

Understanding UCP 600: Key Sections, Discrepancies, and the Roles of Banks in Letters of Credit

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ICC Uniform Customs
and Practice for
Documentary Credits

UCP
600



Including eUCP Version 2.1

The Uniform Customs and Practice for Documentary Credits (UCP 600), published by the International Chamber of Commerce (ICC), is a set of rules designed to govern the use of letters of credit (LCs) in international trade. UCP 600 simplifies and standardizes global trade finance practices, reducing uncertainty and improving transparency. This article explores the key sections of UCP 600 concerning letters of credit, explains the concept of discrepancies, and outlines the obligations of the negotiating and remitting banks, providing insights through real-world case studies.

Key Sections of UCP 600 Relevant to Letters of Credit

1. Article 2: Definitions

- Article 2 provides essential definitions, such as the Issuing Bank, Beneficiary, Negotiating Bank, Documentary Credit, and Discrepancies. These definitions form the foundation of UCP 600, ensuring that all parties involved in a letter of credit have a shared understanding of the terms used.

2. Article 3: Interpretations

- This article establishes rules for interpreting various clauses within UCP 600. For instance, an LC is irrevocable unless explicitly stated otherwise, ensuring stability and predictability.

3. Article 4: Credits vs. Contracts

- Article 4 emphasizes that a letter of credit is separate from the underlying sales or service contract. Banks deal solely with documents, not with goods or services, making their role purely transactional and based on the accuracy of the paperwork presented.

4. Article 7: Issuing Bank Undertaking

- The issuing bank must honor a complying presentation, which means the bank is obligated to pay the beneficiary if the documents conform to the terms of the LC. This protects the beneficiary from payment risks and ensures the integrity of the process.

5. Article 8: Confirming Bank Undertaking

- A confirming bank shares the same responsibility as the issuing bank. This provides additional security to the beneficiary in case the issuing bank defaults on its obligations.

6. Article 9: Advising Bank

- The advising bank communicates the terms of the LC to the beneficiary. Its role is mainly advisory, and it is not responsible for payment unless it is also the confirming bank.

7. Article 12: Transferable Credits

- This article allows for transferable LCs unless explicitly prohibited, enabling the beneficiary to transfer part or all of the credit to third-party suppliers.

8. Article 14: Standard for Examination of Documents

- Banks have five banking days to examine the presented documents to ensure compliance with the LC terms. Article 14 emphasizes that banks are obligated to pay only when the documents comply, making document accuracy critical.

9. Article 16: Discrepancies, Waivers, and Notice

- If discrepancies are found in the documents, the bank must notify the presenter within five banking days. Failure to do so obligates the bank to honor the LC, even if discrepancies exist.

Understanding Discrepancies Under UCP 600

A discrepancy is any deviation between the documents presented by the beneficiary and the terms outlined in the letter of credit. Common discrepancies include missing documents, incorrect descriptions of goods, or expired documents.

According to Article 16, if discrepancies are found, the bank must notify the presenter within five banking days, specifying the discrepancies and whether the documents will be held, returned, or further instructions will be sought. If the bank does not notify the presenter of discrepancies within this time, it loses the right to refuse payment based on discrepancies.

For instance, in the “Equitable Trust Company of New York v. Dawson Partners Ltd” case, discrepancies were found in the documents presented under an LC, and the court ruled that the bank had the right to reject the documents due to discrepancies, reinforcing the need for accuracy.

Obligations of the Negotiating and Remitting Banks

Obligations of the Negotiating Bank Under UCP 600

The negotiating bank has a crucial role in examining documents and making payments when they comply with the LC terms. Key obligations include:

1. Examination of Documents (Article 14):
 - The negotiating bank must carefully examine the documents to ensure compliance with the LC. It has five banking days to complete this process. If discrepancies are found, the bank must promptly notify the presenter and the issuing bank.
2. Payment or Negotiation (Article 12):
 - The negotiating bank can pay or negotiate the documents if they comply with the LC. If it chooses to negotiate, it takes on the risk of the issuing bank's failure to honor the LC.
3. Notification of Discrepancies (Article 16):
 - In case of discrepancies, the negotiating bank must inform the issuing bank and the presenter within five days. Failure to do so can result in the bank being liable for payment despite the discrepancies.

Under UCP 600 Article 14(b), banks have a maximum of five banking days following the day of presentation to examine the documents and determine if they comply with the terms of the letter of credit. If a discrepancy is found, the bank must notify the presenter of the documents within this five-day period.

What happens if discrepancies are not reported within this time period?

If the bank does not report discrepancies within the five-day period, it loses the right to refuse payment based on discrepancies. In such a case, the bank is deemed to have accepted the documents as complying, and it becomes obligated to honor or negotiate the letter of credit, even if the documents presented contain discrepancies. This rule ensures that banks handle discrepancies efficiently and provides security to the beneficiary.

4. Recourse Rights:
 - If the negotiating bank pays the beneficiary and later discovers discrepancies, it has the right to recover the funds from the

beneficiary, provided it notified the presenter within the required time frame.

Obligations of the Remitting Bank Under UCP 600

The remitting bank's role is to ensure the proper transmission of documents from the beneficiary to the issuing bank. While it does not bear the same financial risk as the negotiating bank, its responsibilities are still significant.

1. Accuracy in Transmission (Article 9):

- The remitting bank must ensure that the documents are forwarded accurately and without any alteration. Any errors in this process could result in liability.

2. Non-Obligatory Payment:

- The remitting bank is not responsible for making payments. Its role ends after forwarding the documents to the issuing bank, and it must notify the beneficiary of any discrepancies reported by the issuing bank.

Importance of Remaining Articles in UCP 600

Other sections of UCP 600 ensure a comprehensive framework for handling letters of credit. Key articles include:

- Article 5: Ensures that banks deal with documents, not the actual goods or services, reducing the risk of disputes.
- Article 13: Establishes a standard for examining documents, ensuring that banks use reasonable care during their evaluation.
- Articles 19-25: Outline the rules governing transport documents like bills of lading and air waybills. These documents are vital in cases where the LC relates to the shipment of goods, such as in the case of "Credit Agricole Indosuez v. Generale Bank", where a dispute arose over a bill of lading's compliance with LC terms.
- Article 27: Deals with the presentation of a clean transport document, which is essential to avoid discrepancies and ensure payment under an LC.
- Articles 28-33: Address insurance documents, ensuring that proper coverage is provided as per LC terms. This was significant in "Banco Santander v. Banque Paribas", where insurance documents were improperly presented, leading to non-payment.

Article 34: Disclaimer for Acts of an Instructed Party

Banks are not liable for the actions of third parties, such as carriers or other banks. This article protects banks from liabilities that arise from circumstances beyond their control, such as errors or delays caused by others involved in the transaction.

Article 35: Disclaimer on Transmission and Translation

Banks are not responsible for errors in transmission or translation of documents. This article is important as it places the onus on parties to ensure that documents are accurate and that translations are correct.

Article 36: Force Majeure

This article provides protection to banks in cases of force majeure (e.g., war, natural disasters, strikes). It releases banks from liability if external events prevent them from performing their obligations, ensuring that they are not held accountable for situations beyond their control.

Article 37: Disclaimer for Acts of Third Parties

Banks are not responsible for the acts, omissions, or delays of third parties such as carriers or insurance companies. This further shields banks from liabilities related to the actions of entities beyond their control in the trade transaction.

Article 38: Transferable Credits

This article provides detailed rules on how and when an LC can be transferred to a third party. Transferable credits are useful in cases where the beneficiary is not the actual supplier and needs to transfer part or all of the LC value to the supplier.

Article 39: Assignment of Proceeds

This article allows the assignment of proceeds under an LC to a third party. It is important in cases where the beneficiary wants to use the LC as collateral or assign the payment to another entity, like a creditor.

Article 40-48: Specific Document Requirements

These articles provide detailed rules on specific types of documents (e.g., certificates of origin, weight lists, packing lists) that may be required by LCs. Each document plays a crucial role in fulfilling the terms of the LC, ensuring that all aspects of the trade agreement are covered.

Article 49: Extension of Expiry Date

If a bank is closed on the expiry date, the LC's expiry date is automatically extended to the next banking day. This protects the beneficiary from losing payment rights due to unforeseen banking closures.

Article 50: Transitional Provisions

This article ensures that UCP 600 applies to all LCs issued after its effective date, providing clarity and consistency for when and how the rules are applied.

Conclusion

UCP 600 plays an essential role in standardizing letters of credit across international trade. The key sections of UCP 600 provide detailed rules for the issuance, examination, and handling of LCs, while the concept of discrepancies ensures that documents conform strictly to LC terms. Understanding the obligations of negotiating and remitting banks is crucial for all parties involved in international trade. By adhering to these rules, businesses can minimize risk and ensure successful, timely transactions in the complex world of global commerce.

References

- International Chamber of Commerce, "UCP 600 Rules."
- "Equitable Trust Company of New York v. Dawson Partners Ltd" (1927).
- "Credit Agricole Indosuez v. Generale Bank" (1999).
- "Banco Santander v. Banque Paribas" (2000).