

# Understanding MT 700: SWIFT Message for Documentary Credits

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MT 700 is a specific SWIFT (Society for Worldwide Interbank Financial Telecommunication) message format used to issue a letter of credit (LC), also known as a documentary credit. The MT 700 message is the foundation of international trade finance, providing a standardized format for banks to communicate the details of an LC.

SWIFT is a global financial messaging network used by banks and financial institutions to securely transmit information about transactions, including letters of credit. MT 700 is a core message type within the Category 7 of SWIFT messages, which is dedicated to documentary credits and guarantees. The MT 700 message facilitates trade by ensuring that all relevant parties—such as the applicant (buyer), beneficiary (seller), and various banks—are informed of the details of the letter of credit in a uniform and unambiguous format.

## Purpose of MT 700

The MT 700 message is used to initiate a letter of credit, a crucial document in international trade that provides a guarantee from the buyer's bank (the issuing bank) to the seller (the beneficiary) that payment will be made, provided the beneficiary submits the required documents in compliance with the terms and conditions of the LC. The LC

acts as a bridge of trust between the buyer and seller in a transaction, mitigating risks such as non-payment or delivery issues.

### Key Features of MT 700

1. Standardized Format:
  - The MT 700 message provides a uniform structure that allows banks across the globe to communicate LC details efficiently. This reduces the chance of errors and miscommunication, ensuring that the documentary credit process is smooth and transparent.
2. Security and Confidentiality:
  - The SWIFT network ensures the secure transmission of the MT 700 message between banks. This helps prevent fraud, unauthorized access, and errors in transmitting sensitive financial data.
3. Automated Processing:
  - MT 700 messages are designed for automated processing by banks' systems. This improves efficiency and speed in handling LCs and ensures that the terms are quickly communicated to all relevant parties.

### Structure of the MT 700 Message

The MT 700 message consists of multiple fields, each representing different aspects of the letter of credit. Below is a breakdown of key fields:

1. Field 27: Sequence of Total
  - This field indicates whether the message is a part of a sequence. This is useful in cases where multiple messages are sent in relation to the same LC.
2. Field 40A: Form of Documentary Credit
  - Specifies whether the credit is revocable or irrevocable. In most cases, LCs are irrevocable, meaning they cannot be altered or canceled without the agreement of all parties.
3. Field 20: Documentary Credit Number
  - A unique reference number assigned by the issuing bank to identify the LC.
4. Field 31C: Date of Issue
  - The date on which the letter of credit is issued by the issuing bank.
5. Field 40E: Applicable Rules

- Indicates the rules under which the LC is governed, typically stating UCP 600 (Uniform Customs and Practice for Documentary Credits, 2007 revision). This ensures that the LC adheres to globally recognized standards.

6. Field 31D: Date and Place of Expiry

- Specifies the last date by which the beneficiary must present the required documents to receive payment. It also indicates the place (bank or country) where the documents must be submitted.

7. Field 50: Applicant

- Contains the details of the applicant (buyer/importer) who has requested the letter of credit.

8. Field 59: Beneficiary

- Specifies the beneficiary (seller/exporter) who is entitled to receive payment under the LC.

9. Field 32B: Currency Code, Amount

- Defines the currency and maximum amount available under the letter of credit.

10. Field 41A: Available With... By

- Indicates the bank where the LC is available and the method of payment (e.g., by sight, acceptance, or negotiation).

11. Field 42C: Drafts at

- Specifies whether payment will be made at sight (on demand) or after a specific period, such as 30 or 60 days after the bill of lading date.

12. Field 43P: Partial Shipments

- Indicates whether partial shipments are allowed under the terms of the LC.

13. Field 44E: Port of Loading/Airport of Departure

- Specifies the port or airport where the goods are to be shipped from.

14. Field 44F: Port of Discharge/Airport of Destination

- Specifies the port or airport where the goods are to be delivered.

15. Field 46A: Documents Required

- Lists the documents that the beneficiary must present to the bank in order to receive payment, such as a commercial invoice, transport document (bill of lading), insurance policy, certificate of origin, etc.

16. Field 47A: Additional Conditions

- Contains any special conditions that must be fulfilled for the letter of credit to be honored, such as a specific incoterm (e.g., FOB, CIF) or a certificate of quality.

17. Field 71B: Charges

- Indicates who is responsible for the charges, such as the issuing bank's fees or the cost of communication.

#### 18. Field 48: Period for Presentation

- Specifies the time frame within which the beneficiary must present the documents after the shipment of goods (usually 21 days).

### Importance of MT 700 in International Trade

#### 1. Mitigating Risk:

- The MT 700 message is essential in reducing the risks associated with international trade, such as non-payment by the buyer or the failure of the seller to deliver the goods as agreed. It ensures that payment will only be made when the conditions of the letter of credit are met, giving both the buyer and the seller security and confidence in the transaction.

#### 2. Facilitating Trust:

- In cross-border transactions where the buyer and seller may not have an established relationship, the letter of credit—issued using MT 700—acts as a trusted guarantee. The buyer is assured that payment will only be released upon receipt of compliant documents, and the seller is confident that they will be paid once they fulfill their contractual obligations.

#### 3. Standardization:

- By using a standardized format for issuing LCs, MT 700 ensures that all parties involved in a transaction have a clear and consistent understanding of the terms. This reduces the likelihood of disputes and errors, promoting smoother trade operations.

#### 4. Efficiency and Automation:

- The SWIFT MT 700 message can be processed automatically by banks, speeding up the LC issuance process. This ensures timely communication between the issuing bank, confirming bank (if applicable), and beneficiary, which is crucial for time-sensitive shipments.

### Example of MT 700 Use in a Transaction

Imagine an importer in the United States purchasing machinery from a manufacturer in Germany. The importer requests its bank to issue an irrevocable letter of credit for €1,000,000 to the manufacturer. The bank uses an MT 700 message to issue the LC, detailing the terms under which the manufacturer can claim the funds.

Once the machinery is shipped and the manufacturer presents the required documents (e.g., bill of lading, insurance certificate, and commercial invoice) to the advising bank, the documents are forwarded to the issuing bank. If the documents comply with the terms outlined in the MT 700 message, the issuing bank releases the payment to the manufacturer.

## Conclusion

MT 700 is a vital SWIFT message format that standardizes the issuance of letters of credit in international trade. It facilitates secure, transparent, and efficient transactions by providing a structured format that banks use to communicate the terms and conditions of LCs. By mitigating risks, fostering trust, and improving efficiency, MT 700 plays a crucial role in ensuring the success of cross-border trade transactions.