

LETTERS OF CREDIT

2.1 Introduction

This Chapter deals with definitions, general rules and policies governing Letters of Credit (LC) process in Premium Trust Bank.

The Letter of Credit is one of the most reliable methods of financing international trade. A Letter of Credit is an instrument issued by a bank to a named party through which the bank substitutes its own creditworthiness for that of its customer (applicant). The bank bridges the confidence gap between offshore seller - exporter and local buyer - importer by assuring the seller of payment provided he complies with all the terms and conditions of the credit.

2.2 WHAT IS A LETTER OF CREDIT?

A letter of Credit is a mode of payment used for importation of visible goods. It is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect and one of the most reliable methods of payment in international trade.

2.3 Parties in an LC

- I. Applicant of the Letter of Credit
- II. LC Issuing Bank
- III. Beneficiary party
- IV. Advising Bank
- V. Confirming Bank
- VI. Negotiating Bank
- VII. Reimbursing Bank

Note however that a bank may take more than one role in a single LC.

2.4 Types of Letters of Credit

The following is the most used or known types of letters of credit: -

- I. **Revocable Letter of Credit:** This is a credit that may cancelled or amended at any time by the opening bank without notice to the beneficiary. Revocable LC is not supported under UCP 600 and as such all PremiumTrust LCs will be issued as Irrevocable.
- II. **Irrevocable Letter of Credit:** An LC that may not be cancelled and amended without the consent of all parties to the credit.
- III. **Confirmed Letter of Credit:** This is issued by one bank and confirmed by another. The confirming bank adds its definite commitment to that of the opening bank
- IV. **Unconfirmed Letter of Credit:** This is an LC which has not been confirmed by any other Bank other than the opening or issuing Bank.
- V. **LC at Sight:** This is a Letter of Credit that is payable immediately after the seller meets the requirements of the credit.
- VI. **Usance LC or Deferred Payment LC:** This LC provides that the Beneficiary will be paid at a later specified maturity date after complying presentation.
- VII. **Back-to-Back LC:** This involves two letters of credit to secure financing for a single transaction. These are usually used in a transaction involving an intermediary between the buyer and seller.
- VIII. **Transferable Letter of Credit:** This credit grants the beneficiary the right to give instructions to the bank called upon to effect payment or acceptance or to any bank entitled to effect negotiation to make the credit available in whole or in part to one or more third parties (second beneficiaries). More details can be obtained from the Uniform Customs and Practice for Documentary Credits (2007 Revision, as of July 1, 2007), International Chamber of Commerce Publication No. 600
- IX. **Standby Letter of Credit :** a legal document that guarantees a bank's commitment of payment to a seller in the event that the buyer–or the bank's client–defaults on the agreement.
- X. **Freely Negotiable Letter of Credit:** The Letters of credit can be negotiated through any willing bank without any specified condition attached.

- XI. **Revolving Letter of Credit:** This permits the reinstatement of availments on certain conditions so that, although the total amount outstanding at any time is fixed, the aggregate amount available during the life of the credit is not necessarily limited.
- XII. **Red Clause LC:** This is an LC that authorizes the designated negotiating bank to make clean advances (which is not more than the amount of the credit) to the beneficiary to finance the purchase and preparation for shipment of the relative merchandise.
- XIII. **Green Clause LC:** This is an extension of a red clause LC, with the additional coverage of pre-shipment warehousing and insurance costs. It is a secured loan that the consignee extends to the consigner as per an international trade agreement between the two parties.

Letters of credit can be confirmed or unconfirmed and are irrevocable upon Issuance. Payment can be made at Sight, Deferred Payment, and Mixed payment or by Acceptance.

2.5 Issuance of Letters of Credit

- i. All Letters of Credit application shall be processed in accordance with the requirement of the CBN Foreign exchange manual and subject to the provisions of the Uniform customs and practices for documentary credits (**UCP 600**).
- ii. An Importer who wishes to effect payment via a letter of credit would have indicated this payment mode on the underlying form 'M'. Additionally, the applicant would complete a Letter of Credit Application and Agreement Form. The application represents a legal contract, which is required to be entered with the bank for the proposed Letter of Credit transaction.
- iii. The terms and conditions of the credit, which depend principally on the terms of sales previously arranged between the customer and the beneficiary, this will be stated clearly by the customer in the application/agreement.
- iv. The practice of opening credits for specified amounts plus unspecified amount to cover consular fees, insurance premiums, excess or regular sight charges, etc., should be avoided. Credit should be issued for specified amounts, taking into consideration the Proforma Invoice.

- v. The customer's signature on the application/agreement must be verified and all details must be checked. Verification of signatures will be done by the branches or International Trade Services using the appropriate signature verification platform.
- vi. In certain areas where exchange controls exist and there may be import and unconfirmed LC's/ or export restrictions, the credit will be opened only after ensuring that the terms and conditions are permissible under prevailing rules and regulations.
- vii. Where required, the necessary approval from governmental authorities will be obtained prior to the opening of the credit.

Import Letters of Credit issued by the Bank will fall under three major categories namely:

- Cash Collateralized Confirmed Letter of Credit
 - Clean (Confirmation) Line Confirmed Letter of Credit
 - Unconfirmed Letter of Credit
- I. Each credit issued will be assigned a unique identification number and the LC details updated in an online LC register.
 - II. The assigned number must be consistent with the bank's prescribed nomenclature with a suffix **C**, **CL**, or **U** for import Letters of Credit depending on whether it is a Cash Collateralized, Confirmation Line or Unconfirmed LC respectively.
 - III. Funds for cash backed LCs will be sourced from the CBN, Inter-bank, investors and exporters window, or customer's own funds.
 - IV. Requests for funding through the CBN window will be presented at the available Bid session after confirming adequacy of funds and debit to the customers' accounts (without COT).
 - V. Upon FX allocation, funds previously debited at bid will be returned to the customer's account and the naira equivalent of the funds allocated to the customer is debited to the customer's account (with COT) and the customer's FCY suspense (FEM) credited for subsequent debit by the desk officer at LC issue for cash collateralized confirmed letter of credit. In case of funding from customer's domiciliary account, the account is immediately debited to establish the LC.

- I. Issue of Unconfirmed and Confirmation Line LCs will be subject to receipt of relevant credit approvals/executed term sheets which will usually specify the conditions precedent to draw down.
- II. Such conditions must include provision of margin contribution in which case the officer will confirm that the contribution is in the designated account prior to LC establishment.
- III. A proof of the margin contribution is provided as part of the LC records.
- IV. Request for other LC types apart from Import LCs above may be considered subject to compliance with regulatory and internal procedures and approvals.
- V. Selection of a correspondent bank to advise, confirm, negotiate, or pay under a credit will depend on the LC type, currency, beneficiary location, available line with correspondent banks (in case of confirmation line LC), customer's preference and Premium Trust Bank's internal policy / business decision.
- VI. International Trade Services will make its selection from the approved correspondent banks list. Selection of the correspondent bank to use for a LC on the Banks' credit line is based on the availability of lines with the correspondent bank.
- VII. The LC is transmitted via SWIFT to the correspondent bank while copy of the transmitted message is forwarded to the originating branch / customer to evidence processing.
- VIII. All credits issued, confirmed, or advised by the bank are subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce.

2.7 Approvals for Letter of Credit

- i. Letters of Credit, guarantees, undertakings, etc., will be issued only after the required credit approval is obtained; this is where there is a credit customer. Offerings under approval lines will be approved as per locally established credit policies. Similarly, any amendment that increases the original amount of the credit and/or extends the expiry date must be approved.
- ii. Approval, as established by the designated authority (the customer/authorised signatory), is required to negotiate, or pay drafts drawn under credits for which

there are discrepancies in the documents presented. In such cases and depending on the circumstances customer/beneficiary will be advised accordingly at the time the documents are received and checked. International Trade Services will obtain written approval from the customer to honour the drawings with the existing discrepancy or revert to the beneficiary for amendment and resubmission of amended documents for further processing.

2.8 Requirements to Establish a Letter of Credit

- I. Approved Form M with all the attachments.
- II. Letters of Credit application form.
- III. Customer's Instruction Letter.

2.9 LC Issue Process Procedure

Customer is to complete Form M online with Letters of Credit indicated as the mode of payment.

All related documentation to be reviewed by the processing Officer ensuring that the below contains all documents for LC opening.

- I. Copy of Approved e-Form M (valid only after registration by the NCS)
- II. Completed LC Application form with customer's signature duly verified or duly completed online LC application form
- III. Proforma Invoice
- IV. Valid Insurance Certificate
- V. Valid Regulatory Certificates/Permits (where applicable) ensuring that such documents are genuine.
- VI. FX Request (for Cash Backed) LCs or approved Booking Memo/ Credit Approvals / Executed Terms Sheets etc. (for Confirmation Line or Unconfirmed LCs)

Any observed discrepancy in transaction documentation is notified to the Customer / Branch / Responsible Business Group depending on the nature of regularization required.

Preliminary Procedure for issuance

- I. The processing officer establishes the LC type required: confirmed cash-collateralized, confirmation line or unconfirmed LC.
- II. Where conditions for establishing the LC type are met, the processing officer registers form M details in an online LC register, assigns the next serial LC number, and inscribes LC number on LC application file.
- III. The assigned number ends with a suffix C, CL, or U depending on whether it is a Cash Collateralized, Confirmation Line or Unconfirmed LC respectively.

Cash- Backed LC

- I. Funds for cash backed LCs are sourced from the CBN, inter-bank, Investors & Exporters window, or customer's own funds (domiciliary funds).
- II. If a customer wishes to access CBN funds, processing officer checks the customer's account for funds availability and if the account is funded, includes the request in the collation for the next bidding session.
- III. Where customer opts for the interbank/I & E fund which value takes effect same day, request file is forwarded to Treasury through the Treasury Operations Team to purchase FCY on behalf of the customer.
- IV. Upon FX allocation, Treasury will raise the deal slip and will inform the FX Officer / Desk /officer.

The following entries will be passed:

Dr: Customer's NGN account

CR: Customer' FCY FEM Suspense account

Where funding is from customer's domiciliary account, the LC processing officer will pass the following entries:

Dr: Customer's FCY domiciliary account

CR: Customer' FCY FEM Suspense account

For Confirmation Line, Unconfirmed LC and Bank's funded cash backed IFF:

- I. The LC processing officer reviews duly approved booking memo/Executed Offer Letter for conditions precedent to LC establishment.
- II. Such conditions must include provision of margin contribution in which case the officer will confirm that the contribution is in the designated account prior to LC establishment.

Where margin contribution is to be booked from Trade Services, the Desk Officer will pass entries thus:

DR: Customer's NGN Account / FCY Domiciliary account

CR: Customer's NGN/FCY FEM Suspense account

Centralized Operations Team is informed to book the margin contribution collateral using the unique Form M number.

At FX purchase via I & E / Successful Retail bid, the Desk Officer liaises with Centralized Operations to drop part collateral deposit for FX bid purchase.

At final FX purchase and reconciliation of the collateral deposit utilization, the balance collateral deposit is terminated, and appropriate customer's current account credited.

A proof of the margin contribution is printed and kept in the transaction file.

Preparation and Transmission of SWIFT Message

- I. The desk officer based on the information provided on the Proforma Invoice, LC application and other supporting documents prepares the LC message on the relevant processing platform (**SWIFT-MT700**).
- II. Prepared message reviewed thoroughly and if satisfied with the accuracy of work done disposes the transaction for approval.
- III. The approving officer reviews the message and if satisfied disposes for final approval otherwise the job is returned to the inputter for necessary correction.
- IV. After satisfactory review, the message is transmitted via SWIFT and a copy of the transmitted message is kept in the transaction file.

- V. For Cash-Backed LCs and depending on the account funded by Treasury for the LC, a SWIFT message (MT 202) may be required to move funds to account with correspondent bank on which the LC is established.

The following entries are passed on LC establishment:

Income Entries (for all LC types)

Commission on LC Establishment

DR: Customer's account- 1% of LC amount

CR: (Branch) LC commission account

LC commission is subject to customer's approved concession

VAT is taken on establishment.

This is 7.5% of the above commission and the system should take automatically.

SWIFT on establishment

DR: Customer's account

CR: SWIFT account

Concessions are generally not allowed on SWIFT charge being a recoup of the payment for use of SWIFT.

Cash-Backed LC Entries

I. Funds Movement: (Conditional)

DR: Correspondent Bank's operating account

CR: Source account (Bank's Auto, Dom etc.)

ii. Cash Margin:

Dr: Customer' FCY FEM Suspense account

Cr: Customer's Cash Margin A/C

iii. Collateral:

Dr: Correspondent Bank Collateral A/C

Cr: Correspondent Bank Operating A/C

Unconfirmed / Confirmation Line LC

Contingent Entries:

Dr: Customer's Contingent Asset A/C

CR: Bank's Contingent Liability A/C

Upon successful implementation of a trade Solution, SWIFT message transmission and generation of accounting entries will take place concurrently.

Post Transmission Review

- I. Processing Officer confirms that transmitted messages are duly acknowledged on SWIFT (ACK) and not impeded by sanction screening.
- II. Any NACKED message is retrieved and corrected to ensure successful transmission. The transaction documents / tickets are filed off for next day call-over.
- III. The Officer also looks out for an acknowledgement (MT 730) from the correspondent banks and updates the LC register with the correspondent bank reference.
- IV. A follow up is initiated where acknowledgement is not received after 72 hours.

2.10 Instalment and Down Payments

- I. Down (advance) payments apply only to the importation of capital goods including plant/ machinery/equipment.
- II. The request for such payment will be at the instance of the LC applicant and will not be more than 15% of the FOB value of the goods. Such payment is subject to the presentation of invoice/demand note and an Advance Payment Guarantee or Performance Bond issued by a recognized bank in the exporter's country to secure the down payment.
- III. Subsequent instalment payment is subject to prevailing foreign exchange regulations as documented in the CBN Foreign Exchange Manual (latest version) and amendments to date.

2.11 AMENDMENTS TO LETTERS OF CREDIT

- I. Amendments are usually at the instance of the beneficiary or applicant.
- II. All amendment requests must be backed by a valid request from the LC applicant.
- III. Where a request to amend a letter of credit is received from the beneficiary through the offshore correspondent bank, this must be forwarded to the applicant and their documented consent obtained before the amendment can be processed.
- IV. In like manner, a beneficiary has the right to reject amendments to an issued documentary letter of credit in which case such rejection will be communicated through the correspondent bank to the issuing bank.
- V. All amendment requests will be reviewed for consistency with local regulations and bank's internal policy prior to processing.
- VI. Where amendments call for increase in documentary credit amounts or extensions, the desk officer must confirm that necessary approvals and / or funding are in place prior to processing.
- VII. The LC amendment is transmitted via MT707 SWIFT message and relevant records / registers are updated for processed amendments.
- VIII. Appropriate entries are passed to recognize the amendment(s) and relevant charges taken.

2.11.1 LC Amendment Procedural Flow

- I. Customer's amendment instruction(s) will be received through Branches or Relationship Managers.
- II. Scanned copy(ies) of customer's amendment request to be sent via the Premium Trust Bank electronic mail platform.
- III. Processing Officer will review amendment request to determine if the request does not conflict with extant regulations or the bank's internal policies and procedures.
- IV. Officer will also confirm that relevant conditions / approvals necessary for the amendment are in place.

- V. Upon satisfactory review, the amendment message is processed using the relevant processing platform. A SWIFT MT707 is generated, and the amendment register updated with the amendment details.

The following entries will be passed to recognize amendment charges:

Dr: Customer Amendment commission

CR: Income Account

Dr: Customer SWIFT charges

CR: SWIFT Account

Amendment commission is subject to customer's approved concession.

- I. Where amendment involves an increase in LC amount, cover must be provided for the increase for cash-backed LCs.
- II. For unconfirmed or confirmation line LCs, appropriate credit approval must be in place to cover the increase before the amendment can be affected.
- III. The LC should not be increased for more than 10% of the original value.

Whether increase / decrease in LC value the following entries are passed to reflect the change in LC amount:

- I. **Funds Movement** (where required for increase/decrease in value)
- II. **Contingent Entries** (for increase/decrease in value – for unconfirmed and confirmation line LCs only)
- III. **Margin Entries** for (increase/decrease in value – for cash-backed LCs only)
- IV. **Collateral Entries** for (increase/decrease in value – for cash-backed LCs only))
- V. Commission on the increased value

The SWIFT message is transmitted after satisfactory review. Further confirmation is done by the desk officer confirms that the transmitted message is SWIFT Acknowledged.

Officer further looks out for acknowledgement message from the correspondent banks.

2.12 Shipment Under Letters of Credit

This section deals with shipment of merchandise across borders under Letters of Credit.

2.12. Modes of Shipment

- i. Airfreight shipments
- ii. Ocean/Sea shipments

2.12 Shipping Documents

- i. **A full set of original clean/shipped on-board ocean bills of lading** bearing weight and quantity of goods will be made out to the order of the bank, or to the order of shipper and blank endorsed. If shipping documents are to be sent directly to the bank, the terms of the credit will clearly stipulate that the bills of lading must be made to order of the Premium Trust Bank or restrictively endorsed to that effect. It must be marked freight prepaid and notify applicant.
- ii. **The original commercial invoice** will describe the merchandise in the same terms as the credit. Description of the merchandise should be limited to general terms only, without detailed requirement (e.g., grade, quality, mix). Excessive details in no way give additional protection to the customer since the bank deals in documents and not in goods.
- iii. **The original Certificate of Origin.** This will describe the merchandise in the same terms as the credit, value of goods and origin of the goods.
- iv. **The original packing list** will describe how the goods will be packed in terms of metric tons, kilograms, milligrams, crates etc.
- v. **The original manufacturer certificate** stating standard of production adopted or certificate of analysis stating production and expiry date depending on the item of import.
- vi. Where special documents (certificate of inspection, etc.) are required, the credit should indicate by whom such document will be issued, if possible.

All documents must bear the related Form M and LC numbers and issued in English Language. At the last drawing, a beneficiary's certificate confirming final shipment of goods under the LC should be presented.

2.12 RECEIPT OF SHIPPING DOCUMENTS

- i. Shipping documents must come through the Banking System. Nigeria's local regulation does not allow direct receipt of documents from the beneficiary for negotiation purposes. However, advanced set of documents for processing Pre-Arrival Assessment Report (PAAR) prior to receipt of negotiation documents is allowed.
- ii. Documents (including drafts) received under a credit, if not processed on the day of receipt, will be held in custody by a designated officer and locked overnight in a metal file cabinet or container.
- iii. Documents accompanying availments will be reviewed against the terms and conditions of the credit, if received from the negotiating or collection bank. Discrepancies if any will be notified to the customer and a single notice of refusal given to the presenting bank not later than the close of the fifth banking day. The notice must state that the issuing bank is holding documents until it receives waiver from the applicant or receives further instruction from the presenter or that the bank is acting in line with instructions previously received from the presenter.
- iv. Documents will not be endorsed or dispatched to the customer until funds are provided to cover the availment plus interest, if any, or release against signed receipt is authorised in accordance with local credit policy.

2.13 LETTER OF CREDIT NEGOTIATION

This is the process of making payment on the Letters of Credit.

- I. After complying with the terms of the credit, the beneficiary presents the required documents and drafts to the nominated bank for negotiation / payment.
- II.** Document examination is done in line with the provisions of *UCP 600 (Articles 14 – 16)* and *pre-defined LC terms and conditions*.
- III. The negotiating bank examines the documents for compliance with LC terms and conditions before making payment or deferred payment undertaking on the documents.
- IV. In the event of any discrepancy, the beneficiary is notified so that such may be corrected.

- V. The negotiating bank may also at the beneficiary's instance notify the LC issuing Bank of observed discrepancies for the purpose of obtaining applicant's consent to accept discrepant documents.
- VI. Where the discrepancy does not violate standing CBN regulations, the opening bank contacts the account party and if the discrepancy is acceptable to the account party, the acceptance is communicated to the issuing bank for onward communication to the correspondent bank.
- VII. Where observed discrepancies are not acceptable or regulatory in nature, the same will be communicated to the presenting bank to enable the beneficiary to resubmit corrected documents. **Article 16 of UCP 600** provides guidelines for handling of discrepant documents.
- VIII. The negotiating / paying bank makes payment to the beneficiary in line with LC terms and conditions and reimburses itself on the LC issuing bank.

2.14 PROCESS FLOW FOR RECEIPT, EXAMINATION AND NEGOTIATION OF DOCUMENTS

2.14.1 Receipt Of Advance Shipping Documents

- I. Where LC calls for advance documents, the Desk Officer upon receipt of advance set of documents sent by courier directly by the beneficiary is expected to notify the Customer/Branch /RM.
- II. The documents are scanned for compliance with LC terms and copies sent to the PAAR Desk to fast-track the PAAR process.
- III. The online shipping document register is updated, and document status indicated.

2.14.2 Receipt Of Original Shipping Documents

- I. The Desk Officer receives set of original shipping documents directly from the offshore bank.
- II. Documents are checked in details for compliance with LC terms.
- III. Discrepancies if any is notified to the customer / Relationship team for necessary action.
- IV. Where there are no discrepancies, the customer / Relationship Team is notified to allow for the commencement of the shipping documents endorsement process.

2.14.3 LC NEGOTIATION

A. Cash-backed LCs

The following entries to be passed:

- I. DR: Cash Margin Account
- II. CR: Cash collateral with offshore Bank

The LC register is updated with the following details:

- I. Date of receipt of documents
- II. Date of negotiation of documents
- III. Amount negotiated
- IV. Unutilised balance (if any)
- V. Due date for submission of Exchange Control Documents

In case LC is overdrawn, which has been notified to and duly accepted by the customer:

- I. the customer's account is debited for the excess drawing, and foreign currency procured to cover the overdrawn position.
- II. Where overdrawing is more than 10% of the LC, CBN approval should be sought before processing or the customer makes the excess payment outside the LC.

In case of under drawing and upon receipt of beneficiary's confirmation that there will be no further drawing on the LC or upon LC expiration,

- I. the unutilized balance is repatriated to the CBN for repurchase where funds is sourced from the CBN, and customer's account credited upon naira receipt.
- II. Where original fund is purchased from the I & E window, unutilized fund is returned to Treasury for repurchase and customer's account credited with Naira equivalent
- III. where original funds are from customer's domiciliary account, the unutilized FCY balance is credited to the customer's account

B. For Unconfirmed LCs and Confirmation Line LCs

Where the LC is for sight payment

- I. Relationship manager and or customer should be notified and advised on the need to fund account for purchase of FX for settlement (where cover has not been previously provided).
- II. Where charges are to be borne by Beneficiary and the presenting bank is different from the advising bank, advising Bank should be requested to confirm their charges.
- III. Treasury is advised to procure FX (Through Treasury Operation) for the settlement of the obligation provided settlement is not from customer's domiciliary or FCY loan account.
- IV. Deal slip is obtained as evidence of FX purchase.
- V. Necessary SWIFT messages are generated to honour the obligation and communication made to the Advising or Presenting bank.

Pass relevant entries as follows:

- I. Contingent Reversal**
 - a. DR: Bank's Contingent Liability A/C
 - b. CR: Customers Contingent Asset account
- II. Movement Entries**
 - a. DR: Operating account
 - b. CR: Source account (The Bank's Auto or Principal A/c, Dom etc.)
- III. Payment Entries**
 - a. DR: Customers FEM account
 - b. CR: Offshore Bank Operating account

(i) Where the LC is for deferred payment.

- I. The tenor of payment is captured on the Maturity Profile Register
- II. Communicate document acceptance and due date to the presenting bank and advising Bank. Obtain confirmation of offshore charges due
- III. Notify RM / Customer to ensure account funding at maturity
- IV. At maturity, procure FX for settlement, generate relevant SWIFT messages, and pass accounting entries.

- V. Update relevant registers.

(ii) Where the LC is to be refinanced under confirmation line

- I. Desk officer to ensure proper documentary checks as stated above.
- II. Confirm that refinancing request is already embedded in the LC otherwise refinancing request to be sent to the correspondent bank.
- III. Upon receipt of loan advice from the correspondent bank, check the refinancing details for consistency with transaction details and agreed pricing. Any observed disparity should be clarified with the correspondent banks.
- IV. Where refinancing details are satisfactory, update relevant schedules/registers and pass the following entries:

Reversal of LC Contingent

- DR: Bank's Contingent Liability A/C
- Cr: Customers Contingent Asset account

Refinanced LC Contingent

- DR: Customer's Premium Trust Bank Refinanced Contingent A/C
- Cr: Premium Trust Bank Refinanced Contingent A/C
- Notify Customer / RM of impending maturities to enable customer fund account for settlement of maturing obligations
- At loan maturity and upon FX procurement for settlement, update payment registers and pass the following entries:

Refinanced LC Contingent (Reversal)

- DR: Premium Trust Bank Refinanced Contingent A/C
- CR: Customer's Premium Trust Bank Refinanced Contingent A/C

Movement entries (where required)

- DR: Correspondent Bank Operating A/C
- CR: Source account (Bank's Auto, Dom etc.)

Payment

- DR: Customer' FCY FEM Suspense account
- CR: Correspondent Bank Operating A/c

C. Pre and Post Negotiation Charges

- Pre and post negotiation charges are taken on confirmation line LCs and unconfirmed LCs subsequently confirmed or paid using the confirmation line facility. Calculation of pre and post negotiation charges are based on the rate sold to customer as evidenced on the Booking memo/ Approval, signed off by relevant approving departments.

The facility utilization and post refinancing fee due to the offshore bank is deducted from the fees taken and remitted to the offshore bank while the balance is credited to the relevant income accounts.

Accounting Entries:

(1) DR: Customer's A/c	}	With total Naira value
CR: Trade Suspense a/c (NGN)		
(2) DR: Trade Suspense a/c (NGN)	}	With amt to remit offshore
CR: Customer's FEM A/C (FCY)		
(3) DR: Trade Suspense a/c (NGN)	}	With the balance of the total
CR- Income Account (NGN)		

D. Other Offshore Bank Charges

- charges must be reviewed against the L/C terms and offshore Bank pricing matrix.
- Discrepancies if any is clarified with the offshore bank.
- Upon satisfactory review, customer is notified, and their account debited for the settlement of the offshore bank charges.
- Relevant entries are passed to recognize FX purchase and subsequent settlement of offshore bank charges.

2.15 HANDLING DISCREPANCIES

Documents are examined to determine compliance with LC terms and conditions. Discrepant documents are those that do not comply with LC terms and conditions.

'A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank must examine a presentation to determine, based on the documents alone, whether or not the documents appear on their face to constitute a complying presentation.' (**UCP 600 Article 14a**).

A bank is not under obligation to honour a discrepant presentation provided the notice of refusal is given before the expiration of the fifth banking day following the day of presentation in line with *UCP600 Article 14b*.

The notice must state the following:

- i. That the bank is refusing to honour or negotiate.
- ii. Each discrepancy in respect of which the bank refuses to honour or negotiate.
- iii. (a) that the bank is holding the documents pending further instructions from the presenter.
(b) that the issuing bank is holding the documents until it receives a waiver from the applicant and agrees to accept it or receives further instructions from the presenter prior to agreeing to accept a waiver or
(c) that the bank is returning the documents; or
(d) that the bank is acting in accordance with instructions previously received from the presenter.

Irrespective of applicant's disposition, regulatory discrepancies, or discrepancies that conflict with the bank's internal policies and procedures can only be accepted after obtaining necessary regulatory / internal approvals.

Process Flow for Handling Discrepancies

- I. Notice of discrepancies and or discrepant documents must come from the offshore correspondent.
- II. Document review is executed for compliance with LC terms and observed discrepancies highlighted.

- III. Determination of the nature of discrepancies if regulatory or otherwise, to be conducted.
- IV. Generation of discrepancy notice to the applicant and requests for disposal instruction to accept or reject documents.
- V. Generation of discrepancy advice to the offshore bank stating the highlighted discrepancies and the bank's refusal to honour until it receives a waiver from the applicant (for non-regulatory discrepancies) or until it receives corrected documents.
- VI. Applicant's disposal instruction to be conveyed to the correspondent bank via SWIFT.

Accounting Entries:

Dr: Customer's acct	}	Swift Charges
CR: SWIFT A/C		

2.16 THE FINAL EXCHANGE CONTROL DOCUMENTS (FECD)

The Final Exchange Control Documents are documents evidencing that imported goods has been cleared and necessary duties paid. They include the following:

- i. Original Single Goods Declaration Form (SGD Form)
 - ii. Original Terminal Delivery Order (TDO)
 - iii. Tally Sheet (Sea shipment)
 - iv. Gate Pass (Airfreight)
 - v. Copy of the PAAR
 - vi. Copy of the on-line Duty Payment Receipt
 - vii. NMDPRA Product Certification Report for Petroleum Products only
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- a) Customers must submit Final Exchange Control Documents on or before 90 days after negotiation for general imports while submission of the documents (SGD form and NMDPRA Product Certification Report only) must be within 30 days after arrival of cargo for petroleum products.
 - b) A notice of exchange control submission due date to be attached to shipping documents at endorsement / release to serve as reminders to customers.
 - c) The online register is updated for submission of exchange control documents (ECD) while the documents are filed off in the respective LC file.

- d) The Desk Officer will also review the register to determine outstanding ECD falling due within the next 15 days and generates a follow up mail to customer / relationship team to facilitate submission of the documents on or before the due dates.
- e) The Desk Officer periodically reviews the LC register to determine outstanding ECD that will be falling due for submission and generates a follow up mail to customer / relationship team to facilitate submission of the documents on or before the due dates.
- f) Non-submission of ECD documents is a contravention of the extant regulations. The Bank sends a report of defaulters on ECD submission to the CBN monthly. Failure to send the report can attract regulatory sanction to the Bank while non- submission can attract regulatory sanctions to customers including placement of foreign exchange embargo.

2.17 TREATMENT OF UNUTILIZED LC BALANCE

Unutilized balance may arise because of under drawing or non-utilization of LC before expiry.

- I. Transaction file to be reviewed to confirm the existence of unutilized balance.
- II. Make certain that there are no outstanding payments / reimbursement on the LC
- III. Check shipping documents for Beneficiary's Certificate declaring final shipment has been made.
- IV. In case of expired LC, customer's confirmation is obtained that there is no intention to reinstate / extend LC validity.
- V. A free format message should be sent to the correspondent bank to request for a return of unutilized balance from collateral account to the operating account.

Upon receipt of unutilized balance in the operating account, the following to be done:

Where original fund was sourced from the CBN:

- I. Unutilized balance to be repatriated to the CBN for repurchase.
- II. Unutilized USD Funds are aggregated in Premium Trust Bank designated offshore account and the aggregated amount moved to the CBN's designated account number.
- III. Copy of the SWIFT message and a schedule of the aggregated amount is sent via electronic mail to Banking Services Department of the CBN.
- IV. The CBN credits the bank with the Naira equivalent and forwards a breakdown of amount credited.
- V. Customer's account is credited with the Naira equivalent within 24 hours of receipt of funds.
- VI. The following entries are passed to recognize the various activities involved in the repatriation / repurchase of unutilized balance:

Movement of funds from the collateral account to the operating account:

- **Reversal of collateral entries**

DR: Correspondent Bank's Operating A/C	}	With Unutilized Balance
CR: Correspondent Bank's Collateral A/C		

- **Movement of UTB to CBN Transit Account**

DR: Customer's Cash margin A/C	}	With Unutilized Balance
CR: Correspondent Bank's Operating		

- **Bulk transfer of UTB to CBN**

Debit / Credit Knock Off on Nostro (No entries)

- **Receipt of Naira Proceeds**

DR: CBN Naira A/C	}	With Naira equivalent
CR: Customer Naira A/C		

The Desk Officer updates relevant registers, and a mail notification is sent to the customer and RM to notify them of the receipt.

Where original fund was sourced from I & E Window

- Unutilized balance will be repatriated and sold to Treasury for repurchase.
- The following entries are passed to recognize the various activities involved in the repatriation / repurchase of unutilized balance sourced from the I & E window

Movement of funds from the collateral account to the operating account:

I. Reversal of collateral entries

- | | | |
|---|---|-------------------------|
| i. DR: Correspondent Bank's Operating A/C | } | With Unutilized Balance |
| ii. CR: Correspondent Bank's Collateral A/C | | |

II. Movement of UTB to Treasury Trading Account

- | | | |
|--|---|-------------------------|
| i. DR: Customer's Cash margin A/C | } | With Unutilized Balance |
| ii. CR: Correspondent Bank's Operating | | |

III. Purchase of UTB by Treasury

- | | | |
|---------------------------------------|---|-----------------------|
| i. DR: Treasury Trading Account (FCY) | } | With Naira equivalent |
| ii. CR: Customer Naira A/C | | |

Where original fund was sourced from customer's domiciliary account:

- Funds will not be repurchased but repatriated for onward credit to customer's domiciliary account.
- The following entries will be passed to recognize the various activities involved in the process:

Reversal of collateral entries

- | | | |
|---|---|-------------------------|
| I. DR: Correspondent Bank's Operating A/C | } | With Unutilized Balance |
| II. CR: Correspondent Bank's Collateral A/C | | |

Movement of UTB to offshore Dom. A/c

- | | | |
|--|---|-------------------------|
| I. DR: Dom (Nostro) A/C | } | With Unutilized Balance |
| II. CR: Correspondent Bank's Operating A/c | | |

Reversal of Margin Entries

With Unutilized Balance

- I. DR: Customer Cash Margin A/C
- II. CR: Customer Domiciliary A/C

}

2.18 CANCELLATION OF LETTER OF CREDIT AND RETURN OF FUNDS

Article 10 of UCP600 – A Credit can neither be amended nor cancelled without the agreement of the issuing bank, the confirming bank, if any, and the beneficiary.

Cancellation of a Letter of Credit Procedure

- I. The customer sends LC cancellation request directly to International Trade Services or through the branch / relationship team.
- II. Necessary reviews to be taken by the desk officer to ensure it is properly authorized by the customer and passes to the LC desk for further processing.
- III. Transaction file should be retrieved and reviewed by the desk officer and upon satisfactory review, SWIFT message is prepared to the correspondent bank to request for LC cancellation and return of cash cover where LC is cash backed.
- IV. SWIFT message to be reviewed by the responsible officer and if satisfied disposes for final approval otherwise the job is returned to the inputter for necessary correction.
- V. After satisfactory review, the message is transmitted via SWIFT and a copy of the transmitted message is kept in the transaction file.
- VI. The Desk officer follows up with the correspondent to confirm final cancellation.
- VII. Relevant entries to reflect the cancellation are passed. For cash backed LCs, outstanding cash collateral is repatriated to the CBN for repurchase in case of original purchase from CBN or other autonomous sources. Funds sourced from customer's domiciliary account will be returned to same account upon LC cancellation (see treatment of unutilized balance).
- VIII. Outstanding charges (offshore and local) are recouped from the customer.
- IX. Relevant records / registers are updated, and the transaction file closed.

2.19 HANDLING OF CORRESPONDENT BANK CHARGES AND INTEREST

Offshore charges comprise of but not limited to confirmation, advising, extension, cancellation, negotiation, amendments, and courier charges. They also include facility utilization fees and refinancing fees in case of letters of credit established under the correspondent banks confirmation lines.

The charges are usually at the correspondent banks standard rates or negotiated rates where refinancing is involved. While applicable rates may be pre-determined at LC issue actual amount payable may not be ascertained until transaction closure because of certain dependencies like LC tenure, prevailing LIBOR etc.

The LC terms will usually indicate the party that will be responsible for offshore charges. However, where LC expires without utilization, outstanding charges (if any) will be recouped from the applicant in line with article 13 item b (iv) of UCP600 even where the LC terms expressly provides that charges are for the account of the beneficiary.

2.20 QUARTERLY INTEREST DISTRIBUTION

- I. Interest earned on LC collateral held by correspondent banks are distributed to qualifying customers on a quarterly basis in compliance with prevailing foreign exchange regulations in the country.
- II. Distribution is based on the credit interest received from the offshore bank, LC amount and the period for which funds are held in the collateral account.
- III. The Desk officer reviews the interest and charges account for interest earned on cash collateral and passes appropriate in-house entries.
- IV. At the end of the quarter the total interest earned is repatriated to the CBN for repurchase.
- V. Upon receipt of Naira proceeds distribution is made to qualifying customers and appropriate reports in the prescribed format prepared and forwarded to the Reporting Unit for onward submission to the CBN.

Accounting Entries:

Entries passed during the various stages:

Upon receipt of credit interest on nostro account:

DR: Correspondent Nostro A/C	}	With credit interest
CR: Interest Distribution (FCY) Suspense A/C		

Upon transfer of interest to CBN at the end of the Quarter

DR: Interest Distribution (FCY) Suspense A/C	}	Transfer amount
CR: Correspondent Nostro A/C		

Upon receipt of Naira proceeds from CBN

DR : CBN A/c	}	With Naira received
CR : Interest Distribution (Naira) Suspense A/C		

Upon distribution to LC Customers

DR: Interest Distribution (Naira) Suspense A/C	}	Distributed amount
CR: LC Customers		

2.21 LC MATURITY PROFILE

An aging report of LCs showing all advances and outstanding is maintained by the Unit for monitoring purpose.