



Centre for SME Studies

**Announces
One day seminar on**

“NEW UCP 600: Changes & Opportunities”



INTRODUCTION

Documentary Letter of Credit is the main method of payment in international trade transaction. This payment method is considered easy, safe and protects the interest of involved parties. Approximately 14% of world trade payments roughly equivalent to US1 Trillion per year is settled by using Letter of Credit.

COMPLIANCE MANAGEMENT

As per survey of various organizations, more than 70% of documents presented under L/C were rejected on first presentation on flimsy discrepancies. While handling letter of credit transaction parties involved has to understand compliance management of commercial & financial documents. Presentation of flawless documents is essential to good export L/C management where banks decide the compliance and payments.

LETTER OF CREDIT & PAYMENT ISSUES

Letter of Credit is considered to be safe instrument for payment settlement in international trade transactions. In certain cases due to efforts of finding motivated discrepancies L/C system fails to produce desired results of protecting interest of involved parties. Documents under L/C are rejected not for late shipment or on the basis of solid reasons but using certain minor defects or misinterpretation of the condition to serve their bad motives. Such approach result in rejecting of the payment or delays causing increase in cost of export transaction. Some of the banks have prescribed charges for discrepancy found in each document to add further cost to L/C transaction. Disputed cases due to misinterpretation, misunderstanding and misapplication of practices are increasing all over the world.

NEED FOR CHANGE OF RULES

To address these issues and other relating concern, a consulting group at ICC was constituted to review latest developments in banks, transport, insurance, international trade environment etc.

The objective of UCP is to create a set rules that would establish uniformity in practices followed by involved parties in the handling L/C. UCP represents the work of a private international organization ICC which insists on self regulations. UCP remains the most successful set of private rules for international trade ever developed.

ROLE OF ICC

A significant function of ICC is the preparation & promotion of its uniform rules of practices so to ensure same interpretation all over the world. ICC rules of practice are designed by banks merchants and not by local and political considerations. The rules accordingly represent the need, customs & practices of international business. Revision incorporates the change in practices and new problems/issues of the commercial parties. Primary objective is to encourage the flow of international trade. The aim was to create a set of contractual rules that would establish uniformity in practice so that there would be less need to misinterpretation.

Since its inception more than 78 years ago in 1929 UCP continue to remain vital component, establishing the conducts under which more than 160 countries follows the rules. Courts worldwide interpret these ICC rules in resolving disputes between parties involved in L/C transaction.

NEED FOR CHANGE

UCP 600 comes at time when use is on the decrease world wide due to high charges of L/C associated with divergent interpretation causing payment risk. Task force looked into critical issues that have arisen through misapplication, misunderstanding and misinterpretation of UCP 500. There is also need to assess application of UCP provisions for the future requirements and constant approach to change the rules is required. There were about over 500 opinion, and ICC decision and cases were taken into consideration while making changes of UCP 500. Issues were identified due to change in banking, transport, insurance and arisen due to lack of clarity, understanding of various rules of UCP 500.

MAIN CHANGES IN UCP 600

Every single article has been redrafted and perhaps that is the most important change from a corporate perspective. Language of article has been made more clear and simple. Changes have made UCP 600 more user friendly set of rules. Failure to comply with UCP 600 rules can put payment at risk. More than 220 rules and sub-rules are covered by UCP 600 articles covering trade and services issues and problems. Change is very user friendly. Main features of UCP 600 which the 7th revision as follows:

- A leaner set of rules with 39 articles rather than 49 articles of UCP 500.
- Five article from UCP 500 were not included in UCP 600
- Article 5 Instruction to issue/amend credits
- Article 6 Revocable credit
- Article 8 Revocation
- Article 12 In complete and unclear instructions
- Article 38 Other documents

Following articles have been changed and appear in new form either as combination, adoptions or rewording based on position papers issued by Banking Commission.

2, 6, 9, 10, 20, 21, 22, 30, 31, 33, 35, 36, 46 & 47.

- Main focus has been to make the language more simple and clear. The responsibilities of the parties to documentary credit transaction have been more transparent. Article covering advising of L/C and amendments has clear responsibility of the bank.
- Every single article has been redrafted and is most important change for corporates.
- New Section of definition containing terms such as honour and negotiations etc.
- New article for interpretation of the terms used in L/C to avoid misunderstanding
- When the issuer decides to refuse to honour the documents, it must give a single notice to that effect to the presenter
- Replacement of the term reasonable time with five working days for examining and determining compliance of documents. New standard for examination of documents
- A new provision concerning address of beneficiary and the applicant has been added.
- An expanded discussion of original documents required

- Redrafted transport articles, amended to resolve confusion over the identification of carrier & agents
- In UCP 600 articles on transport, various changes have been made like definition of transshipment and the reference to charter party bill of lading
- Period of presentation of 21 days is applicable to submission of original documents
- Now the responsibility is on the issuer of L/C to reduce misinterpretation by clear prescribing the terms & conditions in L/C
- Confirming bank has been authorized to discount deferred payment L/C
- Insurance document can be signed by proxies on behalf of issuance company or underwriter and document may contain reference to any exclusion clause.
- For transferable credits the transferring bank may send second beneficiary invoices/draft if first beneficiary fail to perform..
- Miscellaneous provisions in UCP 500 have been replaced.
- eUCP, bank practices are related to UCP 600

ACTION REQUIRED

Failure to comply with UCP 600 can deny payment to exporter and causing number of problems to importer. We are planning to conduct seminar on “Get Ready and Prepare for New UCP 600” changes at main centres shortly during the month of May-June 2007. To book your seat send intimation by email and first few entries will receive free copy of UCP 600 commentary by Prof. Harkirat Singh. Select participants will get a free handholding support for next six months in the area of handling documentary credit transaction.

For any clarification and further information on change of UCP 600, please contact:

Prof. Harkirat Singh
Chief Coordinator
SME Centre
IIFT, New Delhi
Email: harkirat@iift.ac.in