

Financial & Bank Documents

Bills of Exchange

Bills of Exchange have been used for centuries as a means of obtaining payment and are understood worldwide. A Bill of Exchange is a demand for payment and is made out by the Creditor (The Drawer) upon the Debtor (The Drawee). Provided it is made out in the correct manner it can be on any medium (e.g. Company Letterhead, Special Stationery or Blank Paper). Bills of Exchange can be drawn at 'Sight' i.e. payable immediately, or at some future date e.g. '30 Days Sight', '30 Days from the date of the Transport Document'; these are known as 'Usance Bills'.

Sight Bill

Sight Bills of Exchange are, as the term suggests, payable 'at Sight' or 'on demand'. They are normally used today under Documentary Letters of Credit, or as part of a Documentary Collection. The usefulness of a Sight Bill may not be readily apparent, as it seems to be one more piece of unnecessary paper. The 'usefulness' of a Sight Bill becomes more apparent in the event of non-payment. In such an event the Drawer can instruct the holder of the Bill (i.e. the 'Collecting Party') to 'Protest' the Bill of Exchange for non-payment. This involves requesting the Drawee for payment or their reasons for non-payment and then noting the Drawee's reply on the Bill. This is, usually, done by a Notary and the resultant Protested Bill can be used as Prime Evidence of the debt. In certain countries the very fact that a Bill has been protested can have serious consequences for the drawee and could result in the company being automatically 'wound up'.

Term bill (usance bill)

A Term or Usance Bill is a bill of exchange that is due at a determinable, future date. Term Bills require 'Acceptance' by the Drawee. In order to do this, the Drawee has to 'accept' that he will be required to pay the Bill upon the 'Due Date'. This is done by means of the Drawee's signed statement, on the 'face' of the Bill, accepting that the Bill is due on the stated date and quoting the relevant due date. The Bill can then be re-presented on, or shortly before, the due date for payment. Extra security can be gained by having an accepted bill Avalised. Term Bills can be discounted or forfeited so as to obtain funds prior to the due date. As with Sight Bills, Term bills may be protested for both 'non-acceptance' and 'non-payment'.

Avalised Bills

Avalisation of a Bill of Exchange is, in effect, a Bank (usually the acceptor's own bank) 'joining in' the acceptance of the Bill of Exchange. By doing so they are confirming that payment will be made at maturity. This adds an extra level of 'comfort' for the drawer of the Bill of Exchange as the Bill is now 'guaranteed' by a bank. Avalisation of a Bill of Exchange also makes obtaining an advance against the Bill easier.

Documentary Letter of Credit: Revocability & Irrevocable

In order to be generally acceptable, Documentary Letters of Credit should be subject to ICC Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No. 500 (UCP500). In order to be covered by these articles the Letter of Credit must state that it is issued subject to these articles. Reference to Letters of Credit on this site will be taken to be referring to instruments issued subject to the above publication. Documentary Letters of Credit (LOC) can be either revocable or irrevocable. A revocable LOC may be cancelled or amended at any time by the Issuing Bank, without prior notice, unless documents (drawn in accordance with the LOC terms) have been taken up any bank authorised to do so. An irrevocable LOC cannot be cancelled or amended without the agreement of the Issuing Bank, the Beneficiary and the Confirming Bank (in the event of a Confirmed LOC). As can be seen, from an exporter's point-of-view, an Irrevocable LOC is the most preferable of the two to have.

Under UCP500, in the absence of an indication as to whether or not, the LOC is 'revocable' or 'irrevocable'; the LOC will be deemed to be irrevocable. Confirmation is the means by which a third party, usually a bank or a branch of the issuing bank, adds the 'name' to a LOC. Confirmation is a means whereby a Bank assumes the role of the Issuing Bank (and all the terms and conditions of the LOC and, by assuming 'Confirmation', agree to all the terms and conditions of the LOC (including any amendments that they extend their confirmation to, by implication or specifically). They take on the role of whatever the Issuing Bank has taken on the role of, by agreement of the Confirming Bank. This may be taken on by the local office of the Issuing Bank (Under UCP500, regarded as a separate bank), or by an independent bank (usually a correspondent bank). Common sense would dictate that 'Confirmation' is more desirable by an independent bank, as opposed to a local office 'Confirmation'.

Available by Payment

A Documentary Letter of Credit (LOC) which states that it is available 'by payment' must nominate the Bank which has been authorised to pay (The Nominated Bank). The Nominated Bank, unless it has added its confirmation, is under no obligation to pay except as expressly agreed and advised to the Beneficiary. The Issuing Bank is obliged to reimburse a Nominated Bank, which has effected payment of documents that appear, on their face, in accordance with the terms of the LOC. As with LOCs available by Negotiation, simple receipt, examination and /or forwarding, of the documents by the Nominated Bank, does not constitute an obligation to pay.

Available by Acceptance

A Documentary Letter of Credit (LOC) which states that it is available 'by acceptance' must nominate the Bank which has been authorised to accept the Bills of Exchange (Drafts) (The Nominated Bank). The Nominated Bank, unless it has added its confirmation, is under no obligation to accept Drafts except as expressly agreed and advised to the Beneficiary. The Issuing Bank is obliged to reimburse a Nominated Bank, which has accepted Drafts against documents that appear, on their face, in accordance with the terms of the LOC. As with LOCs available by Negotiation, simple receipt, examination and /or forwarding, of the

documents by the Nominated Bank, does not constitute an obligation to accept the Drafts. LOCs that are available by acceptance should call for Drafts to be drawn on the Nominated Bank. An advantage of the Drafts being accepted by the Nominated Bank is that Discounting of the Drafts is more straightforward. The Nominated Bank is, usually, more willing to Discount a Draft that it itself has Accepted.

Available by Deferred Payment

A Documentary Letter of Credit (LOC) which states that it is available 'by deferred payment' must nominate the Bank which has been authorised to incur a deferred payment undertaking (The Nominated Bank). The Nominated Bank, unless it has added its confirmation, is under no obligation to undertake any such undertaking except as expressly agreed and advised to the Beneficiary. The Issuing Bank is obliged to reimburse a Nominated Bank, which has effected deferred payment undertaking of documents that appear, on their face, in accordance with the terms of the LOC. As with LOCs available by Negotiation, simple receipt, examination and /or forwarding, of the documents by the Nominated Bank, does not constitute an obligation to undertake a deferred payment undertaking.

Re-imburement Credits

These are Documentary Letters of Credit (DOC) that are available with one bank but funds are obtainable from a third bank (this is more common in the case of LOCs in foreign currency). The Paying Bank, therefore has to obtain the funds before it is in a position to effect payment to the beneficiary. This means that the Beneficiary will experience a delay (in the case of unconfirmed LOCs that are available by 'Payment' or 'Deferred Payment') in receiving the funds even though the documents have been found to be 'in order'. The rules, by which the reimbursements are governed are covered in ICC Uniform Rules for Bank-to-Bank Reimbursements ICC Publication URR525.

Revolving Letters of Credit: through Value

A Revolving Documentary Letter of Credit through value is a Letter of Credit (LOC) that is automatically reinstated when the value of the LOC is exhausted. They are usually used when a number of regular shipments are being made and the Importer does not wish to have an outstanding liability for the full value of the contract. The liability is 'broken down' into more manageable parts. A Revolving LOC also has the advantage of ensuring that the goods have to be shipped in instalments thus ensuring that the Importer does not receive his goods in one, perhaps unmanageable, shipment. With this type of LOC the revolution does not take place until a drawing has been made.

Revolving Letters of Credit: through Time: Non-cumulative

A Revolving Documentary Letter of Credit through time is a Letter of Credit (LOC) whereby the value of the LOC is reinstated after a specified period of time (e.g. every month, 30 days). In a Non-Cumulative Revolving LOC any unutilised balance is not added to the value of the new 'revolution' (i.e. a balance remaining of £5000, on a revolving LOC for £10000 would mean that the available balance

on the next revolution would be £10000: the remaining balance is 'lost' for the next revolution). This type of LOC is useful when there are regular shipments of goods that are of a similar or equal value. With these LOCs the revolution takes place whether or not there is a presentation of documents. This can assist the Importer with managing his liability as he will never be liable for more than the value of one 'revolution' at any one time.

Red Clause Letters of Credit

These Letters of Credit (LOC) are LOC where a provision is made for a portion of the Credit is to be advanced to the Beneficiary, prior to the presentation of shipping documents. The payment of the advance payment may be against a simple receipt or a statement, from the beneficiary, agreeing to return the funds, in the event of non-shipment; however most of these types of LOC now call for the advance payment to be made against the presentation of an Advance Payment Bank Guarantee. The reason for issuing this type of LOC is, usually, the Beneficiaries need to purchase raw materials for the production of the goods or, the requirement of a long, complicated or expensive production procedure, prior to shipment of the goods.

Green Clause Letters of Credit

These types of Letters of Credit (LOC) contain a clause whereby a portion of the LOC value is 'held back' for a period of time, specified in the LOC, to cover a 'warranty period'. Payment of the 'held back' portion of the LOC may be against a document, purporting to issued by the applicant to the LOC, confirming that the subject goods have performed correctly.

Assignment

The proceeds of a Letter of Credit (LOC) may be assigned to any party to which the beneficiary of an LOC owes a debt. The assignment is made by completion of the relative form, provided by the bank to whom the documents will be presented for payment.

The funds will then be made available the assignee upon presentation, by the beneficiary of the LOC, of conforming documents. Assignment of the proceeds does not absolve the Beneficiary of the requirements of the LOC they must still comply with the terms of the LOC in order that the proceeds will become available for payment.

Transferable Letters of Credit

Transferable Letters of Credit (TLOC) are ideal for buyer/seller agents. A TLOC allows the Export Risk to be transferred to the ultimate buyer and, therefore, absolves the agent from taking on liability for the transaction. The ultimate buyer opens the TLOC in favour of the agent/sub-contractor or 'middle' supplier (MM). The MM then 'transfers' either a portion or the whole of the TLOC to his ultimate supplier(s). All he can alter is the total amount of the credit; the number of days that presentation of the documents to the Bank (after shipment) has to take place; the latest shipment date and the expiry date and, most importantly, the beneficiary. All of these must not extend beyond the boundaries of the initial LOC

(Known as the 'Prime Letter of Credit (PLOC)). In order to be 'transferable' the PLOC has to be designated as 'Transferable': no other wording will be acceptable. The transferee has all the rights of the PLOC and, should the 'prime beneficiary' be unable to provide his own documentation (i.e. Invoices and Bills of Exchange), he is entitled to have his documents presented against the PLOC. Therefore, the MM must have his documents ready to present ASAP. A TLOC cannot be transferred beyond the first transferee without express consent of the PLOC; four party transactions prove very difficult.

Back-to-Back Letters of Credit

These are not 'official' Letters of Credit. It is a means of financing an LOC by using an LOC in your favour. Your bank would need to accept the LOC in your favour as collateral for your liability on an LOC issued on your behalf.

Promissory Note

A Promissory Note is a written and signed undertaking, by the debtor, to pay a fixed amount on a specified date in the future. If you examine a Bank Note you will see that it is a Bank of England Promissory Note, payable to the bearer, on demand.