

#goalCICS

Key Points - Chapter 20
Selected features and conditions of documentary credits

What is a key feature of a <i>revocable documentary credit</i> ?	A revocable documentary credit can be amended or cancelled by the issuing bank at any time without prior notice to or consent from the beneficiary.
Are revocable documentary credits covered by UCP 600?	No, revocable documentary credits are not covered by UCP 600. Article 3 of UCP 600 assumes credits will be irrevocable.
How should a <i>revocable documentary credit</i> be issued?	It must specifically state that it is revocable and include the terms and conditions related to its revocability.
What is the primary risk for the beneficiary of a <i>revocable documentary credit</i> ?	The beneficiary has no security of payment since the credit can be cancelled at any time by the issuing bank.
What message type should be used for a <i>revocable documentary credit</i> in SWIFT?	A revocable documentary credit must be sent via SWIFT MT799 (free format), as SWIFT MT700 only accommodates irrevocable credits.
What is an <i>irrevocable documentary credit</i> ?	An irrevocable documentary credit cannot be amended or cancelled without the agreement of the issuing bank, the confirming bank (if any), and the beneficiary.
Which SWIFT field accommodates the reference for an <i>irrevocable documentary credit</i> ?	Field 40A in a SWIFT MT700 message accommodates the reference to irrevocable documentary credits.
What distinguishes a <i>clean documentary credit</i> ?	A clean documentary credit requires no documents for payment—only a bill of exchange (draft) is required, and it is typically issued against high-credit-standing beneficiaries.
How does a <i>red clause documentary credit</i> function?	It allows the beneficiary to receive an advance payment before shipment, with conditions such as a receipt or an undertaking to utilize the funds for the shipment.
What is a risk associated with <i>advance payments</i> under a documentary credit?	The risk is that the beneficiary may fail to perform, but it can be mitigated through an advance payment guarantee.
What are the main features of a <i>revolving documentary credit</i> ?	The credit revolves based on time or value, and can be automatic or non-automatic, cumulative or non-cumulative.

How does a <i>revolving documentary credit</i> differ from a standard credit?	A revolving credit allows the amount to be drawn multiple times without the need for new amendments, typically used for repetitive transactions.
How is risk managed with a <i>revolving documentary credit</i>?	The issuing bank should restrict honour or negotiation to a nominated bank and ensure the revolvment is under control, with clear limits on liability.
Example of a <i>time-based revolving documentary credit</i>:	A documentary credit is issued for USD100,000 with a time-based revolvment. The credit allows the beneficiary to draw USD10,000 each month over 10 months. If no amount is drawn in one month, the unused portion is not carried over to the next month.
Example of a <i>value-based revolving documentary credit (non-cumulative)</i>:	A documentary credit is issued for USD500,000 with a value-based revolvment. The beneficiary can draw an amount up to USD10,000 per shipment, but the total amount drawn cannot exceed USD500,000 over the validity period. If the beneficiary draws USD50,000 in the first month, only USD450,000 remains available for future shipments.
Example of a <i>cumulative revolving documentary credit</i>:	<p>A documentary credit is issued for USD120,000, and the revolvment is cumulative. The beneficiary is allowed to draw USD20,000 per month. If they don't use the full USD20,000 in a given month, the unused portion is carried forward.</p> <p>For instance, if the beneficiary only draws USD15,000 in one month, the remaining USD5,000 can be added to the next month's drawing, making the available amount for the second month USD25,000.</p>
Key Aspects of Instalment Shipments:	<p>Defined Shipment Schedule:</p> <ul style="list-style-type: none"> • If the documentary credit specifies a schedule for multiple shipments, the dates and quantities of each instalment must be clearly defined. • Article 32 of the UCP 600 provides the framework for handling instalment shipments, ensuring that if the beneficiary fails to meet the schedule, it can impact the availability of the credit

	for subsequent instalments.
Shipment Dates and Periods:	<p>☒ The credit must clearly state the periods during which each instalment must be shipped. For example, the credit might specify that:</p> <ul style="list-style-type: none"> • 200 computers must be shipped between 1 May and 31 May 20XX. • 150 computers must be shipped between 1 July and 31 July 20XX. • 150 computers must be shipped between 1 September and 30 September 20XX. <p>☒ These dates represent the start and end of each shipment period, and the beneficiary is required to ship the goods within those defined timeframes.</p>
Consequence of Missing Instalment Schedules:	<p>☒ If the beneficiary does not adhere to the defined shipment schedule, Article 32 applies. This means that if the beneficiary fails to ship the goods within the agreed timeframes, the credit ceases to be available for the future instalments.</p> <p>☒ In other words, if one shipment is missed or delayed, the documentary credit may not be used for subsequent shipments, potentially leaving the beneficiary without access to funds for future deliveries.</p>
Tolerance in Documentary Credit	<p>In the context of documentary credits (DC), tolerance refers to a permissible deviation in the quantity, amount, or unit price of goods or services that are described in the credit. Tolerances are commonly used when it's difficult to specify the exact quantities or prices in advance, particularly for commodities like oil, wheat, rice, steel, and other bulk goods. These tolerances allow for flexibility in shipments and the documents that must be presented for payment under the documentary credit</p>
Which types of tolerance are commonly used in documentary credits?	<p>Tolerances are commonly used for:</p> <ul style="list-style-type: none"> • Quantity (e.g., plus/minus 10% of the agreed amount). • Price (e.g., unit price plus/minus a certain percentage). • Total amount (e.g., credit amount plus/minus a fixed sum).

<p>How is tolerance indicated in a documentary credit</p>	<p>A: Tolerances are indicated in specific SWIFT fields:</p> <ul style="list-style-type: none"> • Field 39A: For percentage tolerance on the credit amount. • Field 45A: For tolerance on the quantity or description of goods (e.g., "10,000MT plus or minus 10%").
<p>What is the automatic tolerance applied under Sub-article 30(b) of UCP 600?</p>	<p>: A 5% tolerance in the quantity of goods is automatically applied, but only for goods described in bulk terms (e.g., metric tonnes, kilograms). This tolerance does not apply to specific items like "50 boxes" or "500 cars".</p>
<p>Can a documentary credit be cancelled under UCP 600 without the beneficiary's agreement</p>	<p>No, under UCP 600, a documentary credit cannot be cancelled without the agreement of the issuing bank, the confirming bank (if any), and the beneficiary.</p>
<p>How is the cancellation of a documentary credit typically communicated</p>	<p>Cancellation of a documentary credit is typically communicated through an amendment to the original credit, with the written consent of the beneficiary.</p>
<p>What may a bank require when canceling a documentary credit?</p>	<p>A bank may require:</p> <ul style="list-style-type: none"> • Written consent from the beneficiary. • Return of the original advice of the documentary credit and any amendments. • Authentication of the beneficiary's consent by the beneficiary's bankers (optional).
<p>Does UCP 600 provide specific rules for cancelling a standby letter of credit</p>	<p>UCP 600 does not provide specific rules for cancelling a standby letter of credit. However, if the standby letter of credit is issued under ISP98, rules 7.01 and 7.02 apply.</p>

Is the return of the original documentary credit advice mandatory when cancelling a credit under UCP 600?	Yes, banks may require the return of the original documentary credit advice and any amendments as part of the cancellation process.
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