20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **UCP 600 is the ICC rulebook governing Letters of Credit, effective from 1 July 2007.**
   The International Chamber of Commerce issued UCP 600 as the internationally accepted ruleset for LC transactions.

2. **Under UCP 600's independence principle, banks deal in documents, not in goods, services, or performance.**
   Article 4 of UCP 600 treats the LC as a separate transaction from the underlying sale contract.

3. **Article 14 of UCP 600 gives banks a maximum of five banking days to examine presented documents.**
   This period runs from the day after presentation and applies to nominated, confirming, and issuing banks.

4. **Article 3 of UCP 600 makes all credits irrevocable unless the credit expressly states otherwise.**
   Irrevocability gives the beneficiary certainty that the credit cannot be amended or cancelled without consent.

5. **Article 14(h) of UCP 600 requires banks to disregard conditions that have no stipulated document to satisfy them.**
   Non-documentary conditions are deemed not stated and must not be used to refuse a presentation.

6 **The applicant in an LC transaction is the importer who instructs the issuing bank on the credit terms.**

The applicant sets the amount, expiry date, required documents, and shipment port, then reimburses the issuing bank.

7 **The beneficiary in an LC transaction is the exporter who presents compliant documents to receive payment.**

The beneficiary must present documents within the LC's validity period and before the latest shipment date.

8 **The issuing bank opens the LC at the applicant's request and bears the primary obligation to honour compliant documents.**

If located in the importer's country, it typically asks a bank in the exporter's country to advise or confirm the credit.

9 **The advising bank notifies the beneficiary of the LC but carries no payment obligation on its own.**

It only takes on a payment role if it also acts as the confirming or nominated bank.

10 **Under Article 8 of UCP 600, a confirming bank must honour or negotiate a compliant presentation without recourse.**

Confirmation adds an independent undertaking that removes the beneficiary's exposure to the issuing bank's country risk.

11 **A reimbursing bank settles claims between banks under URR 725, the Uniform Rules for Bank-to-Bank Reimbursements.**

The issuing bank authorises the reimbursing bank to pay the claiming bank on its behalf.

12 **A sight LC pays immediately on presentation of compliant documents, unlike a usance LC which defers payment.**

Usance credits typically defer payment 30 to 180 days after sight or after the bill of lading date.

13 **Under Article 38 of UCP 600, a transferable LC can be transferred to secondary beneficiaries only once.**

A second beneficiary cannot further transfer the credit, though the first beneficiary may retransfer it to themselves.

14 **A back-to-back LC is a separate instrument from the master LC and is not governed by Article 38.**

It uses the master LC as security to open a second LC in favour of the actual supplier, carrying extra intermediary-bank risk.

15 **A standby LC functions like a guarantee and is drawn upon only if the applicant defaults.**

Standby credits may be governed by UCP 600 or by the ISP98 rules and are common in project finance.

16 **A red clause LC lets the beneficiary receive advances from the bank before shipment against an undertaking to ship.**
It effectively embeds a pre-shipment finance facility within the letter of credit.

17 **Under Article 28 of UCP 600, an insurance document must cover at least 110% of the CIF or CIP invoice value.**
This buffer is required whenever the LC terms call for CIF or CIP delivery under Incoterms.

18 **Article 34 of UCP 600 states that banks do not verify the authenticity of documents, only their face compliance.**
Banks examine whether documents appear on their face to conform to the credit terms, not their underlying genuineness.

19 **Under Article 16 of UCP 600, a bank refusing discrepant documents must give a single notice of refusal listing each discrepancy.**
The notice must be issued no later than the fifth banking day after the day of presentation.

20 **Indian banks handling import and export LCs must comply with FEMA and RBI Master Directions in addition to UCP 600.**
UCP 600 governs the LC mechanism itself, while FEMA and RBI rules govern India's foreign exchange and trade regulations.