

## **CHAPTER - 21**

### **OPENING IMPORT LETTERS OF CREDIT**

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## 21 OPENING OF IMPORT LETTERS OF CREDIT

The different types of documents, job set up relating to opening and amending documentary credit is discussed in this chapter.

### 21.1 OPENING OF LC

- The LC application will be received on the prescribed format (AD 004), supported by required documents, as discussed in Chapter 20.4
- The concerned officer will verify / ensure verification of the signature on the application. No rubber stamp / initials are to be put on the stamped LC application form which is a security document
- A Process note will be prepared indicating particulars of applicant, beneficiary, limit, outstanding under LC/ PAD a/c., commodity, overdue / devolvement, etc., to ensure that the present request is within the sanctioned limits - Annexure.21(1)
- The Forex In-charge will scrutinize the application, verify all the particulars, record his recommendation on the process note and place the papers to the Branch Manager or officer of Scale IV rank. The in-charge should ensure that the earlier overdue / devolvement are highlighted and drawn to the attention of the Branch Manager
- After obtaining approval from the Branch Manager, the LC is controlled in Finacle by invoking Menu 'ODCM' and all the details like, Expiry date, Amount, Tolerance, Payment terms, Beneficiary, Purchase Order / Indent, Description of goods, Port of loading / discharge, etc., are indicated
- Required margin as per sanction is to be taken from the Applicant before opening LC
- Controlling the LC in Finacle is required to be verified by an Officer. On verification the system will pass the following entries :
  - i) Dr. Customers liability for acceptances of, LCs (Foreign)  
(at BC selling rate)  
Cr. Liability for acceptance of LC (Foreign)
  - ii) Dr. CD/CC/A/c  
Cr. Income A/c commission on Imp LC  
Cr. Exp. A/c. Telegram (Swift charges)

- Necessary vouchers are required to be printed or manually prepared and duly signed by the Authorised signatories
- Draft of LC should be prepared in Swift MT700. For formatting of LC, please refer to detailed guidelines on formatting given under Para 21.2.
- The charges are to be collected upfront on the day of opening of LC. No refund is permissible as per FEDAI guidelines.
- The entire set should be scrutinized by the Forex In-charge, confirm debit of margin / charges, draft LC prepared in the Swift, counter sign on LC documents / SWIFT messages / control voucher and release for transmission.

Process note along with a copy of transmitted LC and all papers submitted by the applicant will be kept in a separate folder. Every opening of LC and amendments will be carried out only if it is recorded on the process note and duly counter signed by the FEX In-charge and approved by the Branch In-charge.

#### **21.1.1 PROCEDURE FOR 'C' CATEGORY BRANCHES**

- 'C' category branches will also maintain record in respect of LC opened on their behalf by AD Branches. They will forward LC application cum agreement and relative documents after preliminary scrutiny to the designated AD Branch. The covering letter (Annexure.21(2)) FE509 giving necessary details has to be sent in duplicate duly signed by two authorised officials, one of whom should be the head of the branch, mentioning their PA numbers. The specified margin based on the BC selling rate as on forwarding date is to be taken by C category branch.
- The 'B' category branch after verification of the signatures of the officials of the 'C' category branch and on finding the request for opening of the LC in order would return the duplicate copy of FE 509 giving details of control rate/ amount, commission charges and confirming that the LC has been issued. Two copies of LCs are also to be forwarded to C category branches, one for branch records and the other to party.
- The 'C' category branch on receipt of the duplicate copy of the covering letter (FE 509) will pass the following accounting entries at the rate informed therein. The margin obtained should be checked for adequacy in relation to the amount controlled. Shortfall in margin, if any, is to be recovered and recorded on duplicate copy of FE 509

The recovery of charges and margin

Dr. CD/CC/a/c

Cr. Margin on LC

Cr. CO A/c/ Local branch a/c (towards amount claimed by B Category branch)

## **21.2. GUIDELINES FOR FORMATTING / ADVISING / CONFIRMING OF LC**

### **i) CHANGES IN INSTRUCTIONS**

After the application has been scrutinized from all angles if the branch feels that the applicant's instructions are not consistent or suitable it must ask the applicant for revised instructions.

### **ii) CHOICE OF ADVISING BANK / CONFIRMING BANK**

Normally, branches do not advise the import LC directly to beneficiaries. LCs are advised through their correspondent banks in the country of the beneficiary. The applicant can select correspondent bank through whom LC is to be advised.

If the Letter of Credit needs confirmation, the branch must advise the Letter of Credit through a bank with which we have credit confirmation lines. If the bank has no credit confirmation lines, it must request IBD, Central Office to set up confirmation lines and make necessary arrangements for confirmation of letter of credit. Letter of Credit should not be **opened** till the branch is sure of confirmation of its Letter of Credit by the bank concerned or **unless otherwise instructed by the L/C opener**.

In any case, clear cut instructions as mentioned below are to be given to the advising bank.

- LC to be advised without adding its confirmation.
- LC to be advised after adding its confirmation.
- Authorised to add confirmation if required by the beneficiary.

### **iii) TRANSMISSION OF LETTER OF CREDIT**

LCs are transmitted through Swift to the Advising Bank.

### **iv) GUIDELINES FOR FORMATION**

The conditions of letter of credit, wording etc. based on ICC guidelines (for credit opening bank), FEDAI guidelines, UCP Provisions, Indian Trade and Exchange Regulations are given below explaining the reasons/ rationale :

- a. Credit Number : This would be the System generated (Finacle) number of the issuing branch.
- b. Date of Issuance: This would be the date when the branch has passed contingent liability entries in Finacle. The LC should be transmitted / marked on the date of passing the voucher itself, as RBI / Trade Control authorities consider date of transmission / dispatch as the effective date of the LC.
- c. Place of Issuance : This must be indicated to enable the bank or beneficiary to contact the Issuing Branch concerned .
- d. Indication of Confirmation : When a mail confirmation is preceded by a brief cable, the cable advice mail confirmation must be clearly marked as 'Operative Credit instrument in confirmation of our tele-transmission of ... (date) '
- e. Indication of Revocable/ Irrevocable Credit : As per UCP 600 only Irrevocable LCs can be issued. If LC is silent it will be deemed as irrevocable as per Art.3 of UCP 600
- f. Indication of Availability of Credit : As per Art.6 of UCP 600, the Issuing Bank must indicate how a credit is available, whether 1) by sight payment (Nominated / Overseas Bank will make payment on receipt of documents - drafts not necessary), 2) by deferred payment (Nominated/ Overseas bank will make payment on due date - drafts not necessary) 3) by acceptance ( Nominated/ Overseas Bank will accept the draft to make payment on due date provided the draft is drawn on them - this normally is done when the

credit is confirmed or restricted - it will attract additional acceptance commission) or 4) by negotiation (Nominated / Overseas Bank will negotiate the draft drawn on the Confirming Bank/LC issuing Bank to part with the value on sight basis or at a future date) . Banks in India mostly open letter of credit available by NEGOTIATION (i.e. Negotiation Credits)

The important step in the process of issuance of a letter of credit is the proper drafting of letter of credit with suitable conditions. The ultimate undertaking and liability of the issuing bank will be determined on the basis of the conditions given in the letter of credit. Hence, this is a very crucial step and must be done with utmost care and attention. While drafting the letter of credit, the branch must remember its primary duties, namely,

- a) The letter of credit must be complete and precise
- b) It must be devoid of inconsistencies and ambiguities
- c) Conditions imposed must be documentary i.e. those which can be evidenced from the documents. Non-documentary conditions must be limited only to time factors.
- d) Excessive details must be avoided.
- e) Typing errors etc. must be avoided and all corrections must be authenticated (Does not apply to SWIFT LC)

## **V) NOMINATION OF BANK FOR SETTLEMENT**

As per Art.10b unless the credit is available only with the issuing branch or it is a freely negotiable credit, the issuing branch is duty-bound to nominate a bank (called a Nominated Bank) for effecting settlement of the drawings made by the beneficiary as per letter of credit terms. Normally, branches nominate the Advising Bank itself for the purpose. In case of negotiation credits, the branch can nominate more than one bank. In case it is nominating one or more specified banks by name, it is deemed as restricted credit and if credit is made available for negotiation with any bank (general nomination), it is deemed as unrestricted credit.

Normally our Import LCs are restricted to advising bank for negotiation. **Branches should permit TT reimbursement only in the case of restricted LCs. If LCs are freely**



negotiable, reimbursement should preferably be upon receipt of full set of documents at the counters of LC opening branch, unless requested to the contrary by the applicant. Such exemptions can be made in the case of importers of good track record.

#### **VI) DRAWING OF BILL OF EXCHANGE (B/E)**

As already stated, B/E must be drawn in case of acceptance / **negotiation** credits. They are optional in case of sight payment credits and not drawn in case of deferred payment credits. However, if B/E has to be drawn, it must be clearly indicated on whom they have to be drawn and for what amount. This would indirectly prevent the beneficiary from drawing invoices for values exceeding the total credit (refer Art.18b) and would meet with the import restriction requirements under licences and also avoid problems with customs. In the case of usance credits, the letter of credit must indicate clearly the tenor at which the B/E has to be drawn and the date from which such tenor would be reckoned. The B/E should preferably be got drawn payable from a definite determinable date, such as 90 days from date of transport document or invoice etc. They should normally bear a clause reading 'drawn under documentary credit No ....dated.....of Union Bank of India'. However, it should be borne in mind that in terms of article 7(a) iv and (b), a credit should not be issued calling for B/E on the applicant. If the credit calls for B/E on the applicant, banks will consider such B/E as an additional document.

#### **VII) DETAILS OF APPLICANT AND BENEFICIARY**

This column must be completed in full with complete postal address rather than with Post Box/ Bag Number addresses. It is also advisable to furnish telephone / fax numbers.

#### **VIII) VALUE OF LC**

While indicating the amount (value) of credit, FEDAI has suggested the use of the words 'NOT EXCEEDING ....' before the amount, the rationale being that in terms of Art.30 of UCP 600 words 'ABOUT' will be taken to mean as 10% more or less. Further, as per Art. 30.b

even if a fixed amount is stated, it would be taken to mean that the credit allows a tolerance of 5% more or less. By prefixing the words 'NOT EXCEEDING', it is ensured that the beneficiary will not be able to draw more than the amount indicated, while there is no objection for drawing for a lesser amount. This would be ideal in case of imports covered by import licences where a bank cannot allow drawings for more than the value of the licence.

For these very reasons the same wordings are recommended to be used if quantities are mentioned in the description of goods. As per Art.28 (f.i) the insurance documents must be expressed in the same currency as credit To enable the beneficiary to comply with this condition currency indication is a must.

To avoid misunderstanding it is always better to indicate the amount both in figures as well as in words. While mentioning the amount in figures as well as in words, indication should not be made in lacs, crores etc. but in terms known the world over such, as hundreds, thousand, millions etc.

#### **IX) EXPIRY DATE**

Expiry Date would be the last date for presentation of documents by the beneficiary under the letter of credit and is referred to as validity date of letter of credit. This date should not fall beyond 15 days from the last date for shipment permitted under the licence. Art.6.d. of UCP 600 also stipulates that every credit must state the date of expiry of credit.

#### **X) PLACE OF EXPIRY**

Along with the date of expiry, credit must also specify the place for presentation of documents as per Art.6.a, where the LC expires. In Import LCs, the credit should generally expire at the counters of the overseas bank.

#### **XI) LAST DATE OF SHIPMENT**

Though UCP does not require it as such, a last date of shipment must be specified, in the letter of credit. This date should not exceed the last date for shipment permitted in the import licence against which the letter of credit is established.

#### **XII) PRESENTATION OF DOCUMENTS**

- i. As per Art.14.c of UCP 600, every credit which calls for a transport documents must stipulate a specified period of time after the date of issuance of the transport documents during which beneficiary must present the documents to the nominated bank (for settlement). If no such period is stipulated, banks will not accept documents presented later than 21 days after the date of shipment. This period should coincide with the number of days gap given between shipment and expiry date. The period to be allowed should be optimum (**even if it exceeds 21 days**), depending upon factors like time taken by the beneficiary to collect various documents from the issuers and for preparation of documents at his end and tentative time taken by ship to reach Indian port. In case of air shipments this period should as far as possible be kept down to the minimum (say 3 to 10 days) because the goods carried by air would arrive earlier than the documents and may incur heavy demurrage at the Air-port of discharge.

It is pertinent to mention that credit should not normally use the words like 'Stale documents acceptable', etc. since the word 'Stale' is not a defined term and can be misleading. The better way to say is 'documents presented ... days after the date of issuance of transport document is acceptable'

### **XIII) PORT OF SHIPMENT**

Port of shipment must be specified clearly and fully. The port of shipment should agree with the port of shipment if any stipulated in the import licence. If import is without specific licence, shipment can be allowed from any port other than those of countries with which trade ban is in force.

### **XIV) PARTIAL SHIPMENTS**

Credit should indicate expressly whether partial shipments are allowed or not. If nothing is stated, by virtue of Art.30.a of UCP 600, the partial shipments are deemed as allowed. Whenever partial shipments are allowed, it is better to mention the unit prices of goods to be shipped to avoid claiming of amounts disproportionate to shipment.

### **XV) TRANSHIPMENT**

Articles 19 to 24 of UCP 600 allow transshipment even if the credit specifically prohibits transshipment. In the light of these provisions, it is up to the banks to act prudently as per instructions of applicant and to allow transshipments wherever credit allows combined transport.

## **XVI) TRANSFERABLE LETTER OF CREDIT**

A letter of credit becomes transferable only if it is expressly designated as 'TRANSFERABLE'. We do not open transferable LC unless it is in favour of named transferee. For further details, please refer Chapter 20.2.4.

## **XVII) DESCRIPTION OF GOODS**

While stating the description of goods, excessive details (particularly technical specifications etc.) must be avoided. They should be as brief as possible. Reference to proforma invoices must be avoided and proforma invoice should not be attached to the Credit to form part of the Credit. In the description, **INCO** terms such as 'CIF MUMBAI', 'FOB TOKYO' etc. should be stated, the ideal description would read somewhat like :

' Not exceeding 20 METRIC TONS ' BRASS SCRAP' AT USD 1500 PER METRIC TON CIF MUMBAI'

**Note : If similar goods having different characteristics and different unit prices, it is advisable to give full details.**

However in the description of goods either quantity or unit price should necessarily be mentioned.

## **XVIII) BASIC DOCUMENTS USED IN INTL.TRADE**

Documents used in international trade transactions are broadly classified into four categories namely;

1. Financial Documents
2. Commercial Documents
3. Transport Documents
4. Risk Covering Documents

### **21.2.1 FINANCIAL DOCUEMTNS**

As the name indicates financial documents are the documents, which perform the function of obtaining finance, collection of payment etc. The most common financial document used is a Bill of Exchange.

## **BILL OF EXCHANGE**

A Bill of Exchange is also referred to as 'Draft' or 'Hundi'. Section 5 of the Negotiable Instruments Act 1881 defines Bill of Exchange. As per the definition, it has three primary parties namely Drawer, Drawee and Payee and has following five important characteristics :

It is an instrument in writing

It is an unconditional order signed by maker (Drawer)

It is a direction given to a specific person (Drawee)

It is a direction to make payment of a specific or fixed amount

It is made payable to a certain person or to his order or bearer

The act does not specify any particular format for a Bill of Exchange but it must satisfy the above characteristics.

A Bill of Exchange performs the following five basic functions .

- a) Means for collecting payment
- b) Means for demanding payment
- c) Means for extending credit
- d) It is a promise of payment
- e) It is a receipt for payment

The drawing of a Bill of Exchange is not always necessary. In certain countries Bill of Exchange is not a recognized legal document, while in certain other countries it is discouraged because it attracts heavy stamp duty. In certain credits like payment credit and deferred payment credit bills of exchange are not to be drawn.

In international trade generally Bills of Exchange are drawn in sets of two so that each can be sent with a set of documents. When they are drawn in sets of two, each one bears the exclusion clause making the other part of the Bill of Exchange invalid. The FIRST OF EXCHANGE CONTAINS THE WORDS. 'The second of the same tenor and date unpaid' or similar words. THE SECOND OF EXCHANGE CONTAINS THE WORDS ' The first of the same tenor and date unpaid' or similar words.

Bills of exchange can be classified into two categories depending upon the time of payment ordered there under:

### **SIGHT BILL OF EXCHANGE :**

It is also known as 'On Demand Bill of Exchange'. Under such a Bill of Exchange the drawee has to make payment on presentation/ sight/ demand.

#### **USANCE BILL OF EXCHANGE:**

They are also known as 'TIME' Bills of Exchange. The drawee is directed to make payment after a stated number of days. In international trade usance bills of exchange can be drawn as under.

- i) DP BASIS - Documents against Payment Basis
- ii) DA BASIS - Documents against Acceptance Basis
- iii) Usance DP Terms - Documents against payment after expiry of specified period

In the first case, drawee is issued presentation memo and allowed to make payment after a stated tenor. Documents covered by the Bill of Exchange (B/E) will be delivered only on payment of the B/E amount. In the second case, documents will be delivered to the opener against his acceptance of the B/E for payment at the maturity on the due date. In the third case, bills will be presented for acceptance. However, transport documents will be delivered only against payment on due dates. Under this arrangement, drawee's acceptance/ commitment to pay is secured without parting with the document of title to goods.

#### **21.2.2. COMMERCIAL DOCUMENTS**

The documents which are needed by the buyer and the seller for their normal commercial (business) transactions are termed as commercial documents. Some of the common commercial documents are :

##### **a. PROFORMA INVOICE**

Proforma invoice is basically a form of quotation by the seller to a potential buyer. It is an invitation to the buyer from seller to place a firm order on him.

The proforma invoice normally shows the terms of trade and prices in addition to the description of goods so that once the buyer has accepted the order, there is a firm contract to be performed as per terms and conditions mentioned in it. The proforma invoice normally forms the basis of all trade transactions.

A proforma invoice may also be required by authorities of the buyer's country for granting him import licence or foreign exchange etc.

#### **b. COMMERCIAL INVOICE**

Commercial invoice is the basic document in any trade. It is also called a 'document of contents' because it generally contains all the information required for the preparation of all other documents.

There is no standard format for commercial invoice but it normally contains the following :

- a. Date
- b. Name and address of the seller and the buyer
- c. Order number/ contract number/ proforma invoice number or details of LC
- d. Description, Quantity and (sometimes) quality of the goods.
- e. Terms of sale
- f. Port of shipment and port of destination
- g. Value of the goods and any adjustments like advance/ discount etc. but the total value payable must always be given.
- h. Shipping marks or number on packages

Additionally it may also contain reference number etc. of other documents such as BL/AWB, IE Code No., Import Licences, ITC(HS) code etc.

The main use of commercial invoice is to check whether the proper merchandise is shipped at an agreed price.

#### **c. CONSULAR INVOICE :**

It is a special type of invoice which is required by certain countries like Philippines, South America etc. As the name indicates, it is an invoice which is 'consularised' by an appropriate notation there on by the Consul of the country of destination of goods (importer's country). Thus, a consular invoice is an invoice certified by the Consulate of the importer's country situated in the exporters country. Generally, consular invoice is in a prescribed format.

The main purpose of this invoice is to give an accurate record of the type of merchandise shipped, their quantity, value etc. so that it may facilitate fixing of duties in the importers country. Further, this is used for statistical purposes and for avoiding delay on account of

customs inspection etc. in the importers country since its correctness has already been verified by the consul of that country.

**d. CUSTOMS INVOICE**

Customs invoice is generally required by countries like U.S.A., Canada etc. This invoice is to be drawn in specific form to be supplied by the consular office of the importer's country. This facilitates entry of merchandise into Importer's country at preferential tariff rates etc.

**e. LEGALISED INVOICE :**

This is an invoice which is legalized (stamped and attested by the Consul of the importer's country), situated in the exporter's country. This invoice is not very much different from the consular invoice as far as the aim of the importing country is concerned. The only difference is that the legalized invoice is not in a prescribed form unlike consular invoice. This type of invoice is required mostly by middle-east countries etc.

**f. COMBINED CERTIFICATE OF ORIGIN AND VALUE:**

This is another type of commercial invoice which is required mostly by Commonwealth countries. In this, there is not only value declared (as well as description of merchandise etc.) as in a commercial invoice but also a declaration by the shipper regarding the origin of goods. His declaration of origin is also generally attested or certified by a Chamber of Commerce and Industry or other agency designated for this purpose. The main purpose of this invoice is to allow goods of origin of specified countries in importer's country with concessional tariffs etc.

**21.2.3 PACKING LIST :**

As the name indicates, it is a document which shows the nature and number of goods etc. put in each packed/ container etc. with distinctive numbers or marks. This is generally needed by the importer when he is importing different types or sizes of merchandise so that he may identify the nature of goods in each package. This may also be used when an importer is importing goods for ultimate direct distribution to various suppliers etc. It is also used by Customs for checking the goods on random basis or otherwise. Thus, packing list is mainly to facilitate easy identification of goods in each package/ container by the importer or Customs etc.

**21.2.4. WEIGHT CERTIFICATE :**



It is a document certifying the weight of the goods. Generally it is given by the exporter which may at times be countersigned by an independent agency. Generally it gives the weight of each article or bunch or articles. It may also give the net weight as well as the gross weight.

This certificate is generally required in case of bulk goods like ore, food items etc.

#### **21.2.5 CERTIFICATE OF ANALYSIS AND QUALITY :**

It is a certificate which indicates the inner composition, quality, technical composition and intricate nature of the goods broadly described in the invoice. This certificate may be given by the exporter himself or an institution/ organisation which is competent or nominated to give such a certificate. In certain types of goods like chemicals, food articles, clothes etc., this certificate is generally called for so that the goods imported conform to the desired quality/ standard analysis.

#### **21.2.6 CERTIFICATE OF INSPECTION :**

As the name indicates, it is a document certifying the inspection of goods. (Prior to shipment). This certificate is generally desired by the importer so that he can be sure that the right type of goods ordered are being sent by the exporter. In India certain goods are statutorily subjected to quality control and pre-shipment inspection. For this purpose an agency called Export Inspection Council (EIC) was created. EIC in turn has nominated certain agencies to issue inspection certificates in respect of certain types of goods. Sometimes, the importer may also nominate a person to issue such a certificate.

In India, the export inspection will be generally carried out with reference to:

- a) Specifications laid down by importer;
- b) Samples approved by importer;
- c) Where no samples/ specification is given ISI specification or other specification is generally taken as a measure of standard.

#### **21.2.7 HEALTH CERTIFICATE :**

When live animals or plants etc. are exported generally the importer insists on a certificate of health by a recognized agency indicating the health and transportability of the export product. Sometimes, this certificate may also be required as per the laws of either importer's country or exporter's country. Other certificates of this category is PHYTOSANITARY/ RADIATION/ FUMIGATION certificates.

### 21.2.8 TRANSPORT DOUUMENTS

In international trade the goods move from the warehouse of the exporter to the warehouse of the importer. The goods may move by land, water or air or a combination of one or more of these modes. Such transport documents are more in number and it is very important to know the significance of each type of document and its nomenclature. One of the important aspect to be remembered with regard to any transport document is that it must show the name of the carrier.

#### **BILL OF LADING:**

This is a transport document representing movement of goods by water (ocean or sea).

A Bill of Lading is a formal receipt given by the ship owners or their authorised agents confirming that the goods stated therein are shipped to a specified destination on a specified date and vessel and are deliverable to the person mentioned therein or to his order. There are three main functions of a Bill of Lading ;-

- a) It is an evidence of contract of a freightment, as it contains detailed terms and conditions of carriage of goods.
- b) It is a receipt for the goods, as it is a declaration for having received the goods for carriage
- c) It is a document of title to goods, because it states that goods are deliverable to the consignee or order.

Bill of Lading possesses some of the qualities of a negotiable instrument. Hence, it is called a 'QUASI NEGOTIABLE' instrument. Though the title to the goods covered by a Bill of Lading can be transferred by endorsement and delivery of the instrument, it is still not a fully negotiable instrument like a Bill of Exchange , the simple reason being that it represents the title to goods and is governed by Sale of Goods Act, whereas a Bill of Exchange represents title to money and is governed by the Negotiable Instrument Act. As per Sale of Good Act, when goods are transferred from one person to another, the transferee gets no better title to the goods than that of the transferor, whereas under negotiable instruments act the transferee gets a better title than the transferor has, provided he takes it in good faith and for due consideration.

For these reasons a Bill of Lading is termed as 'QUASI NEGOTIABLE' instrument because its negotiation may not be complete and free from qualifications.

Generally, Bills of Lading are issued in a set of 2 or 3. The exact number of originals issued is indicated on each Bill of Lading. These are called negotiable Bills of Lading and presentation of any one of them will entitle the holder to claim the goods there under and render the other negotiable copies void. Production of one copy of negotiable Bill of Lading is a must for claiming the goods.

Bills of Lading are issued on (i) Liner (ii) Charter Party Terms.

There are various categories of Bill of Lading. Some of them are described hereunder :

#### **21.2.8.1. RECEIVED FOR SHIPMENT BILL OF LADING**

This type of Bill of Lading merely acknowledges that the goods have been received for shipment.

The Bill of Lading of this kind generally contains a clause reading 'Received in apparent good order and condition (or otherwise) for shipment by SS/M.V.---- or the next available vessel'. The goods received might be stored in a ship or warehouse and there is no guarantee that the goods will be carried by the ship named there under. Such Bill of Lading is not a safe document since it may not be considered to be a good delivery under a sale contract.

#### **21.2.8.2. ON BOARD BILL OF LADING :**

This bill of lading confirms that the goods have been put on board of a ship for shipment. Hence, this type of bill of lading is a safe document for the importer as the goods are being carried by the named ship. It also constitutes a good delivery under sale contract for an exporter. Hence, in international trade generally 'On Board Bills of Lading' are called for. This bill of lading will have notation 'Shipped on Board' or words to that effect. A received for shipment Bill of Lading can also be inscribed with such notation date. In such a case that bill of lading will be considered as on board (or shipped) bill of lading. An 'On Board' bill of lading must specify the name and voyage of vessel.

#### **21.2.8.3.SHORT FORM BILL OF LADING :**

A bill of Lading evidences underlying contract of carriage. Therefore, a bill of lading should have the terms and conditions of carriage printed on it. But in case of a short form bill of lading such terms and conditions will not be stated on the Bill of Lading and even if stated, it may be by reference to other documents or source. Generally, charter party bills of lading are of this nature, since they are governed by terms and conditions of charter party and not liner bill of lading terms and conditions. We are normally not calling for Short Form Bill of Lading.

#### **21.2.8.4. LONG FORM BILL OF LADING**

This is converse of short form bill of lading. In this case terms and conditions of carriage are given on the bill of lading.

#### **21.2.8.5. CLEAN BILL OF LADING :**

A Clean bill of lading is one which bears no super-imposed clause or notation which expressly declares the defective conditions of the goods or packaging. This bill of lading indicates that 'the carrier has received the goods in apparent good order and condition.' Since the carrier acts as bailee of the goods by issuing a clean bill of lading, he has to deliver the goods in the same good order and condition. The word 'clean' need not appear on B/L even though credit may require a clean Bill of Lading.

#### **21.2.8.6. CLAUSED BILL OF LADING :**

This is also called as a 'foul bill of lading' or 'dirty bill of lading'. It is the opposite of a clean bill of lading and contains superimposed clauses or reservations expressly declaring the defective nature of goods, its packing etc. When a claused bill of lading is issued, the ship owners or their agents can disclaim their liability to deliver the goods in good order and condition. This type of bill of lading is neither good for the seller nor for the buyer, so also for the Bankers. Clauses appearing on Bill of Lading such as Shippers Load and Count, FCL, Factory stuffed, said to contain, said to weigh, container stuffed etc. do not constitute Claused B/L. However, B/L with clauses such as loose packages, containers leaking, goods melted, packages torn, etc. will be treated as Claused B/L. These are only illustrative examples.

#### **21.2.8.7. THROUGH BILL OF LADING :**

A bill of lading issued for the entire voyage covering several modes of transport and (or) transshipments is called a through bill of lading. This is used generally when the goods have to take more than one mode of transport. In this type of bill of lading there is no guarantee of carriers for the safe carriage of goods.

#### **21.2.8.8. STRAIGHT BILL OF LADING :**

A bill of lading which is issued directly in the name of the consignee is called a straight bill of lading. In this case the goods will be delivered to the named consignee. This bill of lading does not require any endorsement either in blank or otherwise by the shipper. From the banker's point of view this type of bill of lading is not safe.

#### **21.2.8.9. CHARTER PARTY BILL OF LADING**

It is a bill of lading which is issued to charter parties i.e. those parties who have hired the space in the vessel either in full or in part. Charter party bills of lading are issued subject to the terms and conditions agreed upon by the hirers of the ship/ship space and ship owners and is not subject to liner bill of lading terms and conditions. Charters may be (a) Time charter (i.e. for specified time) (b) Voyage charter (ie. for one or more voyages) and c) Mixed charter (i.e. for specified time and voyage). The charter party bills of lading are generally not acceptable because sea charters are full of problems and the ship owners may exercise lien over the goods in case charterers do not pay hire charges. Normally Charter Party Bill of Lading is not acceptable to us. However, depending upon the cargo and importer's standing, Charter Party Bill of Lading may be called for subject to specific sanction and Charter Party Insurance cover.

#### **21.2.8.10. CONTAINER BILL OF LADING :**

It is a bill of lading which indicates that the goods are carried in a container as one unit of cargo. The containers in which the goods are locked-in are generally numbered in a systematic manner in a string of letters and figures. These numbers indicate the ownership, type of container, size of container and identification number of the container.

#### **21.2.8.11. COMBINED TRANSPORT BILL OF LADING :**

A combined transport bill of lading is similar to a through bill of lading. It is a bill of lading issued by a shipping company or their agents who act as combined transport operators and carry the goods all the way through accepting the liability for performance of carriage and for losses or damages to the goods wherever they occur (on land, sea or air). The essence of a combined transport bill of lading is that the shipping company or their agents act as principal carriers (called as contractual carriers) guaranteeing the safe carriage of goods and covers losses from start to finish. In a through bill of lading no such guarantee of carrier is available.

#### **21.2.8.12 LASH BILL OF LADING :**

It is a bill of lading issued by operators stating that the goods are received and put on board a barge which is to be carried and put on a parent vessel. Thus, a LASH bill of lading issued by a lash operator is the same as a 'Received for shipment bill of lading'. Until it bears a clause stating that the barge is put on board the parent vessel bank will not accept the bill of lading. In such cases, the insurance policy should cover LASH shipment risks.

#### **21.2.8.13. CROCKA BILL OF LADING:**

Crocka bill of lading on the face of it is a bill of lading covering goods carried by road issued by sea carriers. It cannot be deemed as ocean bill of lading though it is issued by a shipping company/or their agents.

#### **21.2.8.14. HOUSE BILL OF LADING:**

This type of bill of lading is one issued by generally an association of forwarding agencies or non- vessel-owning carriers who combine their resources to acquire and operate expensive transport vessels. Such bills of lading are safe only when they are issued subject to ICC rules. But the liability of carriers in this case is limited. Generally, this type of Bill of Lading is not acceptable to us.

#### **21.2.9. AIRWAY BILL:**

Airway Bill (AWB) is an acknowledgement issued by an Airline Company or their agents (and not forwarding agents) stating that they have received the goods detailed therein for despatch by air to the named consignee at the address stated therein. Unlike a bill of lading,

AWB is not a document of title to goods. It is merely an acknowledgement of goods and is not a negotiable instrument.

Since an AWB is not a document of title to the goods it is not necessary for a consignee to possess the AWB for taking delivery of goods. Thus, for shippers the AWB is not a safe document unlike a bill of lading. Further, in case of AWB it is obligatory on the part of the Airlines to notify the consignee on arrival of goods and they will normally deliver the goods to the consignee or his order on proper identification.

#### **21.2.9.1. AIR CONSIGNMENT NOTE :**

It is also called as 'Air Receipt'. This is issued generally by forwarding agents. This document shows the departure and the destination stations as well as the name of the shipper and the consignee, with date of issue. This document also gives the description of goods etc. and their apparent good order and condition or otherwise.

#### **21.2.9.2. HOUSE AIRWAY BILL :**

House airway bill is a receipt for goods issued on the same lines as airway bill by cargo consolidating agents. When air cargo is shipped under consolidation, the airline company issues master airway bill to the cargo consolidating agent and he in turn issues his own house airway bills to individual shippers. Thus, house airway bill is a receipt for goods issued by the consolidating agent and not by the actual carriers or their agents. A house airway bill is not a safe document. In case the consolidating agent fails to pay the freight, the carriers will have the lien over the goods and the holder of house airway bill will not get his goods.

#### **21.2.10 POSTAL RECEIPT**

As the name indicates it is a receipt issued by postal authorities. It can be a sea mail receipt or airmail receipt depending upon the mode by which they are sent. Postal receipt is also an acknowledgement of receipt of goods for delivery to a named consignee. Hence, it is not a document of title to goods nor is it a negotiable instrument. Though the postal receipt is not a must for taking delivery of goods, in certain countries receipt must be shown to the customs and postal authorities for clearance and delivery. Postal regulations in certain countries

allow senders to issue and authenticate their own certificates of posting . In view of the above, it is not considered a safe document from the banker's point of view.

#### **21.2.11. COMBINED TRANSPORT DOCUMENT**

This document is issued when the movement of goods involve more than one mode of transport. Hence, this is also called as ' Multi Modal Transport Document'. In simple words it is defined as a document evidencing contract for performance and procurement of performance of combined transport. Thus, in a combined transport document the carriers take the liability for safe carriage of transport of goods by various modes of transport from the place of receipt of goods to the place of delivery. A combined transport document is issued subject to the 'ICC uniform rules for CTD' unlike a bill of lading which is governed by Hague Rules of carriage of goods by sea. In most respects it has the characteristics of a bill of lading. It is a document evidencing receipt of goods and not shipment on board. It is also a negotiable document and issued in sets. 'On Board' notation is not required in the case of CTD involving different modes of carriage. However, if CTD is issued to cover port to port carriage 'on Board' notation is a must.

CTD is a safer document than a through bill of lading in the sense, it has the guarantee of CTD for the safe conduct of goods right through.

#### **21.2.12 RISK COVERING DOCUMENT**

As the name indicates these are the documents which represents the insurance cover against transit risks. For details, refer Chapter No.32.

Insurance policy :

Insurance Policy is an undertaking given by the insurers promising to pay compensation in case the goods under movement or otherwise are subjected to loss, theft, damage etc. In international trade marine insurance is the most common document obtained either by exporter or importer for the safety of goods.

Insurance policies are of different nature and may cover different types of risks. But the basic cover is perils of sea.



Insurance policies are generally freely assignable to anyone who acquires insurable interest without notice to the underwriters. The assignment is usually effected by blank endorsement.

#### **21.2.12.1. SPECIFIC POLICY**

When a policy is issued for a particular voyage covering specific goods, such policy is termed as a specific policy.

#### **21.2.12.2. OPEN POLICY**

It is a blanket policy issued by the insurers for a specified amount and period and exporter can cover any number of shipments within the stipulated amount and period. This type of policies are commonly used these days. In these cases generally the cover becomes effective only when details of shipment are informed within the stipulated time to the insurers along with premium if any, as agreed to.

#### **21.2.12.3. INSURANCE COVER NOTE**

Insurance cover note is a precursor to the insurance policy. When a specific policy is required and the details of ship or shipment are not known, the insurance company issues a cover note which acts as a provisional policy to be replaced by a regular policy when the details of ship/shipment are furnished to insurers. Insurance cover notes are generally valid for short period of normally three months and within that validity period the insurer has to supply the details of ship/shipment and get it replaced by a regular policy failing which he is deprived of the insurance. Thus, the cover notes are not as secure a document as a policy and generally not acceptable in international trade.

### **21.3 OPERATIONAL GUIDELINES PERTAINING TO DOCUMENTS UNDER LC**

Letters of credit must state precisely the documents against which payment / acceptance / negotiation is to be made. It is thus incumbent upon the issuing branch to fulfill the obligation of specifying the documents required to be presented and the terms and conditions to be fulfilled. A credit must therefore specify the following :

- i) List of all documents required to be submitted.
- ii) Number of copies of each document required.
- iii) Whether required in original

- iv) Where necessary the credit must state by whom the document must be issued and its wording or data content.

As per the standard application for letter of credit evolved by FEDAI, documents are required to be sought for 'IN ENGLISH IN DUPLICATE UNLESS OTHERWISE SPECIFIED'

Certain terms like 'First Class' etc. should not be used to describe the issuer of the documents. ICC guidelines suggest that while enumerating documents, following sequence must be followed :

- A- Commercial; Invoice
- B- Transport Document
- C- Insurance Document
- D- Other Documents

#### **21.3.1. COMMERCIAL INVOICE**

- ◆ To avoid invoices being drawn for amounts in excess of the credit and to comply with Import Licence requirements, FEDAI has suggested, the incorporation of a clause reading 'The gross FOB/C&F/CIF value of the invoices before deduction of agents' commission/rebate if any must not exceed the credit amount.' Further if interest payment is involved, the value of such interest amount also should be within the terms of the credit. In other words, the gross invoice value, together with interest payable before deduction of commission/rebate should not exceed the LC Value.
- ◆ If interest payable cannot be ascertained (e.g. LIBOR related interest rate) at the time of establishing the LC and such LCs are allowed to be overdrawn, total drawings there under should not exceed licence value.

#### **21.3.2. TRANSPORT DOCUMENT**

- ◆ The type of transport document to be called for in the credit depends on how the goods are being transported viz. By Air, Post (Air or surface), Rail Road, Sea, Inland water or by Combined Transport. Under UCP 600 the whole range of transport documents are covered under articles 19 to 27 (both inclusive).

- ◆ Branches must be aware of practical implications of these articles while calling for any transport document. They must also be forward looking and realistic while stipulating any conditions.
- ◆ LC must stipulate that the transport document should not be dated prior to the date of LC. If this is not mentioned, as per UCP 600, beneficiary may present a transport document bearing a date prior to the date of issuance of credit which may result in shipment being made prior to the date of issuance of import licence or OGL authorisation and may render the shipment illegal (an unauthorised import) in India.

### **21.3.3. AIRWAY BILL**

When LC allows shipment by air it must call for Airway Bill (Air consignment note) or a House Airway Bill as instructed by the applicant. In either case :

- ◆ LC should not call for more than one original (since it is only the 3<sup>rd</sup> original issued to shipper that is required) and should not say “ Full set of original Airway Bills’.
- ◆ LC must specify the name and address of the person to whom goods should be consigned. (This should be normally the Issuing Bank only). It should not state that it should be issued ‘To Order’ and/or ‘To be blank endorsed’ since it is not a negotiable document. Our Bank should be invariably named as consignee in the AWB. Besides, flight No. and date should necessarily be stated in the AWB.
- ◆ If a House Airway Bill is called for, it is necessary to stipulate the following:
  - ◆ Master Airway Bill Number
  - ◆ Name of the Airline Company
  - ◆ Flight Number and Date
  - ◆ Issuer’s IATA registration Number

### **21.3.4.BILL OF LADING**

- ◆ If the carriage of goods is exclusively by sea from port to port, the LC can call for a Marine Bill of Lading (B/L). When a marine B/L is called for, it must stipulate the submission of ‘Full set of original Bills of Lading’ showing ‘CLEAN ON BOARD’. It must also specify whether freight has to be ‘prepaid’ or is ‘payable at destination’.

- ◆ If the LC allows the submission of a Charter Party B/L, it must specify the name of the carrier (lest it can be presented without mentioning the name of the carrier).
- ◆ Since B/Ls are quasi negotiable documents they can be issued 'TO ORDER' and 'BLANK ENDORSED'. However under our import LCs, we call for B/L made out to the order of UNION BANK OF INDIA and notify UNION BANK OF INDIA \_\_\_\_\_Branch and the opener.
- ◆ If shipment is expected by combined transport, credit must allow for presentation of a combined transport document. In such a case credit must allow for transshipment. Also, for multimodal transport, a document showing 'Despatch' or 'Taking in Charge' would be more appropriate than calling for an 'On Board' document.
- ◆ In case of import of certain goods it is customary to carry them on deck only. In such cases LC must specifically allow for shipment on 'Deck'

#### **21.3.5. INSURANCE DOCUMENT**

In case of FOB or C & F or Ex-works contracts, insurance is normally covered by applicant. In such cases, before opening the LC, applicant should obtain an open cover note or open policy and declare the shipments details. To enable prompt coverage of insurance, LC must stipulate that the beneficiary must inform details of shipment within 24 hours of shipment by Fax / Mail and a copy of the same should be asked to be submitted as a document for negotiation. In case of CIF, CIP and other terms of contract where beneficiary has to obtain insurance, LC must specify the 'type of insurance required. A standard insurance clause suggested by FEDAI is 'Marine Insurance Policy' or certificate dated not later than the date of transport document issued unto order and blank endorsed for 10% over the invoice value covering Institute Cargo/Air Cargo Clause A, Institute War Clause (Cargo/Air Cargo), Institute Strikes Clause (Cargo/Air Cargo) with claims payable in India irrespective of percentage.' If the customer requests for any additional risks to be covered, it must additionally stipulate so. If insurance is not to be subject to a Franchise or an Excess (Deductible), as referred to in Art 28 of UCP 600, the credit must call for the insurance to be issued irrespective of percentages.

#### **21.3.6. OTHER DOCUMENTS**

Among other documents, LC may stipulate the submission of a Certificate of Origin issued by an independent third party like a Chamber of Commerce etc. as may be required. Whenever

any other document is called for, the credit must specify by whom such a document is to be issued and what should be its wording or data content.

#### **21.3.7. OTHER TERMS AND CONDITIONS**

LC can stipulate various other terms and conditions required to be fulfilled by the beneficiary which should be capable of being evidenced by the documents presented or separate certificates submitted by the beneficiaries, issued by third parties. For example 'shipments to be made in instalments', is a condition which will be apparent from the date of transport document as specified in the LC. 'Shipments to be made in containers' is a condition which can be evidenced from the invoice or bill of lading or by a separate certificate. Thus, depending upon the nature of the applicant's requirement, suitable conditions may be stipulated in the LC.

#### **21.3.8. UCP INCORPORATION CLAUSE**

Since every LC is to be issued subject to provisions of UCP, credit must incorporate a clause stating that 'except as otherwise expressly stated' this documentary credit is issued subject to Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No.600.

LCs advised by SWIFT are automatically covered under UCP 600.

#### **21.3.9. ICC ARBITRATION**

- ◆ Contracting parties that wish to have the possibility of resorting to ICC Arbitration in the event of a dispute with their counter party should specifically and clearly agree upon ICC Arbitration in their contract or, in the event no single contractual document exists, in the exchange of correspondence which constitutes the agreement between them. The fact of issuing a letter of credit subject to the UCP 600 does NOT by itself constitute an agreement to have resort to ICC Arbitration. The following standard arbitration clause is recommended by the ICC:
- ◆ All disputes arising in connection with the present contract shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules'.

### 21.3.10.REIMBURSEMENT INSTRUCTIONS AND REIMBURSEMENT AUTHORISATION

LC must clearly state as to how the bank nominated to effect settlement under the LC will be able to obtain payment. Normally, we adopt one of the following authorisation methods:

- ◆ By debit to the account of 'A' category branch held with the Nominated Bank or its branch (with whom it maintains its NOSTRO account).
- ◆ By lodging reimbursement claim with a third bank nominated for the purpose either in the country of the beneficiary or any other country (with whom the A category branch maintains the account)
- ◆ Issuing branch would undertake the responsibility of reimbursement upon receipt of documents at its counter either by credit to the nominated bank's account kept with itself or another bank in the country of the issuing bank or elsewhere.

The reimbursement clause in the LC should also state that the same is governed by URR 525. It must be remembered that in terms of Art.13.b.of UCP and 6 c of URR 525, it should not be made a condition that the bank claiming reimbursement must certify to the reimbursing bank as having complied with the terms and conditions of the credit. Whenever another bank is authorised as reimbursing bank, simultaneous reimbursement authority must be provided to the bank concerned. As per Uniform Rules for Bank to Bank Reimbursement (URR 525).

- ◆ Reimbursement authorization / amendment should be in the form of authenticated signed letter / SWIFT.
- ◆ Reimbursement authorisation /amendment should be complete/precise.
- ◆ Copy of LC should not be furnished to reimbursing bank. If sent, it will be disregarded.
- ◆ Pre-notification of reimbursement claim / pre-debit notification to issuing bank must be indicated in the LC and not in the reimbursement authorisation.
- ◆ All reimbursement authorisation must contain (i) LC No. (ii) currency amount (iii) additional amount payable and tolerance if any (iv) in the case of restricted LC, name of the bank to whom LC is restricted is to be furnished (v) parties who have to bear charges to be furnished
- ◆ All reimbursement authorisation should clearly state that they are subject to URR 525.
- ◆ Imports from ACU countries should be settled under ACU Mechanism.

It should also be noted to ensure the funding of such an account at the appropriate time. If the LC is of large value exceeding US\$ 100,000/- and in the case of LCs in other currencies, equivalent to USD 50,000/- and where funding the account at short notice appears difficult, the nominated bank has to be asked to give 3 days notice to the 'A' category branch before it lodges its reimbursement claim or debits the A category branch account with itself. Special instructions such as claiming reimbursement by Mail or TT may also be indicated.

**NOTE :** In view of U.S. Govt.'s Attachment of Assets, settlement of imports from Iran, Libya, Iraq and Myanmar denominated in U.S.Dollars cannot be made through U.S.route. Utmost care should be exercised while giving reimbursement instructions for LCs established in favour of the parties in the above countries. Nowhere names of these countries or their entities should be mentioned in our telex/SWIFT messages while transferring funds from our U.S.Dollar a/c with our correspondents in New York. Iran being a member of ACU countries, settlement should be done in ACU Dollar only.

#### **21.3.11. INSTRUCTIONS TO NOMINATED BANK**

Other instructions to bank(s) nominated to effect settlement, cover areas such as (a) mailing of documents should be done in stipulated number of sets (b) the mode of sending the documents (c) Noting of settlements on the reverse of original LC (D) mailing of a minimum number of invoices, shipping documents and other documents with the first set of documents etc.

#### **21.3.12. INDICATION OF NUMBER OF PAGES**

The issuing bank must indicate on the first page of LC as to in how many pages the credit is issued (applicable only when LC is sent by mail/SWIFT).

#### **21.3.13 RECHECKING OF LC**

After drafting the LC for the purpose of teletransmission (by SWIFT) or typing the same (Airmail LC), and before it is despatched, the entire LC must be checked once again with

reference to underlying sale contract and LC application of the applicant to ensure that all conditions are incorporated and that there are no inconsistencies / ambiguities.

#### **21.3.14 AUTHENTICATING AND DESPATCH OF LC**

- ◆ After the LC is completely typed, it should be signed by two authorised signatories of the branch whose signatures have been lodged with/circulated to the advising/confirming bank. For transmission by SWIFT, the message has to be checked and approved by the authorised officials. This also applies to reimbursement instructions to the reimbursing bank. It must be ensured that the item is valid for import under Trade Policy as on the date of despatch of LC. If the customer's instruction is to send LC by mail preceded by a brief cable, the brief cable advice of opening the LC must be sent to the advising bank through Swift. The brief cable should clearly state that the operative mail confirmation will follow. In such a case, it should be ensured that the mail confirmation of LC is also sent to the same advising bank (and branch).
- ◆ If the LC is intended to be sent by telecommunication no mail confirmation of the LC should be sent to the advising bank. One copy of the LC together with debit advice of charges etc. should be sent to the Applicant for his information and record.
- ◆ If the LC pertains to 'C' category branch, two copies of the LC together with local branch debit advice / POB claim for charges has to be sent to them under covering letter (Second copy of Ann.No.21(2)). 'C' category branch concerned should deliver a copy of the LC to the applicant. The applicant should be asked to peruse the LC and inform inaccuracies, if any, within two days.

#### **21.3.15 ENDORSEMENT OF IMPORT LICENCES**

If the import is covered by an import licence the amount of LC opened must be endorsed on the EC copy of import licence. It should also be endorsed on the transfer letter (letter of authority) if the import licence is transferred in the name of the applicant. Since the import LCs are always issued for CIF value, irrespective of the sale terms for which LC is opened the licence must always be endorsed in the relevant column thereof, for CIF value of the import.



### **21.3.16 DELIVERY OF IMPORT LICENCES TO APPLICANT**

After the endorsement, as far as possible, the import licence should be retained with the bank. If it is required by the applicant for further utilisation or endorsements by other banks or for securing endorsements/modifications thereon by ITC authorities, it may be returned to the applicant against his acknowledgement (preferably after noting in a separate register maintained for this purpose).

### **21.4. AMENDEMENTS TO LETTERS OF CREDIT**

- ◆ Normally, amendments to LCs are to be made when there are changes in the terms of the underlying sale contract or the beneficiary is not in a position to obtain the documents stipulated in the LC or comply with the conditions stipulated therein. In such case, the applicant may request for amendment of terms and conditions or documents stipulated in the LC. Before taking action on a request for an amendment, it must be ensured that the request letter is signed by the authorised signatory(ies) and letter has been given distinctive amendment number by the LC department.
- ◆ Every amendment will have the same implications as the opening of a LC and hence, all precautions taken at the time of opening the LC including availability of LC limit must be observed while amending the LC also.
- ◆ If amendment is with regard to description, quantity, value, unit price etc. corresponding amendment/s to the sale contract must be called for before agreeing to the amendment.
- ◆ If request is for extension of shipment/expiry dates, it must be ensured that the extended date would be within the authorised dates as per the relative import licence,. In the case of freely importable goods, ensure that they continue to be freely importable.
- ◆ If request is for enhancement in the value and import is covered by an Import Licence, adequate balance must be available in the relative import licence for endorsement. Also additional insurance should be obtained by the applicant, where necessary. The Exchange Control Copy of the Import Licence should be endorsed suitably in such case.
- ◆ It should be ensured that the amendment/s should not involve any violation/contravention of Exchange Control Regulations or Trade Control Regulations. Also the terms and conditions should not be inconsistent with each other. To ensure this, when an existing condition is amended, all other conditions related thereto must also be amended. If a new clause is incorporated, it should not result in contradiction of any existing clause/s.

- ◆ Amendments for change of port of despatch /country of origin must not result in contravention of Trade Control/exchange Control Regulations. Amendments are normally sent either by mail or by Swift. The procedure for despatch of LCs must be followed in case of amendments also.

#### 21.4.1. AMENDMENTS TO LC - OPERATIONAL GUIDELINES

On receipt of letter from the party for amendment to LC the procedure will be as follows

- ◆ The letter will be inwarded by LC section by giving distinctive inward number for LC amendment.
- ◆ The officer will verify the signature of the authorised signatory who has signed the letter and affix verified stamp and initial.
- ◆ The requirement of amendment will be scrutinised as per laid down procedure. The process note relating to the LC will be taken from the folder and process notings for amendment required will be recorded. If the amendment relates to enhancement in value, the outstanding liability will be recorded in the process note to ensure that the amendment is within the overall limit and additional percentage of stipulated margin as per sanction to be received from the customer. The same, thereafter, will be verified by the officer concerned of the LC Dept.
- ◆ The amendment letter will be forwarded to In-charge of forex dept. The In-charge will scrutinise the requirement / observations and record his recommendations and forward to the delegated authority, who has to record his approval/decision.
- ◆ The process note along with the respective folder will be given to the concerned for amending the LC in Finacle which has to be then authorised by the In-charge. After authorization in Finacle, the amendment will be typed in the Swift.
- ◆ On verification in Finacle, following control vouchers for the enhanced amount will be passed if the amendment pertains to increase in LC amount.
  1. Dr. Customers liability for acceptance of LC (Foreign)  
Cr. Liability for acceptance of LC (Foreign)  
(entry to be passed at BC selling rate)  
(Reverse of the above entry will be passed where there is a decrease in the LC value)

2. Dr. CD/CC A/c. Customer

Cr. Income A/c. Commission on Import LC

Cr. Exp. A/c. Swift / Postage

- ◆ The desk officer will check the amendment and sign the same and forward the folder to the In-charge of the Foreign exchange Dept. / LC Section.
- ◆ The In-charge will place his counter signature after ensuring that due sanction is given by the branch in-charge and release for transmission.
- ◆ The Process note along with the copies of the Swift messages will then kept along with the Original LC folder.

**21.4.2. AMENDMENT TO LETTER OF CREDIT RECEIVED FROM A 'C' CATEGORY BRANCH**

The procedure as stated at 21.4.1. to be followed after receipt of request for amendment from the customers duly recommended by 'C' category Branch.

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**PROCESS NOTE**

**Annexure 21(1)**

Name of Account		Advising Bank		LIMIT(Rs.)	TILL (DATE)
BENEFICIARY		OTHER BANKS (Specify)		AMENDMENT	
		OUTSTANDING		1. enhancement of value	
	C OUNTRY	LETTER OF CREDIT	Rs.	outstanding LC + PAD	Rs..
CREDIT RPEORT ON PARTY RECEIVED <input type="checkbox"/> YES <input type="checkbox"/> NO		PADs	Rs.	O/S overdue PAD	Rs.
		Overdue	Rs.	enhancement	Rs.
		PADs			
		TOTAL	Rs.		
MARGIN	<input type="text"/> %	COMMISSION	Rs.		
AMOUNT		POSTAGE	Rs.	ledger posting L.F. no. initial	
Rs.		CABLE CHG			
		STAMPS	Rs.	2. ENHANCEMENT	OF VALIDITY /
		ON LC		SHIPPING DATE	
DEBIT (INLCUSIVE OF MARGIN AMOUNT)			Rs.	FROM	TO
Foreign Currency ..... Rate @ ..... Rs.....					
Observations					
DEBIT TO PARTYS ACCOUNT FOR MARGIN AND CHARGES CONFIRMED				3. OTHER AMENDMENTS	
				(i)	
				(ii)	
LC OFFICER	OFF. INCHARGE			(iii)	

RECOMMENDATION	(iv)
SANCTIONED / DECLINED	(v)
	(vi)
SANCTIONING AUTHORITY	

UNION BANK OF INDIA

LETTER OF CREDIT – COVERING LETTER

DATE

<b>TO,</b> <b>THE MANAGER,</b> <b>UNION BANK OF INDIA</b>  <b>_____ BRANCH</b> <b>FOREIGN EXCHANGE DEPARTMENT</b> DEAR SIR,  SUBJECT: OPENING OF LETTER OF CREDIT  A/C _____  FVG. _____	REF.NO. PARTY PROFILE <input type="checkbox"/> TRADER <input type="checkbox"/> MANUFACTURER
	LIMIT SANCTIONED(Rs.)      MARGIN(%)
	DATE OF EXPIRY             MEANS             AVE.C.D.A/C. BALANCE OF LIMIT
	BRIEF DESCRIPTION OF PARTY'S BUSINESS / NATURE OF GOODS

FOREIGN CURRENCY

AMOUNT

We enclose the following papers for opening of the said LC under advice to us. The particulars are as under:

LC APPLICATION DATED	OUTSTANDING
IMPORT LICENCE NO/OGL HS CLASSIFICATION	LETTER OF CREDIT      Rs.
OTHER DOCUMENTS*	PADs      Rs.
1.CONTRACT/INDENT/PROFORMA INVOICE	PAD LOANS      Rs.
2.INSURANCE POLICY	SUB TOTAL      Rs.
3.EXCHANGE CONTROL COPY OF IMPORT LICENCE	PRESENT REQUIREMENT      Rs.
	TOTAL.....      Rs.
*Photocopy of IEC code No. allotment letter to be furnished, if LC is opened for the first time.	

WE CONFIRM THAT

- CAPTIONED CREDIT HAS BEEN CONTROLLED AT OUR END.
- SANCTION STIPULATIONS HAVE BEEN COMPLIED WITH
- APPROVAL FOR EXCESS OVER LIMIT, IF ANY, HAS BEEN OBTAINED

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AUTHORISED SIGNATORIES  
NAME / PA NO.

CHIEF/BRANCH MANAGER  
NAME / PA NO.

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**A / B CATEGORY BRANCH**

We confirm having opened irrevocable Documentary Letter of Credit on..... for .....

..... Bearing No..... @ ..... Amounting Rs.....

Enclosed please find two copies of the LC opened on behalf of your customer. A copy of the same is to be handed over to the applicant with a request to bring to your notice inaccuracies, if any, within two days.

The following charges are to be recovered from the party and remitted to us :

Swift Charges Rs..... Postage Rs..... Commission ..... Total Rs.....

Documents received under this LC will be sent to your branch immediately on receipt for acceptance/payment

Date :

Authorised Signatory

FE.509