

## Guide to Trading Internationally

# Checking documents presented under credits

### What's in this section?

The aims of this section are to:

- provide a brief background and describe international codes of practice
- give details of the standard for examination of documents
- summarise the procedure for checking documents under credits
- summarise common discrepancies in documents presented under credits

### Background and international codes of practice

The almost universally accepted practices are outlined in the following documents, both of which have been issued by the International Chamber of Commerce in Paris, and these are:

- ICC Uniform Customs and Practice for Documentary Credits, ICC Publication no. 500, published in May 1993;
- International Standard Banking Practice (ISBP) for the examination of Documents under documentary credits, ICC publication no. 645, published in January 2003.

Publication 600 is the currently applicable version of UCP, which was first published in 1933 and subsequently revised in 1951, 1962, 1974, 1983 and 2007, and is the code of practice for the issue of documentary credits and the presentation of documents drawn under them.

### Standard for examination of documents

Article 13 of UCP 600 requires that banks examine documents with "... reasonable care to ascertain whether or not they appear, on their face, to be in compliance with the terms of and conditions of the Credit ..."

The article also says that such compliance shall be determined by International Standard Banking Practice as reflected in UCP 600.

The definition of International Standard Banking Practice is contained not only in the articles of UCP 600 but also in International Standard Banking Practice (ISBP) publication 645. As these publications cannot cover every possible eventuality, it is also a functional standard of document verification which embodies honest, predictable practices, which are in contrast to "sharp, dishonest and negligent practice".

Documents can be, and are, rejected for genuine reasons and there are valid discrepancies upon which they may be rejected.

Nevertheless, there are also a variety of reasons why documents drawn under a credit are not honoured in other circumstances and among them the most common causes of dishonour are that:

1. The market price of the goods received under the credit by the buyer has fallen to the extent that a loss would be incurred upon sale and therefore the documents are rejected for spurious reasons; in other words, the documents are examined with a fine-tooth comb to find any perceived error to justify non-payment.
2. The goods have been received too late for their seasonal sale and so every minor error is picked on to justify rejection of documents.

It is regrettable that sometimes even international banks are not averse to the rejection of documents on the grounds of spurious errors and it is for this reason that document checkers must be especially vigilant when examining them.

Checking documents drawn under credits is not a science but an art, based on common sense and experience; sadly there is often a tendency within staff and management to hide behind a written text such as UCP rather than to use common sense and good judgement based on experience in the trade.

### Procedure for checking documents under credits

What is outlined below is only a brief summary of questions which document checkers must ask and answer themselves; the summary is not meant to be an outline of the full procedures relating to checking documents under credits but simply an aide-memoire to keep the document checker alert during the checking process.

- **Covering letter/schedule** enclosing the documents: Are they from a recognised bank? Are they from a presenter who has no relationship with the bank? Are there slips of paper attached with nothing else? Care must be exercised to see that the presenter is a genuine bank or presenting party. (Care – possibility of fraud.)
- Is the **credit genuine**? Have the signatures of paper credits been verified or, in the case of electronically received credits, has the authentication been verified? (Care – possible fraud.)
- Is the **credit available**? Has it expired? Is the amount available sufficient? Are all previous drawings correctly recorded? Are all amendments on file?
- Has the presenter **noted** any **discrepancies**? Ignore any assertion that such discrepancies are/have been agreed with the buyer/applicant.

- Is the **credit workable**? That is to say, can the beneficiary fulfil all conditions regarding documentation or is there a document to be presented by the applicant, e.g. a copy telex of approval of samples from the applicant of the credit?
- Have all **listed documents** been received and has **time** and **date of receipt** been noted on the bill checking record?
- How is **payment to be made, where to**, to whom and who is bearing what charges?
- What is your **role as the banker** who has received the documents? Are you the Issuing Bank, Advising Bank, Confirming Bank or Nominated Bank?
- What is the **type of credit**: at sight, usance, confirmed, transferable, back to back, red clause, revolving/stand by? Are there special departmental instructions about any particular types; how they should be dealt with and who should deal with them?
- Are there any **marketing** opportunities for the Bank? Has the marketing manager been advised?
- **Latest date of shipment**: is the transport document dated after the latest date of shipment evidenced in the credit?
- **Description of goods**: check the wording of the goods on the invoice to see that it **corresponds** to the wording on the credit; any shipment terms stipulated in the description of the goods on the credit must be shown on the invoice.
- **Transport Documents**: on board notation to include vessel and port of loading where appropriate; port of loading and port of discharge to be as shown on the credit; are there any qualifications about defective packing or defective goods? Shipping marks: are they as shown on the credit, or on the invoice or any contract? Transshipment: is this shown on the transport document and is this allowed? Is it a charter party document or a sailing vessel document? Is the goods description on the transport document inconsistent with that shown on the invoice and the credit?
- **Insurance document** tendered must be as required by the credit and it must not be a cover note unless specifically allowed in the credit.
- The insurance document must be as called for in the credit – a policy document called for in the credit must be a policy document that is presented duly endorsed. The date of cover must be effective from at least the date of shipment – not later.
- **Other documents** called for in the credit must be examined in terms of what the credit requires.
- **Period for presentation** of documents must be as required by the credit; regard must be had for article 43 of UCP 600.
- **Confirmation**: read this carefully and ensure that the confirmation covers all existing amendments.

The above are some of the things that a document checker must think about in checking documents under credits; the credit must be carefully read and examined from the top left-hand corner of page one to the bottom right-hand corner and every page of the credit must be so examined, including all the bank-to-bank instructions. Every document presented must be checked to the stipulations in the credit, wherever such stipulations are to be found in the credit and in this respect additional conditions must be looked at.

Above all, the document checker must use common sense and gut feeling based on experience and this should only be overruled by a senior operational manager with “hands on” experience.

## Common discrepancies in documents presented under credits

What is outlined below is a bullet-point summary of what is commonly seen and is an aide-memoire only:

- Credit expired: documents presented after expiry of the credit.
- Late shipment: the date on the transport document is after the last date for shipment on the credit.
- Late presentation: documents presented after the period for presentation as specified in the credit or in terms of article 43 of UCP 600.
- Drafts not signed by beneficiary; drafts not endorsed; amount in excess of the credit; words and figures do not agree; tenor of draft shown incorrectly.
- Invoices: not issued by beneficiary; description of goods not consistent with the credit; unit price not as stipulated in credit; marks and numbers not consistent with those on transport documents.
- Certificate of origin: origin indicated is not as required by credit; not issued by the party as required by the credit; data on certificate of origin inconsistent with other documents.
- Transport Documents: date of shipment on transport document after the date stipulated in credit; the port of loading not as required by credit; port of discharge not as required by credit; description of goods not consistent with the invoice; does not show an onboard notation on bill of lading; incorrect vessel shown; bill of lading not issued by carrier; bill of lading shows an intended vessel and an intended port of loading but the onboard notation does not additionally evidence actual port of loading and actual vessel (see UCP 600 article 23 a ii para 4); onboard notation on bill of lading not dated (UCP 600 article 23 a ii para 3); received for shipment bill of lading presented with no onboard notation; goods shipped on deck, but credit does not specifically allow deck shipment (UCP 600 article 31 para i); claused bill of lading presented showing defective condition of goods and packaging (UCP 600 article 32); transport document does not identify carrier.
- Packing lists: indicates packing not as required by credit; contains data inconsistent with other documents.
- Export licence: not issued by authority named in the credit; goods shown on the licence not consistent with the credit/invoice or other documents.

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