

interest will apply from the time of settlement until the negotiating bank is reimbursed by the drawee. Under this type of settlement, negotiation may be restricted to a specific bank or it may allow negotiation by any bank.

CREDITS SETTLED BY DEFERRED PAYMENT

Credits settled by deferred payment normally do not call for drafts. They provide for payment to be made after a specified number of days from presentation of documents, after shipment date, or after any other stipulated date.

SUMMARY OF PROCEDURES

The procedure for the establishment of a letter of credit can be summarized as follows: (See exhibit 15 at the end of PART III.)

1. Buyer and seller conclude a contract for the sale of goods.
2. The buyer (applicant) by means of an application instructs his/her bank (issuing bank) to issue a letter of credit in favour of the seller (beneficiary).
3. Once the letter of credit is established, the issuing bank transmits it to the seller through a bank (advising bank) in the exporting country. The issuing bank might ask the advising bank to add its confirmation to the credit.
4. The advising bank informs the seller that a letter of credit has been issued in his/her favour.
5. Upon receipt of the credit, the seller satisfied that he/she can meet all the specified terms and conditions, ships the goods.
6. The seller presents all the required documents to the bank where the credit is available.
7. According to the terms of the credit, the bank will pay, accept or negotiate if the documents meet all the requirements.
8. The documents are sent to the issuing bank.
9. If all the terms and conditions of the credit have been met, the issuing bank will effect payment/reimbursement according to the terms of the credit.
10. The documents are released to the buyer.
11. The buyer reimburses the issuing bank.

AMENDMENTS

It is the beneficiary's option to accept or refuse any amendments to an irrevocable letter of credit irrespective

of their nature. It must be noted that if an amendment contains more than one change, the beneficiary must accept or refuse it in its entirety. Partial acceptance of an amendment is not permitted unless the issuing bank, the confirming bank (if any) and the beneficiary all agree. Once an amendment is accepted, it becomes an integral part of the letter of credit. If the same item is amended more than once, the most recent will supersede the previous.

Upon receipt of the letter of credit, the exporter must make sure that all the terms and conditions are acceptable in accordance with the underlying sales contract. If it is not, the appropriate amendment(s) must be requested immediately. The request can be made directly to the buyer who in turn will instruct the issuing bank to act accordingly.

DISCREPANCIES

It is estimated that 70% of all documents presented under letters of credit contain discrepancies, and therefore are not honoured on first presentation.

Minor discrepancies such as typographical errors or spelling mistakes can easily be corrected. Where discrepancies are inevitable (i.e. missing the latest shipping date due to a delay of the estimated departure date), the exporter has to make a quick decision as how to proceed. There are only three available options:

1. Instruct the bank holding the documents to forward them on a "collection basis". The documents will then be sent to the issuing bank outside the protection of the letter of credit. This is not the best alternative for the exporter since it will be the buyer's option to accept the documents and honour the payment.
2. Request the paying bank to honour the drawing under an indemnity signed by the exporter. It is of utmost importance that the exporter fully understands this undertaking. If the bank accepts the indemnity and effects payment, and the documents are rejected by the buyer, the exporter will have to reimburse the bank the funds paid to him/her plus applicable interest. At the same time the exporter loses control over the documents and the goods.
3. Instruct the bank to obtain acceptance of the discrepancies from the buyer and to hold the documents until such acceptance has been received. This is the best option available to the exporter.