

## Letter of Credit Issuance/Amendment

### Definition of Letter of Credit (LC)

Letter of Credit (or Documentary Credit) is an undertaking issued by a bank for the account of the buyer or for its own account, to pay the seller against the value of the draft and/or other documents provided that the terms and conditions of the credit are complied with.

LC is usually subject to the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 600 (UCP 600).

### Pitfalls of Letter of Credit

LC is a useful method of settlement in international trade. When accepting an LC, the seller should exercise additional care to:

- Review all requirements called for under the LC;
- Understand all the documents required in the LC;
- Ensure that all required documents are obtainable;
- Ensure that all the important timelines such as latest shipment date, expiry date and presentation period can be complied;
- Be mindful on the turnaround time in getting documents from external service providers such as shipping company, insurance company, inspection agency, etc.; and
- Ensure timely presentation of all required documents to the Nominated Bank.

### Prerequisites for Letter of Credit Issuance

The following prerequisites must be in place before an LC can be issued:

- A completed “Application for Irrevocable Documentary Credit”;
- Customer’s letter with authorised signatures stating additional terms and conditions to be included;
- An LC Issuance line of credit granted by the Bank;
- Customer’s authorisation letter for account debiting (applicable to customer with prior approval to apply LC against margin deposit);and
- Insurance policy, cover note and/or certificate (if insurance is covered by LC applicant).

## Key Points when Filling in LC/LC Amendment Application

- All terms and conditions must be clear and precise to avoid future disputes with the seller and/or nominated bank.
- The words “about” or “approximately” used in connection with the amount/unit price/quantity stated in the LC allow a tolerance not to exceed 10% more or 10% less than the amount/unit price/quantity to which they refer.
- A tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the LC does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the LC.
- It is important to avoid excessive details in LC application, especially the description of goods, to reduce chances of documentary discrepancy.
- The terms and conditions of the original LC will remain in force for the seller until he communicates his acceptance of the amendment to the Advising Bank. If the seller fails to give notification of acceptance or rejection of amendment, a presentation that complies with the credit and to any not yet accepted amendment will be deemed to be notification of acceptance by the seller of such amendment.