



"Reliable payment is the first fundamental of free trade."

*John W. Dunlop, is President of AVG Trade Group, providing Letter of Credit management, documents and payment via the Internet to clients worldwide.*

### What is an advised Letter of Credit.

When an international bank receives a Letter of Credit issued from an overseas bank, it "advises" the beneficiary (seller) they have a Credit opened in their name. In the advising bank's cover letter it requests the beneficiary to review the Credit and accept it, reject it, or have it amended through the applicant (buyer) and his issuing bank.

### The Seller's Dilemma.

The beneficiary has two problems; one, how to review and understand the Letter of Credit; and second, what to do if there are terms and/or conditions that are not acceptable to his company. Does the company risk non payment after shipment? Does the company risk losing the sale if we try and amend the Credit.

### Will My Advising Bank Help?

In addition to requesting your review of the Letter of Credit, the bank's cover letter also states that you, not the bank, must seek an amendment if it is needed, i.e. the bank will not help change the Credit. They add this disclaimer because if you submit your negotiable documents for them to examine for payment, they must be impartial between your company and the issuing bank.

### The Confirmation Misconception

Many companies believe that by asking for a confirmed Letter of Credit, all of

## How to Review your Advised Letter of Credit

*Which terms in a Letter of Credit have are critical to the sale, and which ones are not, and must be amended.*

their concerns go away, and are assumed by the confirming bank. Very wrong. Confirmation reserves the funds for the bank to pay you with, but it does not relieve the beneficiary from meeting the terms of the Credit exactly. In addition, the confirmation is null and void if you incur any discrepancies in documents or performance (usually).

### The Review Process

When the Credit is compared with the Letter of Credit Instructions that were provided to the buyer, there will be differences. The issuing bank adds its country's government policies to the Credits conditions in addition to its own bank. So what is critical and what is not; what is sale related, and what is not; what can be changed and what cannot. What terms are linked, and changing one changes another?

### Value Related Items.

#### 45A: GOODS DESCRIPTION

Does the Credit ask for the same goods that was agreed to in the sale as reflected in the Purchase Order?

#### 32B: AMOUNT

Does the Credit amount contain the agreed to total price for the goods, including the freight, insurance, finance, and bank charges?

#### INCOTERM

Is the Incoterm what was agreed to, and is its cost included in the total value of the Credit. FOB - Free On Board; CIF - Cost, Insurance and Freight; CFR - Cost or Freight; EXW - Ex-works from the factory.

#### 42C: DRAFTS AT

Is the draft at sight, or sight plus a number of days. If it is a time draft, were finance costs included in the value of the Credit.

#### 42D: DRAWEE

Is the paying bank you requested specified, or did the issuing bank ignore your request and put themselves as the drawee? This will usually delay payment from days to weeks.

### Performance Related Items.

#### 44C: LATEST SHIP DATE

Can the company ship the goods by the Latest Ship Date required?

#### 48: PRESENTATION PERIOD

Can our Freight Forwarder or shipping department prepare and present the negotiable documents in the period allowed?

### Document Related Items.

#### 46: DOCUMENTS REQUIRED

Are all of the required documents for negotiation under my control? This is not so easy to ascertain. An invoice, packing list, or beneficiary certificate can be produced by the beneficiary, but a Certificate of Origin, legalization stamp, insurance certificate, inspection certificate, and/or a bill of lading are produced by other parties. However, the other parties have a fiduciary responsibility to the beneficiary, so they are under the sellers control.

#### APPLICANT DOCUMENTS

Applicant inspection certificates and goods being received signature documents are not under the beneficiary's control, and reduce the Letter of Credit to no more than a Purchase Order with direct collection terms.

#### SPLIT BILLS OF LADING

Does the Credit require I send one of the three original Ocean Bills of Lading directly to the applicant, thereby giving up title before I receive payment?

## What is Critical and What is Not

What is critical and what is not is a risk analysis taking into consideration the relationship with the buyer, and the cost of non payment, or more likely slow payment. In addition, once you accept the Credit it becomes the defacto standard for future Letters of Credit with your buyer. Since amending the Credit through your buyer is at best a bad dream, and at worst a nightmare, it is no small undertaking. Delaying the shipment and sale not only hurts your company, but your buyer has his capital tied up also with his issuing bank. Losing the sale altogether is still another consideration.

It is too late to remind the sales department that the Letter of Credit terms and conditions were supposed to be part of the sales negotiation. But there is hope. Your strongest ally is, believe it or not, the buyer or applicant.

## Amending the Letter of Credit

Once you decide what must be changed, communicate the needed changes to your buyer. He wants the goods as much, if not more, than you want the sale. Keep in mind, your buyer does not have a clue what his issuing bank put into his Letter of Credit. He contracted with the bank to issue the credit, placed collateral worth at least the face value of the Credit, and paid them an opening fee. He is going to be on your side, not his banks.

When you receive the amended Credit, begin the process all over again from scratch. The overseas banks have a cute way of changing one thing and reversing another to wear you down and tie up the buyers US dollars.

You did specify "USD" currency?

## Conclusions

1. Make the Letter of Credit terms and conditions part of the sales process, not the shipping process.

2. Review the Letter of Credit when it is first advised, and work with your buyer to amend it.

3. Your advising bank can tell you what is wrong with a Letter of Credit, but they cannot help you amend it.

4. Be willing to reject the Letter of Credit, the sale, and the relationship.

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