

Letter of Credit

Document to open a Letter of Credit (LC) are :

Application Form: A form filled out by the buyer (importer) requesting the issuance of the LC.

Sales Contract or Purchase Order: This document outlines the terms of the sale between the buyer and seller, including details such as quantity, price, delivery terms, and specifications of the goods or services being traded.

Proforma Invoice: An invoice provided by the seller (exporter) to the buyer, specifying the goods or services to be provided, along with their corresponding prices and terms of sale.

Incoterms: The chosen International Commercial Terms that define the responsibilities and liabilities of the buyer and seller in international trade, including matters such as transportation, insurance, and customs clearance.

Shipping Documents: These may include:

Bill of Lading (for sea shipments)

Air Waybill (for air shipments)

Truck Bill of Lading (for land shipments)

Railway Bill (for rail shipments)

Insurance Documents: Proof of insurance covering the goods during transit, often provided in the form of an insurance certificate.

Commercial Invoice: An invoice issued by the seller to the buyer, detailing the goods or services provided, their prices, and any other relevant charges.

Certificate of Origin: A document certifying the country of origin of the goods being traded.

Inspection Certificate: If required, a certificate issued by an independent inspection agency verifying the quality, quantity, and conformity of the goods to the specifications outlined in the sales contract or purchase order.

Any Additional Documents: Depending on the specific requirements of the LC, additional documents may be requested by the issuing bank or the parties involved in the transaction.

It's essential for both parties involved in the transaction to carefully review the LC terms and ensure that all required documents are provided accurately and in compliance with the LC's conditions to avoid any discrepancies or delays in payment or shipment.

A Letter of Credit (LC), also known as a documentary credit, is a financial document issued by a bank or financial institution on behalf of a buyer (importer) to guarantee payment to a seller (exporter) for goods or services. It is commonly used in international trade transactions to facilitate smooth and secure trade between parties located in different countries.

Here are key points about a Letter of Credit (LC):

Purpose: The primary purpose of a Letter of Credit is to provide payment security to the seller (exporter) by ensuring that they will receive payment as long as they comply with the terms and conditions specified in the LC.

Parties Involved:

Applicant/Buyer: The party who requests the issuance of the LC from their bank.

Beneficiary/Seller: The party who will receive payment under the LC, typically upon presenting the required documents that comply with the LC terms.

Types:

Commercial LC: Used for the purchase and sale of goods or services.

Standby LC: Used as a backup payment method if the buyer fails to fulfill their payment obligations.

Revocable LC: Can be modified or canceled by the issuing bank without prior notice to the beneficiary.

Irrevocable LC: Cannot be modified or canceled without the agreement of all parties involved.

Process:

The buyer and seller agree on the terms of the sale, including the use of an LC for payment.

The buyer applies for the LC from their bank (issuing bank), which evaluates the buyer's creditworthiness and issues the LC in favor of the seller.

The LC is transmitted to the seller's bank (advising bank) or directly to the seller.

The seller ships the goods or provides the services and prepares the required documents specified in the LC.

The seller presents the documents to the advising bank or the issuing bank for payment.

The bank checks the documents against the LC terms and, if compliant, releases payment to the seller.

Documents Required: The specific documents required under an LC vary depending on the agreement between the buyer and seller, but commonly include:

Invoice

Bill of Lading

Packing List

Insurance Certificate

Certificate of Origin

Inspection Certificate (if applicable)

Benefits:

Provides payment security to both the buyer and seller.

Reduces the risk of non-payment and potential disputes in international trade.

Facilitates access to trade finance for buyers and sellers, especially in cross-border transactions.

Overall, a Letter of Credit plays a crucial role in international trade by providing a reliable and secure method of payment, fostering trust between parties, and facilitating smoother transactions across different countries and jurisdictions.