they are used to evidence the shipper or owner’s declaration of the shipment’s value. Not only do these invoices include a sworn statement as to the truth of the declarations made, but they also attest to the nonexistence of any other possible duplicate invoices for the same shipment. Besides showing all details of the goods themselves, the consular invoice must outline the discounts, rebates, etc. which are connected to the goods. The consul of the country to which the shipment is destined certifies the consular invoice, and this invoice facilitates the customs work at the destination as well as aids in the collection of taxes and provides statistical input.

The requisite forms may be obtained from stationers specializing in commercial papers; however, they are usually purchased from the consul who must later affix his/her visa to the invoice. No item may be omitted from the invoice; that is, each space must be filled in accurately and properly. Some countries will impose fines for trivial omissions and/or inexactness when preparing the form. The consuls may even penalize the use of ditto marks and/or for data that spreads over two adjacent columns (please note, data should be arranged properly within the parallel columns provided; i.e. do not treat two columns as one column).

A consular invoice may be required when a visa is requested, and the number of copies required for presentation will vary considerably between countries depending on the set-up of that country’s consular and customs offices (usually between two and ten copies). Each participating consul will keep certain copies for their own files and forward additional copies to the customs officer at the country of the shipment’s destination (the number of copies required...
depends on the regulations of the destination country). Additional copies will be returned to the shipper to be used by the exporter who forwards them to the importer for presentation to customs when they declare the goods. These copies should arrive prior to, and in close proximity of, the arrival of goods, because the customs department of the importing country frequently heavily penalizes a delay in the receipt of documents.

Generally, the consular invoice is merely a repeat of the commercial invoice; however, the information is provided according to the language contained in the form that’s required by a country’s consul. As mentioned above, the consular invoice must give full details of the merchandise shipped, and it must contain the name and nationality of the vessel that carries the cargo, the port/point of shipment and the port/point of destination.

**Packing List**
The packing list is an item-by-item account of the contents of each case or container of the shipment. Each item is listed separately and contains its weight, description set, etc., and, upon arrival, aids checks performed by the customs agent and the recipient of the goods. The packing list must be both accurate and complete to satisfy the customs agent and the customer’s needs.

**Certificate of Origin**
The certificate of origin certifies that goods were mined, manufactured, or assembled within a specified country.

Many countries demand production of the certificate of origin, and the individual requirements and production of the certificate may be ascertained by consulting export guide reference books or through communication with the consulate of the destination country. Several countries have eliminated the need for a separate certificate by apportioning space on the consular invoice to show the country of origin of each item. Various reasons give rise to the requisite use of the certificate of origin. For example, it may be demanded by governments/countries whose tariff laws favor certain countries by agreements or privileges that lower respective tariff rates. Thus, the certificate of origin aids the determination of these favored or privileged tariff rates because it evidences the actual origin of the articles imported.

Therefore, the certificate of origin enables the importing country to determine, through its customs officers and administration, which shipments or goods shall benefit by such preferential rates outlined above. Generally, the certificate contains the same information as the consular invoice, and the importer presents it to the customs official. In turn, by examining the goods’ place of origin, the customs official determines the special preferential tariff rates, discounts from regular tariff rates, other deductions granted in agreements that exist between buyer/seller countries, or favors that may be taken into consideration to reduce the tariff rate.

**Certificate of Inspection**
The certificate of inspection attests to the inspection of exported or imported products such as goods, animals, meat products, vessels, etc., and this certificate reports on the subject that was the aim of the inspection.

Regarding many staple commodities sold entirely on a grade designation (such as raw cotton) and sold against a letter of credit, the buyer provides for inspection, or warehouse certification of the goods, prior to shipment in order to prevent loss due to seller’s deviation from the agreed upon standard grade.

Further, if the subject matter of a sales contract deals in expensive machinery or equipment, the contract usually contains a provision that provides for inspection before shipment.

**Certificate of Analysis**
A buyer may require presentation of a certificate of analysis as proof of quality and/or physical/chemical composition of a commodity.
Ocean Bill of Lading
An ocean bill of lading is a receipt for goods received for carriage issued by a steamship company or its agent. It is also a contract for carriage or an evidence of the contract of carriage. The ocean B/L specifies the conditions and terms of carriage and includes the character of the goods shipped along with their weights, measurements, and destinations. Furthermore, the ocean B/L will state the person to whom the goods are consigned and the person to notify once the goods have arrived.

The ocean B/L is prepared by a freight forwarder. Usually, ocean B/Ls are issued in three originals and several non-negotiable copies. The shipper may wish to retain one or more of the non-negotiable copies for their records. Certain countries require presentation of the original ocean B/L together with other documents for the purpose of verifying that the goods being imported comply with the previously approved import permit.

An ocean B/L may be issued either as a straight B/L or as an order B/L. A straight bill of lading is consigned direct to a named person or entity, and is a non-negotiable document. In some countries, surrender of an original straight B/L is not required in order to deliver the cargo unless necessary for identification purposes. An order B/L is a negotiable document, whereby title to the goods can be transferred by endorsement. Surrender of an original order B/L is required in order to deliver the cargo. Delivery is made to a holder in due course provided endorsements are in order.

There are two classes to the ocean B/L: (1) “received for shipment” classification and (2) “on board” classification. The first classification identifies the steamer by name and is issued when space in the steamer has been previously reserved, thus the goods are in possession of the steamship company. The second classification is issued only after the goods have been loaded on the steamer. Please note, banks often stipulate the “on board” B/L when issuing a letter of credit.

Not only does the ocean B/L operate as a final receipt from the carrier, but it is also a contract between the carrier and the shipper. Generally all freight charges must be paid before the steamship company will surrender the cargo covered by the B/L.

To Order Bill of Lading
A “to order” bill of lading is a bill of lading made out to the order of the shipper or a specified named party, who either endorses it in blank or to a named consignee. A steamship company will not deliver goods covered by a “to order” B/L until ownership is proven by presentation of the endorsed original B/L.

Original Bill Of Lading
Generally, three original B/Ls are issued as a “full set” also referred to as the “set,” and the carrier will mark the total number of originals issued on each separate original B/L. Banks often require presentation of the full set of originals even though only one properly endorsed original is sufficient to obtain the goods. The distinction lies in the delivery: if delivery is made against one properly endorsed B/L, the others are automatically rendered void.

Full Set Bill Of Lading
When more than one original B/L is issued, the total number issued is marked on each individual B/L, and these documents are referred to as the full set bill of lading.

Foul Bill of Lading versus Clean Bill of Lading
Contrary to the clean bill of lading, a foul bill of lading contains a notation of some type to inform that all or part of the shipment referred to in the document is in bad condition or damaged.

Multimodal Transport Document (Through Bill Of Lading)
The through bill of lading covers a shipment that uses the same B/L from point of shipment to port/point of destination even though the shipment may involve more than one carrier for transportation. The through B/L is also a term utilized by a steamer who issues a B/L from port of shipment either to an out port or to a point inland in the
country of destination. It includes any transshipment or land carriage necessary to make such a delivery.

Air Waybill
An air waybill is a non-negotiable document that applies to shipment by air freight. The air waybill creates a contract between the shipper and the air freight carrier and is limited by the conditions stated on the face and the back of the bill.

Road or Rail Transport Documents
Truck and rail transport documents are commonly referred to as “truck bills of lading” or “railroad bills of lading.” Also included in this category is the CMR issued in Europe. These transport documents serve as receipts by the carrier for goods shipped and as non-negotiable documents of title to the goods. The transport documents show the name and place of the shipper, the date of receipt of the goods by the carrier, the name and place of the consignee and the name and signature of the carrier or its agent. These transport documents also show a description of the goods and any marks or information applicable to the shipment. The transport documents may show the contract of carriage or refer to another document to identify the responsibility of the carrier.

A Detailed Look at Drafts

01. Bill of Exchange: A document, also called a draft, much like an ordinary check in appearance, which represents the demand for payment in a business transaction.

02. Date: The date the draft is prepared, the date of the corresponding invoice, or the date of shipment stated on the corresponding transport document. Please refer to the instructions in (4) below as to when the date of the draft must be the same as the date of shipment. The number of the draft may be any identifying number, such as the number of the corresponding invoice, or may be left blank.

03. Place of Drawing: The location of the drawer (9). In this sample, the place of drawing is Los Angeles, California where the drawer, ABC Computer Exports, Inc., is located.

04. At [insert tenor]: A draft may be payable at sight, meaning at the time it is presented for payment (sight draft), or it may be payable at some specified future time (time draft). In the sample shown here, the draft is payable “at 90 days sight.” The time of payment is based on the agreement between buyer and seller. If a draft is to be paid at some future time, the maturity of the payment may be either a specified number of days “after sight” or
Chapter 06
How You Get Paid

A specified number of days “after shipment.” If a draft is to be paid a specified number of days after shipment, the draft must be dated the same as the date of shipment shown on the corresponding transport document and must state that it is payable. For example payable “at 90 days date.” When a time draft is drawn on a bank, it is possible for the drawer to obtain payment prior to the maturity date of the draft. Once the drawee bank (7) has accepted the draft, it is referred to as a “bankers’ acceptance.” A bankers’ acceptance can be discounted at the option of the drawee bank. The discount charges would be paid either by the seller or by the buyer according to the agreement between them.

05. **Pay to the Order of [insert Party’s Name]:** The party to whom payment is to be made; in this sample, ABC Computer Exports, Inc. The draft needs to be endorsed by ABC Computer Exports, Inc. The draft can also be payable to the order of the bank where the draft and documents are presented, in which case it would not be endorsed by the drawer.

06. **Amount:** The amount in words and in figures.

07. **To [insert party’s name]:** This is the drawee, the party on whom the demand for payment is made. Under a letter of credit, the drawee may be the issuing bank, the advising bank, the confirming bank if the LC was confirmed, or the reimbursing bank. In this sample, the drawee is Bank of America. When the beneficiary of an LC presents the required draft and documents to the bank where the LC is available, the bank must determine that the draft and documents comply with the terms of the LC. Once the bank has approved the draft and documents, the following will take place:

- **Sight Draft:** The drawee bank may effect payment. A drawee bank who is not the issuing bank or the confirming bank would effect payment only after receipt of funds from the issuing bank. However, when a draft is drawn under a confirmed LC, the confirming bank is obligated to pay even if the issuing bank is not able to provide funds for the payment.

- **Time Draft:** The drawee bank would accept to pay the draft at its maturity date. A drawee bank who is not the issuing bank or the confirming bank is not obligated to accept a time draft. However, when a time draft is drawn under a confirmed LC, the confirming bank is obligated to accept the draft and pay it at maturity.

08. **At [insert address]:** The location of the drawee.

09. **Drawer:** The party making the demand for payment. In this sample, ABC Computer Exports, Inc. The draft must be signed.

**NOTE:** A draft cannot have any corrections or erasures.

**Discrepancy Resolution**

A discrepancy is anything found in the documentation which the examining/negotiating bank determines to be not in accordance with the terms and conditions of the letter of credit. A discrepancy, even if seemingly insignificant, can prevent payment. A “correctable” discrepancy can be remedied by the exporter by resubmitting documents prior to the expiry date and within the number of days permitted for presentation of documents. Certain discrepancies cannot be corrected by the exporter and must be approved by the issuing bank before payment can be made. Examples of such discrepancies can include without limitation, late presentation of documents, overdrawing the letter of credit and partial shipment made when not permitted by the letter of credit.

There are three alternatives available to the exporter in dealing with discrepancies that cannot be corrected. You may:

01. Request the examining/negotiating bank to telex the issuing bank for permission to pay despite discrepancies. If this option is chosen, we strongly recommend that you telephone or otherwise communicate with your buyer, informing him of the discrepancies if he is not already aware of them. The issuing bank will (at their discretion) contact the buyer for discrepancy approval when the issuing bank receives the examining/negotiating bank’s
communication. The examining/negotiating bank will then require a reply from the issuing bank by S.W.I.F.T. or tested telex before payment can be made to you.

02. Request the documents be sent to the issuing bank on “approval” basis. The documents will then be checked again by the issuing bank and your buyer contacted with any discrepancies. Payment will not be effected to you until the issuing bank’s approval is received.

03. Request that the buyer amend the letter of credit if additional shipments will be made.

NOTE: Amendment is not possible if the credit has already expired unless the expiry date is also extended.

A discrepancy in documentation can cost the exporter his rights under the letter of credit. It is essential that the exporter understand the technical usage of letters of credit. Your Global Trade Services Operations contact can assist with any questions about your letter of credit. Call when you receive the letter of credit; don’t wait for him to call you with costly discrepancies!

Common Discrepancies in Documents

On Drafts:
- Drawn on the wrong party.
- Letter of credit requires a time draft, you present a sight draft.
- Not properly signed and/or endorsed.
- Amount differs from what is indicated on invoice.
- Letter of credit number and issuing bank’s name are missing.

On Commercial Invoices:
- Description of goods not as stated in the letter of credit.
- Letter of credit amount exceeded.
- Excess quantity shipped.
- Partial shipment effected although prohibited.
- Shipping terms (Terms of Sale—F.O.B., C.I.F., etc.) not properly stated.
- Buyer and/or seller name and/or address not in accordance with letter of credit.

On Bills of Lading:
- Not properly signed.
- No “On Board” notation, notation is not dated or incomplete.
- Not properly endorsed.
- No evidence of “freight prepaid/freight collect,” or inconsistent with letter of credit terms.
- Foul bill of lading presented.
- Late shipment.
- Transshipment effected although not allowed.
- Consignee not correct.
- Notify party not correct.

On Insurance Document:
- Merchandise not properly described.
- Insurance risks specified in letter of credit not covered.
- Under insured.
- Insurance policy dated later than the shipping date.
- Policy or certificate is not countersigned or endorsed.
Other Common Discrepancies:

- Letter of credit expired.
- Documents not presented within the stated number of days after shipping date.
- Absence of documents called for in the letter of credit.
- Absence of signature on documents, when required.
- Beneficiary’s name and/or address not as stated in the letter of credit.
- Applicant’s name and/or address not as stated in the letter of credit.
- Documents not certified, notarized, or legalized when required by letter of credit.

Reducing Your Days Sales Outstanding on Letter of Credit Payments

- Prepare your documents carefully, following your letter of credit precisely. Remember that document checkers are obligated to note any deviation from the letter of credit. Although the spelling of your buyer’s name may seem like a small matter, discrepancies in your documents may cause other problems if your buyer believes that the salability of your commodity in his country has changed. As document checkers often say, “There’s no such thing as a minor discrepancy!” If you or your document preparer have any questions about how your documents should be worded in the event that your letter of credit contains an unlamented error, contact your local Global Trade Services Operations manager for assistance.

- Check documents again before they go out the door. Make sure that they are signed if a signature is required, visaed, legalized, or notarized as required. Make sure that the required number of bills of lading is included. Make sure that your draft is correctly completed, signed, endorsed and that the original letter of credit and any original amendments are sent with the documents.

- Present documents locally, if possible. Local Trade Services offices have been established for your convenience. Contact your Global Trade Services representative for a list of processing locations. If local presentation is not possible, documents should be sent by courier, not by regular U.S. mail.

- With your presentment, provide specific instructions for our payment to you. The fastest and most convenient method is for you to maintain an account with Bank of America Merrill Lynch to which we can credit the proceeds of your letter of credit.

Document Presentation Guidelines

- It is important to note where the letter of credit expires when considering how long you have to prepare and present documents. If the letter of credit is payable with the issuing bank, it may expire in the country of the issuing bank; in which case, the documents must arrive at the issuing bank’s counters before that date.

- Familiarize yourself with the guidelines for presentation of documents around weekends and bank holidays. See Articles 29 and 33 of the Uniform Customs and Practice for Documentary Credits, Publication No. 600.
Payment Methods—Wire, Check, and International Draft

If you do not maintain an account with Bank of America, payment under letters of credit can be made to you by wire transfer or by cashier’s check. When requesting that your funds be wired to another bank for your account, be sure to provide your account number with that bank. If you wish that a cashier’s check be issued for the proceeds of your letter of credit, it will be mailed to you by regular U.S. mail unless you specify other arrangements for its disposition.

If you are an exporter selling on open account or prepaid terms, you should instruct your buyer to send the wire transfer to Bank of America. Include the account number to which funds should be credited in your instructions to your buyer.

If you are an exporter and selling merchandise for small dollar amounts on an open account basis and the buyer is sending you a check in dollars drawn on a non-U.S. or non-Canadian bank, insist that your buyer purchase a foreign draft (i.e. check) for the prescribed dollar amount from the buyer’s local bank. If the draft is drawn on a U.S. bank in dollars and is encoded, it can usually be deposited in your bank account with us and it will clear through the U.S. check clearing system. If it is drawn, for example, on an Italian bank, it will have to be sent on a collection basis by your bank, Bank of America, to the Italian bank. This is an expensive and time-consuming process which should be avoided, especially for small amounts. “Wire transfer” to your account is always the preferred method of cash payment.

Typical Fees on Export Letter of Credit Transactions

If your letter of credit states: “All banking charges outside (country of importation) are for the account of the beneficiary,” either in the text of the letter of credit or in S.W.I.F.T. tag 71B of a S.W.I.F.T., you can expect to incur additional charges under your letter of credit. This is the typical scenario, but there are variations and you should read your letter of credit carefully to make sure you understand all mentions of charges. Make sure that these fees are built into the prices which you quote to your seller, and don’t let them take you by surprise.

To give you an idea, here is a list of usual fees for an export letter of credit advised/confirmed to you by Bank of America. Contact your local Global Trade and Supply Chain Sales representative for current pricing.
Letters of Credit

Pre-advice Fee
For sending an advance advice of the opening of the letter of credit with significant information at the request of the issuing bank. This allows you to know that your buyer’s bank has approved his letter of credit application.

Advising Fee
For our services in reviewing and advising the letter of credit to you.

Confirmation Fee
For adding our confirmation to your letter of credit. This rate-based fee is charged on the amount of the letter of credit, has a minimum, and will be calculated for each three-month period (or portion thereof) for the life of the letter of credit. This fee is charged in addition to the advising fee.

Amendment Fee
For our services in reviewing and advising an amendment to a letter of credit to you. If the amendment includes a request to extend the life or increase the amount of a confirmed export letter of credit, an additional confirmation fee will also be charged (see above for Confirmation Fee).

Document Examination Fee (also referred to as “Negotiation Fee”)
For examination and processing of documents. This fee may vary slightly depending on the method used in obtaining the funds. We may utilize one of three possible methods for obtaining funds: (1) funds on deposit with us, (2) reimbursement by a third bank, or (3) review of documents for a letter of credit payable with another bank. Note, a reimbursement fee may also be incurred.

Discrepancy Fee
For additional handling involved with the resolution of discrepancies found in documents.

Cancellation Fee
For cancellation of an export letter of credit if cancelled prior to its expiry date. Cancellation can only take place with the consent of all involved parties.

Unutilized Fee
Charged if the letter of credit expires without utilization through Bank of America.

Tracer Fee
For the tracing of a pending payment when documents are payable with another bank or have been sent on approval due to discrepancies.

Reimbursement Fee
For claiming and collecting payment from a third bank. This fee includes SWIFT/Telex or courier processing normally required to obtain payment.

Bankers’ Acceptance Fee
For the creation of bankers’ acceptance financing under an export letter of credit. An annualized commission based on the amount of the bankers’ acceptance and its time parameters.
Documentary Collections

**Outgoing Documentary Collection Fee**
For set-up and payment of an outgoing documentary collection. Charged at time of payment.

**Amendment Fee**
For processing an amendment to an outgoing documentary collection.

**Monthly Maintenance Fee**
For our monthly review and system resources for maintaining an outstanding documentary collection on our books. Incurred after the first month.

**Tracer Fee**
For tracing of an outstanding outgoing documentary collection by telex or S.W.I.F.T. Incurred only after the first tracer.

**Protest Fee**
For processing of a protest under an outgoing documentary collection.

**Other Expenses**
For both letter of credit and documentary collections transaction processing, you may additionally be charged for cables and courier fees when they are incurred.
Chapter 07
Document Presentation and Payment for Export Receivables
Trade has traditionally involved the physical creation and movement of documents between trading partners. From an exporter’s perspective, they need to produce specific documents that demonstrate performance of agreed conditions in order to receive payment. Typical export documents included in a presentation include: commercial invoice, packing list, transport document (bill of lading, forwarders cargo receipt or air waybill), inspection certificate, insurance certificate and payment draft.

Today, most presentations of documents are done in paper form. Delays in document creation and presentment caused by an inefficient process or careless errors can be costly in terms of cash flow and DSO’s.

Bank of America Merrill Lynch has partnered with leading technology providers to offer efficient solutions that expedite the preparation and presentation of export documents and accelerate collection of receivables, saving exporters time and money.

**How the service works.**

Exporters will improve efficiency when they choose Bank of America Merrill Lynch Trade Pro™ to receive letters of credit in their favor. Once the letter of credit has been advised to the exporter via Bank of America Merrill Lynch Trade Pro™, exporters can use our partner’s internet based technology to prepare the documentation in-house and digitally present them to Bank of America. Alternatively, exporters can outsource the processing of their LC receivables to our partners, which helps reduce operational costs.

Documents are delivered digitally or in print to Bank of America Merrill Lynch. Upon presentment, examiners at Bank of America Merrill Lynch are immediately notified via e-mail. Documents are examined and discrepancies quickly resolved.

Once Bank of America Merrill Lynch confirms the documents are in order, they are delivered to the issuing bank for payment. Bank of America Merrill Lynch claims reimbursement and, when the funds are received the exporter’s account is credited.

**Benefits**

01. Accelerates seller’s payment and collection process  
02. Improves accuracy of trade documents and reduces discrepancies and costs associated  
03. Sellers get paid faster, reducing Days Sales Outstanding (DSO)  
04. Improve Cash flow  
05. Reduce transaction and operational costs  
06. Comprehensive management reports through Bank of America Merrill Lynch Trade Pro™
Chapter 08
Collections for Exporters
Documentary Collections

This payment mechanism is the collection by a bank of funds due from a buyer against the delivery of documents. The bank, acting as agent for the seller (exporter), presents documents to the buyer (importer) through that party’s bank, and in exchange receives payments of the amount owed or obtains acceptance of a time draft for payment at a future date. The liability of the banks under a documentary collection is primarily restricted to following the seller’s instructions in forwarding and releasing documents against payment or acceptance.

How is a documentary collection different from an LC or open account?
Unlike a letter of credit, the bank does not assume any liability to pay if the buyer does not want or is unable to pay. Compared to open account sales, the documentary collection offers more security to the seller but less security than a letter of credit.

When should a documentary collection be used?
Numerous criteria are applied by businesses when determining which payment instrument to offer as a term of sale. In general, a documentary collection would be appropriate where:
- The seller and the buyer know each other to be reliable
- There is no doubt about the buyer’s willingness or ability to pay
- The political and economic conditions of the buyer’s country are stable
- The importer’s country does not have restrictive foreign exchange controls

What are the advantages/disadvantages of documentary collections?
Advantages:
- Simple and inexpensive handling compared to letters of credit
- Often faster receipt of payment than open account terms
- Normally the seller retains title to the goods until payment or acceptance is made

Disadvantages:
If the buyer refuses or is unable to pay, the seller has three options, which could be expensive:
- Find another buyer
- Pay for return transportation
- Abandon the merchandise

Parties involved in a collection transaction:
- Drawer—Exporter, seller, remitter and drawer of the draft
- Remitting Bank—Exporter’s bank handling the collection
- Presenting Bank or Collecting Bank—Usually the buyer’s bank
- Drawee—Importer, buyer, payee
Types of Documentary Collections

- **Regular:** The remitting bank delivers the documents to the foreign collecting bank on behalf of the seller (drawer). Upon payment or acceptance by the buyer, the collecting bank releases the documents, allowing the buyer (drawee) to take delivery of the merchandise. Buyer's payment is transmitted to the remitting bank (exporter's bank) for credit to the exporter's account.

- **Direct:** The seller/exporter/drawer delivers the documents with a collection letter to the foreign collecting bank. Seller/exporter/drawer sends a copy of the collection letter to his bank, and his bank records the transaction for tracing and facilitating the payment. An example of Bank of America Merrill Lynch direct documentary collection cover letter can be found on Figure 8.1, along with its “Terms and Conditions for Use” (agreement between drawer and Bank of America) and “Standing Instructions” (instructions from Bank of America, through the drawer to the collection bank).

Tenors of Documentary Collections

- Documents against payment (D/P) also known as “Sight Draft” or “Cash Against Documents” (C.A.D). The buyer must pay before the collecting bank releases the documents.

- Documents against Acceptance (D/A). The buyer accepts a time draft, promising to pay for the goods at a future date. After acceptance the documents are released to the buyer.

Shipment by Airfreight

An air waybill (AWB) is a straight consignment; it is not a negotiable document. The buyer does not need the AWB to pick up the goods. In other words, he can obtain the merchandise without paying for it. To avoid this possibility, when shipping by air the AWB should be consigned to the buyer’s bank. This prevents release of the merchandise until such time as the buyer’s bank issues an air release to the carrier. This is done only after the buyer has made payment or accepted the draft. The shipper should clear this procedure with the buyer and the buyer’s bank.

Steps in a Documentary Collection

1. The buyer (importer) and seller (exporter) agree on the terms of the sale, shipping dates, etc. and that payment will be made on a documentary collection basis.
2. The exporter, through a freight forwarder, arranges for the delivery of goods to the port/airport of departure.
3. The forwarder delivers the goods to the point of departure and prepares the necessary documentation based on instructions received from the exporter.
4. Exporter’s documents and instructions are delivered to the exporter’s bank by either the exporter or the freight forwarder.
5. Following the instructions of the exporter, the bank processes the documents and forwards them to the buyer’s bank.
6. The buyer’s bank, on receipt of documents, contacts the buyer and requests payment or acceptance of the draft.
7. After payment or acceptance of the draft, documents are released to the buyer, who utilizes them to pick up the merchandise.
8. The buyer’s bank remits funds to the seller’s bank or advises that the draft has been accepted.
9. On receipt of good funds, seller’s bank credits the account of the exporter.
What is the URC 522?
URC522 stands for the Uniform Rules for Collections, 1995 Revision, International Chamber of Commerce Publication No. 522. It outlines the rules that banks apply to the handling of collections.

Any company importing or exporting on a documentary collection basis should be familiar with the URC 522 as it has a direct impact on how the collection is handled and what procedures the banks follow.

The URC 522 may be ordered from: www.iccbooksusa.com.
Chapter 08
Collections for Exporters

Bank of America
Trade Operations Center, CA-705-07-05
1000 W. Temple Street
Los Angeles, CA 90012-1514
For inquiries call: (213) 580-8301; Fax: (213) 580-8468

Always Quote Bank of America Reference

820000000LA

Date: 02

To: Collecting/Presenting Bank:
The enclosed documents have been sent to you for collection directly from the
principal/drawer or principal/drawer’s agent. Please remit payment and any related
communications directly to Bank of America in accordance with the instructions
indicated below. See also our STANDING INSTRUCTIONS on the reverse of this
form. This collection is subject to the Uniform Rules for Collections, International
Chamber of Commerce Publication No. 522 or as subsequently revised.

Principal/Drawer

03

Notice to Principal/Drawer:
By its use of this form, principal/drawer expressly acknowledges that it has read and
agrees to the terms and conditions for use set forth on the reverse side of the
“Customer” and “Bank” copies of this form

Principal/Drawer’s Reference

04

Tenor

05

Collection Amount(s)

07

Please follow instructions indicated (X) below:
Deliver documents against:
- Payment
- Acceptance
Advise payment or
maturity date by:
- SWIFT/Telex
- Airmail
Advise dishonor,
giving reasons, by:
- SWIFT/Telex
- Airmail
Protest:
- Non-payment
- Non-acceptance
- Do not protest

Commission Instructions:
Collect Bank of America Charges:
- Do not Waive
- Waive if refused

Special Payment Terms:
Allow discount of
% if paid by
to
Collect interest at
% from
to

QUOTE BANK OF AMERICA REFERENCE IN ALL COMMUNICATIONS
SWIFT: BOFAUS6S TELEX: MCI 67652

DOCUMENT BILL OF LADING S/N B/L AIRWAY BILL PKG. LIST DRAFT INVOICE CUSTOMS INVOICE CERT. OF ORIGIN INSURANCE OTHER

PLACE OF DRAWING

Bank of America

Date

Place of Drawing

At

Pay to the order of

Bank of America

Amount in Words

To Drawee/Buyer

Principal/Drawer

At

Original

Authorized Signature

BANK OF AMERICA MERRILL LYNCH SOLUTIONS FOR EXPORTERS

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Direct Collection—Terms and Conditions for Use

NOTE: Drawer’s agreement with Bank of America—reverse side of Direct Documentary Collection Cover Letter.

To: Bank of America Merrill Lynch In order that we, the principal/drawer, may forward our documents directly to the collecting/presenting bank for collection and remittance to you for our account, we agree to the following terms and conditions:

01. This collection is subject to the Uniform Rules for Collections, International Chamber of Commerce Publication No. 522, effective January 1, 1995, or as subsequently revised. We agree that you are acting only as our collecting agent and are not responsible for any act, omission, default, negligence, suspension, or insolvency or bankruptcy of any collecting bank, presenting bank or subagent, or any delay in remittance, loss in exchange, or loss of items or proceeds during transmission or in the course of collection.

02. We represent and warrant to you that none of the transactions underlying this collection, nor this collection itself, will violate any applicable law or regulation, including, but not limited to, the U.S. Export Regulations Act, the U.S. Trading with the Enemy Act, and the International Emergency Economic Powers Act, or any regulations promulgated there under (including, but not limited to, regulations issued by the U.S. Office of Foreign Assets Control). We acknowledge that you shall refuse to complete a transaction if you have knowledge that such transaction violates any such applicable law or regulation. We also acknowledge that you may be obligated to block any funds received in relation to a transaction which you learn violates any such applicable law or regulation. We expressly acknowledge and agree not to undertake any collection relating to or involving any country or national which is subject to any prohibition or restriction imposed by the U.S. Office of Foreign Assets Control.

03. With respect to this collection form, we will use it only for items to be collected for our account.

04. Items credited to or received for our account are subject to final payment in cash or solvent credits and may be charged back at any time before final payment, whether or not returned. Unpaid items or related documents received by you may be returned to us by courier at the address shown under PRINCIPAL/DRAWER on the reverse of this form.

05. We will reimburse you for all charges, expenses and disbursements incurred or made by you or any collecting bank and indemnify you against all liability, loss, claims and demands howsoever arising in connection with any items we forward hereunder.

06. Upon our use of this form, we will promptly deliver to you the “BANK” copy of this form and will provide to you copies of underlying documentation upon your request. “BANK” will have no obligation to examine such copy for accuracy, adequacy, completeness, or otherwise take any action with respect to thereto.

07. We will provide to you, upon your request, a certificate certifying our compliance with the underlying shipment of this transaction.

08. We agree that the Standing Instructions to your collecting/presenting bank listed below and on the original and duplicate copies of this form are an integral part of our collection instructions and this agreement.

09. Principal/drawer shall indemnify and hold Bank harmless from and against all losses, claims, damages, judgments, liabilities, costs and/or expenses related thereto or any breach by principal/drawer of covenants or obligations arising under these Terms and Conditions or the rules whenever applicable.

10. Principal/drawer agrees to comply with all foreign and domestic laws, rules and regulations now or hereafter applicable to any transaction related to the Form or applicable to these Terms and Conditions.
Standing Instructions

NOTE: Instructions to Collecting Bank—reverse side of Direct Documentary Collection Cover Letter.

To: Collecting/Presenting Bank
From: Bank of America Merrill Lynch

The enclosed documents have been sent to you directly from the principal/drawer, or the principal/drawer’s agent for collection and remittance to us for the principal/drawer’s account. The following are our standing instructions to you:

01. If draft with shipping documents attached is dishonored and it becomes necessary to protect the merchandise, please have it stored in bond, and insure against the usual risks, and advise us immediately by SWIFT/telex reasons for nonpayment.

02. Hold draft and documents pending further instructions from us in case of nonpayment/nonacceptance.

03. Unless otherwise instructed on the reverse side of this collection letter, please do not accept payment in currency other than that in which the draft is drawn. Advise us by SWIFT/telex or as instructed in case of dishonor.

04. Please inform us of any delay in acceptance or payment giving the date of first presentation and reason for delay.

05. If the attached item is drawn other than at sight or on demand, please advise us of maturity date.

06. Please credit or remit to us only after final payment unless otherwise instructed by us.

07. We do not assume any responsibility for the correctness, validity, or genuineness of the documents received under this collection, nor for description, quality, quantity, or delivery of the goods purporting to be represented thereby.

08. This Direct Documentary Collection letter does not require a signature.
Instructions for Completion of Direct Documentary Collection Form

01. Full name and address of bank (collecting bank) to whom you are sending this direct collection.
02. Date of this mailing of documents to the collecting bank.
03. Your company’s complete name and address as drawer of this direct collection.
04. Your reference number—any number that will help you identify this transaction in future correspondence or at time of payment.
05. Tenor—terms of payment, such as “At Sight,” “90 days after Sight.”
06. Complete name and address of the drawee of this direct collection, your buyer.
07. Amount of this direct collection.
08. Drawee /buyer’s Reference—any reference number of your buyer (drawee of this direct collection). This field may be left blank

Your Instructions to Collecting Bank

09. Choose “Payment” or “Acceptance.” “Payment” should be chosen when payment term or tenor is “Sight”; use “Acceptance” for all other payment terms.
10. Choose “SWIFT/Telex” or “Airmail” as the method by which you wish us to be advised of payment/maturity date by the collecting bank.
11. Choose “SWIFT/Telex” or “Airmail” as the method by which you wish us to be advised of dishonor of this collection by the collecting bank.
12. Ask the collecting bank to protest, on your behalf, for nonpayment or nonacceptance (depending on tenor), or instruct it not to protest

Commission Instructions

13. Enter here any Bank of America Merrill Lynch charges that the collecting bank should collect from the drawee.
14. Instructs the collecting bank whether or not to waive Bank of America Merrill Lynch charges.
15. If chosen, instructs the collecting bank to collect its own charges from the drawee.
16. Instructs the collecting bank whether or not to allow its charges to be waived.
17. Indicate to the collecting bank here if you are offering a discount for timely payment and the terms of your discount arrangement.
18. Indicate to the collection bank if it should collect interest for delayed payments and the terms of your interest charge.
19. List attached documents here.
20. Indicate any special instructions that you might have for the collecting bank or instructions that the collecting bank should pass on to your buyer (drawee of the collection).

Draft
Refer to page 91, Chapter 6 of this guide for instructions for completion of the draft.
Chapter 09
Bankers’ Acceptance Financing Under Export Letters of Credit
Bankers’ Acceptances

What is the function of acceptance financing today?
Although acceptance financing has been used as a loan mechanism for many decades, it is particularly attractive to exporters in today’s quick-paced global economy. With acceptance financing, exporters get immediate access to their international sale proceeds and the security of using letters of credit at the same time.

What is a bankers’ acceptance?
A bankers’ acceptance begins with a financial instrument issued in negotiable form, commonly called a time draft or usance draft. It is a draft payable at a fixed future date, drawn on a bank, and accepted for payment by that bank. The drawee bank thereupon signifies its acceptance of the obligation by stamping the word “accepted” across the face of the draft. The draft is dated and an official signature is added. The draft then becomes a bankers’ acceptance.

Bankers’ acceptances can be discounted. If the drawer of the draft does not wish to wait until the maturity date of the draft to receive payment, the drawer can request the accepting bank to pay them prior to maturity. Although banks are not obligated to discount their own acceptances, most U.S. banks generally do. The bank would charge interest from the time of the payment to the maturity date, and deduct the interest from the face amount of the draft. Hence the term “discounting” a bankers’ acceptance.

The net proceeds of the sale are obtained by deducting from the face amount of the acceptance: Discount (interest rate plus 2% x days to maturity/360 x face amount). The additional 2% is the bank’s acceptance commission. The combination of these is referred to as the “all-in” rate.

Ex.: Discount Rate 6.00% p.a.
Bank Commission 2.00% p.a.
All-in Rate 8.00% p.a.

When the bankers’ acceptance matures, the bank will pay the face amount to the presenting holder, while at the same time debiting the account of its customer. See Figure 9.1 for an illustration of “90 Day Sight Bankers’ Acceptance Cash Flow.”

When a bankers’ acceptance originates from a letter of credit transaction, and the bankers’ acceptance is discounted, the bank may charge the discount interest to either the buyer or the seller of the merchandise shipped under the letter of credit. Which of the two parties pays the interest depends on the agreement between buyer and seller and is reflected in the letter of credit.
Figure 9.1: Bankers’ Acceptance Cash Flow
Flow of Funds at time BA Created:

**STEP ONE**
Exporter Draws $500,000 Draft on Bank of America

**Assumption:** Acceptance commission at 2% per annum, 90 days to maturity.

**STEP TWO**
Bank of America Accepts the Draft

**STEP THREE**
Bank of America Deducts $2,500 for Acceptance Commission and $7,500 for discount charges

**Assumption:** Discount at illustration rate of 0%

**STEP FOUR**
Bank of America Advances $490,000

**STEP FIVE**
At Maturity Borrow (Issuing or Reimbursing Bank) Repays Bank of America $500,000

Flow of Funds at time BA Matures:
Who Can Finance with Bankers’ Acceptances?

Bankers’ acceptance financing may be advantageously used by exporters, importers, domestic buyers and sellers, traders, shippers, manufacturers, processors, distributors, or almost anyone involved in international or domestic trade.

Creation of eligible bankers’ acceptances are governed by Federal Regulation and must meet various requirements including those discussed below. The need for financing can arise out of open account, cash in advance, collection or letter of credit transactions. For instance, many sellers grant time terms to buyers; this could be under an open account transaction or under a letter of credit transaction. A letter of credit transaction could cause a seller to draw a time draft. The seller would then have a choice of waiting until maturity for payment or requesting discount from the accepting bank or an investor. On the other hand, a buyer could open a time draft letter of credit, adding a special condition stipulating that discount charges would be for buyer’s account, in which case the seller is paid as if drafts were drawn at sight. Alternately, a buyer could simply open a sight payment letter of credit and finance the payment by drawing a time draft on the bank under an acceptance financing line of credit.

As mentioned previously, besides letter of credit transactions, incoming or outgoing domestic or international shipments may be discount-financed regardless of the background payment method established between buyers and sellers. The financing bank need not hold the discounted acceptance within its portfolio (bank’s own acceptances purchased) but rediscount the acceptance to a dealer or investor in the market. Thus, eligible bankers’ acceptances enable a bank to close the finance loop by receiving immediate funding. The bank also anticipates that the rediscount rate would be equal to or better than the rate quoted.

Eligible and ineligible bankers’ acceptances

There are two types of bankers’ acceptances: eligible and ineligible. An eligible acceptance is a U.S. Dollar acceptance that is eligible for rediscount with the Federal Reserve Bank. Technically, the accepting bank, after discounting the acceptance and paying the drawer, could take an eligible acceptance to the Federal Reserve Bank for rediscounting. The Federal Reserve Bank would charge the accepting bank discount interest at a lower rate than the rate the bank charged the drawer to discount the acceptance. By rediscounting the acceptance, the bank earns less on the acceptance than if the bank had kept it in its own portfolio. However, by having the Federal Reserve Bank rediscount the acceptance, the bank would increase its liquidity and would also pass along the interest-rate risk. Additionally, banks are not required to maintain reserves with the Federal Reserve Bank on the eligible bankers’ acceptances as with other loans.
In reality, the Federal Reserve Bank has not rediscounted bankers’ acceptances for years. However, there is a secondary market where banks take their acceptances for rediscounting. In order to be traded, acceptances have to meet the requirements that were set up by the Federal Reserve Bank. Generally, these are as follows:

01. **The Transaction:** An acceptance must cover one of the following transactions:
   a. The exportation or importation of goods to or from the United States or between other countries.
   b. The shipment of goods within the United States, traveling more than 25 miles or across a state line.
   c. Pre-export financing. The goods must be shipped within 30 days of the date of the acceptance.
   d. Storage of readily marketable staples. The goods are expected to move into the channels of trade within a reasonable time.

02. **Shipment:** Shipment of the goods must have taken place within 30 days from the date the acceptance is created.

03. **Tenor:** The tenor of the acceptance cannot exceed six months.

04. **Party to Sale:** The acceptance must be drawn by a primary party to the contract of sale.

**NOTE:** An acceptance created to finance working capital is not eligible for re-discounting. An ineligible acceptance is one that would not meet some or all of the requirements stated above. Since a bank could not rediscount an ineligible acceptance, the discount rate that banks charge is higher than the rate they charge when discounting an eligible acceptance. Also, banks must maintain reserves with the Federal Reserve Bank on ineligible acceptances.

**What is the advantage of bankers’ acceptance financing?**
In recent years the cost of financing on an acceptance basis has generally been lower than prime rate based finance. Also, the ability to fix rates for periods of up to 180 days allows the borrower to be protected from adverse movements of market rates.

Through the use of a discounted time draft under a letter of credit, exporters can collect cash immediately and offer their buyers attractive payment terms. This allows the exporter to obtain cash for the goods as if a sight LC (payment due immediately after the negotiating bank reviews and approves the documents) were used, instead of the maturity date expressed in the time draft.

In turn, the exporter can grant the importer liberal payment terms of, say 180 days, but not have to wait 180 days for payment.

Rather than bear all the financing costs of discounting the draft yourself, you can shift it to your buyer by building it into the original sales contract price. By offering your customers extended payment terms under a time draft, they would be less likely to need financing and more likely to save money by paying the lesser costs involved with the discounting of the draft.

**Who can issue bankers’ acceptances?**
Although almost all banks have the authority, the majority of banks do not have the size or experience necessary to issue bankers’ acceptances. Bank of America Merrill Lynch has participated in the acceptance market for many years, thus gathering the necessary experience and reputation. As a result of the Bank of America Merrill Lynch favorable money market ratings (which keep our funding costs low), we are able to pass these savings on to our clients.
**Chapter 09**

Bankers’ Acceptance Financing Under Export Letters of Credit

**Figure 9.2: Bill of Exchange**

Figure 9.2 shows an illustration of the negotiable financial instrument used in connection with acceptance financing. Please note that the financial instrument is called a “time” or “usance draft” only after the formal stamp (see Figure 9.3) and signature of the drawee have been added.

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**Bank of America**

**DRAFT**

Drawn under

Issuing Bank

Letter of Credit Number

Place of drawing

Date

Number

At

Pay To The

Order of

US $

Amount in Words

Beneficiary Name

Signature/Title

---

**Figure 9.3: Formal Stamp**

The transaction which gives rise to this instrument is the Export of Computer Equipment from **U.S. port** to **France** NO 0000 MAT Oct 22, 2007 ACCEPTED Bank of America

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XXX

Authorized Signature

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YYY

Authorized Signature

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PAYABLE THROUGH

U.S. BANK TRUST N.A.

CORPORATE TRUST OPERATIONS

100 WALL STREET, 20TH FLOOR

NEW YORK, N.Y. 10006
An In-depth Look at Bankers’ Acceptances

An acceptance in connection with a time (usance) draft is the confirmation by the named draft’s drawee to pay the financial obligation when due. The word “Acceptance” also is understood to mean the accepted draft that will be payable at maturity by the person who has accepted it. After proper execution of acceptance by the draft’s drawee, the draft is no longer referred to as a draft but as an acceptance.

How do you determine maturities of acceptances?

Time (usance) drafts for acceptance must indicate payment at a fixed or a determinable future period in time. This is called the tenor of a draft. An example of a fixed future time is a draft drawn on April 1, 20XX, specifying payment on May 1, 20XX. Most time drafts, however, specify payment on a determinable future time. Various determination type tenors are:

01. Thirty days sight (30 d/s). This means the determined payment date would be 30 days after the inscribed date of acceptance on the draft. Thus if a draft was drawn on April 1, 20XX, and accepted on April 15, 20XX, by the drawee, the determined date of maturity would be May 15, 20XX.

02. Thirty days date (30 d/d). The determined payment date under this method would be 30 days after the date of the draft. For instance, a draft dated/drawn on April 1, 20XX, and accepted on April 15, 20XX, by the drawee would mature on May 1, 20XX. (Note that, all other factors being equal, drafts payable “n” days after date will almost always mature prior to a similar tenor draft payable “n” days after sight.)

03. Thirty days after B/l (Bill of lading) date. This denotes that the draft is payable 30 days after the “on board” date of a marine bill of lading, or 30 days after the reception date by the carrier in the case of truck, railroad or air shipments. (See UCP 600, Articles 19 through 27.) However, this type of tenor is not determinable unless the draft also shows on its face the B/L date or date of receipt by the carrier. If the B/L was dated April 1, 20XX, in order to determine the maturity date, the tenor would have to specify, “30 days after B/L date of April 1, 20XX.” If the draft were being drawn under a letter of credit then the preferred method would be to have the date of creation the same as the “on board” date on the B/L. Attaching a B/L copy to the draft is not the correct procedure since the draft must project a tenor that is determinable by viewing the face of the draft by itself. Thus, there is the necessity of specifying the B/L date on the draft. In order to avoid a long verbiage tenor, many drawers employ a simple dated draft with the date of the draft the same date as the B/L. Another method would be to simply insert a fixed payment date such as a tenor of May 1, 20XX.

**NOTE:** Examples show 30 as the number of days for projection. This number can be varied as necessary, such as 15, 45, 60, 90, 120, 150, 180, etc. There is actually no restriction on the number of days, but acceptance financing is usually short term—up to six months (180 days) with rare projections toward one year.

Draft tenors must always be fixed maturities or capable of being projected to a definite maturity. A draft tenor can never be ambiguous or based on a contingency. Examples of inappropriate tenors: 1. Thirty days after ship arrives; 2. Sixty days after merchandise is accepted; 3. Forty-five days from delivery.
**When can a draft pay interest?**
Occasionally, time drafts include an interest requirement for collection in addition to the face amount at maturity. Example: “Payable with interest at 8 percent p.a. from the date of acceptance until the date of maturity.”

**What are trade acceptances?**
Trade acceptances are simple time drafts drawn on an obligor who is an individual or commercial entity rather than a bank. As the buying and selling of merchandise is involved, a trade acceptance begins with an importer inducing an exporter to ship the merchandise on a collection basis with documents against acceptance (D/A) terms. This means that the seller will deliver the shipping documents through his/her banker (remitting bank) to a collecting bank (usually the importer’s bank). The collecting bank will only deliver the shipping documents against the importer’s acceptance of the time draft, which is then lodged with the collecting bank for safekeeping until maturity.

At maturity the collecting bank will collect the face amount of the acceptance, plus any interest due as indicated on the acceptance, and remit to the remitting bank. The exporter also has the option of requesting the time draft to be returned for the exporter’s own safekeeping until maturity. However, under this method it means the further presenting of the trade acceptance at maturity where domiciled for payment.

**NOTE:** Documents against acceptance terms infer open account payment conditions with the support of a negotiable note. This accepted note may be used as a basis for financing, which will be discussed under Acceptance Financing. In addition, payment at maturity is not automatic. The drawee must give specific authorization before the collecting bank will remit to the presenting bank.

**What are documentary versus clean bankers’ acceptances?**
A documentary bankers’ acceptance requires presentation to a bank of commercial documents to support the underlying trade transaction. They are typically used in connection with letter of credit transactions. A clean bankers’ acceptance is a term used to denote a condition wherein a bank agrees to a bankers’ acceptance creation without the customer presenting documents to substantiate the underlying trade transaction. In this case, the customer is obligated to keep records and documents in the customer’s own files and needs only to certify pertinent details to the bank. Clean bankers’ acceptances are used primarily in connection with domestic or foreign open account or collection shipments.

**What are “eligible” bankers’ acceptances?**
An eligible bankers’ acceptance is one that complies with the requirements of Regulation A of the Board of Governors of the Federal Reserve System, which means the acceptance must conform from a transaction described in Chapter 13, paragraphs 7 or 12 of the Federal Reserve Act.

In accordance with Federal Reserve requirements, there are three general classifications as follows:

1. Those acceptances that are eligible for discounting with the Federal Reserve Bank.
2. Acceptances that are eligible for purchase by the Federal Open Market Committee.
3. Acceptances that are labeled ineligible because they are not eligible for discount or purchase by the Federal Reserve.
Regulation A—Requirements

01. Member banks may accept drafts under which not more than 180 days will have elapsed between the dates of acceptance and maturity.

02. The transaction covered by the draft involves the import or export of goods or developed from a transaction involving the domestic shipment of goods.

03. The transaction is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

04. Foreign Exchange Drafts may also be accepted. (Drafts authorized for acceptance by paragraph 12 of Chapter 13 of the Federal Reserve Act). These drafts have the following characteristics:
   a. Drawee. The draft is drawn upon a bank that is a member of the Federal Reserve. The bank upon which the draft is drawn must also be the bank that accepts the instrument.
   b. Time limitation. The draft has no more than three months (90 days) from acceptance to maturity (exclusive of days of grace).
   c. Drawer. The draft is drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States (in accordance with regulations prescribed by the Board of Governors of the Federal Reserve).
   d. Purpose. The drafts must be drawn for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies or insular possessions.
   e. Regulations. The drafts must conform to any other regulations enacted by the Federal Reserve from time to time.

Bankers' acceptances eligible for purchase by the Federal Open Market Committee

Authorization of April 1, 1974.

In general, the regulations now provide as follows:

01. Member banks may accept drafts maturing in not more than six months.

02. Transactions must arise out of a current shipment of goods between countries or within the United States.

03. Transactions must arise out of the storage within the United States of goods under contract of sale or expected to move into trade channels within a reasonable time and goods that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.
General comments on eligibility of acceptances:
The stated regulations for eligibility requirements provide sufficient information to determine the eligibility of most trade transactions. However, there are many cases where strict adherence to the requirements may be questionable. Therefore, the Board of Governors of the Federal Reserve System has published eligibility interpretations over the years, which provide guidelines in questionable situations. In addition, general Federal Reserve Policy rules are listed below:

01. Trade Transaction: The financing must be supported by the import, export or domestic shipment of identifiable goods to/from one or more parties. The term “goods” is broadly defined to include virtually any type of tangible items traded.

02. Duration: Drafts must mature in no more than 180 days and must be tied to the trade transaction. They may range between 30 and 180 days. When a draft is drawn in a transaction not involving a sale of goods (i.e., corporation to its agent), the maturity of the draft should approximate the duration of the transit of goods. Where, however, a draft is drawn in a transaction involving the sale of goods as well, the draft may be drawn and accepted for the purpose of financing both the shipment and sale; its maturity may cover both, although it cannot exceed six months.

03. Financing Amount: Invoice values of shipments must be equal to or greater than the amount of the drafts. The proceeds generated must be applied to finance the shipment.

04. Self-Liquidating: The transaction financed should generate funds to pay off the acceptance at maturity.

05. Current Transaction: The creation of the B/A must occur within 30 days prior to or after the shipment of goods.

06. Length of Shipment Time: There is no restriction concerning the length of shipment time. The Federal Reserve has indicated that goods must travel at least 25 miles and depart from the jurisdiction of a municipality in order to be eligible.

07. Double Financing: Transactions may not be double financed. For example, if Company A imports widgets from Taiwan and sells to Company B, a wholesaler in Atlanta, either A or B could finance the goods on an acceptance basis, but not both. Also, if Company A showed an account payable to Company B, then the proceeds of any B/A discounted for Company A must be used to liquidate the account payable.

08. Individual Limitation: The aggregate amount of drafts a bank may accept for any one person or corporation (foreign or domestic) is currently limited to 10% of the bank’s paid-in and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance. note: Warehouse financing eliminates this restriction due to documents conveying or securing title at the time of acceptance. See Chapter 13-7 of the Federal Reserve Act.

09. Total Limitation: Banking institutions can accept or participate in the acceptance of instruments up to a general aggregate amount limitation of 150% of the institution’s paid-up and unimpaired capital stock and surplus but allows the Board of Governors Federal Reserve to increase the limitation to 200%. Domestic shipment acceptance financing is restricted to 50% of the aggregate limits.
Bank's own acceptances are not included. Where a member bank purchases its own acceptances before maturity, such acceptances need not be included in the aggregate of acceptance prescribed by Chapter 13, since the purchase of such an acceptance cancels the obligation of the bank. If a member bank subsequently disposes of its acceptance either by sale or hypothecation, thus renewing its obligation to pay it at maturity, the acceptance should be included in the amount outstanding. The fundamental purpose of these requirements is to assure that the B/A financing is supported by an underlying trade transaction and is not used for general working capital purposes. The Federal Reserve explicitly states that B/As cannot support a transaction where B/A financed goods are changed in character before they are liquidated. For example, a manufacturing firm cannot use a B/A to finance the trade cycle of an incoming shipment of mother boards that is a component in the manufacture of computers. The Federal Reserve also states that goods cannot sit in inventory unless they are “readily marketable staples,” defined as articles or commerce, agriculture or industry for which a price is easily and definitely ascertainable or for which the goods covered by the B/A are being held in storage pending a reasonably immediate sale, shipment or distribution for manufacturing purposes. However, an acceptance may be created for the shipment of goods with a payment maturity consistent within customary credit time. The requirements are not rigidly defined and are open to interpretation. In particular, the issues of self-liquidation, current transaction and double financing are open to interpretation.
Chapter 10
Financing Options for U.S. Exporters
Financing with Acceptances or Other Instruments

Trade acceptances, though well known, are not as negotiable for discount as a bankers’ acceptance for obvious credit reasons. If discounted, they do not enjoy the same premium rates due to a restrictive marketability to investors. Therefore, the following acceptance financing comments will be separated for trade and bankers’ acceptances.

Trade Acceptance Financing

A bank customer wanting to finance a trade transaction employing a trade acceptance as collateral will find three methods that the banker may be willing to approve.

01. The bank may purchase the trade acceptance at a discount. The purchase could be made with or without recourse. If the bank purchases a trade acceptance without recourse, then the bank must be satisfied with the credit risk of the drawee and the drawee’s country.

02. The bank could make a loan advance using the trade acceptance as collateral. Usually the amount of the advance is up to 75% of the face amount of the acceptance. The payment proceeds of the trade acceptance at maturity would be used to pay principal and interest. This type of financing is usually on a full recourse basis. Higher advance rates (up to 95%) may be used if the exporter has export receivables insurance.

03. Instead of a loan advance, the bank could agree to the customer drawing a bankers’ acceptance against their credit line using the trade acceptance as collateral security. In those circumstances the trade acceptance must mature a few days prior to the bankers’ acceptance.

Financing with a Bankers’ Acceptance

As previously discussed, a bankers’ acceptance is a draft payable at a fixed future date, drawn on a bank, and accepted for payment by that bank. The drawee bank thereupon signifies its acceptance of the obligation by placing the word “Accepted” across the face of the draft. The acceptance date and official signature are also added. Since the bankers’ acceptance is a negotiable instrument, the payee may readily obtain immediate funds by discount selling to the drawee bank. The marketability is limited only by the reputation of the accepting bank and market demand.

The payee or a holder in due course of the acceptance will receive from the sale the net proceeds by deducting from the face amount the sum of the discount (finance) charge and the accepting bank’s commission. When the bankers’ acceptance matures, the bank will pay the face amount to the presenting holder while at the same debiting their customer’s account. The debit to the account stems from a repayment agreement called an “Acceptance Credit Agreement” between the accepting bank and its customer and is the consideration, along with a line of credit, for accepting the time draft.
Acceptance Rates
The banker will quote a discount rate to its customer based on the creditworthiness of that customer, the face amount of the transaction (face amount values of above $1,000,000 will command better rates) and the rate demanded by the investor market. Bankers’ acceptances may be sold to dealers in the market for a value less than the face amount depending upon:

01. The market rates prevailing.
02. The number of days remaining until maturity.
03. The actual marketability of the acceptance.

The prevailing market rate depends on the supply and demand for acceptances, which is affected by the general economic atmosphere, the rates of alternate investment or financing instruments and various types of financial pressures induced by the Federal Reserve Bank. The number of days remaining on the note could also affect the market rate depending upon the demand for short, medium or long maturity acceptances, which could range from 30 days to about six months. In addition to the short-term credit rating of the acceptor, the marketability of the acceptance would mainly depend upon the classification or category of the B/A in accordance with standards imposed by the Federal Reserve Bank.

The Federal Reserve Bank has set forth regulations that actually pressure the rate due to the various types of acceptances that they are willing to purchase or discount and thus sustain the market. These regulations were previously described under “What are Eligible Bankers’ Acceptances?” on page 115.

Ineligible Bankers’ Acceptances
As ineligible B/A’s are not true trade transactions, this funding source requires the following:

01. A reserve requirement. Regulation D specifies reserve requirements unless a bank discounts its own acceptance and holds it in its own portfolio. If the bank subsequently sells its own B/A (Bank’s Own Acceptances Purchased) then a reserve requirement must be charged. The reserve factor is usually considered within the discount rate calculation in order to compensate for the additional funding cost.

02. A higher discount rate quoted due to under prime market salability. Example: Bankers’ acceptance financing may continue with discretion after 180 days. However, it will be labeled as an “ineligible acceptance.” Ineligible acceptances are not eligible for rediscounting with the Federal Reserve. Reserve requirements or a rate adjustment for the reserve factor will also be applied to further influence the quoted rate.

Thus, ineligible acceptances do not warrant prime rates due to reserve requirements and the fact that the Federal Reserve will not discount or purchase them. However, some dealers may provide a market for this type of acceptance at a higher rate.

Generally, the creation of acceptances is governed by the Uniform Commercial Code of the various states. State regulations should be consulted before creating ineligible acceptances.

Summary
Acceptance financing allows a company to finance trade transactions on a short-term basis (30 to 180 days) by drawing a draft on a bank for a specific dollar amount and a specified maturity. After establishing a line of credit for acceptance financing or an acceptance sublimit under a line of credit, the bank can provide rate quotations for the customer. If the rate is acceptable, the bank will accept the draft, discount it and credit the customer’s account with the discounted proceeds. The draft may be discounted in due course in the B/A acceptance market or held in their portfolio. The bank then pays the face amount of the acceptance to the person presenting the draft at maturity and will, in turn, receive full payment from the customer/borrower.
Supplier Financing

Buyers often mandate that their suppliers extend payables terms and move from letters of credit to private label letters of credit or open account terms. This can place significant financial pressure on suppliers who had relied on letters of credit to meet their working capital needs. Buyers are now beginning to recognize the need for alternatives that enable their suppliers to obtain financing as an inducement for accepting extended terms. By recognizing their suppliers’ need for financing, buyers can reduce cost of goods sold (COGS) while sellers can get access to additional working capital, improve cash flow forecasting and reduce days sales outstanding.

Bank of America Merrill Lynch offers a comprehensive suite of supply chain financing programs that enable buyers to provide their suppliers with access to credit. Listed below are core supply chain financing products currently offered by Bank of America:

Buyer Supported Programs (Buyers’ Line of Credit is Earmarked)

• Supply Chain Financing (automated) is a Web-based system to purchase accounts receivable from the supplier that are due from the buyer. Under this program the buyer has an enforceable legal obligation to make payment to the holder of the receivable (i.e. the bank). Financing under this program is done through a noncommitted, nonsecured line of credit in the buyer’s name.

• Supply Chain/Trade Draft Acceptance Financing (manual) is a paper-based system in which the bank purchases trade drafts from the supplier that are drawn on and accepted by the buyer. Once the buyer accepts a trade draft, the buyer has a legal obligation to make payment to the holder of the draft (i.e. the bank). Financing under this program is also done through a noncommitted, nonsecured line of credit in the buyer’s name.

• Receivables Financing is a seller-centric trade finance solution under which the bank purchases open account receivables from sellers that are their current buyers. This differs from Supply Chain Financing as the supplier initiates the program and there is not a direct contractual agreement between the buyer and the bank.

Seller Supported Programs (Sellers’ Line of Credit is Earmarked)

• Supplier Financing is done by performing a thorough credit analysis of the suppliers’ financial statements. Suppliers receive traditional working capital lines of credit without reliance on the credit of the buyer. Both pre- and post-export lines of credit are available under this traditional program.

• Credit Insured Receivables Discounting is a paper-based program whereby the bank purchases open account or usance documentary collection receivables that have been enhanced by the application of credit insurance. The credit insurance is purchased by the bank directly or by the supplier and the policy proceeds assigned to the bank.
Structured Trade Finance

The export of goods and services has always been of great importance to the economies of the major European and Asian nations and has now become of crucial importance to the United States. Exporters around the world compete not only on the basis of quality and delivery, but also on their ability to extend credit to buyers in foreign countries. They have been assisted in this endeavor by both governments and private institutions, such as banks and insurance companies in the exporting countries. These institutions designed and made available export finance and insurance programs for the purpose of providing their indigenous export-based industries with a competitive edge in international markets.

The Structured Trade Finance unit at Bank of America Merrill Lynch provides innovative financing solutions to clients for cross-border trade and investment financing opportunities in all global markets. Structured Trade Finance offers you the development of new financing structures, effective and efficient mitigation and distribution of cross-border risk, and full access to all capital market investors.

What are some typical client need situations?

• A small exporter of apparel selling on 90 day terms but who does not wish to take credit risk on its foreign buyers;
• A manufacturer of machine tools costing around $1,000,000 per unit who wishes to provide competitive credit terms to support its bid;
• A manufacturer of commercial aircraft priced at $50,000,000 each, who wishes its potential customer to receive finance for the longest possible tenor in the most tax advantageous fashion possible; or
• A contractor tendering to construct a turnkey power generation facility costing around $500,000,000 and requiring an array of financial services, including bid bonds to support its tender offer, pre-export finance, performance bonds in favor of the importer guaranteeing due completion of the construction contract and long-term finance to enable the importer to acquire the power plant. Exporters can provide credit either by granting it themselves directly to the foreign buyer or by accessing a program provided by a third party, such as their government or a private institution. It should also be acknowledged that exporters frequently require credit themselves prior to shipment, for working capital, or to finance the production of the item being exported.

Few exporters are able or willing to wait for any length of time before receiving payment for the goods sold. Their working capital can be best employed manufacturing their product rather than financing customers. Credit is the business of banks, and almost all large banks serving an economic base with a significant export sector offer export-financing services.

What is the bank’s objective in handling export financing?

• To offer our clients the full range of banking services.
• To utilize government programs in order to facilitate trade services for our clients.
• To mitigate political and economic risks for our clients and ourselves.
What are the areas of expertise in the export markets as demonstrated by Bank of America?

- As arrangers and intermediaries for our clients of export credit finance packages and as actual providers of credit.
- As advisors on the various sources of short- and medium-term finance available from both the government and the private sector to support exports.
- As advisors on the multiplicity of government-sponsored and private sector credit and political risk insurance programs available to mitigate the risk of non-payment that arises from the political and commercial situations:
  - Commercial risk: the risk associated with an exporter’s ability to perform the contract and the buyer’s ability to pay;
  - Political risk: the risk of non-payment occasioned by war, civil strife or boycott and such governmental action as the failure of the central bank in the importer’s country to provide the necessary foreign exchange for payment.

What are structured trade finance/government programs?

These are advisory services and/or other banking services associated with governments’ export incentive programs. It includes programs supporting the export of U.S. goods such as Ex-Im Bank and FCIA as follows:

- Export credit insurance: Exporters and commercial banks may reduce their risk by purchasing export credit insurance from Ex-Im Bank which insures political and commercial risk of nonpayment by the overseas buyer. Several types of policies are available to cover political and commercial risks of nonpayment on short-term (up to 360 days) and medium-term (1-5 years) export receivables. Premium rates, coverage and special features vary with the type of policy selected.
- Guaranteed loans: This product guarantees repayment of fixed or floating rate export loans from the bank to foreign buyers of U.S. exports. Ex-Im Bank’s guarantee is 100% for political and commercial risk. Ex-Im Bank requires the foreign buyer to provide the U.S. supplier with a cash down payment of at least 15% of the amount of the contract. The loan guarantee from Ex-Im Bank is for 100% of the loan, but the loan is for up to 85% of the amount of the contract.
- Medium-term commercial Bank lines: The bank provides foreign commercial banks with medium-term lines of credit so that they, in turn, can make loans to local clients importing goods or services from the United States. Because Ex-Im Bank guarantees repayment of the loans plus interest, there is virtually no risk to the bank. The primary purpose is to allow the bank to support U.S. middle-market companies by providing a financing vehicle for their export sales to a variety of countries.
- Working capital: This loan guarantee program is designed to provide eligible exporters with access to working capital loans from the bank. All non-military U.S. products and services are eligible. The exporter must provide the bank with acceptable collateral, usually foreign receivables and exportable inventory. Ex-Im Bank’s guarantee covers 100% of principal and interest and it can be used for a single export-related loan or revolving line of credit. It permits inventory, goods purchased with disbursements under the guarantee program, and accounts receivable generated from transactions supported by the program to be used as collateral.
Who and what is Ex-Im Bank?
Ex-Im Bank is an independent U.S. government agency, although its operations are subject to considerable political
direction by both legislative and administrative branches. Activities conform to internationally accepted insurance and
guarantee practices, including consensus guidelines. Ex-Im Bank is legislatively mandated to offer credit to domestic
borrowers in order to meet unfairly subsidized competition from abroad.

Ex-Im Bank provides various types of insurance and financing to assist exporters:

- Export credit (short-term) risk insurance under a wide range of policies
- Multi-and single-buyer policies for exporters
- Policies for financial institutions including bank letter of credit policies
- Leasing policies and other special cover policies
- Direct loans to foreign buyers
- “Intermediary” loans to lenders
- Guarantees to buyers
- Working capital guarantees for loans to exporters

What are two export financing alternatives?
01. Supplier Credit
02. Buyer Credit

What is supplier credit?
Supplier credit means that the exporter has extended credit to the buyer, usually under the conditions of the sale
and purchase agreement. The bank can then refinance this credit for its client, the supplier. The various financing
techniques can be placed in three categories:

01. “With recourse” to the exporter (bankers’ acceptance)
02. “Without recourse” to the exporter (forfaiting)
03. “With partial” and/or “conditional recourse” to the exporter (receivables purchase).

Supplier credits are usually used for straightforward contracts of relatively low value. High value contracts warrant a
separate financing agreement.

What does “recourse” mean?
Recourse is the ability of a person owning a negotiable instrument to compel payment. Under negotiable instrument
law, recourse conveys the right to collect from a writer or endorser of a negotiable instrument, such as a check or a
draft. When an installment sales contract is sold to a bank on a recourse basis, the retailer takes full responsibility
for the paper if default occurs. In commercial finance, where a lender purchases a merchant’s accounts receivables,
the finance company reserves the right to charge back any disputed invoices to the customer and debit the customer’s
account. In contrast, factoring is done on a nonrecourse basis; in other words, the factor buying the merchant’s credit
receivables makes the credit evaluation in advance and assumes all credit risk of nonpayment.
What is buyer credit?

Buyer credit means that the bank enters into a separate financial agreement with a buyer specifically to provide the funds to make payment(s) due under a sale and purchase contract. A buyer credit allows the exporter to proceed on a cash payment basis. The contract will specify when the buyer must pay, although usually the funds will flow directly from bank to exporter as soon as the exporter demonstrates contract performance to the satisfaction of the bank.

Buyer credit is without recourse financing, although there is often contingent recourse to the exporter if:

- there is a proven failure to deliver the product within contract specification, causing the buyer to refuse payment; or
- the exporter does not or cannot correct the failure.

What are alternative methods of export financing offered by banks?

- Export factoring: Factoring is the purchase of accounts receivable without recourse. A financial institution purchases the accounts receivable of a client and assumes all the credit risks of the client and the responsibility of collecting payments.

- Forfaiting: Specialized form of export financing in which the seller accepts a note from the buyer that can be discounted. This is useful in situations where confirmed LCs are not available; usually only larger transactions qualify ($1 million or over).

- Cross-Border leasing: This asset-based lending technique is used as an alternative form of financing equipment.
Chapter 11
Glossary
Acceptance. A time draft that the drawee (the payer) has accepted and acknowledged in writing the unconditional obligation to pay it at maturity.

Accepting Bank. A bank that is the drawee of a time draft and that becomes the acceptor of the draft.

Account party. See Applicant.

Advising Bank. A bank which receives a letter of credit issued by the applicant’s bank and forwards it to the beneficiary without assuming any responsibility or liability other than to ensure their advice accurately reflects the terms and conditions of the Credit and to verify the credit’s authenticity.

At XX days after date. A term used to indicate that the maturity date of a draft is determined by the date on which it was drawn and is not determined by the date of acceptance by the drawee.

At XX day after sight. A term indicating that the maturity date of a draft is determined based on a specified number of days after presentation of the draft to the drawee or payee.

Air Waybill. A transport document/bill of lading which serves as a receipt for goods, contract to transport the goods and which indicates to whom the goods are to be delivered. Generally, air carriers do not allow air waybills to be issued in negotiable form. Air waybills should not be consigned “to order of” a named party, but should be consigned directly “to” a named party.

All Risks Coverage. The broadest type of standard marine insurance coverage; may show exclusions for damage caused by war, terrorism, strikes, riots and civil commotion.

Alongside. Place that is at the side of the vessel. Goods to be delivered alongside are to be delivered to the dock or lighter from which they can be loaded aboard the ship.

Applicant. The buyer/importer/account party who applies to its bank to issue a letter of credit in favor of the beneficiary/seller/exporter.

At Sight. The tenor of a draft or availability term of a credit indicating that payment is due upon presentation or demand.

Aval. A time draft drawn by an exporter on the buyer under which the buyer’s bank has guaranteed that the draft will be paid at maturity.

Banker’s Acceptance. A time draft drawn on a bank, usually by an importer or exporter which, once accepted by the drawee bank, becomes an unconditional obligation of the bank to pay at maturity.

Beneficiary. The person or company in whose favor a letter of credit is issued. Usually the beneficiary is the seller/exporter.

Bill of Exchange. (See Draft.)
Bill of Lading (B/L). A transport document which serves as a receipt for goods, a contract to transport the goods, and engagement to deliver the goods at the prescribed destination to the lawful holder of the bill of lading. While this term is frequently used to describe an ocean/marine bill of lading, its legal definition is much broader. (See also Air Waybill, Ocean Bills of Lading, Inland Bills of Lading.)

Boycott. A refusal to deal commercially with a person, firm, or country.

Carnet: A customs document that permits the holder to temporarily bring goods into a country (e.g. for a trade show), and then take them back out without having to pay customs duties.

Cash in Advance. The payment by a buyer to a seller prior to the purchased goods having been shipped.

Cash Against Documents. (See Documents Against Payment.)

Central Bank. A government-owned or controlled bank that oversees other banks in the nation, issues currency, and serves as a depository for government funds.

Certificate of Analysis. A certificate issued regarding the quality and composition of food products or pharmaceuticals.

Certificate of Inspection. A document certifying that merchandise was in good condition immediately prior to its shipment.

Certificate of Origin. A document, often issued by a Chamber of Commerce, certifying the origin of the goods being shipped. It is used to satisfy import regulations and to determine customs duties.

Clean Transport Document. A transport document that bears no clause or notation that indicates that goods were received in apparent good order and were not damaged or had other irregularities.

Clean Draft. A draft to which no shipping documents are attached.

Commercial Invoice. A document issued by a seller listing goods being sold to a named buyer including the price and shipping terms.

Confirmed Letter of Credit. An obligation assumed by one bank (the confirming bank) on behalf of the issuing bank of a letter of credit under which the confirming bank undertakes to honor or negotiate drafts and/or documents which are presented in compliance with the credit’s terms and conditions.

Consignee. The person or firm named in a freight contract to whom merchandise is to be delivered. Documentation differentiates between an intermediate consignee and an ultimate consignee for export control purposes.

Consular Invoice. A commercial invoice that has been reviewed by the Consulate of the buyer’s country for the purpose of verifying the value and quantity of the shipment and to ensure that no indigenous laws or regulations are being broken.

Container. A uniform-sized, sealed, reusable metal box in which goods are shipped by vessel, truck, rail or air.

Country Risk. The risks inherent in doing business in a foreign country over and above commercial risks, which are generally beyond the local company’s ability to control.

Credit Risk Insurance. Insurance purchased through either the Export-Import Bank of the United States or private sector companies to provide protection against non-payment due to country or commercial risks.

Customs. National government authorities that regulate the flow of goods to or from a country and collect duties levied on imports and exports.
**Customhouse Broker.** A private firm that arranges to clear goods through customs. Customhouse brokers also commonly act as freight forwarders.

**Demurrage.** Additional storage charges incurred as a result of excessive delays in clearing cargo off a vessel, wharf, freight car or air cargo facility.

**Devaluation.** The official lowering of a country's currency in relation to one or more currencies of other countries. It tends to make imports in that country more expensive and make exports more attractively priced to overseas buyers.

**Discharge.** To unload cargo.

**Dock Receipt.** A receipt for goods issued by an ocean carrier or their agent at their dock or warehouse; does not cover the loading on a vessel.

**Documentary Collection.** The presentation, through banking channels, for payment or acceptance by a buyer of documents relating to the shipment of goods.

**Documents Against Acceptance (D/A).** A documentary collection wherein shipping documents are released to the buyer in exchange for the obligating themselves to future payment via execution of a Trade Acceptance. (See Aval.)

**Documents Against Payment. (D/P).** A documentary collection wherein shipping documents are released to the buyer in exchange for them making payment for the amount of the draft.

**Draft.** An unconditional order in writing from drawer (exporter) to drawee (importer) directing the drawee to pay a specific amount of money to the payee on demand or at a fixed or determinable future date. (See also Sight Draft or Time Draft.)

**Drawee.** The person, company or bank upon which a draft is drawn.

**Drawer.** The person, company or bank that creates the draft and is generally entitled to receive payment.

**Durable Goods.** Furniture, machinery, appliances and similar goods that are not processed or consumed by their users.

**Duty.** A tax on imported goods imposed by the customs authorities in that country.

**Economic Sanctions.** A foreign policy tool used to punish and/or influence a target nation. Sanctions can include prohibiting trade, economic assistance, financial transactions or even all economic relations.

**Embargo.** A restriction or prohibition on exports or imports with respect either to specific products or specific countries.

**Exchange Rate.** The value or price of one currency when used in relation to its value in another currency, for example, the number of units of currency A that is required to be exchanged for one unit of currency B.

**Ex-Im Bank.** The U.S. Export-Import Bank. The U.S. Ex-Im Bank is an independent agency that finances the export of U.S. goods and services through loans, guarantees, working capital guarantees and insurance.

**Exporter.** The person or company that sells or arranges to transport goods out of a country.

**Export License.** A government document used in some countries which allows the export of certain controlled products to specific destinations.

**Export Management Company.** A private firm that serves as the export department for a number of companies. They typically do not take title to the goods and are paid on a commission basis.
Export Trading Company. A firm that serves as the export department for a number of companies that does take title to the goods. They make their money by taking a profit margin on the goods being exported.

Force Majeure. Conditions such as floods, earthquakes, hurricanes or other events beyond the control of various parties involved in transporting goods. Marine contracts typically exempt the affected parties from their contractual obligations as a result of Force Majeure.

Foreign Exchange (F/X). The currency of a foreign country and/or the conversion from one currency to another.

Forward Exchange. The setting of an agreed-upon exchange rate between a foreign exchange trader and a client whereby the trader contracts with the client to buy/sell a specific amount in foreign currency at a future date at a predetermined exchange rate. (See also Spot Exchange.)

Foul (not clean) Bill of Lading. A receipt for goods issued by a carrier with an indication that the goods or the packaging were in damaged condition when received.

Free (Foreign) Trade Zone. An enclosed and secured area usually designated by a port into which goods may be taken and customs duties may be deferred or waived until such time as the goods are removed for domestic distribution or re-exported.

Freight Forwarder. A private company that arranges cargo space on a carrier as well as the logistics for delivering the goods to the carrier (e.g. ship, airplane etc.). They also frequently assist in the preparation of shipping documents for presentation either under a letter of credit or collection basis.

Free of Particular Average (FPA). A clause used in marine insurance indicating that partial loss or damage to a shipment is not covered. Loss resulting from conditions such as the ship sinking or burning may be exempted from the clause. (See also With Particular Average.)

GATT. “General Agreement on Tariffs and Trade.” A multilateral treaty designed to reduce trade barriers and to provide a forum for resolution of trade disputes.

General Export License. Authority to export without the need for a specific or validated export license.

Gross Weight. The full weight of a shipment, including goods, packaging and container.

Import. To bring goods into a country whose origin is in another country. The importer is usually the buyer or their agent.

Import License. A government document required in some countries for importing specific goods originating in specific countries.


Inland Bill of Lading. A bill of lading used to cover the transport of goods within a country’s borders such as by rail or truck.

Insurance Policy/Certificate. A document that assures the consignee that the merchandise is insured to cover loss or damage while in transit.

International Chamber of Commerce (ICC). An organization founded to promote free trade, private enterprise, and to represent business interests at the national and international level. The ICC is composed of national councils from over 90 countries.

Issuing Bank. The bank that issues a letter of credit; also called the opening bank.
**Letter of Credit.** A conditional undertaking by a bank for account of a buyer (applicant) of goods in favor of a seller (beneficiary) under which payment is effected against presentation of stipulated documents in compliance with the letter of credit’s terms and conditions.

**Marine Risk Insurance.** Insurance covering loss or damage while goods are at sea. Typical coverage includes losses sustained due to fire, shipwreck, piracy, strikes, riots or civil commotion as well as the standard losses caused as a result of the cargo being damaged.

**Marks.** Letters, numbers or symbols used on packaging so as to identify the cargo.

**Marks of Origin.** Physical markings on a product indicating the country where the merchandise was produced.

**MERCOSUR (Mercado Comun del Sur—Southern Cone Common Market).** A preferential trade agreement among countries of the southern cone of South America that aims to establish free trade and increased economic cooperation among members.

**Most-Favored-Nation Treatment.** A commitment that a country will extend to another country the lowest tariff rates or the most favorable nontariff policies it applies to any third country. All GATT contracting parties undertake to apply such treatment to each other.

**Multimodal Transport.** The movement of freight using two or more different kinds of transport such as ocean and truck, ocean and rail etc. (May also be called combined transport bill of lading, intermodal bill of lading or through bill of lading)

**NAFTA (North America Free Trade Agreement).** A regional preferential trade agreement that aims to eliminate tariffs and other trade, services and investment barriers among its constituents.

**NAICS Code.** The North American Industry Classification System—the industry classification system used by the statistical agencies of the United States

**Net Weight.** Weight of the goods with any immediate wrappings.

**Ocean Bill of Lading.** A document issued by a shipping line that serves as (a) a receipt for goods, (b) a contract to transport goods, and (c) a means to transfer title from the shipper to a designated party. Most often, the carrier will issue three original bills of lading. Ocean bills of lading may either be “negotiable” or “straight.” Under a negotiable bill of lading, one original bill of lading must be surrendered to the shipping line in order for the consignee to take delivery. The bill of lading is consigned “to the order of ” a named consignee. Ownership in the goods may be transferred through endorsement of the bill of lading. Under a straight bill of lading, the consignee may take delivery by surrender of either an original or copy of the bill of lading or in some instances by simply proving their identity. Straight bills of lading are consigned “to” a consignee with no possibility of transferring ownership through endorsement.

**Open Account.** A selling arrangement whereby goods are shipped to a buyer prior to payment being made, and where the seller’s risk is entirely with the buyer and the buyer’s country.

**Open Insurance Policy.** A marine insurance policy that applies to all shipments over a period of time rather than on a single shipment.

**Opening Bank.** The bank that issues the letter of credit. Same as issuing bank.

**OPIC (Overseas Private Insurance Corporation).** A U.S. government agency that provides risk protection on capital investments made in foreign countries.

**Packing List.** A document that lists the various packages or cartons being shipped and their contents.

**Particular Average.** Partial loss or damage to goods.
Phytosanitary Certificate. A certificate typically issued by a country’s agricultural department to satisfy import regulations in various countries certifying that specified perishable food, weed and plant items are free from contamination, pests and plant diseases.

Pro-Forma Invoice. A draft or “sample” of what the final invoice will look like. Used by sellers in the negotiating process with a potential buyer in order to ensure that all parties understand what costs are included in the quoted price.

Purchasing Agent. An agent who purchases goods on behalf of a foreign buyer.

Quota. A limitation placed by a government on the quantity of specific goods that may be imported or exported without the imposition of additional customs duties.

Rate of Exchange. The value of one country’s currency in terms of another.

Shipper’s Export Declaration (SED). A U.S. Treasury form required to be completed for all shipments leaving the United States. It indicates the value, nature of the goods, weight, destination etc. It is not an export license. Very few products leaving the United States require an export license.

Shipping Weight. The gross weight of a shipment, including moisture content, wrappings, crates, boxes and containers (other than cargo vans and similar substantial outer containers).

Sight Draft. A draft which is payable by the drawee at the time of presentation. (See also Draft, Time Draft.)

Spot Exchange. The immediate conversion of one currency to another at the prevailing exchange rate. (See also Forward Exchange.)

SIC Codes (Standard Industry Classification). A numerical coding system formerly used in the United States to classify various types of businesses, goods and services. Replaced by NAICS Code.

Tare. Weight of the package in which merchandise is contained and/or packing materials used to protect it. Gross weight minus tare gives net weight.

Tenor. Terms fixed for payment of a draft; e.g. sight, 90 days after sight, 60 days after shipment date.

Through Bill of Lading. See Multimodal Transport Document.

Time Draft. A draft which is payable at a determinable future date. It is drawn on a buyer (importer) or bank and, once signed as “accepted” by the drawee, becomes the drawee’s obligation to pay at maturity. (See also Trade Acceptance.)

Trade Acceptance. A time draft that has been “accepted” across the face of the instrument in writing by the drawee (generally the buyer/importer) thus signifying the drawee’s undertaking to honor the acceptance at maturity. (See also Documents Against Acceptance.)

UCP (Uniform Customs and Practice for Documentary Credits). Globally accepted (by all member nations of the International Chamber of Commerce) set of rules governing letter of credit transactions.

Warehouse Receipt. A receipt issued by a warehouse operator for goods received for storage.

With Average. A marine insurance term meaning that a shipment is protected from partial damage whenever the loss exceeds a stipulated percentage.