



The Documentary Credit (L/C): a secured instrument for International Trade Transactions



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# THE DOCUMENTARY CREDIT : SUMMARY

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- 1. General Approach
- 2. Main Classification
- 3. Conclusion



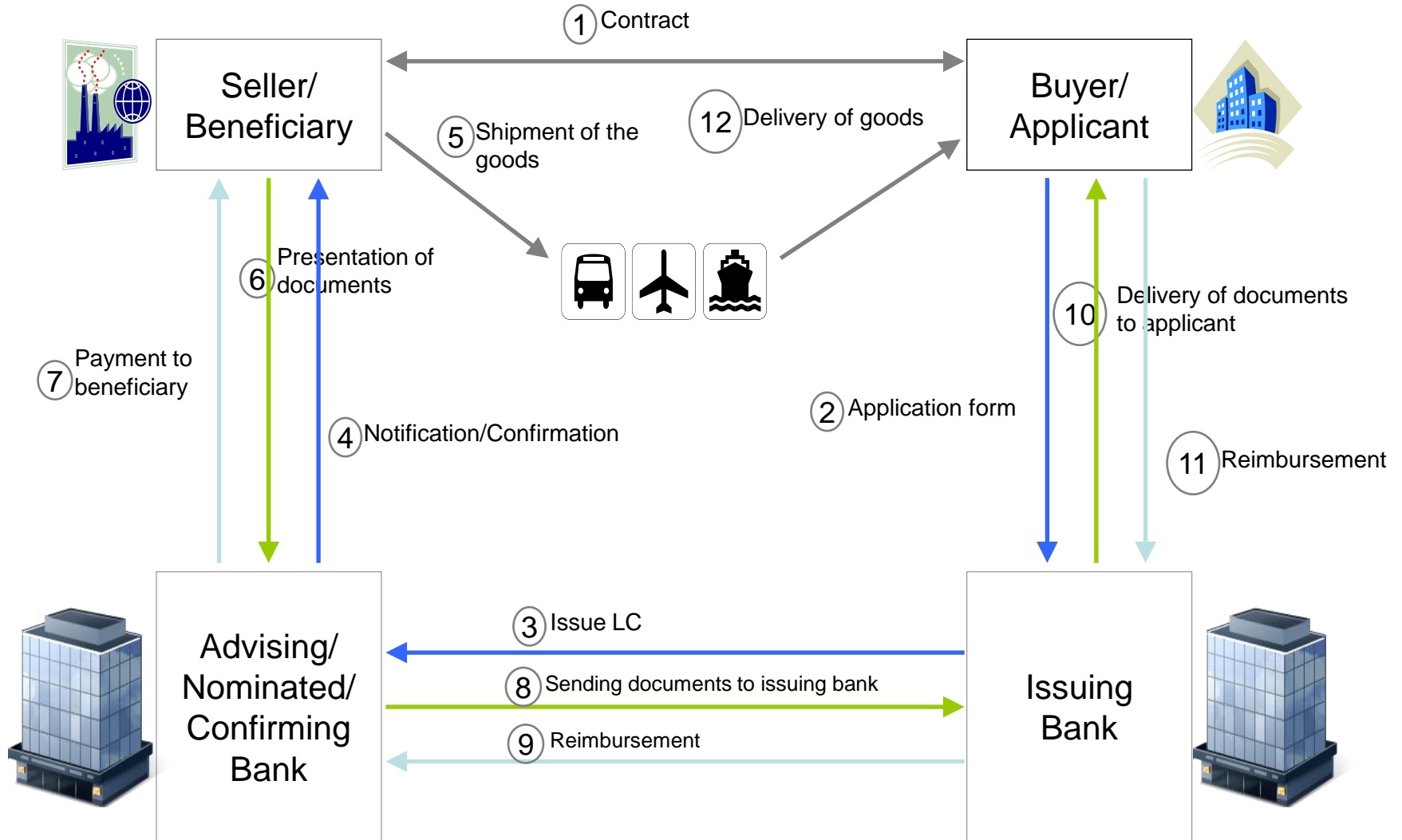
## 1. GENERAL APPROACH

- It is an independent, written undertaking, issued by a bank to a **BENEFICIARY** (seller/vendor) at request and on the instruction of the **APPLICANT** (buyer), up to a certain amount, to :
  - ✓ pay at sight if the credit is available by sight payment
  - ✓ incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment
  - ✓ accept a bill of exchange (“draft”) drawn by the beneficiary and pay at maturity if the credit is available by acceptance

Provided that the beneficiary submits DOCUMENTS which COMPLY with the credit’s requirements before the EXPIRY of the credit.



# 1. GENERAL APPROACH



## 2. MAIN CLASSIFICATION

### ■ IRREVOCABLE

- ✓ Once established, the documentary credit undertaking cannot be amended or withdrawn without the consent of the beneficiary (and confirming bank) until the expiry date.

### ■ UNCONFIRMED

- ✓ No commitment from the nominated (advising) bank.
- ✓ Only the issuing bank is committed (exposure to bank and country risk)

### ■ CONFIRMED

- ✓ On demand or authorization of the issuing bank, the nominated bank (in beneficiary's country) adds its own independent undertaking, in exactly the same terms of the issuing bank, to that of the issuing bank.
- ✓ Beneficiary avoids country risk and eliminates bank risk.

### ■ PRE-PAYMENT/ DISCOUNTING

- ✓ When the L/C is available by deferred payment or by acceptance, a confirming bank can prepay its deferred payment undertaking or discount the accepted drafts without recourse.



### 3. CONCLUSION

#### Advantages for the Buyer/Applicant

- Certainty that payment (undertaking) will only take place on presentation of documents complying with the terms of the credit (normally after delivery of goods)
- Goods have to be shipped within the time limit set by himself in the conditions of the credit
- He can negotiate a discount or preferential conditions due to the payment guarantee given through the credit

#### Disadvantages for the Buyer/Applicant

- The documents presented may not reflect the reality (and banks would not be liable)
- Once the (irrevocable) credit is issued, it can only be amended or cancelled with the agreement of all parties concerned



### 3. CONCLUSION

#### Advantages for the Seller/Beneficiary

- Payment guarantee from the issuing (and confirming) bank on presentation of complying documents
- Once the credit has been issued, it can not be amended or cancelled without his consent
- The credit enables financing more easily

#### Disadvantages for the Seller/Beneficiary

- Documentary requirements can be complex
- If he fails to present credit complying documents, he will lose guarantee of payment
- Amendments to the credit can only be made if the buyer and the involved bank(s) agree to instruct so





THANK YOU

FOR YOUR ATTENTION !





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