

DATE OF EXPIRY

All letters of credit must have an expiry date. Often a latest shipping date is incorporated in the credit as well as a period of time allowed to the beneficiary for presentation of documents (i.e. 10 days from shipment date). If the latest shipping date is not specified, the expiry date will be the time limit by which the goods must be shipped. If presentation of documents time is not indicated, the beneficiary has 21 days from shipment date to do so.

TRANSFERABLE LETTERS OF CREDIT

A transferable letter of credit must indicate that it is "TRANSFERABLE" and can be transferred once only. It gives the beneficiary the right to request the paying, negotiating or accepting bank to make the credit available in whole or in part to one or more parties (second beneficiaries). The second beneficiaries can be located in the country of the original beneficiary or any other. The bank that is requested to transfer the credit is under no obligation to do so even if it has added its confirmation.

When a credit is transferred it can only be done on the same terms and conditions contained in the original credit with the following exceptions:

- the name and address of the beneficiary can be substituted;
- the amount and unit price can be reduced;
- the expiry and other deadline dates may be curtailed;
- the insurance coverage (if the term of sale is CIF) may be increased.

BACK-TO-BACK LETTERS OF CREDIT

The beneficiary of a letter of credit can request a bank (need not necessarily be the advising or confirming bank), to issue a **BACK-TO-BACK LETTER OF CREDIT** in which he/she becomes the applicant. A back-to-back letter of credit involves the issuance of a **SECOND CREDIT** (secondary credit) and unlike a transferable credit, the two transactions are separate and independent.

The bank that agrees to issue a back-to-back letter of credit will demand that the terms and conditions of the first credit remain the same except for the following:

- the amount of the secondary credit may be curtailed;

- the place of validity may be changed;
- the expiry and other deadline dates may be shortened.

A back-to-back letter of credit is a useful financing mechanism for the beneficiary who is not the actual supplier of the goods.

REVOLVING LETTERS OF CREDIT

A revolving letter of credit allows an amount to be drawn during a specified period of time after which the full original amount becomes available again. The purpose of a revolving letter of credit is to avoid the issuance of a series of credits with the same requirements to the same beneficiary.

Revolving letters of credit can be renewed in terms of value and time. In terms of value, the amount is reinstated upon utilization and continues to be drawn until the expiry date. In terms of time, an amount can be available for weekly or monthly drawings. If the credit allows it to be accumulative, unused amounts are carried forward and added to the balance for the next drawing.

UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS

In 1933 The International Chamber of Commerce formulated a code of principles and responsibilities known as the **Uniform Customs and Practice for Documentary Credits (UCP)**. The UCP is a set of rules covering various aspects of documentary credit operations. These rules, with all their revisions, the latest in 1983, have been recognized around the world by most trading countries.

Nevertheless, specific conditions contained in a letter of credit will override the UCP rules, therefore many of the 55 UCP Articles include the following phrase: "...unless otherwise stipulated in the credit..."

The UCP rules are incorporated into a letter of credit by a statement that reads:

"Except as otherwise expressly stated this documentary credit is subject to uniform customs and practice for documentary credits (1983 Revision), International Chamber of Commerce Publication No. 400".