TITLE: A CRITICAL ANALYSIS OF THE LETTER OF CREDIT AS A COMMERCIAL INSTRUMENT AND ITS COMPARISON WITH THE BILL OF EXCHANGE AND PROMISSORY NOTE.

QUESTION:

With reference to key authorities (sources) including books and case law, ***critically explain*** **the letter of credit** as a commercial instrument focusing on its **nature**, its **characteristics**, its **purpose**, **how it is used**, its **key conditions**, its **key principles**, its **kinds/types**, and the **key parties involved** in its use, then ***critically compare*** a **bill of exchange, promissory note and the letter of credit**, clearly demonstrating their ***differences and or similarities*** in **nature**, **purpose** and **conditions for their use**, **advantages and disadvantages.**

Introduction

- Briefly introduce the role of commercial instruments in trade finance.
- State the objective: to critically examine the letter of credit (LC), and compare it with the bill of exchange and promissory note.
- Highlight the importance of these instruments in domestic and international trade.
- Outline the structure of the paper.

PART I: THE LETTER OF CREDIT AS A COMMERCIAL INSTRUMENT

1. Definition and Nature

- Define a Letter of Credit (with references such as *Goode on Commercial Law* and UCP 600).
- Explain the legal nature: a documentary payment mechanism, autonomous from the underlying sales contract.
- Mention key judicial interpretations: *United City Merchants v Royal Bank of Canada* [1983] AC 168.

2. Purpose and Use of the Letter of Credit

- Discuss how LCs mitigate risks in international trade.
- Explain their function in ensuring payment for sellers and performance by buyers.
- Illustrate with trade examples (e.g., international commodity trade).

3. Characteristics of the Letter of Credit

- **Documentary nature** – operates on documents, not goods.
- **Autonomy principle** – LC is independent from the sales contract.
- **Strict compliance rule** – documents must exactly match terms.
- **Irrevocability** – most LCs are irrevocable (UCP 600 Article 3).
- Add real case examples to support.

4. Key Legal Principles Governing LCs

- **Autonomy Principle**: See *Hamzeh Malas & Sons v British Imex Industries* [1958].
- **Strict Compliance Rule**: Explain with examples.
- **Fraud Exception**: Discuss *Sztejn v J. Henry Schroder Banking Corp*.

- Include relevant provisions from UCP 600.

5. Parties Involved

- Define the roles and responsibilities of:
    - **Applicant (buyer)**
    - **Beneficiary (seller)**
    - **Issuing Bank**
    - **Advising Bank**
    - Optional: **Confirming Bank**, **Negotiating Bank**

6. Conditions for Use

- Required documents: invoice, bill of lading, insurance certificate, etc.
- Presentation period and expiry date.
- Conditions under UCP 600.

7. Types of Letters of Credit

- **Revocable vs. Irrevocable**
- **Confirmed vs. Unconfirmed**
- **Sight vs. Usance (deferred payment)**
- **Transferable**
- **Standby Letter of Credit**
- **Revolving Letter of Credit**
- Explain each briefly with examples where relevant.

PART II: COMPARATIVE ANALYSIS OF THE LETTER OF CREDIT, BILL OF EXCHANGE, AND PROMISSORY NOTE

1. Definition and Legal Nature of Each Instrument

- **Letter of Credit** – conditional bank undertaking.
- **Bill of Exchange** – unconditional order to pay (Bills of Exchange Act 1882, s.3).
- **Promissory Note** – unconditional promise to pay (s.83).
- Support with legal texts and cases.

2. Purpose and Commercial Use

- How each instrument is used in commerce and trade?
- Note differences in usage: LC for international trade; BOE and PN often for local trade or credit arrangements.

3. Parties Involved

Instrument	Parties Involved
Letter of Credit	Applicant, Beneficiary, Issuing Bank, Advising/Confirming Bank
Bill of Exchange	Drawer, Drawee, Payee
Promissory Note	Maker, Payee

4. Formal Requirements and Conditions

- Explain the formal requirements for each:
    - LC: terms and documents
    - BOE: writing, signature, order, certainty
    - PN: writing, signature, promise, amount
- Cite Bills of Exchange Act 1882 and relevant rules.

5. Legal Regulation

- **LC:** Regulated by UCP 600 (international rules), national contract law
- **BOE & PN:** Bills of Exchange Act 1882

6. Comparison Table *(optional but highly effective)*

Feature	Letter of Credit	Bill of Exchange	Promissory Note
Nature	Bank's conditional undertaking	Order to pay	Promise to pay
Legal Instrument Type	Documentary credit	Negotiable instrument	Negotiable instrument
Number of Parties	3-4	3	2
Regulation	UCP 600, Contract Law	Bills of Exchange Act 1882	Bills of Exchange Act 1882
Use	International trade	Commercial trade/payment deferral	Debt acknowledgment
Security	High (bank guaranteed)	Medium	Lower

7. Advantages and Disadvantages

- For each instrument, explain:
  - **Advantages**: e.g., security (LC), flexibility (BOE), simplicity (PN)
  - **Disadvantages**: cost (LC), dishonor risk (BOE, PN), lack of third-party guarantee (PN)

Conclusion

- Summarize the main findings: LCs are secure, document-based instruments suited for international trade, while BOEs and PNs are traditional, negotiable, and used more domestically.
- Reflect on the modern relevance of these instruments.
- Mention technological evolution (e.g., electronic LCs, e-Bills).
- Suggest which instrument is best suited for which kind of transaction and why.

HOW WE’RE THE ASSIGNMENT IS GOING TO BE DONE

PART ONE:

- 1 & 2: Tresor
- 3 & 4: Emmanuel
- 5 & 6: Cedrick
- 7: Anne Lyse

PART TWO:

- 1 & 2: Eric
- 3: Vasta
- 4: Ezekiel
- 5: Ciella
- 7: Doreen