20 True or False

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

Question 1

Letters of credit are governed internationally by the ICC's UCP 600.

TRUE

UCP 600 is the Uniform Customs and Practice for Documentary Credits used worldwide for LCs.

Question 2

Demand guarantees are governed internationally by the ICC's URDG 758.

TRUE

URDG 758 is the ICC's dedicated rulebook for demand guarantees, separate from UCP 600.

Question 3

A letter of credit is a payment mechanism that is triggered by presentation of compliant trade documents.

TRUE

The issuing bank pays once the beneficiary presents documents that strictly comply with the LC terms.

Question 4

A bank guarantee is invoked only when the applicant defaults on or fails to perform an underlying obligation.

TRUE

A BG acts as risk cover, paid on evidence or assertion of non-performance rather than in the normal course of trade.

Question 5

Under UCP 600, a bank has a maximum of five banking days to determine whether documents constitute a complying presentation.

TRUE

This scrutiny window applies to the issuing bank and any nominated bank after presentation.

Question 6

The advising bank authenticates and forwards an LC to the beneficiary without adding its own payment undertaking.

TRUE

Only a confirming bank layers its own independent undertaking on top of the issuing bank's promise.

Question 7

A confirming bank adds its own independent undertaking to pay in addition to the issuing bank's promise.

TRUE

This gives the exporter an added layer of payment assurance beyond the issuing bank alone.

Question 8

MT700 is a SWIFT message type commonly used for issuing a documentary letter of credit.

TRUE

SWIFT standardised formats let banks authenticate credit instruments even without a direct account relationship.

Question 9

Letter of credit and bank guarantee exposures are treated as contingent liabilities that sit off the balance sheet until invoked.

TRUE

They still attract capital charges through credit conversion factors and applicable risk weights.

Question 10

A performance guarantee compensates the beneficiary if the applicant fails to complete contracted work or supply as agreed.

TRUE

This distinguishes it from a financial guarantee, which secures a monetary obligation instead.

Question 11

A bank must physically verify that goods were shipped in good condition before honouring a letter of credit.

FALSE

Banks examine only documents under an LC; physical verification of goods is outside their mandate.

Question 12

Revocable letters of credit are the standard form used in most trade transactions today.

FALSE

Almost all LCs issued today are irrevocable, since revocable LCs offer no real protection to the exporter.

Question 13

URDG 758 governs letters of credit while UCP 600 governs bank guarantees.

FALSE

It is the reverse: UCP 600 governs letters of credit and URDG 758 governs demand guarantees.

Question 14

MT760 is the SWIFT message type commonly used for issuing a documentary letter of credit.

FALSE

MT760 is used for guarantees; MT700 is the common SWIFT format for issuing documentary credits.

Question 15

Under UCP 600, banks have unlimited time to decide whether an LC document presentation complies.

FALSE

UCP 600 caps document scrutiny at a maximum of five banking days following presentation.

Question 16

The doctrine of autonomy means a bank's payment obligation depends on proof that the underlying commercial contract was fully performed.

FALSE

The doctrine of autonomy makes the bank's undertaking independent of disputes under the underlying contract.

Question 17

A transferable letter of credit prevents the first beneficiary from ever passing rights to another party.

FALSE

A transferable LC specifically allows the first beneficiary to transfer rights to a second beneficiary.

Question 18

Letter of credit and bank guarantee exposures are recorded fully as on-balance-sheet loans from the day they are issued.

FALSE

Both are off-balance-sheet contingent liabilities until actually invoked by the beneficiary.

Question 19

A standby letter of credit is used only for routine trade settlement and never functions like a guarantee.

FALSE

A standby LC functions more like a guarantee than a standard payment instrument for trade settlement.

Question 20

A bid bond is a type of performance guarantee that compensates for defective work on a contract.

FALSE

A bid bond is a financial guarantee ensuring a tenderer does not withdraw after winning, not a performance guarantee.