20 True or False

Decide, then check the answer and reason below each statement.

Question 1

UCP 600 has been in effect since 1 July 2007.

TRUE

The ICC's Uniform Customs and Practice for Documentary Credits, UCP 600, became effective on 1 July 2007.

Question 2

Under UCP 600, a Letter of Credit is dependent on the underlying sale contract between buyer and seller.

FALSE

Article 4 establishes the independence principle, under which the LC is a separate transaction from the sale contract.

Question 3

Article 4 of UCP 600 states that banks deal in documents, not in goods, services, or performance.

TRUE

This is the documentary and independence principle at the core of LC operations.

Question 4

Under UCP 600, banks generally have a maximum of five banking days to examine presented documents.

TRUE

Article 14 sets this five-banking-day examination period following the day of presentation.

Question 5

All credits under UCP 600 are revocable by default unless the credit expressly states they are irrevocable.

FALSE

Article 3 makes the opposite true: all credits are irrevocable unless expressly stated otherwise.

Question 6

The beneficiary of a Letter of Credit is the importer who applies for the credit to be opened.

FALSE

The beneficiary is the exporter or seller in whose favour the LC is opened; the importer is the applicant.

Question 7

The advising bank always assumes an independent payment undertaking to the beneficiary.

FALSE

The advising bank merely notifies the beneficiary and has no payment obligation unless it is also the confirming or nominated bank.

Question 8

A confirming bank adds its own independent undertaking to honour compliant presentations.

TRUE

Under Article 8 of UCP 600, confirmation gives the beneficiary a second layer of payment security.

Question 9

A nominated bank is a bank specifically named in the LC with authority to pay, accept, or negotiate.

TRUE

The nominated bank may or may not also be the confirming bank.

Question 10

The reimbursing bank operates strictly under UCP 600 rules rather than any separate reimbursement rules.

FALSE

Reimbursing banks operate under URR 725, the Uniform Rules for Bank-to-Bank Reimbursements.

Question 11

A sight LC provides payment only after a deferred period of 30 to 180 days.

FALSE

A sight LC pays immediately on presentation of compliant documents; deferred payment describes a usance LC.

Question 12

Under a usance LC, the bank-accepted bill of exchange can be discounted in the market before maturity.

TRUE

Acceptance credits create a banker's acceptance that the beneficiary can discount for early funds.

Question 13

A transferable LC under Article 38 of UCP 600 can be transferred to secondary beneficiaries any number of times.

FALSE

Article 38 permits transfer only once; a second beneficiary cannot transfer the credit further.

Question 14

A back-to-back LC is legally the same instrument as the original master LC.

FALSE

A back-to-back LC is a separate instrument opened using the master LC as security, and is not governed by Article 38.

Question 15

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

TRUE

Standby credits are triggered by non-performance rather than routine trade settlement.

Question 16

A red clause LC permits the beneficiary to receive advances from the bank before shipment.

TRUE

It contains a clause authorising pre-shipment advances against the beneficiary's undertaking to ship goods.

Question 17

An insurance document under an LC requiring CIF or CIP terms must cover at least 110% of the invoice value.

TRUE

Article 28 of UCP 600 sets this minimum insurance coverage requirement.

Question 18

Under UCP 600, banks are required to verify the physical authenticity of shipping documents before honouring an LC.

FALSE

Article 34 states banks only check that documents appear compliant on their face, not their underlying authenticity.

Question 19

A bank refusing discrepant documents must give a single notice of refusal specifying each discrepancy.

TRUE

Article 16 of UCP 600 requires one consolidated notice listing every discrepancy, issued within the prescribed time.

Question 20

Indian banks processing LCs are exempt from RBI and FEMA guidelines because UCP 600 fully governs them.

FALSE

Indian banks must comply with FEMA and RBI Master Directions on imports and exports in addition to following UCP 600.