



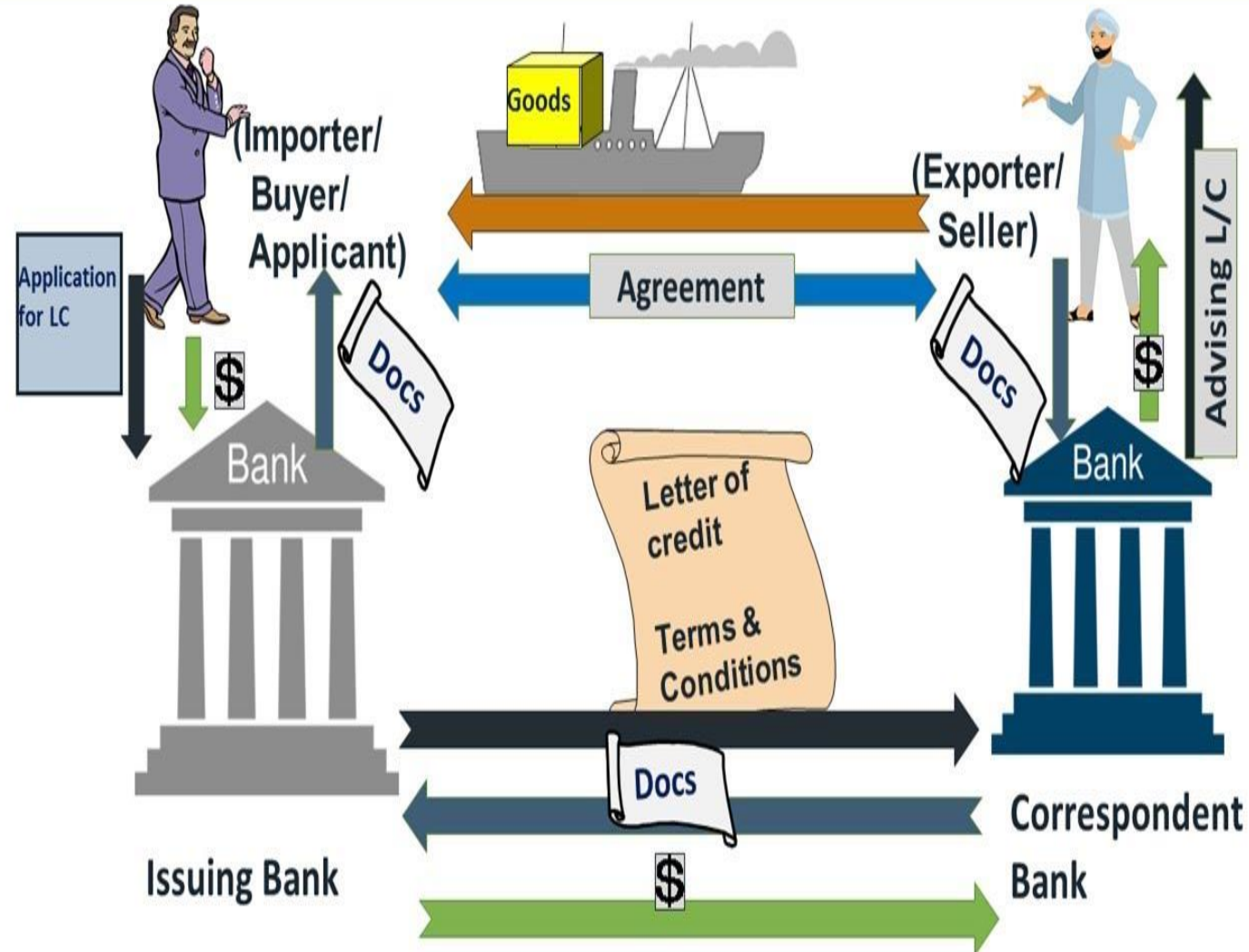
LETTER OF CREDIT

BY **CMA** AMIT DEY,
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What is Letter of Credit ?

A Letter of Credit (LC) is a document that **guarantees the buyer's payment** to the sellers. It is issued by a bank and ensures timely and full payment to the seller. If the buyer is unable to make such a payment, the bank covers the full or the remaining amount on behalf of the buyer.

A letter of credit is issued against a pledge of securities or cash. **Banks typically collect a fee**, ie, a percentage of the size/amount of the letter of credit.



Buyer/ Importer



Applicant

Requests LC

Payment

Documents



Opening Bank
/ Issuing Bank

LC



Advising Bank

LC

Seller/ Exporter



Beneficiary

Ships Goods

Guarantee



Confirming Bank

Payment

Documents

Payment

Documents



Nominated or
Negotiating Bank

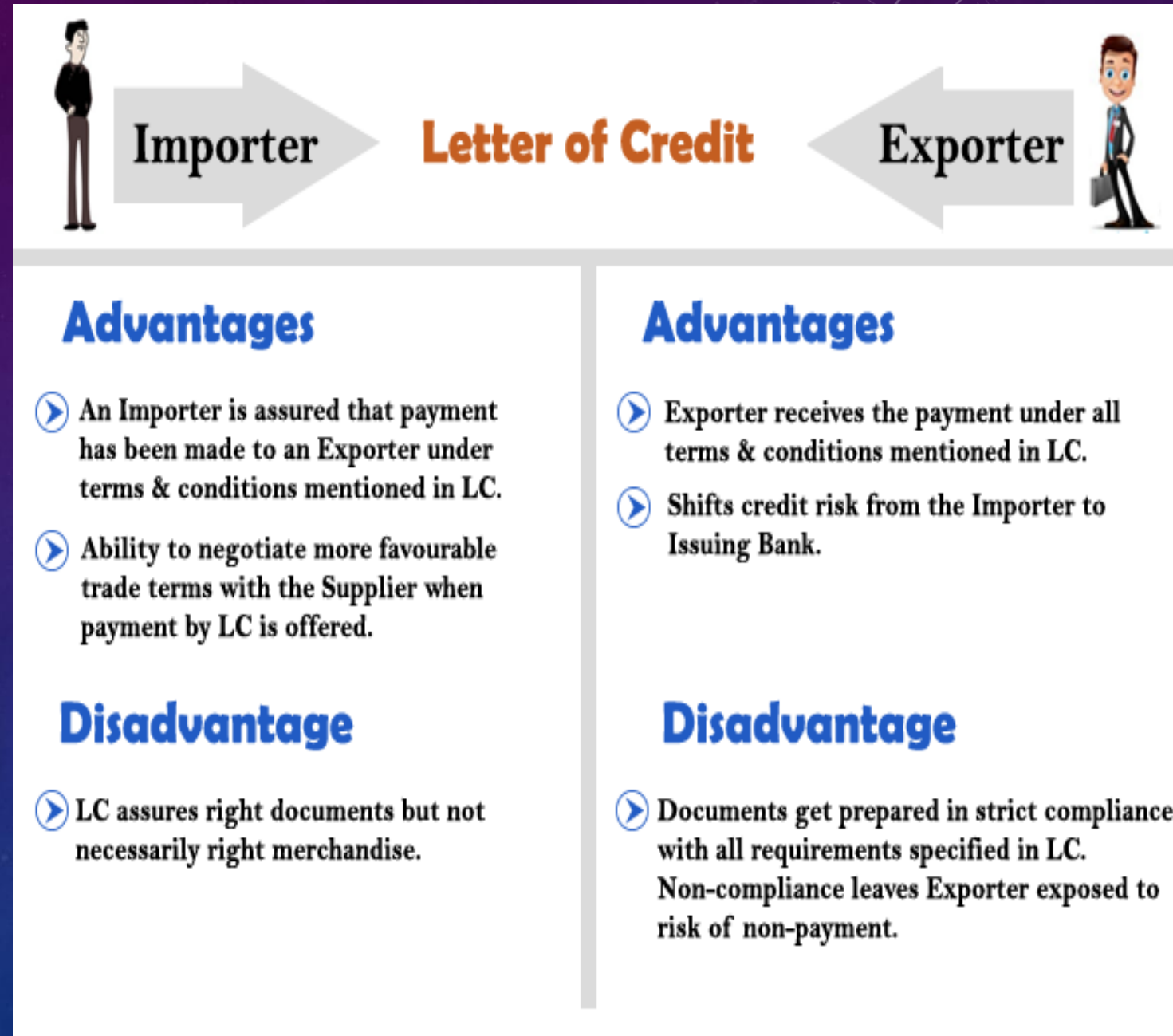
ADVANTAGE & DISADVANTAGE OF LC

FOR SELLER –

1. Protection against buyers payment default
2. Reduced production risk in case order is changed or cancelled

For Buyer –

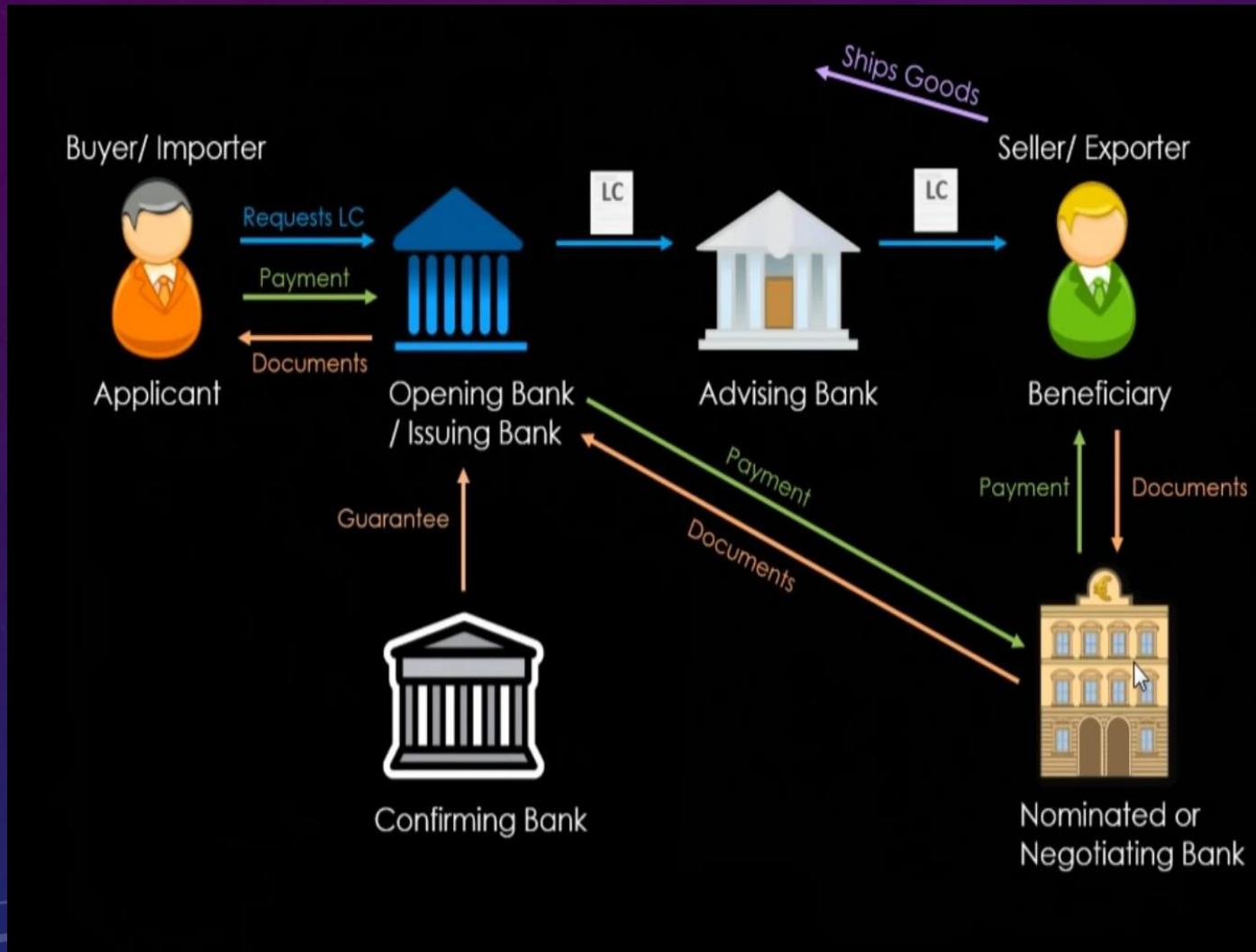
1. Certainty of Goods to be received
2. LC shows solvency for the buyer and allow the buyer to reduce or eliminate initial payment



Different Types Of Letters of Credit

- Commercial Letter of Credit
- Export/Import LC
- Transferable & Non-transferable
- Revocable & Irrevocable LC
- Standby Letter Of Credit
- Confirmed & Unconfirmed
- Revolving LC
- Back to Back LC
- Red Clause Bank Credit Letter
- Traveler's Letter of Credit
- Credit on Sight/Sight Credit
- Time Credit/Acceptance Credit

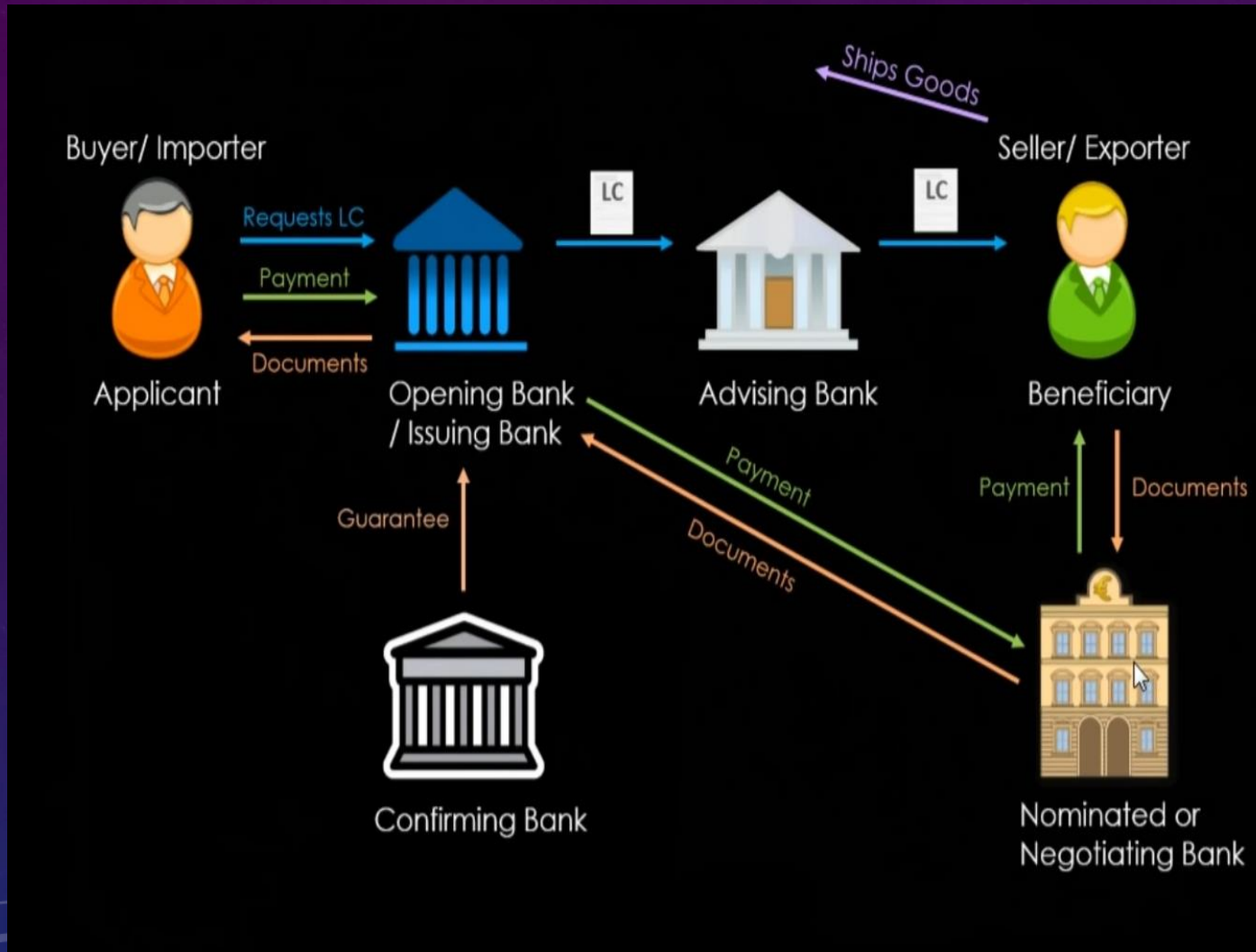
TYPE OF LETTER OF CREDIT



Import/export(Commercial) –

- The same credit can be termed an import or export letter of credit depending on whose perspective is considered. For the **importer** it is termed an **Import LC** and for the **exporter** of goods, an **Export LC**
- **Most common** letter of credit in International Trade
- Subject to UCP (Uniform Customs and practice for Documentary Credit) by **ICC** (International Chamber of Commerce)

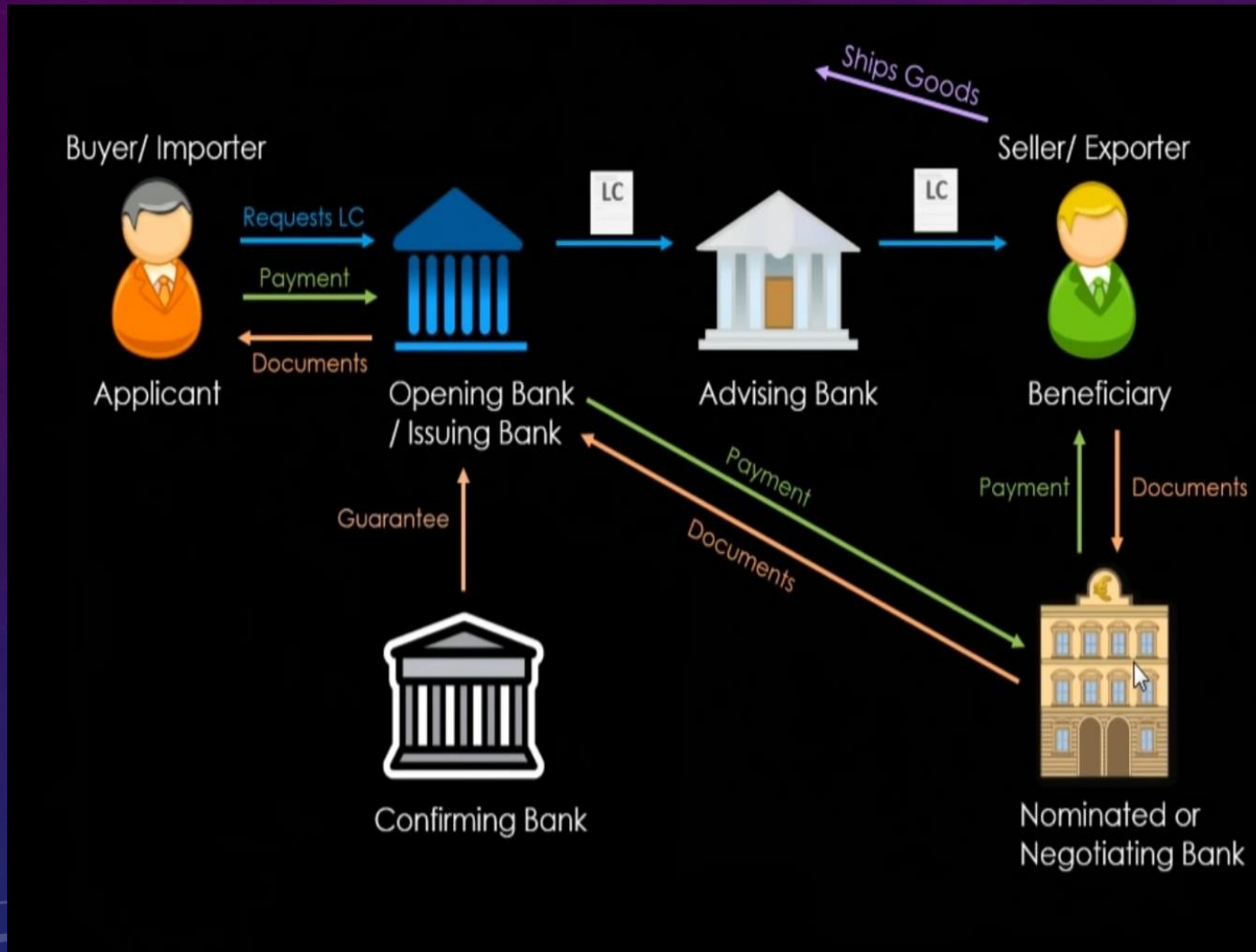
TYPE OF LETTER OF CREDIT



Standby Letter of Credit: (SBLC)

- Beneficiary of a standby LC is paid when there is a **breach of principal's obligation**.
- Eg: If a construction company fail to deliver a project, beneficiary of Standby Lc can apply to Nominated Bank for Payment.
- Governed by International stand by practice (ISP); **ICC**

TYPE OF LETTER OF CREDIT



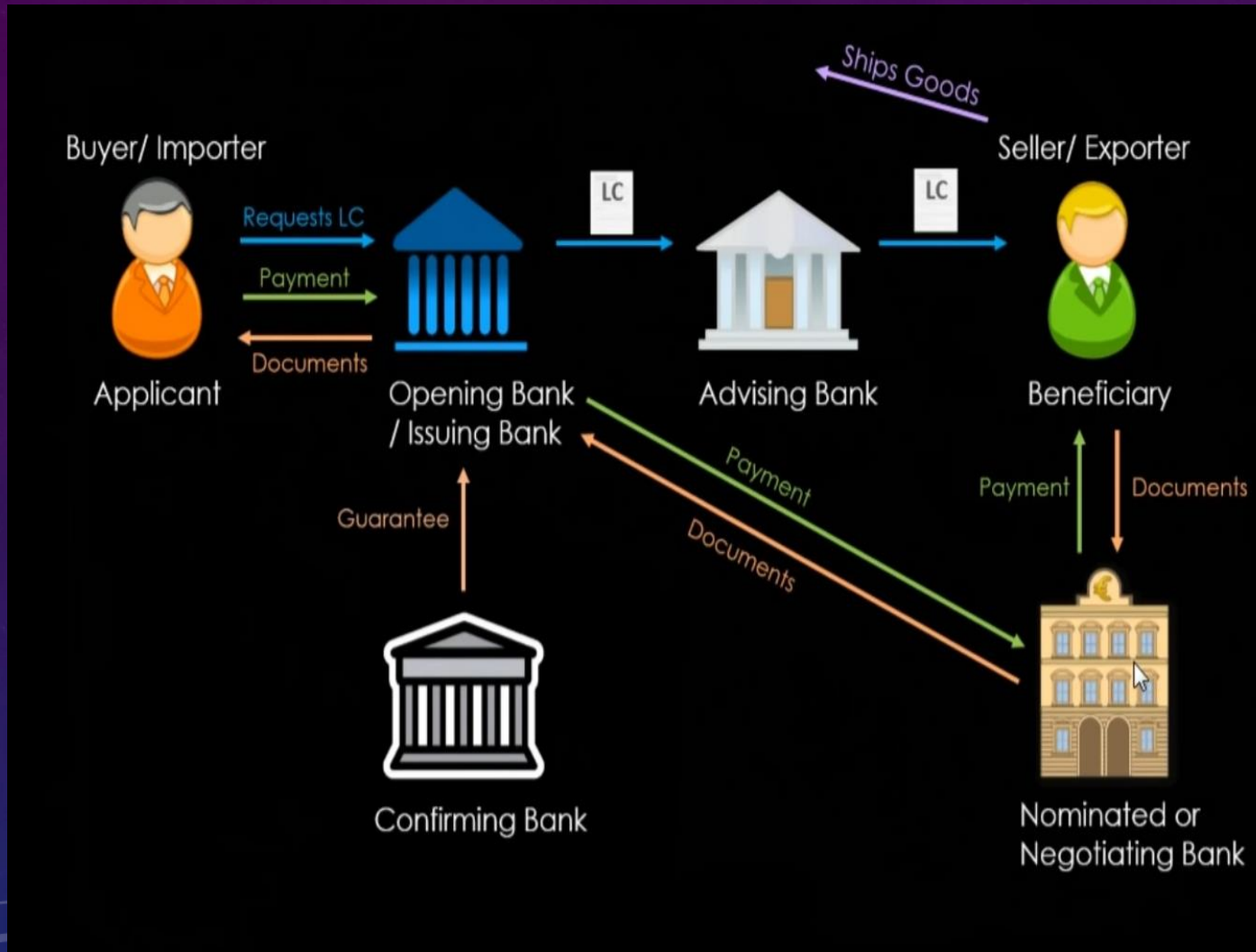
Revocable LC

- Issuing Bank can change or Modify the LC anytime without informing the beneficiary
- Not endorsed by UCP
- Since, seller's interest is not protected, not used much

Irrevocable LC

- Cannot be changed or cancelled without the permission of other parties involved in it
- All LCs issued subject to UCP are irrevocable unless otherwise agreed between parties

TYPE OF LETTER OF CREDIT



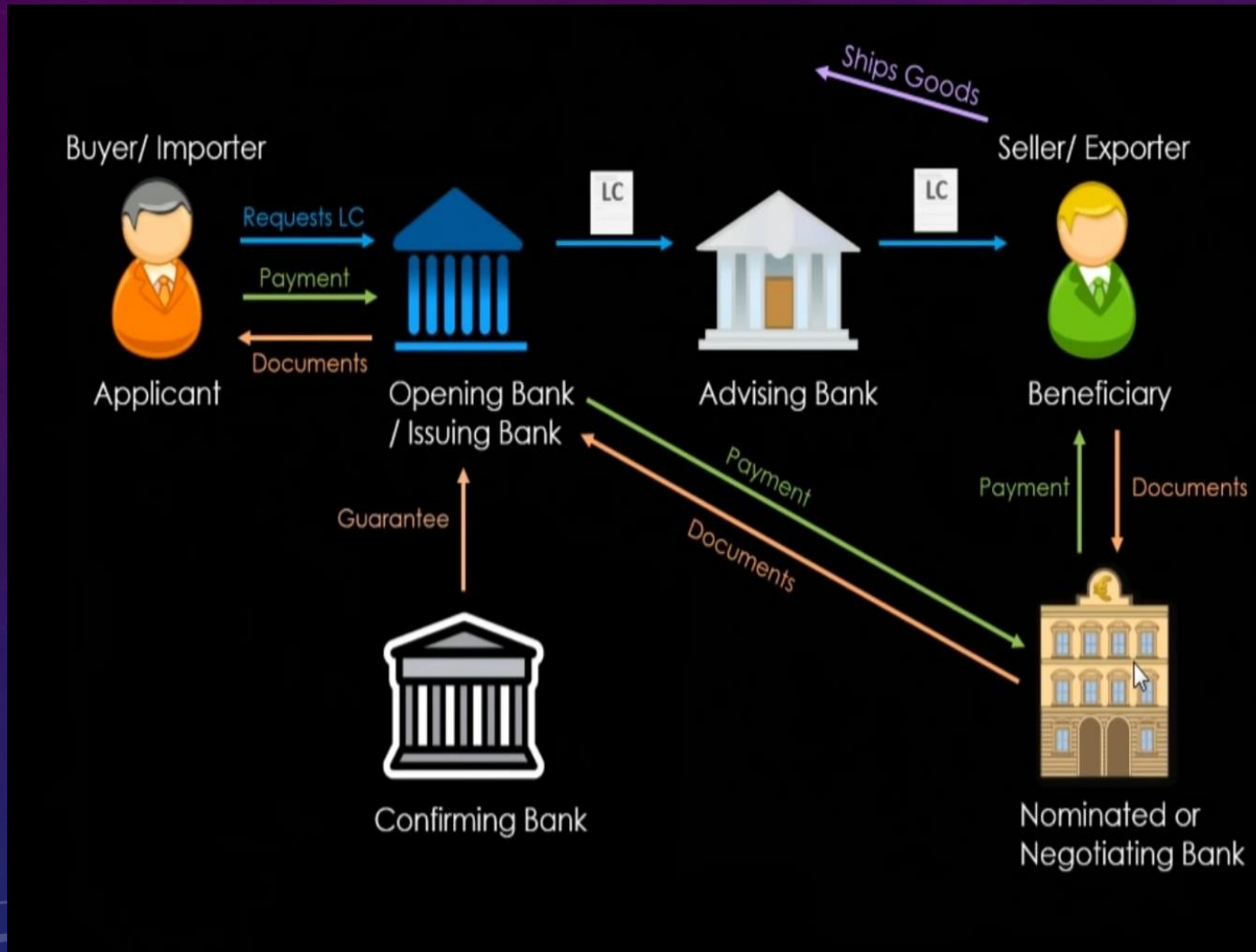
Unconfirmed LC -

- LC that is not guaranteed by any other bank other than issuing Bank

Confirmed LC -

- LC that is guaranteed by a second Bank in addition to issuing Bank
- Only irrevocable LCs can be confirmed

TYPE OF LETTER OF CREDIT



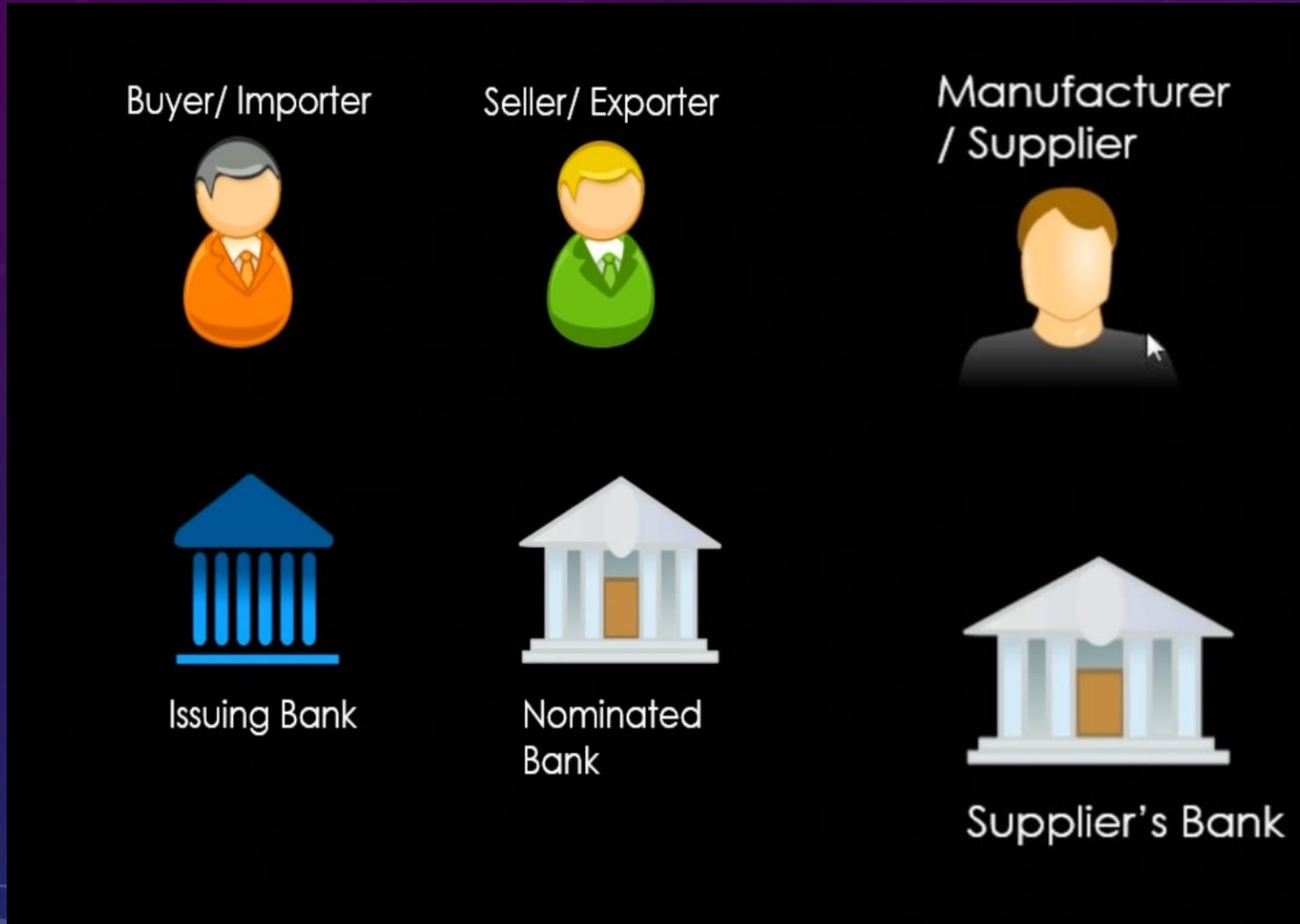
Transferrable LC –

- Enable seller to assign part or whole of LC to other parties

Used when:

- Seller is not sole manufacturer or
- Seller is a subsidiary company of a Holding Company

TYPE OF LETTER OF CREDIT



Back to Back LC:

- Used when seller is a Trader/ Export House
- Seller issues Back to Back LC to his supplier
- Advising Bank or Negotiating Bank of Seller will issue Back to Back LC by keeping Original Lc as collateral
- Amount of Back to Back LC will be lower than Original Lc and the difference is Trader's profit

TYPE OF LETTER OF CREDIT



Red Clause LC:

- Provided for Advanced payment to seller for Manufacturing, Packing, Dispatching and Shipment of Goods
- Advance allowed by Nominated Bank of issuing Bank to allow Advance (in “Red Ink”)
- Advanced paid against receipt and a written undertaking from seller that he will deliver the documents before credit expires
- Unsecured Credit, Credit Risk is of Issuing Bank.
- Advanced is adjusted out of the proceeds later by Nominated Bank.

TYPE OF LETTER OF CREDIT



Green Clause LC:

- Provided for Advanced payment to seller for Pre-shipment finance and storage at Export Terminal
- Written in “**Green Ink**”. Usually used in Export of commodities.
- Advanced paid against receipt and a written undertaking from seller that he will deliver the documents before credit expires and a receipt providing proof that the Goods to be shipped have been warehoused
- Secured Credit,
- Advanced is adjusted out of the proceeds later by Nominated Bank.

TYPE OF LETTER OF CREDIT



Revolving LC:

- Used when similar transaction will happen over a period of time
- Same LC (Revolving LC) will be used for all transactions
- Eg: USD 100,000 worth of wheat to be exported from India to Australia per month for next 12 months.
- A Revolving LC can stipulate that USD 1000,000 can be drawn on monthly basis for 12 Months

TYPE OF LETTER OF CREDIT



At Sight LC:

- LC that demands payment on submission of required documents
- Payment is made to the seller if the documents meet conditions of Lc, usually within 7 days, by the Nominated Bank

Deferred Payment LC:

- Payment doesn't happen immediately after document verification by Bank
- Bank releases payment only after an agreed time as per LC, Eg: 30 days after shipment date



Thank You!

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