allows it to adapt to special circumstances. (i.e. Revolving Letters of Credit, Transferable Letters of Credit etc.)

REVOCABLE LETTERS OF CREDIT

A revocable letter of credit involves very high risk to the exporter because it offers little or no guarantee that the transaction will be completed. This type of credit gives the importer the right to modify or even cancel the credit at any time without the consent of the exporter. This is also a prerogative of the issuing bank. Revocable letters of credit are not widespread, thus the exporter should exercise extreme caution with this type of credit.

IRREVOCABLE LETTERS OF CREDIT

An irrevocable letter of credit constitutes a legal and binding undertaking by the issuing bank to pay the beneficiary. Unlike the revocable letter of credit, it cannot be modified or cancelled without the consent of the applicant, the issuing bank, the confirming bank (if any) and the beneficiary. If the letter of credit does not indicate that it is irrevocable, it will be considered revocable.

To obtain payment for the sale of goods, the beneficiary of an irrevocable letter of credit has the commitment of the issuing bank rather than that of the buyer.

IRREVOCABLE CONFIRMED LETTERS OF CREDIT

At the specific request of the issuing bank, the advising bank can add its confirmation to the letter of credit in turn adding its own commitment to pay the beneficiary.

Before adding its confirmation, the confirming bank will consider the following factors:

- the issuing bank's credit rating;
- the political and economic stability of the importing country;
- the terms of the commitment;
- the amount of the credit.

It is the prerogative of the advising bank not to add its confirmation to the credit. By doing so, the confirming bank does not acquire the right to change any of the terms and/or conditions of the agreement.

The beneficiary may request another bank (other than the advising bank) to add its confirmation to a letter of credit. However, banks are sometimes reluctant to add a "silent" confirmation unilaterally without the knowledge of the issuing bank.

There is no doubt that an irrevocable confirmed letter of credit represents the most secure method of payment to the exporter. However, a confirmed letter of credit is costly therefore it should be considered whether or not it merits the request of such a confirmation.

A confirmed letter of credit will contain a clause added by the confirming bank that may read: "this credit carries our confirmation and we hereby engage that payment will be honoured provided all terms and conditions of the credit have been complied with and provided that documents have been presented to us".

SETTLEMENT

All letters of credit must indicate if settlement is to be made by sight, acceptance, negotiation or deferred payment. In addition, a nominated bank must be authorized to pay, accept or negotiate payment.

CREDITS SETTLED BY PAYMENT

Upon receipt of documents and draft (if called for), the paying bank will honour the drawings provided all the terms and conditions of the credit have been complied with. Under a confirmed letter of credit, payment will be effected without delay. However, if the credit is unconfirmed, settlement may be subject to reimbursement of funds to the paying bank.

A credit available by payment may or may not require a draft. If one is required, it must be issued at sight on the paying bank. If a draft is not required, payment will be made against the commercial invoice.

CREDITS SETTLED BY ACCEPTANCE

A credit available by acceptance will require a term draft drawn on the accepting bank. The accepting bank will settle on the date of maturity of the draft which may be at 30, 60 or up to 180 days, or at a determined number of days from the bill of lading date. Whether the credit is confirmed or unconfirmed, settlement will be effected at maturity.

CREDITS SETTLED BY NEGOTIATION

Under a letter of credit available by negotiation, the required draft will be drawn at sight or at a specified tenor on the applicant (buyer) or the issuing bank. Therefore it is the buyer or the issuing bank that will effect payment. If an intermediary bank agrees to negotiate the credit, it will simply finance the transaction by paying the beneficiary and charging a negotiation fee plus interest. The