

A Guide to Letters of Credit

Import
Export

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Letters of Credit have been a cornerstone of international trade dating back to the early 1900s. They continue to play a critical role in world trade today. For any company entering the international market, Letters of Credit are an important payment mechanism which help eliminate certain risks.

Our purpose in publishing this guide is to provide a basic understanding of Letters of Credit from both the Importer's and Exporter's points of view. In addition, we hope that it will serve as a handy reference tool as you use Letters of Credit in your international trade transactions.

Parties Involved in a Letter of Credit

The following definitions will assist in understanding a Letter of Credit (L/C) transaction.

Accepting Bank

The bank named in a term (usance) Letter of Credit on which drafts are drawn that has agreed to accept the draft. By accepting the draft, the Drawee Bank signifies its commitment to pay the face amount at maturity to anyone who presents it at maturity. After accepting the draft, the Drawee Bank becomes the Accepting Bank.

Advising Bank

The bank to which the Issuing Bank forwards the Letter of Credit with instructions to notify the Exporter (Beneficiary).

“available with” Bank

The bank authorized in the Letter of Credit to effect payment under, accept or negotiate the Letter of Credit.

Confirming Bank

The bank which, at the request of the Issuing Bank, adds its confirmation to the Letter of Credit. In doing so, the Confirming Bank undertakes to make payment to the Exporter upon presentation of documents under the Letter of Credit.

Drawee Bank

The bank named in the Letter of Credit on which the drafts are to be drawn.

Exporter/Beneficiary/Seller

The party that has contracted to sell goods.

Importer/Applicant/Buyer

The party that has contracted to buy goods.

Issuing Bank

The bank issuing the Letter of Credit on behalf of the Importer (Buyer).

Reimbursing Bank

The bank designated in the Letter of Credit to reimburse the “available with” Bank which submits payment claims under the Letter of Credit.

Transferring Bank

The bank authorized by the Issuing Bank to transfer all or part of the Letter of Credit to another party at the Beneficiary’s request.

What is a Letter of Credit?

A Letter of Credit, simply defined, is a written instrument issued by a bank at the request of its customer, the Importer (Buyer), whereby the bank promises to pay the Exporter (Beneficiary) for goods or services, provided that the Exporter presents all documents called for, exactly as stipulated in the Letter of Credit, and meet all other terms and conditions set out in the Letter of Credit. A Letter of Credit is also commonly referred to as a Documentary Credit.

There are two types of Letters of Credit: revocable and irrevocable. A **revocable** Letter of Credit can be revoked without the consent of the Exporter, meaning that it may be cancelled or changed up to the time the documents are presented. A revocable Letter of Credit affords the Exporter little protection; therefore, it is rarely used. An **irrevocable** Letter of Credit cannot be cancelled or changed without the consent of all parties, including the Exporter. Unless otherwise stipulated, all Letters of Credit are irrevocable.

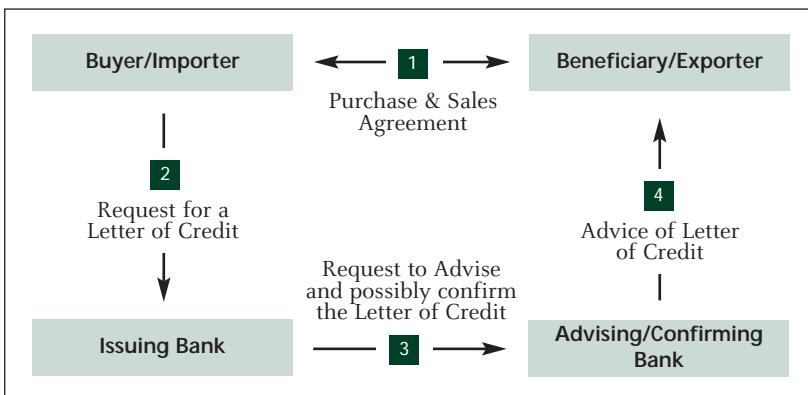
A further differentiation is made between Letters of Credit, depending on the payment terms. If payment is to be made at the time documents are presented, this is referred to as a **sight** Letter of Credit. Alternatively, if payment is to be made at a future fixed time from presentation of documents (e.g. 60 days after sight), this is referred to as a **term, usance or deferred payment** Letter of Credit.

The International Chamber of Commerce (ICC) publishes internationally agreed-upon rules, definitions and practices governing Letters of Credit, called "Uniform Customs and Practice for Documentary Credits" (UCP). The UCP facilitates standardization of Letters of Credit among all banks in the world that subscribe to it. These rules are updated from time to time; the last revision became effective January 1, 1994, and is referred to as UCP 500. Copies of the UCP 500 are available from your TD branch or Global Trade Finance office. Please refer to the back cover of this guide for a listing of these offices.

The following is a step-by-step description of a typical Letter of Credit transaction:

1. An Importer (Buyer) and Exporter (Seller) agree on a purchase and sale of goods where payment is made by Letter of Credit.
2. The Importer completes an application requesting its bank (Issuing Bank) to issue a Letter of Credit in favour of the Exporter. Note that the Importer must have a line of credit with the Issuing Bank in order to request that a Letter of Credit be issued.
3. The Issuing Bank issues the Letter of Credit and sends it to the Advising Bank by telecommunication or registered mail in accordance with the Importer's instructions. A request may be included for the Advising Bank to add its confirmation (See page 24 for more information on Letter of Credit confirmation). The Advising Bank is typically located in the country where the Exporter carries on business and may be the Exporter's bank but it does not have to be.
4. The Advising Bank will verify the Letter of Credit for authenticity and send a copy to the Exporter.

Issuance of a Letter of Credit



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- 5.** The Exporter examines the Letter of Credit to ensure:

 - a) it corresponds to the terms and conditions in the purchase and sale agreement;
 - b) documents stipulated in the Letter of Credit can be produced; and
 - c) the terms and conditions of the Letter of Credit may be fulfilled.

- 6.** If the Exporter is unable to comply with any term or condition of the Letter of Credit or if the Letter of Credit differs from the purchase and sale agreement, the Exporter should immediately notify the Importer and request an amendment to the Letter of Credit.

- 7.** When all parties agree to the amendments, they are incorporated into the terms of the Letter of Credit and advised to the Exporter through the Advising Bank. It is recommended that the Exporter does not make any shipments against the Letter of Credit until the required amendments have been received.

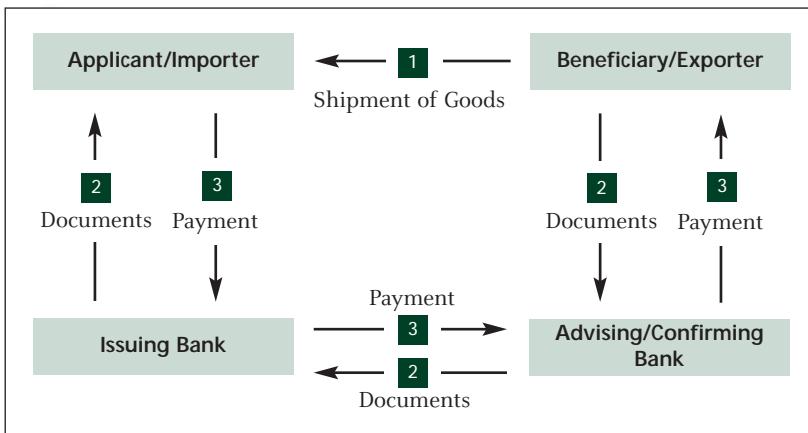
- 8.** The Exporter arranges for shipment of the goods, prepares and/or obtains the documents specified in the Letter of Credit and makes demand under the Letter of Credit by presenting the documents within the stated period and before the expiry date to the “available with” Bank. This may be the Advising/Confirming Bank. That bank checks the documents against the Letter of Credit and forwards them to the Issuing Bank. The drawing is negotiated, paid or accepted as the case may be.

- 9.** The Issuing Bank examines the documents to ensure they comply with the Letter of Credit terms and conditions. The Issuing Bank obtains payment from the Importer for payment already made to the “available with” or the Confirming Bank.

- 10.** Documents are delivered to the Importer to allow them to take possession of the goods from the transport company. The trade cycle is complete as the Importer has received its goods and the Exporter has obtained payment.

Note: In the diagram below, the Advising Bank is also acting as the Confirming Bank.

Payment Under a Letter of Credit



A key principle underlying Letters of Credit is that banks deal only in documents and not in goods. The decision to pay under a Letter of Credit is entirely on whether the documents presented to the bank appear on their face to be in accordance with the terms and conditions of the Letter of Credit. It would be prohibitive for the banks to physically check all merchandise shipped under Letters of Credit to ensure merchandise has been shipped exactly as per each Letter of Credit. Accordingly, the integrity of both the Exporter and Importer are very important in a Letter of Credit transaction. The appropriate due diligence should be exercised by both parties.

Advantages and Disadvantages of Using a Letter of Credit

Advantages to the Importer

- Importer is assured that the Exporter will be paid only if all terms and conditions of the Letter of Credit have been met.
- Importer is able to negotiate more favourable trade terms with the Exporter when payment by Letter of Credit is offered.

Disadvantages to the Importer

- A Letter of Credit does not offer protection to the Importer against the Exporter shipping inferior quality goods and/or a lesser quantity of goods. Consequently, it is important that the Importer performs the appropriate due diligence to assess the reputation of the Exporter. If the Exporter acts fraudulently, the only recourse available to the Importer is through legal proceedings.

Note: Added protection to the Importer may be provided by requesting additional documentation in the Letter of Credit, e.g. a Certificate of Inspection. Refer to Documents Section (page 18).

- It is necessary for the Importer to have a line of credit with a bank before the bank is able to issue a Letter of Credit. The amount outstanding under each Letter of Credit issued is applied against this line of credit from the date of issuance until final payment.

Advantages to the Exporter

- The risk of payment relies upon the creditworthiness of the Issuing Bank and the political risk of the Issuing Bank's domicile, and not the creditworthiness of the Importer.
- Exporter agrees in advance to all requirements for payment under the Letter of Credit. If the Letter of Credit is not issued as agreed, the Exporter is not obligated to ship against it.
- Exporter can further reduce foreign political and bank credit risk by requesting confirmation of the Letter of Credit by a Canadian bank.

Disadvantages to the Exporter

- Documents must be prepared and presented in strict compliance with the requirements stipulated in the Letter of Credit.
- Some Importers may not be able to open Letters of Credit due to the lack of credit facilities with their bank which consequently inhibits export growth.

Letters of Credit – Importer’s Perspective

Instructions for Completing an Import Letter of Credit Application Form

TD Bank clients with an active line of credit have the option of forwarding duly completed Letters of Credit applications to the respective Global Trade Finance office either directly, electronically or manually through their branch. Dealing directly with the Global Trade Finance office electronically via TD’s Internet-based system, tdfacilitrade, is fast, efficient, and cost effective.

On page 12 is a copy of TD’s Letter of Credit application form. Detailed instructions follow for the completion of the form. Instructions for using TD’s electronic system, tdfacilitrade, can be obtained from the tdfacilitrade help desk. Please contact the Global Trade Finance office nearest you for more details.

A Branch. Complete address of branch of account for your line of credit.

B Application Date. Enter date of the application.

C Expiry Date. Enter the expiry date of the Letter of Credit (L/C).

Note: In determining the expiry date of an L/C, you must allow enough time for the Exporter (Beneficiary) to effect the shipment and present the documents required in the L/C. The general rule is to take the Latest Shipping Date (K) and add the number of days the Exporter is allowed to present the documents (Q).

Example: If the Latest Shipping Date is November 1 and 10 days are allowed to present documents, then the Expiry Date of the L/C would be November 11.

D Applicant. Enter your company name and address exactly as it appears on your line of credit.

E Beneficiary. The name and address of the Exporter.

F Issue By. This is the method by which we will send the Letter of Credit to the Advising Bank. It may be sent at your option by mail or **teletransmission** depending on the urgency of the situation. For a small cost, teletransmission enables your Letter of Credit to be received faster by the Beneficiary. This is the method most commonly used.

G Currency and Amount. Enter the currency and maximum amount that can be drawn under the Letter of Credit.

Note: Writing the words “about”, “approximately” or “circa” before the amount indicates that the amount may vary up to +/- 10%. Variance is not restricted only to the percentages indicated above; you may choose any other variances, e.g. +/- 15%. Further information regarding variances is detailed under Goods (M).

H Partial Shipments. Check the appropriate box to indicate if you will allow partial shipments to take place under the Letter of Credit.

Transshipment. Indicate whether or not transshipment is allowed. Your choice depends on the method of shipment/transport document used. Generally, transshipment means that, during the course of voyage, merchandise is unloaded and reloaded from one vessel to another vessel or from one mode of transportation to another. Transshipment must be allowed for multimodal and air transport documents.

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APPLICATION FOR IRREVOCABLE DOCUMENTARY CREDIT

To: **The Toronto-Dominion Bank** A

Date of application B	Expiry Date C
Applicant (name) (address)	Beneficiary (name) (address)
<input type="checkbox"/> Issued by teletransmission (UCP 500 article 11) <input type="checkbox"/> Issued by air mail <input type="checkbox"/> Issued by teletransmission	Currency and Amount G
Partial Shipments <input type="checkbox"/> Allowed <input type="checkbox"/> Not Allowed Transshipment <input type="checkbox"/> Allowed <input type="checkbox"/> Not Allowed	Available against documents described herein: <input type="checkbox"/> and beneficiary's draft(s) <input type="checkbox"/> or draft <input type="checkbox"/> or draft after sight ^A <input type="checkbox"/> or draft after date of ^F ^F issue of draft but no loading receipt date of draft
<input type="checkbox"/> Transferable credit (UCP 500 article 46)	<input type="checkbox"/> Insurance will be covered by <input type="checkbox"/> applicant <input type="checkbox"/> shipper
Shipped (UCP 500 article 26) From _____ Via transportation to _____ Not earlier than (optional) _____ Not later than (optional) _____	Terms <input type="checkbox"/> CIF <input type="checkbox"/> FOB <input type="checkbox"/> C&F <input type="checkbox"/> CFR <input type="checkbox"/> CIP <input type="checkbox"/> Other terms (see reverse)
Goods (brief description without precision details - see UCP 500 article 31)	Place
<input type="checkbox"/> Commercial Invoice <input type="checkbox"/> signed original(s) in _____ <input type="checkbox"/> Copies in _____	
Transport Documents (UCP 500 articles 23-25) <input type="checkbox"/> Full set of clean <input type="checkbox"/> Full set of clean <input type="checkbox"/> On board (porting of board two different modes of transport) <input type="checkbox"/> On board Mate Receipt Bill of Lading (porting port to port shipment) Issued by (optional) _____ <input type="checkbox"/> or Transport Document Issued by (optional) _____ Consignee <input type="checkbox"/> applicant <input type="checkbox"/> The Toronto-Dominion Bank and/or its beneficiary <input type="checkbox"/> collect <input type="checkbox"/> prepaid <input type="checkbox"/> "Loading/Partial Bill of Lading consigned to" <input type="checkbox"/> applicant <input type="checkbox"/> other (please specify) Issued "freight" <input type="checkbox"/> collect <input type="checkbox"/> prepaid <input type="checkbox"/> Other Transport Document (please specify) _____	<input type="checkbox"/> Other (please specify) _____
Insurance Documents (UCP article 34-36) <input type="checkbox"/> Policy/Certificate for _____ "to-charge value covering marine risks" (all risks) and "terms of transportation" (if allowed above) and the rate of _____	
Other documents <input type="checkbox"/> Generalized System of Preference Certificate of Origin Form "O" <input type="checkbox"/> Packing List <input type="checkbox"/> Canada Customs Invoice in _____ <input type="checkbox"/> Inspection Certificate issued to _____ <input type="checkbox"/> Other (please specify) _____	
Special conditions <input type="checkbox"/> Transport Documents issued by freight forwarder acceptable <input type="checkbox"/> Please advise beneficiary by phone _____ Container Shipment <input type="checkbox"/> required <input type="checkbox"/> allowed <input type="checkbox"/> not allowed	
Documents to be presented within _____ days after date of shipment but within validity of the Credit	
All banking charges outside Canada for <input type="checkbox"/> beneficiary's account <input type="checkbox"/> applicant's account	

FOR BANK USE

Continuing Indemnity for Documentary Credit Agreement is on file.
Application approved under corporate decision management authority.

Date: _____ (mm/dd/yyyy)

Branch signature _____ Number _____

Branch signature _____ Number _____

In case of need call: _____

Branch Phone: (____) _____

INSTRUCTIONS TO REQUISITIONING BRANCH:
Whenever it is intended to apply drawings, forwarder agent is
FORWARD CONTRACT, the issuing Office is to be advised of forward
contract number, amount, and expiry.

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This application and the credit are made subject to the Continuing Indemnity for
Documentary Credit Agreement (enclosed by us and delivered to you,
and the Uniform Custom and Practice for Documentary Credits (UCP) unless
publication R500-076 International Chamber of Commerce, 1993, if any) as
amended from time to time.

We authorize you to debit our account number _____

Name of Company _____

Name and authorized signatory of applicant _____

Please provide the following information for our record purposes

Type of Company _____
 Sole (Private/Partnership) Yes No
 Retail Wholesale
 Public Private

Examples of Transshipment:

1. A shipment is destined for the Philippines but there is no carrier available to go directly to the Philippines. It must first stop in Japan and be transferred to another carrier destined for the Philippines.
2. A shipment is destined to Calgary, Alberta from the port of Hong Kong. First it travels by ocean carrier from Hong Kong to Vancouver, BC and then must be transferred onto a truck or rail destined for Calgary.

I Transferable Credit. Indicate if the Letter of Credit may be transferred to another party. For information regarding Transferable Letters of Credit, please refer to Other Types of Letters of Credit (page 43).

J Available Against Documents Detailed Herein.

A Beneficiary's Draft. The document that represents the demand for payment that the Exporter (Beneficiary) makes on the bank. Generally, a Beneficiary's draft is required as evidence that a drawing has been made by the Beneficiary on the Letter of Credit.

The use of drafts is not common in all countries; sometimes a draft is avoided in view of the excise stamp duty that it attracts. While this does not change anything in the case of sight payments under Letters of Credit, the situation is slightly different when a term payment is used. In this case, settlement is defined as a "Deferred Payment".

At Sight. Payment is made upon presentation of stipulated documents. This payment term is commonly used.

_ Days After Sight or _ Days after Date of _ : The Exporter may agree to provide extended payment terms such as "payable 60 days after sight" or "30 days after Date of Bill of Lading". This is referred to as a term payment. In this case, payment will be made on the maturity date of the accepted draft.

K Shipment From. Name of the place/port from which the goods will be shipped.

For Transportation To. Name of the place/port to which the goods will be shipped.

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Not Earlier Than. If specified, goods cannot be shipped earlier than this date.

Not Later Than. The latest mutually acceptable date for the shipment to be made. Commonly known as the “Latest Shipping Date”.

L Insurance. Indicate whether you, the Applicant, or the Shipper (Exporter) is responsible for insuring the goods. Keep in mind that this must coincide with the Trade Term (N).

M Goods. Enter a brief description of the merchandise. The common practice is to use a Purchase Order or Performa Invoice number. Example: Men’s shoes as per Purchase Order #23456. Including excessive detail does not give you more protection against inferior or defective goods shipped since, as mentioned earlier, banks deal in documents and not in goods.

Variances. A variance of 5% more or 5% less will be allowed as long as:

- a) the merchandise description is not stated in number of packing units or individual items;
- b) the amount of the Letter of Credit is not exceeded; and
- c) the Letter of Credit does not stipulate that the quantity of goods specified must not be exceeded or reduced.

Variance is not restricted to 5%; you may specify another variance, e.g. +/- 15%.

Note: When you allow a variance, remember to clearly advise whether that variance applies to both the Value (\$) and the Quantity or to the Value (\$) only.

Most Common Trade Terms

Reverse of Application Form

A WORD OF ADVICE AND CAUTION

Please consider the following points and observations before completing and signing the form on the reverse:

- The reputation and credit standing of the beneficiary (seller)
- An order should have been placed with the seller or a contract signed prior to the opening of the Credit
- Trade terms must have been agreed upon with the seller

MOST COMMON TRADE TERMS:

EX WORKS:

Exworks (...named place)
Seller makes the goods available at his premises (i.e works, factory, warehouse, etc.) to the buyer

FCA:

Free Carrier (...named place)
Seller hands over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point

FAS:

Free Alongside Ship (...named port of shipment)
Seller delivers the goods alongside the vessel on the quay or in lighters at the named port of shipment.

FOB:

Free On Board (...port of shipment)
Seller delivers the goods on board the vessel or at the airport at the named port/airport of shipment.

CFR:

Cost and Freight (...named port of destination)
Seller pays costs and freight and to deliver the goods to the named port of destination. This term can only be used for sea and inland waterway transport.

CIF:

Cost, Insurance, and Freight (...named port of destination)
Seller pays costs, insurance and freight to deliver the goods to the named port of destination.

CPT:

Carriage Paid to (...named place of destination)
Seller pays freight and insurance for carriage of the goods to the named destination.

CIP:

Carriage and Insurance Paid to (...named place of destination)
Seller pays freight and insurance for the carriage of the goods to the named destination.

DAF:

Delivered at Frontier (...named place)
Seller delivers the goods at the named point and place at the frontier.

DES:

Delivered Ex Ship (...named port of destination)
Seller makes the goods available to the buyer on board the ship uncleared for import at the named port of destination.

DEQ:

Delivered Ex Quay - Duty Paid (...named port of destination)
Seller makes the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation.

DDU:

Delivered Duty Unpaid (...named place of destination)
Seller makes the goods available to the buyer at the named place in the country of importation.

DDP:

Delivered Duty Paid (... named place of destination)
Seller makes the goods available to the buyer at the named place in the country of importation. The seller bears the risks and costs, including duties, taxes and other charges of delivering the goods.

N Trade Terms. These are commonly referred to as INCO terms. They determine the obligations of the Exporter and Importer with respect to freight costs, insurance, taxes, duties, etc. These terms are issued by the International Chamber of Commerce. A list of the more commonly used INCO terms can be found on the reverse of the application form illustrated on page 15. You may wish to refer to the International Chamber of Commerce’s publication “Guide to INCO terms” for more information.

Example: If the trade term is F.O.B. (Free on Board) Kaoshiung, Taiwan, it will be marked “Freight Collect” on the transport document, since the Importer (Applicant) is responsible for paying all freight charges and insurance from Kaoshiung, Taiwan to the point of destination.

O Documents Required. The following is a list of documents commonly requested in a Letter of Credit. The documents you choose will be determined in the contract between you and the Exporter.

Commercial Invoice. The commercial invoice is normally required. Indicate whether you require original signed copies of the invoice or simply copies of the original. You must also stipulate the number of copies that are required.

Transport Documents. The following are simple guidelines to assist you in making your selection. It is advisable that you refer to the UCP 500, Articles 23-33 for more detailed information.

In general, a transport document provides evidence the carrier has received the goods it is responsible to ship. Some transport documents, such as a Marine/Ocean Bill of Lading, also carry title to the goods. A transport document is negotiable if it transfers title to the goods.

Full Set Of: A full set refers to the number of original documents being issued. Generally Bills of Lading are issued in three originals. If the method of transportation includes an ocean vessel, indicate which of the following two documents are required:

1. **Multimodal Transport Document.** For shipments using more than one mode of transportation, e.g. ocean vessel and truck.
2. **On Board Marine/Ocean Bill of Lading.** Used for ocean shipments from one ocean port to another. For a city to be considered a port, it must be accessible by ocean vessel year round.

Issued by: You may specify who is to issue the transport documents.

Marked Freight Prepaid or Collect. Check the appropriate box as to whether the freight charges will be prepaid by the Exporter or if they are the responsibility of the Importer and are therefore collect. This should be consistent with the trade term used in Section N.

Notify: Name the party to be notified once the goods arrive at the destination point.

Air Transport Document. Transport document used when the shipment is by air. This is a non-negotiable document; therefore, it does not carry title to the goods. You must indicate to whom the goods are being consigned, e.g. yourself (Applicant) or TD.

Trucking/Rail Bill of Lading. Transport document for shipment by truck or rail. These bills of lading are not negotiable and are usually consigned to you, the Applicant, but may be consigned to another named party.

Insurance Documents

Policy/Certificate. This document must be requested if the Exporter is responsible for arranging insurance on the shipment. It is recommended that the minimum amount of insurance be 110% of the invoice value. You must also state what risks the insurance policy is covering. A standard insurance policy will cover all risks. The term “all risks”, however, does not mean that all risks are covered. Certain risks such as war, strikes and riots are not included and must be specifically requested. It is important to understand that there is a difference between an insurance policy and a certificate of issuance. Refer to the UCP 500, Articles 34-36 for detailed information regarding insurance. It is also recommended that you seek professional advice from your insurance broker or agent.

Other Documents

You may request documents other than those listed above. For all documents in this category, you must stipulate which party will issue the document as well as the wording of the document, otherwise it will be accepted as presented. The following is a list of commonly used documents that fall into this category.

Generalized System of Preference Certificate of Origin Form “A”. This document certifies the country of origin of the goods being shipped and may provide the Importer with a preferential duty rate. Indicate how many copies are required. You should contact Canada Customs or your customs broker for information regarding whether this document is required.

Packing List. A list of the packing of goods being sent, which can assist you in the inventory and distribution of the merchandise.

Canada Customs Invoice. Imports into Canada require that a Canada Customs invoice be presented. This invoice can be prepared by you; however, it may be called for in the Letter of Credit. If this document is being requested, you must indicate how many copies you require.

Inspection Certificate. An Inspection Certificate may be requested from a third party or an agent of the Importer located in the country of dispatch, to ensure a certain quality of goods. In this case, you must stipulate the

issuer of such a Certificate and, if necessary, the content or wording of the Certificate, otherwise banks will accept such a document as presented. It is recommended that an Inspection Certificate be requested wherever possible.

Weight List. A document stating the weight of the goods.

P Special Conditions

Transport Documents issued by Freight Forwarders Acceptable.

Exporters often use the services of a freight forwarder to transport goods and prepare documents relating to the shipment. Indicate here whether documents prepared by a freight forwarder are acceptable to you.

Please Advise Beneficiary by Phone or Fax. If it is urgent that the Beneficiary be notified immediately of the Letter of Credit, please include instructions as to who the Advising Bank must call or fax upon its receipt.

Q Documents to be Presented Within. Refers to the number of days after shipment in which the Exporter is allowed to present documents to the “available with” Bank. The shortest possible presentation time is recommended to ensure that the importer receives documents prior to the arrival of goods at destination.

R Banking Charges. Indicate who will pay the Exporter’s banking charges along with the charges of any other bank outside of Canada that is involved in the transaction, such as the Reimbursing Bank. It is not uncommon for all banking charges outside Canada to be for the Beneficiary’s account. Note that the Issuing Bank charges are always the responsibility of you, the Applicant.

S Date. Your branch must insert the date that you signed the Continuing Documentary Credit Agreement. Two authorized bank officers must sign and indicate their signature numbers.

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T Your company name must be typed/printed in full and the appropriate company-signing officers must sign the form.

Once the branch has received the application form and upon approval, it will be forwarded to TD's nearest Global Trade Finance office. Please note that Letter of Credit applications can also be handled electronically through the Internet using [tdfacilitrade](#). You can feel secure knowing that the submitted application form will be closely reviewed and any clarifications will be discussed with you.

Amendments to a Letter of Credit

After issuance of a Letter of Credit, changes can be done through amendments subject to acceptance by the Exporter. Amendments to the Letter of Credit will be required when either the Importer or the Exporter is unable to comply with the terms of the sale agreement or the agreement has been changed. For example, an Exporter will ask for an amendment to extend the expiry date and the latest shipping date if they are unable to manufacture the merchandise according to the agreed upon time. An Importer may request an amendment to increase the value of the Letter of Credit if they subsequently decide to purchase a higher quantity of merchandise.

The Importer must complete an amendment application listing all required changes and forward the request to the respective Global Trade Finance office via the same route the original application was sent. TD clients with access to [tdfacilitrade](#) can forward amendments via the Internet. Amendment requests will be processed subject to credit approval by the Issuing Bank where necessary.

Any amendments to the Letter of Credit must be accepted by the Exporter and where more than one change is included in an amendment, they must be accepted as a whole as opposed to accepting or rejecting individual items within the amendment.

Questions Commonly Asked by Importers

Q When the Letter of Credit expiry date is set, should enough time be allowed for the goods to reach me or for payment to be made when extended payment terms have been negotiated (e.g. 60 days after sight)?

A No. The expiry date should simply allow the Exporter sufficient time, after the latest shipping date, to present documents to the “available with” Bank. In a Letter of Credit, the Importer is not allowed the opportunity to inspect the goods prior to paying for them. Keep in mind that banks deal only in documents and not in goods.

Q Is there any way that I can protect myself by using a Letter of Credit to ensure I do not get inferior quality goods?

A Yes. This can be done by requesting appropriate third party documents to be submitted under the Letter of Credit that would evidence shipment of the proper goods, e.g. Inspection Certificate, Health Certificate, Agent’s Certificate, etc.

Q How quickly will the Exporter receive my Letter of Credit?

A Once the Letter of Credit application form is received by TD’s Global Trade Finance office, the Letter of Credit will be issued within 24 hours. If it is sent by teletransmission/SWIFT, the Advising Bank will receive the advice the same business day or the next business day the latest. You may include instructions in the application form for the Advising Bank to notify the Beneficiary by phone or fax and that you also include the relevant numbers to be used, enabling the Exporter to receive a copy of the Letter of Credit without delay.

Q What is the cost to issue a Letter of Credit?

A The fees vary based on the dollar amount of your Letter of Credit and the length of time it is outstanding. You should contact your TD branch for a Fee Schedule.

Q Under a Letter of Credit, what recourse is available to me if the quantity or quality of goods is different from what was agreed upon?

A Since banks deal only in documents and not in goods, all disputes of whatever nature may either be referred to International Chamber of Commerce Arbitration or handled through courts of law.

Q What happens if my ocean shipment arrives before my transport documents?

A You have two options. One is to wait for the shipping documents to arrive which may result in payment of demurrage charges. The other option often used by importers is to obtain a shipping guarantee. A shipping guarantee is a bond of indemnity your bank will issue to the shipping line allowing you to obtain the imported goods without producing the original transport documents. Obviously the bank will note the liability of the shipping guarantee against your line of credit.

When original transport documents do arrive you must hand them over to the shipping company who will return the bond of indemnity to you which you must deliver back to the bank to free your line of credit.

Letters of Credit – Exporter’s Perspective

Step-by-Step Process for the Exporter

The following is a detailed explanation of the process you, as an Exporter follow when named as a Beneficiary under a Letter of Credit. In this explanation, TD is acting as the Advising Bank and Confirming Bank.

1. There are several different ways to notify you that a Letter of Credit has been issued in your favour. TD’s Export Letter of Credit Department will call you directly and obtain instructions as to how you would like to receive the Letter of Credit. The choices include:
 - Faxing a copy of the Letter of Credit.
 - Sending the original Letter of Credit by courier or mail.
 - Electronically downloading the content of the Letter of Credit via tdfacilitrade, allowing you to print your own copy of the Letter of Credit. tdfacilitrade even allows you to electronically forward the contents of the Letter of Credit to your Freight Forwarder. For more information, please contact the Global Trade Finance office nearest you.

Please note that an Exporter does not have to be a TD customer to be advised of a Letter of Credit through TD.

2. Upon receipt of the Letter of Credit, you should read it carefully paying close attention to all terms and conditions to ensure they can be met. Accompanying the Letter of Credit is a covering letter which includes the address of TD’s Global Trade Finance office and the appropriate phone numbers to call with any questions regarding the Letter of Credit. See page 26 for an illustration of a Letter of Credit in SWIFT format.
3. If any of the terms and conditions in the Letter of Credit differ from the sales contract between you and the Importer, you should request an amendment to the Letter of Credit. It is recommended that shipments not be made against the Letter of Credit until all amendments have been received. Please refer to page 20 for further information regarding amendments.
4. Once you are satisfied with the terms and conditions of the Letter of Credit and the shipment is made, all documents requested in the Letter of Credit must be prepared or obtained. You would then forward these documents, along with the draft (if required) and a copy of the original Letter of Credit, to TD’s Global Trade Finance office listed in the covering letter.

5. TD checks these documents to ensure compliance with the terms and conditions outlined in the Letter of Credit. If the documents contain discrepancies, TD will discuss how they may be corrected as well as what other options are available. Discrepancies are discussed on page 34.
6. When the documents are in order, payment under the Letter of Credit is made to the Exporter or, in the case of a term Letter of Credit, payment will be made on the maturity date of the accepted draft.

Unconfirmed vs. Confirmed Letter of Credit

For the Exporter, the issue of whether or not a Letter of Credit is confirmed is an extremely important one.

When a Letter of Credit is issued, the risk of payment rests with the bank that has issued the Letter of Credit. This is an **Unconfirmed** Letter of Credit.

However, it may be that the Issuing Bank is not considered an acceptable risk and/or the country where it is located has high political or economic uncertainty. In this situation, the Exporter should consider requesting a **Confirmed** Letter of Credit. With a Confirmed Letter of Credit, another bank, the “Confirming Bank”, usually located in the same country that the Exporter is located, will add its “confirmation” to the Letter of Credit. By adding its confirmation, the Confirming Bank undertakes to honour the Exporter’s claim under the Letter of Credit, provided all terms and conditions of the Letter of Credit are met. The risk of payment is now assumed by the Confirming Bank, as well as the Issuing Bank, thereby providing more protection for the Exporter.

How to Confirm a Letter of Credit

An Exporter who decides to have a Letter of Credit confirmed should inform the Importer to instruct the Issuing Bank to issue a “Confirmed Irrevocable Letter of Credit”. The Issuing Bank must request a third bank, generally the Advising Bank, to advise the Letter of Credit to the Exporter adding their confirmation. The Confirming Bank will charge a fee for undertaking such risk. The question of which party bears the cost of the confirmation is subject to negotiation between the Exporter and Importer.

Prior to the issuance of a Letter of Credit it is recommended that the Exporter check with its own bank as to whether the bank is prepared to add its confirmation, should it be requested to do so. To make this decision, the bank will need preliminary information about the Letter of Credit such as the name of the Issuing Bank, country of issuance, expiry date and amount.

If the Advising Bank has agreed to confirm a Letter of Credit, it also becomes the Confirming Bank. In the case of a Confirmed Letter of Credit, the covering letter attached to the Letter of Credit will include a clause similar to the following:

“This Credit carries our confirmation and we hereby engage, with the drawers, endorses and holders in due course of drafts drawn under this Credit, that such drafts will be duly honoured on presentation at our counter, provided that all terms and conditions of the Credit have been complied with.”

A Guide to Letters of Credit

Copy of an Export Letter of Credit in SWIFT Format

```
RECEIVED FROM: BTTT76XXX UNIVERSAL BANK, TAIWAN
TO: TDOMCATTOR TORONTO DOMINION BANK, TORONTO, CANADA

ISSUE OF A DOCUMENTARY CREDIT

40A: FORM OF DOCUMENTARY CREDIT : IRREVOCABLE
20A: DOCUMENTARY CREDIT NUMBER : 001/5845
31C: DATE OF ISSUE : 97/01/15
31D: DATE AND PLACE OF EXPIRY : 97/02/20
      CANADA
50: APPLICANT : A-TO-Z-IMPORT LIMITED
      77, EWE STREET
      TAIPEI, TAIWAN
59: BENEFICIARY : EXPORT TRADING INC
      21 MAIN ST
      TORONTO, CANADA
32B: CURRENCY CODE, AMOUNT : USD 50000.00
41D: AVAILABLE WITH...BY... : YOURSELVES
      PAYMENT
42C: DRAFTS AT... : SIGHT
42D: DRAWEE : YOURSELVES
43P: PARTIAL SHIPMENTS : NOT ALLOWED
43T: TRANSHIPMENT : NOT ALLOWED
44A: LOADING ON BOARD/DISPATCH... : VANCOUVER, CANADA
44B: FOR TRANSPORTATION TO... : TAIPEI, TAIWAN
44C: LATEST DATE OF SHIPMENT : 97/02/10
45A: DESCRIPTION OF GOODS AND/OR SERVICES :2 MOLDING MACHINES AS PER P.O
      NUMBER 26578 CIF TAIWAN
46A: DOCUMENTS REQUIRED
      1/FULL SET OF CLEAN ON BOARD MARINE BILLS OF LADING MADE OUT TO THE
      ORDER OF UNIVERSAL BANK, TAIWAN MARKED FREIGHT PREPAI AND NOTIFY
      APPLICANT
      2/COMMERCIAL INVOICE IN ORIGINAL AND TWO COPIES
      3/INSURANCE CERTIFICATE IN DUPLICATE FOR 110% OF INVOICE VALUE COVERING
      ALL RISKS
      4 PACKAGING LIST
71B: CHARGES : BANKING CHARGES OUTSIDE OF
      TAIWAN ARE FOR BENEFICIARY'S
      ACCOUNT
48: PERIOD FOR PRESENTATION : DOCUMENTS MUST BE PRESENTED
      NO LATER THAN 10 DAYS AFTER
      DATE OF SHIPPING DOCUMENTS
      FOR NEGOTIATION BUT WITHIN
      THE CREDIT VALIDITY
49: CONFIRMATION INSTRUCTIONS : WITH
53A: REIMBURSEMENT BANK : TDOMCATTOR
72: SENDER TO RECEIVER INFORMATION : THIS IS THE OPERATIVE INSTRUMENT

* END OF MESSAGE*
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¹ SWIFT (Society for Worldwide Interbank Financial Telecommunications):
an international electronic interbank message system

What an Exporter Should Look for When Reviewing a Letter of Credit

(Refer to the sample of an Export Letter of Credit on opposite page)

1. Which bank issued the Letter of Credit (L/C)? (L/C header under “Received From:”) Is this bank a reputable one that can be relied on for payment? (Contact TD’s local Global Trade Finance office if unsure.) If not, does the Letter of Credit allow for confirmation by another bank? (field 49)
2. Is the Letter of Credit irrevocable? (Field 40A) If it is not stated, the L/C is irrevocable.
3. Are the Importer’s (Applicant’s) name and address spelled correctly? (Field 50)
4. Are your name and address spelled correctly? (Field 59)
5. Are the dollar amount and currency of the Letter of Credit correct? (Field 32B)
6. Does the payment term agree with the sales contract? (Field 42C)
7. If necessary, are partial shipments allowed? (Field 43P)
8. Are the points of shipment (Field 44 A) and destination (Field 44B) as agreed?
9. Is it possible for you to meet the latest shipping date? (Field 44C) Are enough days allowed to present documents? (Field 48) You may need to check with the freight forwarder handling the shipment and preparing documents for you.

A Guide to Letters of Credit

10. Is the merchandise description correct and, if needed, does it include unit price, weight and quantities? (Field 45A) If necessary, does the Letter of Credit allow for any variance on the quantity and/or dollar amount?
11. Are the terms of the sale regarding insurance and freight charges as agreed? (Field 45A)
12. Can all documents listed in the Letter of Credit be obtained? (Field 46 A)
13. Which party is responsible for banking charges? (Field 71b)
14. Where is the Letter of Credit payable? (Field 41D) Note: this will affect the length of time required to receive your funds.

After reviewing the Letter of Credit, if you find any terms and conditions unsatisfactory, you must ask the Importer (Applicant) to instruct the Issuing Bank to make the necessary amendments to the Letter of Credit. It is recommended that you not proceed with shipment until such amendments are received.

A Guide to Letters of Credit

THE TORONTO-DOMINION BANK
Instructions for the Issuance of a Letter of Credit



To be completed by the Beneficiary/Exporter:

To: (Applicant/Importer, Name and Address)	From: (Beneficiary/Exporter, Name and Address)

Please issue your Irrevocable Documentary Letter of Credit as per the following:

SHIPPING DETAILS:

- The letter of credit shall be:
 Advised by:
The Toronto-Dominion Bank
- Global Trade Finance
100 Wellington Street West
18th Floor
Toronto, Ontario M5K 1A2
SWIFT: **TDOMCATTTOR**
- This letter of credit should be negotiable and payable at the counters of The Toronto-Dominion Bank.
 - Confirmed Unconfirmed
 - exactly up to _____ (currency and amount)
- This letter of credit shall be:
 - sight _____ days sight _____ days from bill of lading date.
- Partial drawings/shipments will be:
 - permitted prohibited
- Transshipments to be:
 - permitted prohibited
- This letter of credit shall state:
 - All banking charges are for the account of the applicant.
 - All banking charges outside the applicant's country are for the account of the beneficiary.
- This letter of credit shall allow a latest shipping date of: _____ day / _____ month / _____ year
 - This letter of credit shall allow documents to be presented at the counters of The Toronto-Dominion Bank within _____ days of the latest shipping date.
 - The expiry date of this letter of credit shall be: _____ day / _____ month / _____ year

REQUIRED DOCUMENTS:

- COMMERCIAL INVOICE** in:
 - duplicate triplicate quadruplicate other _____
 - Terms: F.O.B. C&F CIP other _____
- Covering: _____ (signature) _____ (destination) _____ (destination)
 as follows: merchandise as per Pro Forma Invoice Numbers: _____ dated _____ of _____
 - TRANSPORT DOCUMENTS**
 - (in Board) (Ocean Bill of Lading)
 - Marked: freight collect freight prepaid
 - Consigned: to _____ to the order of: _____
 - or -
 - Multimodal Transport Document
 - Marked: freight collect freight prepaid
 - Consigned: to _____ to the order of: _____
- or -
- Air Waybill
- Marked: freight collect freight prepaid
- Consigned: the credit shall allow for forwarders air waybills to: _____

- or -
- Copy of: Truck Bill of Lading, or Rail Bill of Lading
- Marked: freight collect freight prepaid
- Consigned: to: _____
- The transport document should indicate shipment from _____ and shipment to _____
- OTHER DOCUMENTS**
 - Packing List
 - Certificate of Origin Form A showing origin of goods as _____
 - Insurance: certificate of _____ covering _____
 - policy for _____ % of invoice value
 - Drafts to be drawn on The Toronto-Dominion Bank (if confirmed by the Toronto-Dominion Bank) or an issuing bank otherwise
 - Other: _____
 - Other: _____
 - Other: _____
- SPECIAL INSTRUCTIONS:**

Please forward this document to the Applicant for the prompt issuance of the letter of credit.

How to Convey Letter of Credit Requirements to the Importer

As an Exporter, you can be proactive and tell your customer (the Importer) exactly what terms and conditions you are agreeable to in a Letter of Credit. While this will not guarantee the Letter of Credit will arrive exactly as you specified, it can help avoid misunderstandings between you and the Importer. A sample of a Letter of Credit requisition form is illustrated on page 29. To obtain a copy, please contact the local Global Trade Finance office.

You may also request that the Letter of Credit be advised through the TD Bank regardless of whether or not TD is your banker. Simply provide the Importer with the address and SWIFT code of TD's nearest Global Trade Finance office. Please see back cover of this guide for a listing of these offices.

Document Preparation Checklist

The following checklist is intended to provide the Exporter with simple guidelines for document preparation. Note that in addition to checking the documents for inconsistencies with the Letter of Credit, the “available with” Bank checks for inconsistencies among documents.

It is recommended that Exporters unfamiliar with Letters of Credit use or consult with a reputable freight forwarder. Since payment to the Exporter depends on the documents being in full compliance with the Letter of Credit, the preparation of these documents is an extremely important part of the Letter of Credit process.

Draft

A Draft, also known as a Bill of Exchange, is a legally enforceable instrument, which is regarded as formal evidence of debt under a Letter of Credit. It is defined as **an unconditional order in writing addressed by one person to another, signed by the person giving it, and requiring the addressee to pay at a fixed or determinable time a certain sum of money to or to the order of a specified party.** A draft must be presented with all other documents requested in the Letter of Credit, unless stipulated otherwise. Drafts may be obtained from any of TD's Global Trade Finance offices.

Example of a Draft

DUE <u>1</u>	
2 At sight	AFTER DATE FOR VALUE RECEIVED 3 February 19 20 02
PAY TO THE ORDER OF _____	
THE SUM OF 4 USD Fifty-Thousand	\$ 5 USD 50,000
DRAWN AGAINST LETTER OF CREDIT NO. 6 001/5945 DATED 7 Jan. 15 20 97	
ISSUED BY 8 Universal Bank, Taipei, Taiwan	
TO Toronto-Dominion Bank	
9 Global Trade Finance	
100 Wellington St. West	
Toronto, Ontario	10 _____
	EXPORT TRADING INC.

How to Complete a Draft

(Refer to the Letter of Credit in SWIFT format page 26)

1. If a specific date of payment is in the Letter of Credit, it must be entered here.
2. Payment term, e.g. “at sight”, “30 days after sight”, “60 days after Bill of Lading Date”. (Field 42C)
3. Date you present documents to the “available with” Bank.
4. Dollar amount of the Draft in words along with the currency.
5. Dollar amount of the Draft in figures along with the currency.
6. Letter of credit number assigned by the Issuing Bank. (Field 20)
7. Date the Letter of Credit was issued. (Field 31C)
8. Name and address of the Issuing Bank. (Listed in the Header under “Received From”)
9. Name and address of the bank on which the Drafts are to be drawn. (Field 42D) If it states “yourselves”, it is drawn on whichever TD Global Trade Finance office assuming the Letter of Credit was advised by TD.
10. Signature of an authorized signing officer of the Company. The Beneficiary’s name must be spelled out below the line.

A Guide to Letters of Credit

Commercial Invoice

1. Does the merchandise description- including weight, quantity and price- conform exactly with the Letter of Credit and other documents?
2. Are the name and address of the Importer and Exporter exactly as shown in the Letter of Credit?
3. Have the correct number of originals and copies been presented and signed if required?
4. Is it made out in the same currency as the Letter of Credit?
5. Is the trade term listed per the Letter of Credit, e.g. C.I.F.? (See page 15 for a listing of commonly used trade terms)

Transport Document (commonly referred to as a “Bill of Lading”)

1. Has it been submitted with all the required originals?
2. Is the merchandise description consistent with the Letter of Credit?
3. Are the points of loading and discharge consistent with the Letter of Credit?
4. Is the Bill of Lading consigned to the order of the party specified in the Letter of Credit?
5. Is it dated on or before the latest shipment date stipulated in the Letter of Credit?
6. Is the Bill of Lading endorsed correctly?
7. If the Letter of Credit states freight is to be prepaid, is this clearly indicated on the Bill of Lading?

Insurance Document

1. Does the insurance document cover all risks specified in the Letter of Credit?
2. Does the insured amount meet the percentage requirement of the Letter of Credit and is it in the currency of the Letter of Credit?
3. Is the issue date of the insurance document prior to the shipment date of the goods?
4. Is the insurance document signed by or endorsed in blank by the insured or endorsed to the order of the party designated in credit?
5. Is the insurance document signed by the insurance company, underwriter or agent?
6. Is the merchandise described as per the Letter of Credit?

Certificates of Origin and Inspection

1. Ensure the documents are dated as of or before the Bill of Lading date.
2. Ensure the contents meet the requirements of the Letter of Credit.

Packing and Weight Lists

1. Does the quantity of units/weight match that which is indicated in the Commercial Invoice?
2. Is the breakdown of merchandise/weight per carton shown if requested in the Letter of Credit?

Dealing with Discrepancies

Any inconsistency found in documents presented or failure to comply with the terms and conditions of the Letter of Credit is deemed a “discrepancy.”

Certain discrepancies may be corrected by the Exporter either by amending the original documents or by replacing them with new ones. If discrepancies are noted in the Bill of Lading, insurance document or consularized invoice, the document(s) must be returned to the issuing party for correction, if desired by the Exporter.

Options Available to the Exporter When Documents are Discrepant

If certain non-correctable discrepancies are noted, such as late shipment or presentation of documents past the expiry date, TD will contact the Exporter to request handling instructions. The Exporter has three options, as follows:

- 1. Forward Document on Approval.** TD sends the documents at the Exporter’s risk to the Issuing Bank, noting the relevant discrepancies. In this scenario, the Exporter believes that the Importer will approve the discrepancies. It also may be that the shipment has already arrived or is about to arrive and the Exporter does not want the shipment to incur a demurrage charge.

When the documents are received by the Issuing Bank, they will be checked and the discrepancies referred to the Importer for acceptance. Meanwhile, the documents will not be released to the Importer until the Issuing Bank receives the Importer’s approval of the discrepancies. Upon receipt of the Importer’s approval, payment will be made under the Letter of Credit.

Note: It is advantageous for the Exporter to advise the Importer directly of the discrepancies to ensure a quick response when the Importer is contacted by the Issuing Bank.

2. **Cable for Approval.** At the request of the Exporter, TD sends a SWIFT message to the Issuing Bank requesting authority to negotiate the documents and noting the discrepancies found. The Issuing Bank, in turn, will notify the Importer of these discrepancies. The Importer will then indicate to the Issuing Bank whether the documents are acceptable with the discrepancies noted. If authorization to waive the discrepancies is received (by TD from the Issuing Bank), TD will send the documents to the Issuing Bank and payment will be made according to the Letter of Credit terms.
3. **Indemnity.** The Exporter may provide TD with an acceptable Indemnity Agreement for the discrepancies. Such indemnity enables TD to effect payment immediately, even though there are discrepancies in the documents. If documents are not accepted by the Importer, TD has the right to claim the funds back from the Exporter under the Indemnity Agreement.

Acceptances

A Letter of Credit is said to be a “Term Letter of Credit” or “Usance Letter of Credit” when extended payment terms are agreed to, such as **60 days after sight or 60 days after Bill of Lading date**. Once documents and a usance draft are presented under a “Term Letter of Credit” and are found to be in good order, instead of paying the Exporter right away, the Drawee Bank “accepts” the draft, which is essentially a promise to pay the Exporter on the maturity date stated in the draft. The Accepting Bank holds the accepted draft until maturity or the draft can be returned to the Beneficiary, depending on the Beneficiary’s preference.

Once a draft has been accepted, it becomes a negotiable instrument called a Banker’s Acceptance or simply referred to as an Acceptance. Acceptances may be discounted as discussed on the next page.

Discounting Acceptances

Instead of holding an Acceptance until the maturity date, the Exporter may have the accepted draft “discounted” at prevailing discount rates. This allows the Exporter to receive payment, net of discount charges, as soon as the draft has been accepted, instead of waiting until the maturity date. In addition to the Exporter receiving funds prior to the maturity date, another advantage to discounting is that the discount rate is based on the risk of the Accepting Bank and therefore is usually lower than the Exporter’s borrowing rate. Contact one of TD’s Global Trade Finance offices for further information.

Assignment of Proceeds

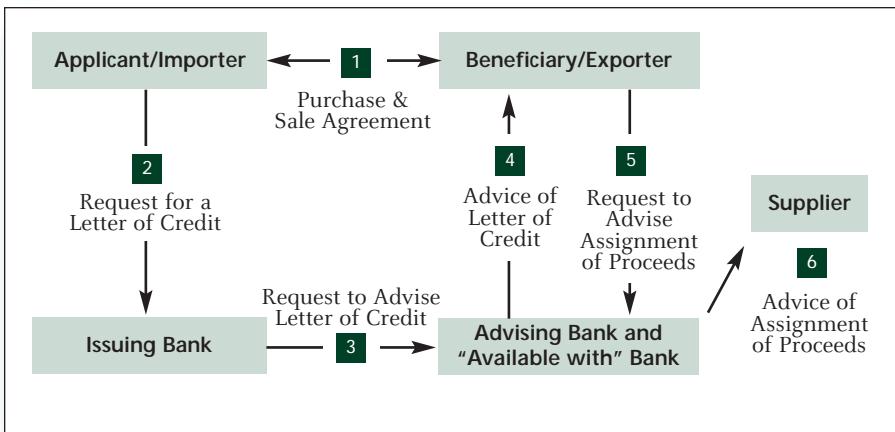
The Beneficiary may assign part or all of the proceeds of the Letter of Credit to a third party (assignee) such as a supplier. A key point for the assignee to keep in mind is that payment is forthcoming only if the Exporter receives payment under the Letter of Credit, over which the assignee has no control. An assignment of proceeds is irrevocable and therefore all parties must consent to any changes.

Assigning proceeds may be an acceptable alternative to a supplier who otherwise might request a Letter of Credit or demand funds in advance of shipment.

Procedure to Assign Proceeds

1. An Assignment of Proceeds form must be completed by the Exporter once the Letter of Credit is received. This form can be obtained directly from one of TD's Global Trade Finance offices.
2. Once the form has been completed, it is sent back to the Global Trade Finance office for acknowledgment.
3. An advice of the assignment is sent to the designated assignee.

Assignment of Proceeds



Questions Commonly Asked by Exporters

Q I have received a Letter of Credit, but it does not meet the sale terms agreed upon. What should I do?

A If the Letter of Credit is not acceptable to you, you should request an amendment to the Letter of Credit from the Importer. Refer to page 20 for details on amendments. If the Importer does not agree to the request for amendment, you may refuse to ship against the Letter of Credit and simply let it expire unused.

Q What is the fee for having a Letter of Credit confirmed?

A The confirmation fee is calculated as a percentage of the face value of the Letter of Credit and is based on both the risks of the Issuing Bank and the country in which it is domiciled. The fee is usually quoted on a per-90-day period and currently ranges upwards from approximately 0.10%. The rate is subject to change at anytime based on prevailing market conditions.

Q I just received a payment advice under a Letter of Credit detailing a list of charges. What are “Reimbursing Bank” charges?

A A Reimbursing Bank is one authorized by the Issuing Bank to facilitate the transfer of funds between TD and the Issuing Bank. It may be necessary to have a Reimbursing Bank involved because reimbursement is in a foreign currency or because the Issuing Bank and TD do not share settlement accounts. The Reimbursing Bank will charge a fee to facilitate the payment. This fee is the responsibility of the Exporter if the Letter of Credit states that all charges outside of the Importer’s country will be paid by the Exporter.

Q I received a Letter of Credit advised by a Canadian bank other than TD. Can I still negotiate my documents with TD?

A If the Letter of Credit states that it is “negotiable with any bank”, then you may negotiate your documents with TD. This information is found in the Letter of Credit SWIFT format in field 41D “Available with . . .”.

Q How do I get a copy of the Uniform Customs and Practice for Documentary Credits (UCP) 500, (1993 revision)?

A You can obtain a copy from your local TD branch or from one of TD’s Global Trade Finance offices listed on the back cover of this guide.

Standby Letters of Credit

The basis of a Standby Letter of Credit is that it may be drawn on by the Beneficiary when the Applicant (Buyer) has failed to perform in accordance with the underlying contract between the Applicant and Beneficiary.

In simple terms, a Standby Letter of Credit is “standing by” to protect the Beneficiary in case the Applicant defaults on an agreed-upon contract. Standby Letters of Credit are either governed by the *Uniforms Customs and Practice for Documentary Credit (UCP)* or the *International Standby Practice (ISP)* rules.

Unlike a Documentary Letter of Credit, the usual documents called for under a Standby Letter of Credit are no more than a written demand (or sight draft) from the Beneficiary, accompanied by its statement that the Applicant has defaulted in performance of the agreed-upon contract. Because the documents are much less stringent, the risk of a Standby Letter of Credit rests more heavily on the Applicant than the Beneficiary. A Standby Letter of Credit, therefore, should be issued only when the Applicant has no doubt as to the trustworthiness and integrity of the Beneficiary.

Standby Letters of Credits are used in a variety of forms. Most commonly they are used for Bid Bonds, Performance Bonds, Advance Payment Guarantees, Warranty Bonds, and to secure financial obligations of obligors. Often suppliers ask their buyers to provide Standby Letters of Credits as security for goods sold on open account. A Lessor may request a Standby Letter of Credit from a Lessee to cover lease obligations. These are some of examples of Standby Letter of Credits and, in the event of a default, the beneficiary could demand payment from the issuing bank of the Standby Letter of Credit.

It is also important to recognize the distinction between Guarantees and Standby Letters of Credits. Both Standby Letter of Credits and Guarantees obligate the Issuing Bank to make payment to a beneficiary in the event of a default. However, the distinction is attributable to the rules and laws under which each instrument is issued. Typically Guarantees are issued subject to local laws while Standby Letters of Credits are issued subject to Uniform Customs and Practice Rules or International Standby Practice Rules.

The following example illustrates the use of a Standby Letter of Credit.

Example

A Canadian shoe importer, Best Shoes Importer Inc., has signed a one-year contract with a supplier in Brazil, Brazilian Shoes Supplier Inc., agreeing to purchase on open account leather shoes valued at CAD \$30,000/month. Under the open account arrangement, payment must be made 30 days after the invoice date. To guarantee payment by Best Shoes Importer Inc., Brazilian Shoes Supplier Inc. requires that an Irrevocable Standby Letter of Credit with an expiry date of one year from the date of issue be issued in its favour for CAD \$30,000.

A Guide to Letters of Credit

TO: (...ADVISING BANK...)
FROM: THE TORONTO DOMINION BANK

AT THE REQUEST OF OUR CUSTOMER,
WE THE TORONTO DOMINION BANK, GLOBAL TRADE FINANCE,
500 ST. JACQUES STREET, 10TH FLOOR, MONTREAL,
QUEBEC, CANADA H2Y 1S1

HEREBY ISSUE IN YOUR FAVOUR OUR IRREVOCABLE STANDBY LETTER OF
CREDIT IN THE TOTAL AMOUNT OF _____

WE AUTHORIZE YOU TO DRAW ON THIS BRANCH UNDER THIS STANDBY
LETTER OF CREDIT IN THE FORM OF A DEMAND FOR PAYMENT WHICH
DEMAND WE SHALL HONOUR WITHOUT ENQUIRING WHETHER YOU HAVE A
RIGHT AS BETWEEN YOU AND THE CUSTOMER TO MAKE SUCH DEMAND AND
WITHOUT ACKNOWLEDGING ANY CLAIM OF THE CUSTOMER.

PROVIDED, HOWEVER, THAT YOU ARE TO DELIVER TO US AT THE ABOVE
ADDRESS, THE FOLLOWING DOCUMENTATION:

- YOUR SIGHT DRAFT DRAWN ON US
- THE ORIGINAL OF THIS STANDBY LETTER OF CREDIT AND ANY
AMENDMENTS IF ANY
- COPY OF UNPAID INVOICES
- A CERTIFICATE PURPORTEDLY SIGNED BY AN AUTHORIZED OFFICER OF
YOUR COMPANY STATING THAT _____ IS IN DEFAULT AND
THAT THE MONIES DRAWN BY YOU ARE DUE AND PAYABLE TO YOU BY
BENEFICIARY

PARTIAL DRAWINGS ARE PERMITTED

IT IS EXPRESSLY UNDERSTOOD THAT NEITHER THIS STANDBY LETTER OF CREDIT
NOR ITS PROCEEDS ARE TRANSFERABLE OR ASSIGNABLE TO ANY THIRD PARTY

THIS STANDBY LETTER OF CREDIT IS ISSUED SUBJECT TO UNIFORM CUSTOMS
AND PRACTICE FOR DOCUMENTARY CREDIT, 1993 REVISION ICC PUBLICATION
NO. 500.

THE ABOVE DOCUMENTATION MUST BE PRESENTED AT THIS BRANCH ON OR
BEFORE 3:00 P.M. OUR TIME ON _____, AT WHICH TIME THIS
STANDBY LETTER OF CREDIT SHALL EXPIRE.

Other Types of Letters of Credit

Back-to-Back Letter of Credit

When one Letter of Credit is used to secure the issuance of another Letter of Credit, the parties are said to be dealing with a “Back-to-Back” Letter of Credit transaction. Such a transaction is often requested by an intermediary party, such as a broker, to provide settlement to a supplier from which the goods are purchased.

In a Back-to-Back Letter of Credit scenario, the intermediary party would receive and be the Beneficiary of a Letter of Credit from its customer that has agreed to purchase goods. This Letter of Credit is referred to as the **Primary Credit**. Subsequently, the intermediary party must issue a Letter of Credit, referred to as the **Secondary Credit**, to its supplier, for a lesser amount than the one received. At this point, the intermediary party would approach a bank, offering the Primary Credit as collateral for issuance of the Secondary Credit.

The acceptance of the Primary Credit as security for the Secondary Credit is extremely risky to the intermediary party’s bank. Circumstances may arise that prevent the intermediary party from meeting the terms and conditions in the Primary Credit e.g. insolvency. Therefore, the intermediary party’s bank would be unable to draw under the Primary Credit it has taken as collateral. The supplier that received the Secondary Credit, however, would not be precluded from drawing under its Letter of Credit and, the intermediary party’s bank is obligated to honour the drawing even though it could not collect funds under the Primary Credit.

Due to the inherent riskiness of a Back-to-Back Letter of Credit transaction, banks will likely not participate in such a transaction. As an alternative, the intermediary party’s bank may recommend using a Transferable Letter of Credit (described on next page).

Transferable Letter of Credit

A Transferable Letter of Credit is used in cases where there are three parties to a transaction as described in the Back-to-Back Letter of Credit transaction; an Importer (Buyer), Exporter (Seller), and an intermediary party, such as a broker, who is responsible for arranging the sale.

In such a transaction, the intermediary party requests a Letter of Credit from the Importer as protection against non-payment. The Exporter, in turn, wants assurance from the intermediary party that payment will be made, and will also request a Letter of Credit. It may be the case, however, that the intermediary party has little working capital or does not have access to a line of credit with its bank to issue a separate Letter of Credit to the Exporter. As an alternative, the intermediary party may provide such assurance to the Exporter by transferring over a portion of the Letter of Credit it received from the Importer. This is termed a Transferable Letter of Credit.

To transfer a Letter of Credit, the intermediary party must request a Transferable Letter of Credit from the Importer.

If the Letter of Credit is not designated to be transferable, it cannot be transferred. The Letter of Credit can, however, be amended to allow it to be transferable. In addition the Letter of Credit must nominate a bank, generally the Advising Bank, who is authorized to effect a transfer.

The intermediary party would be the Beneficiary of the Letter of Credit and, in a Transferable Letter of Credit transaction, is referred to as the **First Beneficiary**. The First Beneficiary would then ask the Transferring Bank to transfer, in part or in full, its rights under the Letter of Credit to the manufacturer of the goods, which is referred to as the **Second Beneficiary**.

A Transferable Letter of Credit may be transferred only once; therefore, a Second Beneficiary is unable to transfer a portion of a Transferable Letter of Credit to a third beneficiary. It may, however, be transferred to more than one Second Beneficiary.

Example

The following is a simplified example of a Transferable Letter of Credit transaction:

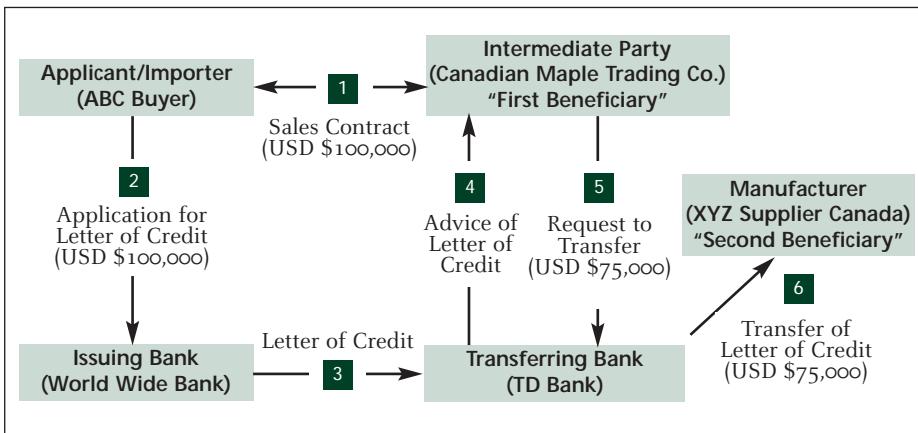
Importer:	ABC Buyer
Intermediary Party:	Canadian Maple Trading Company
Manufacturer:	XYZ Supplier Canada
Issuing Bank:	WorldWide Bank
Transferring Bank:	TD Bank

As per ABC Buyer's instructions, WorldWide Bank issued a Transferable Letter of Credit in favour of Canadian Maple Trading Company, which is acting as the intermediary party in the trade transaction. This Transferable Letter of Credit is in the amount of USD \$100,000 and TD Bank is authorized and willing to do the transfer. The description of goods is 5,000 pairs of moccasins at USD \$20 per pair. Once Canadian Maple Trading Company as the First Beneficiary receives the Letter of Credit, it requests TD Bank to transfer USD \$75,000 to XYZ Supplier Canada, stating the same quantity of goods, 5,000 pairs of moccasins, but at USD \$15 per pair. TD Bank advises the transfer has been made to XYZ Supplier Canada, which now becomes the Secondary Beneficiary of the Letter of Credit.

Once XYZ Supplier Canada has shipped the goods, it presents documents in accordance with the Transferable Letter of Credit, along with its draft for USD \$75,000, to TD Bank. TD Bank then notifies Canadian Maple Trading Company of the presentation. Canadian Maple will present its own invoice and draft showing a value of USD \$100,000. TD Bank then substitutes these documents with the draft and invoice presented by XYZ Supplier Canada and forwards the documents to WorldWide Bank. TD Bank receives USD \$100,000 and pays USD \$75,000 to XYZ Supplier Canada and USD \$25,000 to Canadian Maple Trading Company.

Note: Transferable Letters of Credit are rarely as simple as they seem and many difficulties may arise. They should be undertaken only by experienced traders.

Transferable Letter of Credit



A Guide to Documentary Letters of Credit

TD Bank Financial Group is providing this guide as a general discussion of Letters of Credit. Although every effort has been made to ensure the information presented is correct, we do not guarantee its accuracy. Furthermore, the information in this guide should not be intended as nor relied upon as legal, financial or investment advice.

We hope this guide gives you a general understanding of Letters of Credit as it was intended.