20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **A letter of credit (LC) is a bank's conditional undertaking to pay a beneficiary against complying documents.**
   The issuing bank promises payment only when the beneficiary presents documents that strictly match the LC terms.

2. **A bank guarantee (BG) is an independent bank undertaking to pay on the beneficiary's demand or declaration of default.**
   Unlike an LC, a BG is invoked only if the applicant fails to perform or pay as agreed.

3. **Letters of credit are governed internationally by the ICC's UCP 600.**
   UCP 600 is the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce.

4. **Demand guarantees are governed internationally by the ICC's URDG 758.**
   URDG 758 is the Uniform Rules for Demand Guarantees, separate from the UCP 600 rules for LCs.

5. **Both LCs and BGs rest on the doctrine of autonomy or independence from the underlying contract.**
The bank's undertaking stands apart from any dispute between the applicant and beneficiary under the commercial contract.

6. **Banks examine only documents under an LC, not the actual goods shipped.**
Physical verification of goods delivered is outside a bank's mandate under documentary credit rules.

7. **Under UCP 600, banks get a maximum of five banking days to check if presented documents comply.**
This scrutiny period applies to the issuing bank and any nominated bank after document presentation.

8. **Even a minor document discrepancy can justify refusal under the doctrine of strict compliance.**
A misspelt name or mismatched date is enough grounds for a bank to reject a non-complying LC presentation.

9. **Established fraud is a recognised exception to the independence principle in LC transactions.**
Courts may restrain payment under an LC where fraud in the underlying transaction is clearly established.

10. **A sight LC is payable on presentation of compliant documents, while a usance LC is payable after a tenor.**
Usance LCs are common in buyer's credit arrangements involving a deferred payment period.

11 **A transferable LC lets the first beneficiary pass its rights to a second beneficiary.**
This structure is often used by intermediary traders who do not manufacture the goods themselves.

12 **A standby LC functions more like a guarantee than a standard trade payment instrument.**
It is drawn upon only if the applicant fails to perform, unlike a commercial LC used for routine trade settlement.

13 **Almost all letters of credit issued today are irrevocable.**
An irrevocable LC cannot be amended or cancelled without the consent of all parties, giving the exporter real protection.

14 **A bid bond is a type of financial guarantee ensuring a tenderer will not withdraw after winning a contract.**
Financial guarantees secure monetary obligations, as distinct from performance guarantees covering contracted work.

15 **A performance guarantee compensates the beneficiary if the applicant fails to complete contracted work as agreed.**
It differs from a financial guarantee, which secures a monetary obligation rather than work completion.

16 **The advising bank authenticates and forwards an LC without adding its own payment undertaking.**
Only a confirming bank adds an independent payment undertaking on top of the issuing bank's promise.

17 **MT700 is the SWIFT message format commonly used to issue a documentary letter of credit.**
SWIFT formats let banks without a direct account relationship authenticate credit instruments with each other.

18 **MT760 is the SWIFT message format commonly used to issue a bank guarantee.**
It performs the same authentication role for guarantees that MT700 performs for documentary credits.

19 **LC and BG exposures are treated as off-balance-sheet contingent liabilities until invoked.**
They still attract capital charges through credit conversion factors and applicable risk weights.

20 **Every guarantee specifies a validity period and a separate claim period for invoking it.**
The beneficiary must lodge its claim within the claim period, distinct from the guarantee's overall validity.