A hand is shown typing on a laptop keyboard. In the background, a globe is visible, suggesting international operations. The overall scene is dimly lit with a blue tint.

# Documentary credits and collections

Payment instruments for your  
international commercial operations

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For any more specific questions concerning documentary credits and collections, please contact your Corporate Banker. He will be able to put you in touch with Belfius Bank’s specialists.



# Introduction

**International trade is a complex activity involving many risks and for which it is best to be well prepared.**

A company that thought it was going to land an attractive contract can experience difficulties further to various factors: breach of contract, insolvency of the buyer, riots, strikes, poor quality of the goods, services not provided, technical errors or administrative shortcomings, restrictions imposed on transactions in currencies, inefficient organisation of transport, fraud, etc.

However, some companies always deftly manage to overcome the pitfalls with which international trade is fraught. They choose a reliable partner to finance or pay for their contracts and opt for sound methods so that they need not worry about delivery or payment.

Whether you are an importer or an exporter, Belfius Bank can provide you with help and advice in those choices. Indeed, we have developed an in-depth knowledge of all the financial instruments that you should be able to have at your disposal to arrange and settle your international transactions successfully.

The aim of this brochure is to provide you with a working tool describing the mechanisms and certain notions relating to documentary credits. This is not an unnecessary luxury: suing documentary credits requires knowledge of the mechanisms and terms used. Moreover, they require that those involved take great care during successive phases of the transaction.



## Payment methods in international trade

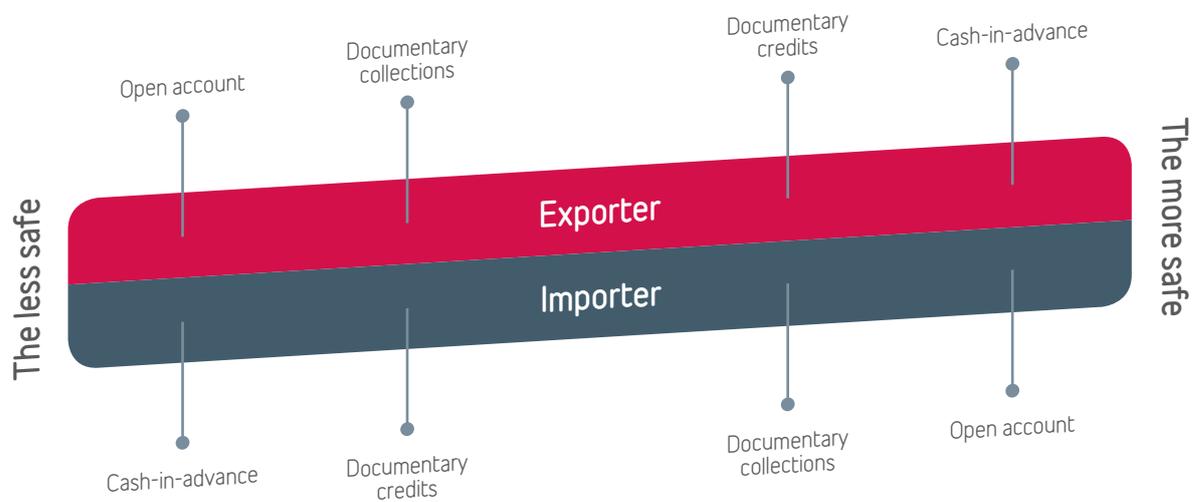
When negotiating a contract, your customer and you should agree the payment method which best applies to your situation. Among the various payment methods used for international transactions, four can be distinguished in particular: cash-in-advance, letter of credit or documentary credit, documentary collections, and “open account”.

### Cash-in-advance

Cash-in-advance enables the exporter to avoid the credit risk since the payment is received before the transfer of ownership in the goods. The payment may be made by bank transfer, credit card or cheque. Early payment is a less attractive option for the buyer given the cash flows generated.

The foreign buyer runs a greater risk of non-delivery of the goods if the payment is made in advance.

Exporters who offer this payment method as a single solution run the risk as a consequence of losing market share to competitors prepared to offer more attractive payment conditions.



## The letter of credit or documentary credit

The letter of credit is one of the safest payment methods for the settlement of international transactions. It is a commitment made by a bank on behalf of the buyer that the payment will be made to the exporter, provided the terms and conditions specified in the LC are observed.

The letter of credit is useful when the foreign buyer is unknown.

## The documentary collection

The documentary collection is an order from the exporter to his bank that the latter should submit the documents to the importer against payment or acceptance of a bill of exchange. The documentary collection is generally used for the purchase of goods when the buyer and the seller know each other and have mutual trust.

The documentary credit, the documentary collection and the standby letter of credit are explained in greater detail in the following pages. Particular attention will be given to the documentary credit which is one of the safest payment methods and sometimes the only answer in complex transactions with foreign partners.

## The “open account”

For a small amount, and if the two partners have mutual trust, the transaction may be completed against a simple invoice. Waiving payment security enables the transaction to be completed with a minimum of administrative restrictions.

In this case, the goods are shipped and delivered before the payment date. It is a more favourable option for the importer in terms of cash flows and cost but it remains the most risky for the exporter. It is not advisable of course to deliver goods or services to a foreign buyer on this basis, if the partners do not know each other or if the country risk is too high.



# The documentary credit

## Definition

A documentary credit:

- is the commitment
- made by a bank
- on behalf of a third party (the party initiating the transaction - principal) or on his own behalf
- to pay a beneficiary (service provider, seller, supplier etc.)
- a specific sum
- on presentation
- within a stipulated lead time
- of documents in conformity with the terms and conditions set.

**“The formality specific to documentary credit gives all the parties concerned the certainty that they will be paid on presentation of the documents in conformity.”**

## The contracts

Contracts, sales agreements, agreements between parties, etc., constitute the basis of documentary credits. It is essential that the conditions and terms of the documentary credits clearly express their content in order to avoid any misunderstanding upon fulfilment and so as not to endanger the validity of the documentary credit.

However, the banks taking part in a “documentary credit” operation are not involved in or bound by these contracts, sales, agreements, etc., even if the terms and conditions of the documentary credit make reference to them.

The documentary credit is in fact an autonomous operation that has no legal connection with the sales contract or other contracts to which it relates. That means that the banks’ commitment is literal, in the sense that the parties have to abide strictly by the provisions of the credit. This should not be regarded as formality, but rather as protection of the customer.

Indeed, the documentary credit tends more to be an international payment instrument, and the formalities and limitations imposed lead to uniform practices adopted in the framework of often complex international transactions. The formality specific to documentary credit – requiring a strict conformity

with the commitments on the part of the intervening parties – gives all the parties concerned the certainty that they will be paid on presentation of documents in conformity.

## Uniform Customs and Practice

The Uniform Customs and Practice (UCP) relating to documentary credit are published by the International Chamber of Commerce (ICC). Since they were first published in 1933, they have been reviewed several times in order to keep abreast of developments in world trade.

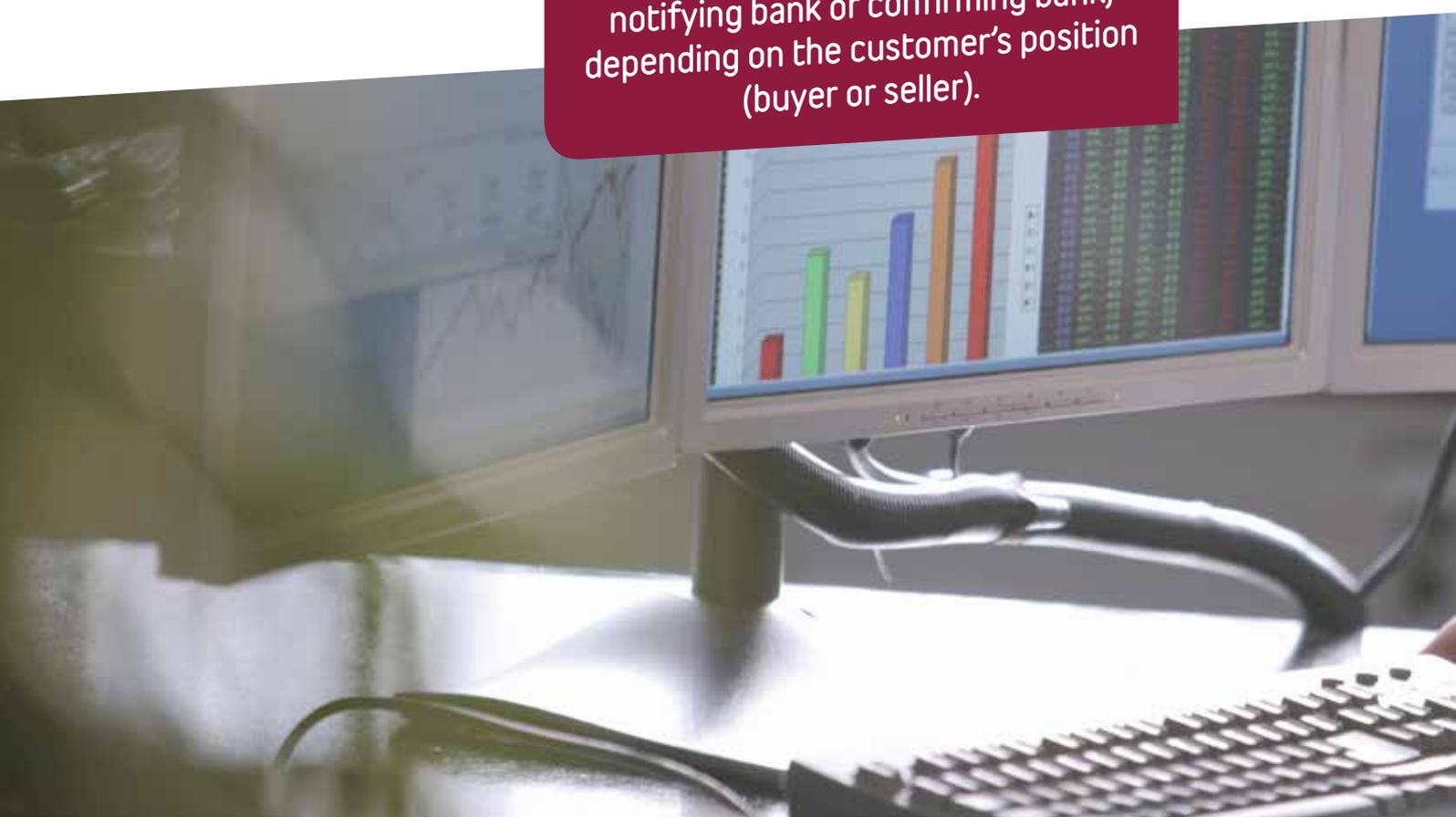
The current edition, bearing the number 600, dates from 2007 and entered into force on 1 July 2007. It is made up of 39 articles dealing with the responsibility of banks, form and notification, verification and rejection of documents and transferable credits.

The ICC published a supplement to the aforementioned rules in 2007. Entitled “Supplement to UCP 600 for electronic presentation”, version 1.1, it comprises twelve articles relating to the presentation of documents using electronic technologies.

## The participants

Various different parties intervene in the documentary credit:

- **The principal:** is the party initiating the documentary credit. This is usually the buyer, the importer, etc.
- **The issuing bank:** acts at the request of and on the instruction of his customer (the principal) or on his own behalf. It issues and fulfils the documentary credit.
- **The notifying bank:** on the issuing bank's instruction, it forwards the documentary credit to the beneficiary, without any commitment on his part. his role is limited to an authentication of the message sent. Consequently, it does not undertake to pay, accept or negotiate when the documents are presented. It may decide not to execute the operation with which it has been entrusted.
- **The confirming bank:** agrees, on the order and on behalf of the issuing bank, to guarantee fulfilment of the credit (see Confirmation, page 9).
- **The nominated bank:** is authorised to pay, to contract a deferred payment obligation, to accept the trade bill(s) or to negotiate. If the credit can be fulfilled freely, any bank will be the nominated bank.
- **The beneficiary:** is the service provider, supplier, seller, etc.



Belfius Bank will act as issuing bank, notifying bank or confirming bank, depending on the customer's position (buyer or seller).

## Types of availability

Any documentary credit must clearly mention one or more types of availability. The customs and practice cite four types of availability.

### Payment on demand

payment upon presentation of the documents at the designated place.

### Deferred payment

payment on the due date or dates, fixed in the credit conditions.

### By acceptance

acceptance and/or payment of bills and/or documents on their settlement date. The beneficiary of a documentary credit that can be fulfilled by acceptance may, with his bank, examine the possibility of discounting the bills.

### By negotiation

settlement of the value of the bill(s) and/or other documents by an authorised (nominated) bank.

## Notification

The notifying bank, which does not have to confirm the credit, limits itself to giving the beneficiary notification of the opening of the documentary credit, without this entailing the slightest commitment on his part to perform the services provided for. In this case, the notifying bank's responsibility is limited to checking the credit's authenticity. But for objections on his part, the notifying bank may consider performing the planned services on presentation of the documents in conformity.

## Confirmation

Confirmation of a documentary credit is a firm commitment on the part of a third-party bank (other than the issuing bank) to honour a presentation in conformity, provided the terms and conditions are met. This commitment is contracted on the authorisation or instruction of the issuing bank.

Thanks to this confirmation, the beneficiary covers itself against political risks (country) and commercial risks (bank). As a rule this confirmation is given by a bank of the beneficiary's country.

A confirmed documentary credit therefore guarantees the seller greater security, since it can approach two banks, one of which in his own country. It is therefore in the seller's interest to demand a documentary credit confirmed by a bank in his own country. The executing party, who wants to receive a confirmed credit, is better off asking his bank, before signing the commercial contract, if it is prepared to confirm a documentary credit opened by a bank of his co-contracting party.

# 4

The customs and practice cite four types of availability.



## Commitment at the beneficiary's request

For various reasons (commercial, ideological or other), it may occur that the issuing bank does not want to authorise another bank to give its confirmation or that the beneficiary does not want to ask his customer for a confirmed documentary credit.

In this case, a beneficiary that wants to protect itself against the political and commercial risks associated with the country and the buyer's bank, may ask his bank to guarantee fulfilment of the documentary credit upon presentation of the documents, as long as the terms and conditions are met.

This commitment, which is also referred to as "silent confirmation", is entered into without the issuing bank's knowledge and does not create any legal link between the aforementioned and the bank that commits itself.

This type of commitment does not fall within the scope of the Uniform Customs and Practice relating to documentary credits.

The cost of such a commitment is often higher than a confirmation commission and is justified by the risks taken by the bank in the operation.

## The "Red Clause"

This clause, which can be incorporated into the terms and conditions of documentary credits, enables his beneficiary to ask the notifying bank, confirming bank or other nominated bank, for a down-payment before presentation of the documents.

The "Red (Ink) Clause" is above all used for the purchases of harvests, raw materials, etc., which call for all the goods for dispatch to be purchased within a very short space of time.

## The Revolving Credit

This is a documentary credit under which the amount and/or fulfilment period of which can be renewed under certain conditions, without it being necessary for an amendment to be issued.

This type of credit can be cumulative or non-cumulative depending on whether or not the amount not used in one period can be used during a subsequent period.

Revolving credit is used to cover goods shipments or the provision of services that occur regularly.

## The mechanism

The intervention of four parties is generally needed for an operation to be set up and carried through. However, this number may be reduced or increased depending on the type of operation to be dealt with.

To give a schematic outline of how the operation works, we will use the classic operation involving four participants.

### Note

When a revolving credit is issued, the issuing bank commits itself for the entire amount and for the entire duration of the operation.



## Other Examples with 3 or 5 participants:

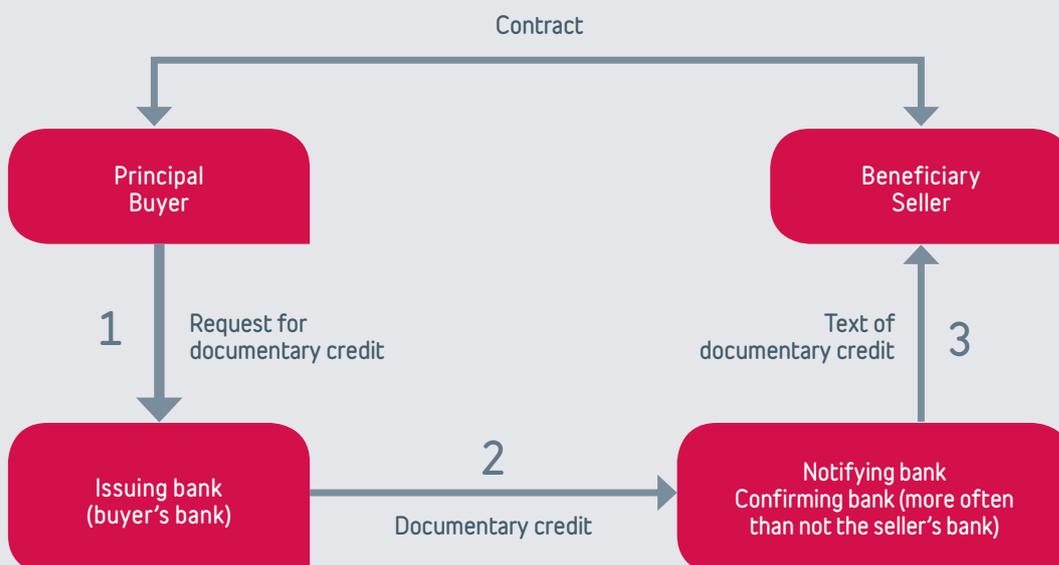
→ **3** participants:  
if the issuing bank notifies the beneficiary directly (notify = authenticate the content of the documentary credit)

→ **5** participants:  
if notification of the credit is given by the beneficiary's bank but confirmed by the issuing bank's correspondent.

## Setting up of a documentary credit (opening)

1. The principal submits a request for the opening of a documentary credit. This request is established on the basis of the contract, sale or agreement entered into between the buyer and the seller.
2. The issuing bank (the buyer's bank) examines the request and checks whether its customer has the necessary cover in the form of assets or credit lines. The issuing bank takes care of drawing up the text, opens the credit and sends it to the notifying bank or the confirming bank.
3. If the seller's bank only fulfils the role of notifying bank, this bank authenticates the message and sends it to the beneficiary (authentication). If the seller's bank fulfils the role of confirming bank, it examines the risks and sends the message to the beneficiary (confirmation).
4. The beneficiary examines the terms and conditions of the documentary credit received in order to make sure that these correctly reflect the conditions of the contract, sale or agreement. If need be, it will ask for modifications before the operation is carried through.

## Setting up of a documentary credit



## Irrevocable credits

These cannot be amended or cancelled without the agreement of the issuing bank, the confirming bank (if there is one), and the beneficiary. This form of credit implies a firm undertaking on the part of the issuing bank.

The UCP 600 definition includes the general principles according to which all documentary credits are considered to be irrevocable. The concept of revocability of documentary credits has been removed from the UCP 600.

## Important dates

The credit should stipulate a validity deadline and a place where the documents are to be presented. The important dates are as follows:

### The issue date

This is not necessarily the date on which the documentary credit comes into force.

### The final date for dispatch/service provision

This is the deadline for dispatch of the goods.

### The date of validity (place of presentation)

This is the deadline established for presentation of the documents at the designated place and not the deadline for payment of the documentary credit.

### The payment date

This is calculated or effective according to the terms of the credit:

- in the case of a documentary credit that can be fulfilled on demand, it will generally be prior to the date of validity;
- for a documentary credit that can be fulfilled by deferred payment or acceptance, it will often be after the date of validity.





## Specific structures

In some cases, producers do not always deal directly with the buyers, for various reasons (costs, internal structures, lack of knowledge of the markets, etc.). They therefore enlist the services of intermediaries. These intermediaries do not always have the financial basis required to deal with sizeable transactions. In this case the players have to find solutions making it possible to set up the operation whilst limiting the risks. To this end, various documentary credit schemes have been devised, each offering an adapted structure.

### The transferable documentary credit

In international commercial operations, the tradesman, broker, agent, etc., often acts as an intermediary.

He himself has signed a contract with the buyer and receives a documentary credit in his favour. Often he has to pay the supplier using this same method.

The transferable documentary credit gives the intermediary (the first beneficiary) the possibility of asking an authorised banker (nominated bank) to allow this credit to be used, in full or in part, by one or more other (second) beneficiaries.

Transferable documentary credit operations are codified in Article 38 of the UCP.

The transferable credit can only be transferred in accordance with the terms and conditions specified in the initial credit, except as regards (see Article 38G of the UCP):

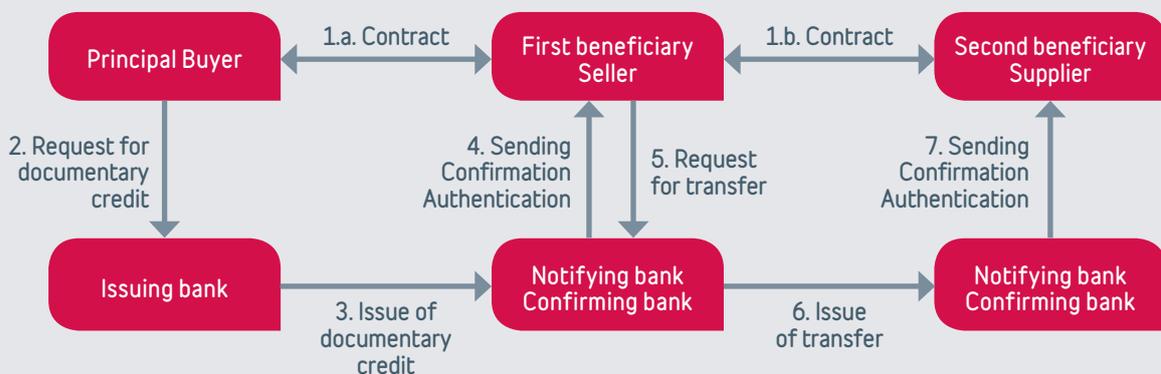
- the amount of the credit;
- the unit price(s);
- the date of validity;
- the deadline for presentation of the documents;
- the dispatch period;

which may be reduced or shortened, jointly or separately.

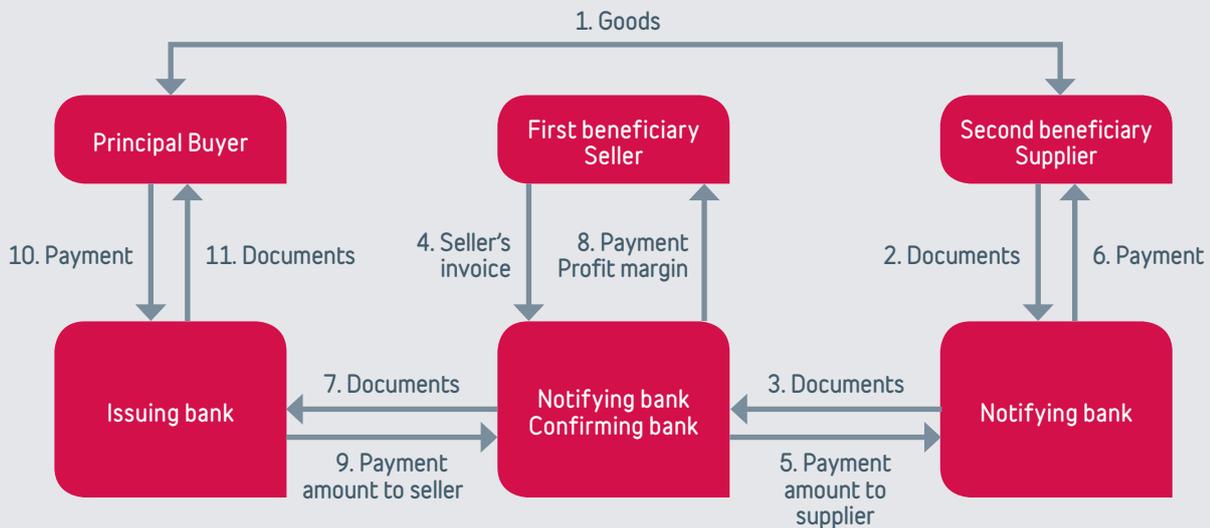
The percentage for which insurance cover has to be taken out may be increased in order to reach the amount of cover required in the initial credit.

- 1.a. The end buyer and the first beneficiary (intermediary) conclude a contract providing a transferable documentary credit as condition of payment.
2. The principal makes a request to his bank to open a transferable documentary credit, specifying the documents needed for importing the goods.
3. The issuing bank examines the request and checks that its customer has the necessary cover in the form of assets or credit lines. The issuing bank prepares the text, opens the credit and sends it to the notifying bank or to the confirming bank.
4. If the first beneficiary's bank only plays the role of notifying bank, the latter authenticates the message and forwards it to the first beneficiary (authentication).  
If the first beneficiary's bank plays the role de confirming bank, it examines the risks and sends the message to the first beneficiary (confirmation).  
The beneficiary examines the terms and conditions of the documentary credit received in order to ensure that it properly reflects the conditions of the contract, the sale or the agreement. If necessary, it will ask the principal for amendments before completing the operation.
- 1.b. Conclusion of the contract between the first beneficiary and the second beneficiary, providing a transferable documentary credit as condition of payment.
5. The first beneficiary asks his bank to transfer the credit to the second beneficiary (supplier). Certain conditions of the base documentary credit will be adapted in relation to the contract with the supplier (reduce the amount, alter the shipping period, ...).
6. The first beneficiary's bank (notifying or confirming) makes the transfer to the second beneficiary's bank (supplier's bank) asking it to give notice of the documentary credit to the second beneficiary (supplier).
7. The second beneficiary's bank authenticates the message and forwards it to the second beneficiary (authentication).  
On receipt, the second beneficiary examines whether the conditions of the documentary credit are in accordance with the agreements made with the first beneficiary in the sale contract and in the conditions of the documentary credit received in order to ensure that these properly reflect the conditions of the contract, the sale or the agreement. If necessary, it will ask the principal for amendments before completing the operation.

## Setting up a transferable documentary credit (opening)



## Fulfilling a documentary credit transferable on sight, confirmed



1. The second beneficiary (supplier) sends the goods directly to the buyer and gathers the documents required in the documentary credit transferred.
2. The supplier submits the documents to his bank.
3. The second beneficiary's bank examines the documents and, if they conform, sends them to the first beneficiary's bank claiming payment. If the documents contain discrepancies, the supplier loses his payment security.
4. The first beneficiary's bank notifies the latter of the documents being sent by the supplier's bank within the context of the documentary credit transferred and invites it to submit his invoice as well as the required documents. At the same time it asks for payment of the cover to the issuing bank.
5. The first beneficiary's bank pays the supplier's bank.
6. The supplier's bank pays the supplier.
7. The first beneficiary's bank checks that documents received from the second beneficiary's bank are in accordance with the conditions of the original documentary credit, substituting the invoice sent (and if necessary the bill of exchange and other documents) by those from the intermediary and sends the documents to the issuing bank.
8. The first beneficiary's bank credits the latter the difference between the two amounts invoiced and send it the invoices submitted by the supplier (and if necessary the bill of exchange and other documents).
9. The issuing bank pays the amount of the cover to the first beneficiary's bank.
10. The issuing bank debits the end buyer the sum claimed by the first beneficiary's bank.
11. The issuing bank checks that the documents received conform and sends them to the end buyer who may import and customs clear the goods.



The “back-to-back” credit fundamentally differs from the transferable documentary credit.

### “Back-to-back” documentary credit operations

It can occur that:

- the buyer refuses the issue of a transferable documentary credit;
- the intermediary does not wish to reveal his sources of supply;
- the commercial terms are not identical;
- the seller cannot know about the place of delivery;
- etc.

In this case it is not possible to use the transferable credit and the “trader” intermediary may, on the basis of a documentary credit of which he is the beneficiary, ask his bank to open another documentary credit in favour of the supplier.

The bank issuing the second documentary credit should take a series of precautions:

- knowledge of the contracts;
- transfer/taking in pledge of the debt;
- protection against payment difficulties;
- a perfect command of the steps involved in the operation. (Example: monitoring of the terms and conditions of the credit forming the basis of the operation, payment of the freight and insurance, right over the goods, currency cover, etc.).

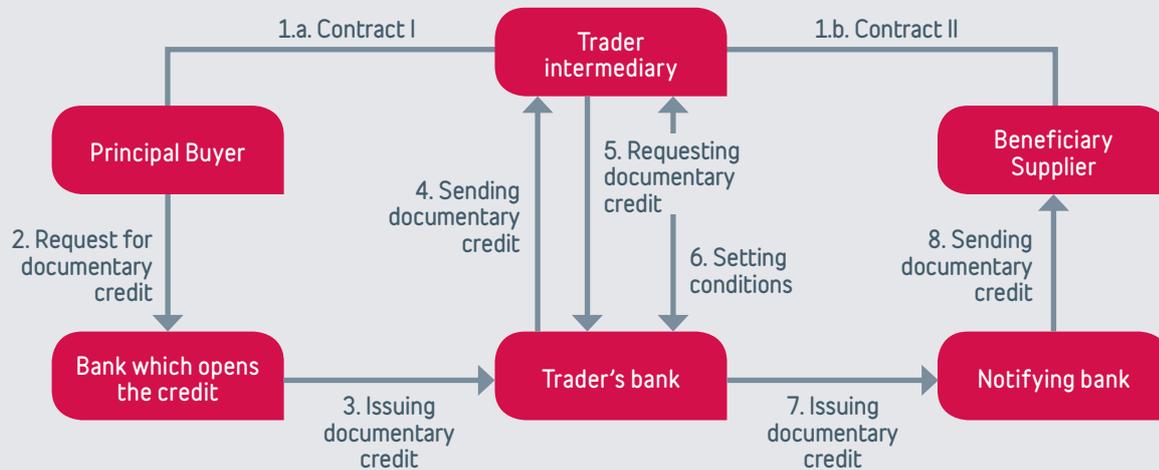
The “back-to-back” credit fundamentally differs from the transferable documentary credit in that, from the legal point of view, the subsidiary credit is totally separate from the base credit. These are two distinct operations that have a close economic link. Both relate to the same commercial operation. Indeed, the proceeds from the base credit are used to remunerate the bank for the payment it has made within the framework of the subsidiary credit.

### Assignment of proceeds

Except for the two possibilities already mentioned, the beneficiary of a documentary credit may give his bank irrevocable payment instructions in favour of his supplier. The amount to be paid will be deducted from the proceeds from the fulfilment of the documentary credit.

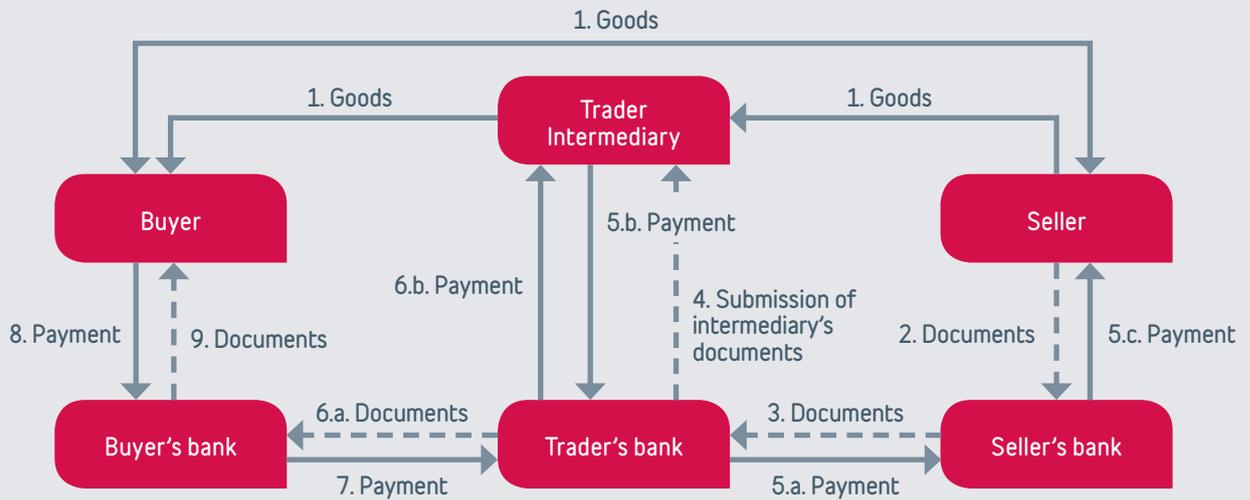
The supplier will be notified of this amount placed at his disposal, without any commitment on the part of the bank, which will only effect the payment if the documentary credit is fulfilled and if the sum to be paid is available unreservedly. This assignment of proceeds may call for the presentation of documents. This kind of operation can only be carried out on condition that the players know each other and have a working relationship based on trust.

## Setting up a back-to-back documentary credit



- 1.a. The end buyer and the intermediary conclude a contract providing a documentary credit confirmed by the intermediary's bank.
2. The principal makes a request to his bank to open a documentary credit. The credit must be confirmed by the intermediary's bank. In the conditions, the buyer specifies the documents needed for importing the goods.
3. The issuing bank examines the request and checks that its customer has the necessary cover in the form of assets or credit lines. The issuing bank prepares the text, opens the credit and sends it to the notifying bank or to the confirming bank.
4. The first beneficiary's bank examines the risks and sends the message to the intermediary (confirmation)  
The beneficiary examines the terms and conditions of the documentary credit received, in order to ensure that it properly reflects the conditions of the contract, the sale or the agreement. If necessary, it will ask the principal for amendments before completing the operation.
- 1.b. Conclusion of the contract between the intermediary and the supplier, providing a documentary credit as condition of payment.
5. The intermediary asks his bank to issue a back-to-back credit in favour of the supplier. It will adapt certain conditions of the base documentary credit for the new back-to-back credit on the basis of his contract with the supplier. He will seek to ensure confidentiality in relation to the end buyer and the supplier.
6. The intermediary's bank (bank issuing the back-to-back documentary credit) sets the criteria of issue and cover of the back-to-back documentary credit and requires the necessary documents from the intermediary for fulfilment of the base documentary credit, i.e. those not to be taken from the back-to-back documentary credit. The bank will issue the back-to-back documentary credit irrespective of the base documentary credit. As a consequence, a credit line is necessary.
7. The bank issues the back-to-back documentary credit and sends it to the supplier's bank (notifying bank) asking it to give notice of the documentary credit to the supplier (beneficiary of the back-to-back) without other commitment.
8. The notifying bank notifies the supplier of the documentary credit. The latter is aware of the fact that only the issuing bank is liable for payment of the back-to-back credit in his regard.

## Fulfilment of a back-to-back documentary credit



1. The seller (supplier) ships the goods directly to the end buyer or to the intermediary and gathers the documents required in the back-to-back documentary credit.
2. The supplier submits the documents to his bank.
3. The supplier's bank examines the documents and, if they conform, sends them to the intermediary's bank, issuer of the back-to-back credit, claiming payment. If the documents present differences, the supplier loses his payment security.
4. The intermediary's bank notifies the latter of receipt of the documents for the back-to-back credit and invites it to submit his invoices immediately together with any other documents required.
- 5.a. The intermediary's bank, issuer of the back-to-back documentary credit, pays the sum required to the supplier's bank.
- 5.b. The intermediary's bank debits the latter the amount of the documents and sends it the documents presented by the supplier and which shall be substituted.
- 5.c. The supplier's bank pays it.
- 6.a. The intermediary's bank replaces the invoices submitted by the supplier and any other documents with those from the intermediary. The intermediary's bank (confirming the base documentary credit) claims payment of the documents (amount of the invoice from the intermediary) from the bank issuing the base documentary credit and sends these simultaneously.
- 6.b. The intermediary's bank (confirming bank) credits the intermediary the amount of the base documentary credit.
7. The issuing bank pays the intermediary's bank which covered the back-to-back documentary credit.
8. The buyer's bank (issuer) debits the buyer the amount required by the confirming bank.
9. The buyer's bank (issuer) checks the conformity of the documents received and submits them to the end buyer which may import and customs clear the goods.

## The documents

The documentary credit is a payment instrument realisable in exchange for the presentation of documents.

Depending on the dominant position of one of the partners taking part in the transaction and the type of operation, the number and content of the documents will be small or large.

When it comes to fulfilment, the banks will only consider the documents, to the exclusion of the goods, services or deeds to which they might relate.

The UCP contain special provisions concerning the main documents. We will limit ourselves to enumerating the most frequently used documents by highlighting few important points.

### Invoices

#### Commercial invoice

- detailed note of the goods sold or services rendered;
- accounting note used by an assignee to request the payment of a sale or a service.
- But for stipulation to the contrary, commercial invoices must:
  - be issued by the beneficiary designated in the credit;
  - be drawn up in the principal's name;
  - contain a description of the goods or services corresponding to that given in the credit;
  - be drawn up in the currency of the credit.

#### Pro forma invoice

The pro forma invoice is not a commercial invoice; it is issued before execution of the transaction. It can be used by the buyer as a document in evidence in order to obtain licences or currencies.

#### Customs invoice

It includes the value of the goods to be declared at customs and may be different from the commercial value.

#### Consular invoice

This invoice, which is required in some countries, is drawn up on special forms or by means of a "consular" certification on the commercial invoice.

## Shipping, transport and coverage documents

The Uniform Customs and Practice contain separate articles for shipping and transport documents (Articles 19 to 25). They deal with the documents that the bank will demand in accordance with the principal's instructions.

These documents must meet certain conditions as regards form and have certain common characteristics.

Main characteristics:

- the banks will accept the documents as they are presented, whatever certain terms may be, provided they are in conformity with the credit and they have not been submitted by the beneficiary;
- the documents must clearly indicate the name of the carrier;
- the documents should be signed; the signature should be clearly identified on the documents: an agent acting on behalf of a carrier must identify itself and specify the party on behalf of whom it is acting;
- the documents should include or refer to the conditions of carriage;
- the documents should be presented within the lead times established in the credit and in the articles of the UCP.



### Bill of lading

The bill of lading is:

- a receipt for the loading of the goods on board the ship, for shipping to a stated destination;
- proof that a shipping agreement exists;
- a certificate representative of the goods, the legitimate holder of which being entitled to take delivery of the goods.

The bill of lading can be drawn up:

- **in the name of a specific person:** only the named person will be entitled to take delivery of the goods;
- **to bearer or to order:** it is negotiable and transferable from hand to hand or by endorsement.

Note: the bill of lading is not an ownership title.

The original bill of lading intended for the shipper is issued in several originals. The number of copies issued is indicated on the bill of lading. Each copy gives entitlement to take delivery of the goods that it represents. If one copy is fulfilled, the others no longer have any value. It is therefore important to be in possession of the entire set.

Generally speaking, and especially in credit operations where the goods serve as a pledge in favour of the issuing bank, the complete set of bills of lading will be required.

### Inland waterway transport document

In most cases this bill of lading is drawn up in the name of the consignee. It may be presented in the form of a Sea Waybill.

### Sea Waybill

Non-negotiable document indicating that a shipping agreement exists and constituting a receipt of goods.

### Mate's receipt

Provisional receipt signed by the ship's first officer, attesting that the goods have been received on board the ship.

The mate's receipt is issued in accordance with the customs and practices of the port. If a mate's receipt is issued, the bill of lading will only be handed to the person in possession of it.

### Air Waybill

Non-negotiable document which for the shipper represents a receipt of goods and the proof that a shipping agreement exists. Air transport is governed by the Warsaw International Convention. The copy marked "for shipper" is generally requested in documentary operations. The International Air Transport Association (IATA) has drafted a standard model airway bill which is used by most airlines.



### **Road Transport Document CMR**

Non-negotiable document, which constitutes a receipt of goods and the proof that a shipping agreement exists. It refers to the Geneva Convention on the Contract for the International Carriage of Goods by Road. The copy requested will be the shipper's copy.

### **House Air Waybill**

Goods receipt issued by an intermediary, mainly used in bulking operations of small parcels until the aeroplane is full.

### **Railway Transport Document**

Non-negotiable document the content of which is determined by the Bern Convention concerning International Carriage of Goods by Rail. The copy requested will be the duplicate of the consignment note.

### **Courier or post receipt or certificate of posting**

Non-negotiable document issued by the post office or by a courier company, stating that the goods have been received for delivery.

### **Certificate of receipt**

Document issued by a carrier, a shipper, etc., which provides proof that the goods have been received either for shipping or for them to be placed at the disposal of the designated person.

## **Insurance**

Depending on the terms of the contract, responsibility for insurance being taken out lies either with the buyer or the seller.

Barring instructions to the contrary, the insurance documents should be issued and signed by insurance companies or other insurers (underwriters) or by their agents, should cover all the requested risks, and should be issued in the currency of the credit.

The minimum value of this cover must be 110% of the value CIF or CIP, if this value can be determined on the basis of the documents.

If not, it will be at least 110% of either the amount for which the credit has been concluded or the gross amount of the commercial invoice, whichever is highest.

The cover must take effect at the latest on the date of shipping. The type of cover should be stipulated in the credit. In the absence of any stipulation, the banks will accept the insurance documents as they are presented.

## **A few types of bills of lading**

- Ocean/marine bill of lading
- Through bill of lading
- Short form bill of lading
- Charter party bill of lading
- Combined transport bill of lading
- ...

Amsterdam	31
Brussels	32
Chicago	14
Düsseldorf	49
FPE	15
Hamburg	49
Kuala Lumpur	53
London	44
Los Angeles	13
Madrid	34
Maryland (eMotion)	17
Milan	39
Montreal	16
New York	12
Paris	
Seattle	

#### Note

In Belgium, the issuing of certificates of origin is regulated. Only the approved chambers of commerce and a few bodies authorised by the Ministry of Economic Affairs can issue certificates of origin.

## Other documents

The UCP stipulate that if there are no instructions in the terms of the credit as regards the issuers and/or the content, the banks will accept these documents as they are presented insofar as the data are not incompatible with the other documents presented and if their content appears to fulfil the function of the required document. This involves in particular the following documents:

### Packing list

Description of the parcels, crates, etc.

### Weight note

Indicates the weight per item of the parcel, crate, etc., and/or the total weight.

### Certificate of origin

Certifies the place of origin of the goods.

### Analysis certificate and sanitary, health certificate

Records the content of certain substances in the goods, according to set criteria.

### Inspection certificate

Certificate usually issued by an independent body which will be able to verify the quality, quantity and price.

### Circulation certificate

Certificate enabling the goods to benefit from reduced customs duties in countries that have concluded agreements with the European Community. This certificate should be stamped by the customs in the exporting country. Examples of certificate: EUR1, ATR, etc. It should be attached to the import declaration at the customs office.

## Non-compliant documents

The beneficiary's obligation to present documents in conformity stems from a balance found in the contracts, agreements, accords, etc., which forms the basis of the operation. The documents will be checked on the basis of criteria of "apparent conformity, concordance and conformity with the uniform customs and practice".

The issuing and nominated banks are often confronted with irregular documents and, consequently, the reactions of the beneficiaries, who may criticise the formality of the verification process. The beneficiaries usually claim that the goods are in conformity with the order and that the commercial contract has been performed.

The issuing bank will have to decide on the basis of the documents alone, whether or not these appear to be in conformity. If it deems that they do not appear to be in conformity, it may approach the principal with a view to having the irregularities lifted, and must give the bank that presented the documents notification of his refusal at the latest by the end of the fifth banking day after receipt of the documents.

When confronted with non-compliant documents, the **beneficiary's bank** may:

- have the documents rectified within the stipulated lead time for presentation;
- keep the documents and ask the issuing bank, by Swift, to lift the irregularities;
- send the documents for approval to the issuing bank;
- settle the value of the documents subject to reservations/guarantees.

Fulfilment subject to reservations/guarantees is effected to the beneficiary on the basis of the non-compliant documents. The nominated bank reserves the right to claim repayment (DP) or not to effect settlement on the due date for payment (usance operation) should the issuing bank decide to refuse the documents.

### Note

The inspection certificate may be required under the importing country's regulations.



## The Incoterms

In 1936 the ICC published for the first time a series of rules aimed at limiting the interpretation of commercial terms. These rules, known as Incoterms (INternational COMmercial TERMS), have been amended several times, the most recent version dating from 2010 (INCOTERMS 2010). This codification only concerns the moving or taking charge of goods, and not operations as such.

The Incoterms are only applicable if buyers and sellers mention them in the contracts, agreements, accords, etc. Moreover, the parties concerned will have to take account of the customs and practices applicable in the various ports and the fact that legal interpretations may differ from one country to another.

### List of Incoterms 2010

	Mode of Transport and appropriate Incoterms 2010:
<b>→ Family "E" Departure</b> EXW Ex works (named place)	<b>A. Any mode of transport</b>
<b>→ Family "F" Main carriage unpaid</b> FCA Free Carrier (named place) FAS Free Alongside Ship (named ocean port of shipment) FOB Free On Board (named ocean port of shipment)	<b>→ Group E</b> EXW Ex works (named place)
<b>→ Family "C" Main carriage paid</b> CFR Cost and Freight (named ocean port of destination) CIF Cost, Insurance and Freight (named ocean port of destination) CPT Carriage Paid To (named place of destination) CIP Carriage and Insurance Paid To (named place of destination)	<b>→ Group F</b> FCA Free Carrier (named place)
<b>→ Family "D" Arrival</b> DAF Delivered At Frontier (named place) DES Delivered Ex Ship (named port of destination) DAT Delivered At Terminal (named destination terminal) DAP Delivery At Place (named agreed place of destination) DDP Delivery Duty Paid (named place of destination)	<b>→ Group C</b> CPT Carriage Paid To (named place of destination) CIP Carriage and Insurance Paid To (place of destination)
	<b>→ Group D</b> DAT Delivered At Terminal (named destination terminal) DAP Delivery At Place (named agreed place of destination) DDP Delivery Duty Paid (named place of destination)
	<b>B. Sea transport and inland waterway transport only</b>
	<b>→ Group F</b> FAS Free Alongside Ship (named ocean port of shipment) FOB Free On Board (named ocean port of shipment)
	<b>→ Group C</b> CFR Cost and Freight (named ocean port of destination) CIF Cost, Insurance and Freight (named ocean port of destination)



The Belfius Bank team will be glad to help you should you wish to open a documentary credit.

## Request for the opening of an “import” documentary credit

The principal must give his bank the elements that will make it possible for a documentary credit to be issued. The issuing bank will provide his technical assistance and will advise the customer within the bounds of his competence.

Article 4.b of the UCP stipulates that an issuing bank should discourage any attempt by the principal to include copies of the underlying contract, pro forma dispatches and the equivalent as forming an integral part of the credit.

### A request for the opening of a documentary credit with Belfius Bank can be sent:

→ **by post:** Forms are placed at your disposal, which will make the task easier and guide you in the choices you have to make. These forms are drawn up in a user-friendly manner and list the different headings necessary for the issue to be made.

→ **electronically:** Our e-Trade Finance system enables you to manage all your documentary credits online, in a secure environment.

→ **by any other form of communication of your choice:** Our specialist departments are at your disposal to consider any other possible form of transmission with you.

### What questions should you ask yourself when you request a credit opening?

- Are the beneficiary's name and address correct?
- Does the request for a credit opening clearly express the contracts, sales, agreements, etc.?
- Are the places for presentation of the documents and fulfilment correct? If possible, keep the payment with the issuing bank.
- Does the documentary credit have to be confirmed by the foreign bank?
- Is the description of the goods or services accurate?
- Is an allowance needed on the amount and the quantity?
- Are the commercial terms correct?
- Are the goods insured?
- Do the requested documents provide me with security?
- Do the transport documents correspond to the reality? (place of departure, place of arrival, modes of transport used, freightage paid or payable at the destination, etc.)?



The result of a sale/service is calculated on receipt of final definitive payment.

- Is a specific document required for customs clearance?
- Should provision be made for an inspection of the goods upon departure?
- Who has to pay the costs and commission?

On this subject, Article 37c of the UCP states that a party that gives instructions to another party is responsible for all expenses – including commissions, fees and other disbursements – which the instructed party has incurred to this end, and that, when a credit stipulates that the charges are payable by a party other than the party giving the instructions and that the costs cannot be recovered, the party that gave the instructions remains liable in the last resort for payment of the sums in question.

## Receipt of an “export” documentary credit

The seller expects a documentary credit to give him the certainty that he will be paid the entire amount for the goods shipped or the services rendered.

It is vital that the beneficiary (the seller) attaches importance to the conditions and terms on receipt of the documentary credit.

### A few questions

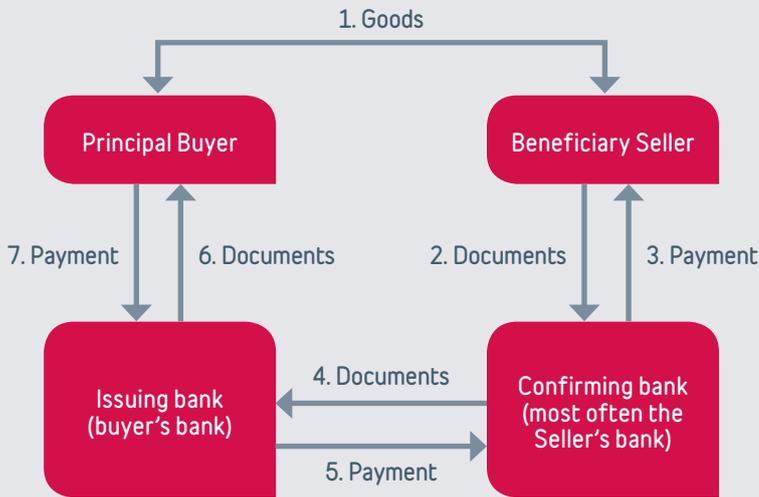
- Has the document received been authenticated?
- Are country and bank risks covered?
- Is the operation confirmed by a leading bank?
- Does the credit accurately reflect the conditions of the offer?
  - description of the goods;
  - price (unit and/or total price);

- currency;
  - shipping deadline, validity;
  - place and conditions of payment;
  - commercial terms;
  - shipping conditions, delivery lead time.
- Isn't fulfilment of the documentary credit subject to presentation of a document issued by the principal?
  - Are we liable for payment of the costs and commissions?

If the beneficiary feels that he is unable to meet the terms and/or conditions, or if the contract or agreement is not to be found in the documentary credit, he should immediately contact the principal and have him make the necessary modifications.

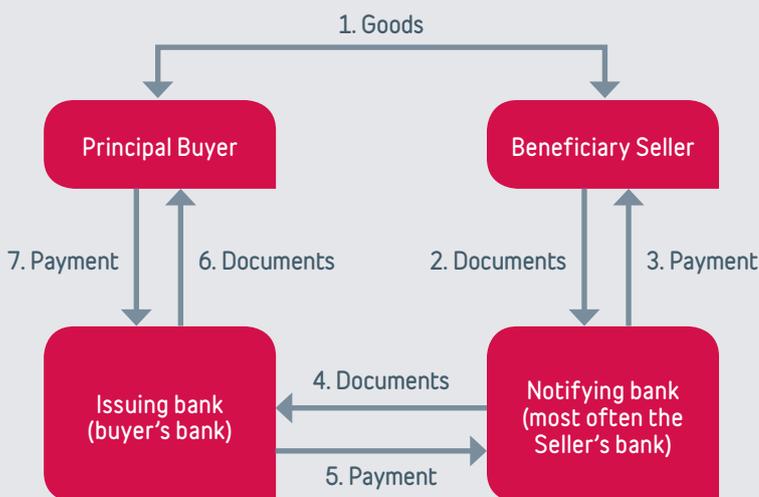
Our International Banking Relations department can step in when the commercial contract is being negotiated by examining the country and bank risks with you, intervening vis-à-vis the buyer's bank (issuer of the documentary credit), and making a “confirmation reservation”, in order for you to be assured of the commitment upon receipt of the documentary credit.

## Fulfilment of a documentary credit confirmed payable on sight (documents in conformity)



1. The beneficiary ships the goods, establishes the various documents requested.
2. The beneficiary sends the documents to the appointed bank (confirming bank)
3. The confirming bank examines the documents and, if they are in conformity, pays their value to the beneficiary.
4. The confirming bank sends the documents to the issuing bank and asks it for reimbursement.
5. The issuing bank pays the confirming bank.
6. The issuing bank checks the conformity of the documents received and submits them to the principal who may then accept the goods.
7. The issuing bank debits the principal the value of the documentary credit paid.

## Fulfilment of a documentary credit not confirmed payable on sight (documents in conformity)



1. The beneficiary ships the goods, establishes the various documents requested.
2. The beneficiary sends the documents to the appointed bank (notifying bank)
3. The notifying bank examines the documents and, if they are in conformity, sends them to the issuing bank claiming payment.
4. The issuing bank also checks the conformity of the documents received and, if they are in conformity, pays the notifying bank.
5. The issuing bank sends the documents to the principal who may then accept the goods.
6. The issuing bank debits the principal the value of the documentary credit paid.
7. After receipt of payment by the issuing bank, the notifying bank pays the beneficiary the amount of the documents.



## The “standby” letter of credit

The standby letter of credit is:

- an undertaking
- entered into by a bank
- on behalf of a third party (the party initiating the operation - the principal) or on its own behalf (service provider, seller, supplier, etc.)
- to pay a particular sum to a beneficiary (service provider, seller, supplier, etc.) in the event of failure on the part of the principal,
- on presentation,
- within a set lead time,
- of documents in compliance with the terms and conditions laid down.

This is therefore a documentary guarantee “on first request”, which differs from traditional guarantees due to the fact that the latter are often subjected to the law of the issuing country, whereas the standby letter of credit is governed by the Uniform Customs and Practice relating to documentary credits.

Unlike the documentary credit, which is a means of payment, the standby letter of credit will only be fulfilled if the principal does not effect the agreed payment.

The standby letter of credit can be used for many purposes:

- cover of goods purchases;
- tender guarantee;
- down-payment refund guarantee;
- performance guarantee;
- risk surrender guarantee (insurance);
- margin call guarantee (financial markets);
- loan repayment guarantee;
- etc.



## Documentary collections

The documentary collection, which is also called “documentary remittance”, is a procedure regulated by the International Chamber of Commerce and defined in its publication no. 522 (Uniform Customs and Practice).

After having concluded a commercial agreement, the seller will hand over the transport documents to his bank, asking it to submit them in payment to or for the acceptance of the buyer via its correspondent.

The Uniform Customs and Practice include two forms of documentary collection:

- documents against payment (DP): the documents are only handed over to the buyer after full payment of the amount payable;
- documents against acceptance (DA): the documents are only handed over to the buyer after he has accepted a bill of exchange for the total amount and for a specific period. If the parties so wish, a promissory note can also be used.

A documentary collection is generally used in the case of the purchase of goods:

- when the buyer and seller know each other and there is a relationship of mutual trust between them;
- when the political and economic situation in the country of the buyer is favourable;
- when the seller has the certainty that the buyer cannot take possession of the goods before the payment or acceptance.

Supposing that transport by sea is necessary and a bill of lading is issued, the seller may ask for this bill of lading to be issued in the name of his bank which will endorse it with the name of the bank charged with collecting the funds from the buyer. Thanks to his bank’s intervention, the seller thus retains total control of these goods for as long as the goods have not been delivered to the buyer.

This precautionary measure is not necessary for the other modes of transport. In the case of carriage by road, the transport documents are not negotiable and transferable. In this case, the seller may consign the goods or dispatch them to the bank’s address. However, it should be stressed that Article 10 of the UCP stipulates that a bank is not in any way obliged to accept the goods without having given its prior agreement.

Unlike the case of documentary credits, the banks are not responsible for the result of the operation in the event of documentary collection, although they are responsible for their personal mistakes.



