

A GUIDE TO

Documentary
Letters

of Credit

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INTRODUCTION

Letters of Credit have been a cornerstone of international trade dating back to the early 1900s. They continue to play a critical role in world trade today. For any company entering the international market, Letters of Credit are an important payment mechanism to understand.

Our purpose in publishing this guide is to provide a basic understanding of Letters of Credit from both the importer's and exporter's points of view. In addition, we hope that it will serve as a handy reference tool as you use Letters of Credit in your international trade transactions.

Parties Involved in a Letter of Credit

To assist in understanding a Letter of Credit (L/C) transaction, the following is an explanation of the parties commonly involved.

Accepting Bank	The bank named in a term (usance) L/C on which drafts are drawn that has agreed to accept the draft. By accepting the draft, the Drawee Bank signifies its commitment to pay the face amount at maturity to anyone who presents it at maturity. After accepting the draft, the Drawee Bank becomes the Accepting Bank.
Advising Bank	The bank to which the Issuing Bank sends the L/C, with instructions to notify the Exporter (Beneficiary).
"available with" Bank	The bank authorized in the L/C to effect payment under, accept or negotiate the L/C.
Confirming Bank	The bank which, at the request of the Issuing Bank, adds its confirmation to the L/C. In doing so, the Bank undertakes to make payment to the Exporter upon presentation of documents under the L/C.
Drawee Bank	The bank named in the L/C on which the drafts are to be drawn.
Exporter/Beneficiary/ Seller	The party that has contracted to sell goods.
Importer/Applicant/ Buyer	The party that has contracted to buy goods.
Issuing Bank	The bank issuing the L/C on behalf of the Importer (Applicant).
Reimbursing Bank	The bank designated in the L/C to reimburse the "available with" Bank which submits payment claims under the L/C.
Transferring Bank	The bank authorized by the Issuing Bank to transfer at the Beneficiary's request all or part of the L/C to another party.

What is a Letter of Credit?

A Letter of Credit, simply defined, is a written instrument issued by a bank at the request of its customer, the Importer (Applicant), whereby the bank promises to pay the Exporter (Beneficiary) for goods or services provided that the Exporter presents all documents called for, exactly as stipulated in the Letter of Credit, and meets all other terms and conditions set out in the Letter of Credit. A Letter of Credit is also commonly referred to as a Documentary Credit.

There are two types of Letters of Credit: revocable and irrevocable. A revocable Letter of Credit can be revoked without the consent of the Exporter, meaning that it may be cancelled or changed up to the time the documents are presented. A revocable Letter of Credit affords the Exporter little protection therefore is rarely used. An irrevocable Letter of Credit cannot be cancelled or changed without the consent of all parties, including the Exporter. Unless otherwise stipulated, all Letters of Credit are irrevocable.

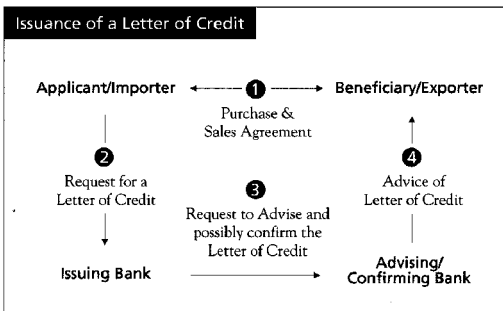
A further differentiation is made between Letters of Credit, depending on the payment terms. If payment is to be made at the time specified documents are presented, this is referred to as a sight Letter of Credit. Alternatively, if payment is to be made at a future fixed time from presentation of documents (e.g. "60 days after sight"), this is referred to as a term, usance or deferred payment Letter of Credit.

The International Chamber of Commerce (ICC) publishes internationally agreed-upon rules, definitions and practices governing Letters of Credit, called "Uniform Customs and Practice for Documentary Credits" (UCP). The UCP facilitates standardization of Letters of Credit among all banks in the world that subscribe to it. These rules are updated from time to time; the last revision became effective January 1, 1994, and is referred to as the UCP 500. Copies of the UCP 500 are available from your TD branch or your nearest TD International Trade Service Office. Please refer to the back cover for a listing of these offices.

The following is a step-by-step description of a typical Letter of Credit transaction:

- 1.** An Importer (Buyer) and Exporter (Seller) agree on a purchase and sale of goods where payment is made by Letter of Credit.
- 2.** The Importer completes an application requesting its bank (Issuing Bank) to issue a Letter of Credit in favour of the Exporter. Note that the Importer must have a line of credit or other credit facility with the Issuing Bank in order to request that a Letter of Credit be issued.

3. The Issuing Bank issues the Letter of Credit and sends it to the Advising Bank by telecommunications or registered mail in accordance with the Importer's instructions. A request may be included for the Advising Bank to add its confirmation. The Advising Bank is typically located in the country where the Exporter carries on business and may be the Exporter's bank but it does not have to be.
4. The Advising Bank will verify the Letter of Credit for authenticity and send a copy to the Exporter.

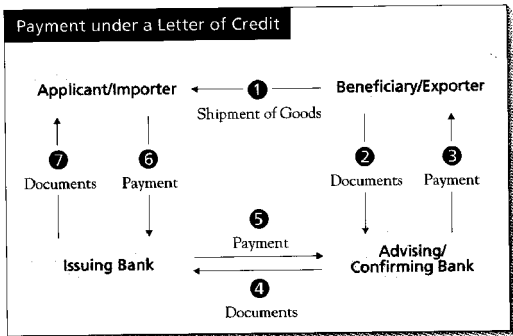


5. The Exporter examines the Letter of Credit to ensure:
 - a) it corresponds to the terms and conditions in the purchase and sale agreement;
 - b) documents stipulated in the Letter of Credit can be produced; and
 - c) the terms and conditions of the Letter of Credit may be fulfilled.
6. If the Exporter is unable to comply with any term or condition of the Letter of Credit or if the Letter of Credit differs from the purchase and sale agreement, the Exporter should immediately notify the Importer and request an amendment to the Letter of Credit.
7. When all parties agree to the amendments, they are incorporated into the terms of the Letter of Credit and sent to the Exporter by the Advising Bank. It is recommended that the Exporter not make any shipments against the Letter of Credit until the amendments have been received.
8. The Exporter arranges for shipment of the goods, prepares and/or obtains the documents specified in the Letter of Credit and makes demand under the Letter of Credit by presenting the documents within the stated period and before the

expiry date to the "available with" Bank. This may be the Advising/Confirming Bank. That bank checks the documents against the Letter of Credit and forwards them to the Issuing Bank. The drawing is negotiated, paid or accepted as the case may be.

9. The Issuing Bank examines the documents to ensure they comply with the Letter of Credit terms and conditions. The Issuing Bank obtains payment from the Importer for payment already made to the "available with"/ Confirming Bank.
10. Documents are delivered to the Importer to allow it to take possession of the goods from the transport company. The trade cycle is complete as the Importer has received its goods and the Exporter has obtained payment.

Note: In the diagram below, the Advising Bank is also acting as the Confirming Bank.



A key principle underlying Letters of Credit is that *banks deal only in documents and not in goods*. The decision to pay under a Letter of Credit will be based entirely on whether the documents presented to the bank appear on their face to be in accordance with the terms and conditions of the Letter of Credit. It would be prohibitive for the banks to physically check all merchandise shipped under Letters of Credit to ensure merchandise has been shipped exactly as per each Letter of Credit. Accordingly, the integrity of both the Exporter and Importer are very important in a Letter of Credit transaction. The appropriate due diligence should be exercised by both parties.

Advantages & Disadvantages of Using a Letter of Credit

Advantages to the Importer

- Importer is assured that, for the Exporter to be paid, all terms and conditions of the Letter of Credit must be met.
- Ability to negotiate more favorable trade terms with the Exporter when payment by Letter of Credit is offered.

Disadvantages to the Importer

- A Letter of Credit does not offer protection to the Importer against the Exporter shipping inferior quality goods. Consequently, it is important that the Importer performs the appropriate due diligence to assess the reputation of the Exporter. If the Exporter acts fraudulently and does not ship the goods agreed upon, the only recourse available to the Importer is through legal proceedings.

Note: Added protection to the Importer may be provided by requesting additional documentation in the Letter of Credit, e.g. a Certificate of Inspection. Refer to Documents Section, page 14.

- It is necessary for the Importer to establish a line of credit or other credit facility with a bank before the latter is able to issue a Letter of Credit. The amount outstanding under each Letter of Credit issued is applied against this line of credit from date of issuance until final payment.

Advantages to the Exporter

- The risk of payment relies upon the creditworthiness of the Issuing Bank and not the creditworthiness of the Importer.
- An undertaking from the Issuing Bank that payment will be made under the Letter of Credit, provided that the Exporter meets all terms and conditions of the Letter of Credit.
- Exporter agrees in advance to all requirements for payment under the Letter of Credit. If the Letter of Credit is not issued as agreed, the Exporter is not obligated to ship against it.

Disadvantages to the Exporter

- Documents must be prepared and presented in strict compliance with the requirements stipulated in the Letter of Credit.

Letters of Credit – Importer's Perspective



Instructions for Completing an Import Letter of Credit Application Form

Once your bank (Issuing Bank) has established a line of credit for you to issue a Letter of Credit, you must complete an application form and deliver it to the bank either manually or using TD's automated Facilitrade® system. For information regarding this automated system, please refer to page 17.

On the opposite page is a copy of TD's application form. Detailed instructions follow for the completion of the form. Instructions for using TD's automated system Facilitrade, are found in the Facilitrade manual. You may obtain a copy of this manual from TD's nearest International Trade Service office.

A Branch. Complete address of branch of account for your line of credit.

B Enter date of the application.

C Expiry date. Enter the expiry date of the Letter of Credit (L/C).

Note: In determining the expiry date of an L/C, you must allow enough time for the Exporter (Beneficiary) to effect the shipment and present the documents required in the L/C. The general rule is to take the Latest Shipping Date (K) and add the number of days the Exporter is allowed to present the documents (Q). Example: If the Latest Shipping Date is November 1 and 10 days are allowed to present documents, then the Expiry Date of the L/C would be November 11.

D Applicant. Enter your name and address exactly as it appears on your line of credit.

E Beneficiary. The name and address of the Exporter.

F This is the method by which we will send the L/C to the Advising Bank. It may be sent at your option by mail or **teletransmission** depending on the urgency of the situation. For a small cost, teletransmission enables your L/C to be received faster by the Beneficiary. This is the method most commonly used.

G Currency & Amount. Enter the currency and maximum amount that can be drawn under the L/C.

Note: Writing the words "about", "approximately" or "circa" before the amount indicates that the amount may vary up to +/- 10%. Variance is not restricted only to the percentages indicated above; you may choose any other variances, e.g. +/- 15%. Further information regarding variances is detailed under Goods (M).

H Partial Shipments. Check the appropriate box to indicate if you will allow partial shipments to take place under the L/C.

Transshipment. Indicate whether transshipment is allowed or not. Your choice depends on the method of shipment/transport document used. Generally, transshipment means that, during the course of voyage, merchandise is unloaded and reloaded from one vessel to another vessel or from one mode of transportation to another. Transshipment must be allowed for multimodal and air transport documents.

APPLICATION FOR IRREVOCABLE DOCUMENTARY CREDIT

SEE REVERSE

To: **THE TORONTO-DOMINION BANK**

A

BRANCH AND TRANSIT

Date of expiration: B	Expiry date: C	31D
Applicant (name) (address) D (*swift line number indicator) * 80	Beneficiary (name) (address) E	59
<input type="checkbox"/> Issue by telettransmission (UCP 500 article 11) <input type="checkbox"/> Issue by air mail <input type="checkbox"/> with brief advice by telettransmission F	Currency and amount G	32B
Partial Shipments <input type="checkbox"/> Allowed <input type="checkbox"/> Not Allowed Transhipment <input type="checkbox"/> Allowed <input type="checkbox"/> Not Allowed (please refer to UCP 500 for exceptions to this condition) H	Available against documents detailed herein: <input type="checkbox"/> and beneficiary's draft(s): <input type="checkbox"/> at sight J <input type="checkbox"/> days after sight † <input type="checkbox"/> days after date of † († tenor of drafts has no bearing on expiry date of credit)	43 47 42
<input type="checkbox"/> Transferable credit (UCP 500 article 48) I	Shipment: (UCP 500 article 46) From: For transportation to: K Not earlier than: (optional) Not later than: (optional)	44 71D
Goods (brief description without excessive details - see UCP 500 article 6): M	Terms N <input type="checkbox"/> FOB <input type="checkbox"/> FCA <input type="checkbox"/> CIF <input type="checkbox"/> CFR <input type="checkbox"/> Other terms: (see reverse)	45A 46
<input type="checkbox"/> Commercial Invoice <input type="checkbox"/> signed original(s) in <input type="checkbox"/> Copies in Transport Documents: (UCP 500 articles 22 - 33) O <input type="checkbox"/> Full set of clean <input type="checkbox"/> Multimodal Transport Document <input type="checkbox"/> On Board (covering at least two different modes of transport) <input type="checkbox"/> On board Marine/Ocean Bill of Lading (covering port-to-port shipment) Issued by: (optional) To order blank endorsed marked "freight <input type="checkbox"/> collect <input type="checkbox"/> prepaid" Notify: <input type="checkbox"/> Air Transport Document Issued by: (optional) Consigned to <input type="checkbox"/> applicant <input type="checkbox"/> The Toronto-Dominion Bank and notify Marked "freight <input type="checkbox"/> collect <input type="checkbox"/> prepaid" <input type="checkbox"/> Trucking/Rail Bill of Lading consigned to <input type="checkbox"/> applicant <input type="checkbox"/> other (please specify) Marked "freight <input type="checkbox"/> collect <input type="checkbox"/> prepaid" <input type="checkbox"/> Other Transport document: (please specify) Insurance Documents: (UCP articles 34-38) <input type="checkbox"/> Policy/Certificate for % of invoice value covering marine risks "all risks" and the risks of transhipment (if allowed above) and the risks of Other documents: <input type="checkbox"/> Generalized System of Preference Certificate of Origin Form "A" <input type="checkbox"/> Packing List <input type="checkbox"/> Canada Customs Invoice In <input type="checkbox"/> Inspection Certificate issued by <input type="checkbox"/> Other (please specify)		
Special conditions: <input type="checkbox"/> Transport Documents issued by Freight Forwarders acceptable P <input type="checkbox"/> Please advise beneficiary by phone: Fax:		
Documents to be presented within _____ days after issuance date of the Transport Documents(s) but within the validity of the Credit Q		
All banking charges outside Canada for: <input type="checkbox"/> Beneficiary's account <input type="checkbox"/> Applicant's account R		

FOR BANK USE **S**

Continuing Indemnity for Documentary Credit Agreement is on file Application approved under corporate/division/management authority.

Date: _____ (mm/dd/yyyy)

Branch signature: No. _____

Branch signature: No. _____

In case of need call: _____

Branch phone: () _____

INSTRUCTIONS TO REQUISITIONING BRANCH:
 Whenever it is intended to apply drawing(s), hereunder against a FORWARD CONTRACT, the issuing Office is to be advised of forward contract number, amount and expiry.

This application and the credit are made subject to the Continuing Indemnity for Documentary Credit Agreement heretofore executed by us and delivered to you, and the Uniform Custom and Practice for Documentary Credits (1993 revision, publication no. 500 of the International Chamber of Commerce, Paris France) as amended from time to time. **T**

We authorize you to debit our account no. _____

Name of company: _____

Name and authorized signature(s) of applicant: _____

Please provide the following information for our record purposes:
 Type of company Gov't (Federal/Provincial) Yes No

Retail Wholesale
 Public Private

Examples of Transshipment: **1.** A shipment is destined for the Philippines but there is no carrier available to go directly to the Philippines. It must first stop in Japan and be transferred to another carrier destined for the Philippines. **2.** A shipment is destined from the port of Hong Kong to Calgary, Alberta. First it travels by ocean carrier from Hong Kong to Vancouver, B.C. and then must be transferred onto a truck destined for Calgary.

I Transferable Credit. Indicate if the L/C may be transferred to another party. For information regarding Transferable L/Cs, please refer to page 31.

J Available against Documents detailed herein:

And Beneficiary's Draft. The document that represents the demand for payment that the Exporter (Beneficiary) makes on the bank. Generally, a Beneficiary's draft is always required as evidence that a drawing has been made by the Beneficiary on the L/C.

The use of drafts is not common in all countries; sometimes a draft is avoided in view of the excise stamp duty that it attracts. While this does not change anything in the case of sight payments under Letters of Credit, the situation is slightly different when a term payment is used. In this case, settlement is defined as a "Deferred Payment".

At Sight. Payment is made upon presentation of stipulated documents. This payment term is very commonly used.

___ Days After Sight or ___ Days after Date of ___: The Exporter may agree to provide extended payment terms such as "payable 60 days after sight" or "30 days after Date of Bill of Lading". This is referred to as a term payment. In this case, payment will be made on the maturity date of the accepted draft.

K Shipment From. Name of the place/port from which the goods will be shipped.

For Transportation to. Name of the place/port to which the goods will be shipped.

Not Earlier Than. If specified, goods cannot be shipped earlier than this date.

Not Later Than. The latest mutually acceptable date for the shipment to be made. Commonly known as the "Latest Shipping Date".

L Insurance. Indicate whether you, the Applicant, or the Shipper (Exporter) is responsible for insuring the goods. Keep in mind, this must coincide with the trade term **(N)**.

M Goods. Enter a *brief* description of the merchandise. The common practice is to use a Purchase Order or Proforma Invoice number. *Example: Men's shoes as per Purchase Order #23456.* Including excessive detail does not give you more protection against inferior or defective goods shipped since, as mentioned earlier, banks deal in documents and not in goods.

Variances. A variance of 5% more or 5% less will be allowed as long as:

- (a) the merchandise description is not stated in number of packing units or individual items;
- (b) the amount of the L/C is not exceeded; and
- (c) the L/C stipulates that the quantity of goods specified must not be exceeded or reduced.

Variance is not restricted to 5%; you may specify another variance, e.g. +/-15%.

Reverse of Application Form

A WORD OF ADVICE AND CAUTION

Please consider the following points and observations before completing and signing the form on the reverse:

- the reputation and credit standing of the beneficiary (seller)
- an order should have been placed with the seller or a contract signed prior to the opening of the Credit
- trade terms must have been agreed upon with the seller

MOST COMMON TRADE TERMS:

EX WORKS:

Exworks (...named place)
Seller makes the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer.

FCA:

Free Carrier (...named place)
Seller hands over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point.

FAS:

Free Alongside Ship (...named port of shipment)
Seller delivers the goods alongside the vessel on the quay or in lighters at the named port of shipment.

FOB:

Free On Board (...port of shipment)
Seller delivers the goods on board the vessel or at the airport at the named port/airport of shipment.

CFR:

Cost and Freight (...named port of destination)
Seller pays costs and freight and to deliver the goods to the named port of destination. This term can be only used for sea and inland waterway transport.

CIF:

Cost, Insurance and Freight (...named port of destination)
Seller pays costs, insurance and freight to deliver the goods to the named port of destination.

CPT:

Carriage Paid to (...named place of destination)
Seller pays freight and insurance for carriage of the goods to the named destination.

CIP:

Carriage and Insurance Paid to (...named place of destination)
Seller pays freight and insurance for carriage of the goods to the named destination.

DAF:

Delivered at Frontier (...named place)
Seller delivers the goods at the named point and place at the frontier.

DES:

Delivered Ex Ship (...named port of destination)
Seller makes the goods available to the buyer on board the ship uncleared for import at the named port of destination.

DEQ:

Delivered Ex Quay - Duty Paid (...named port of destination)
Seller makes the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation.

DDU:

Delivered Duty Unpaid (...named place of destination)
Seller makes the goods available to the buyer at the named place in the country of importation.

DDP:

Delivered Duty Paid (...named place of destination)
Seller makes the goods available to the buyer at the named place in the country of importation. The seller bears the risks and costs, including duties, taxes and other charges of delivering the goods.

N Trade Terms. These are commonly referred to as Incoterms. They determine the obligations of the Exporter and Importer with respect to freight costs, insurance, taxes, duties, etc. These terms are issued by the International Chamber of Commerce. A list of the more commonly used Incoterms can be found on the reverse of the application form illustrated on page 11. You may wish to refer to the International Chamber of Commerce's publication "Guide to Incoterms" for more information.

Example: If the trade term is F.O.B. (Free on Board) Kaoshiung, Taiwan, it will be marked "Freight Collect" on the transport document, since the Importer (Applicant) is responsible for paying all freight charges and insurance from Kaoshiung, Taiwan to the point of destination.

O Documents Required. The following is a list of documents commonly requested in an L/C. The documents you choose will be determined in the contract between you and the Exporter.

Commercial Invoice. The commercial invoice is normally required. Indicate whether you require original signed copies of the invoice or simply copies of the original. You must also stipulate the number of copies that are required.

Transport Documents

The following are simple guidelines to assist you in making your selection. It is advisable that you refer to the UCP 500, Articles 23-33 for more detailed information.

In general, a transport document provides evidence the carrier has received the goods it is responsible to ship. Some transport documents, such as a Marine/Ocean Bill of Lading, also carry title to the goods. A transport document is negotiable if it transfers title to the goods.

Full set of: If the method of transportation includes an ocean vessel, indicate which of the following 2 documents are required:

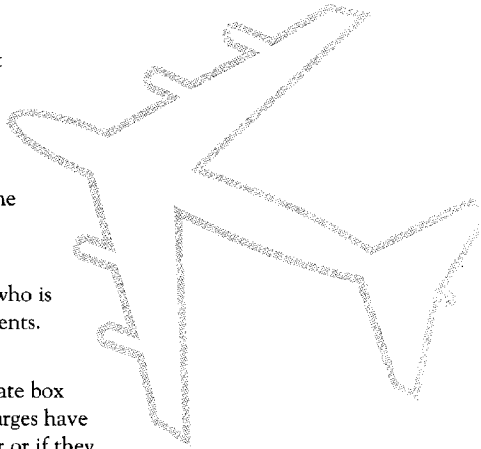
- 1. Multimodal Transport Document.** For shipments using more than one mode of transportation, e.g. ocean vessel and truck.
- 2. On Board Marine/Ocean Bill of Lading.** Used for ocean shipments from one ocean port to another. For a city to be considered a port, it must be accessible by ocean vessel year round.

Issued by: You may specify who is to issue the transport documents.

Marked Freight Prepaid or Collect. Check the appropriate box as to whether the freight charges will be prepaid by the Exporter or if they are the responsibility of the Importer and are therefore collect. This should be consistent with the trade term used in Section (N).

Notify: Name the party to be notified once the goods arrive at the destination point.

Air Transport Document. Transport document used when the shipment is by air. This is a non-negotiable document; therefore, it does not carry title to the goods. You must indicate to whom the goods are being consigned, e.g. yourself (Applicant) or TD.



Issued by: You may specify who is to issue the transport documents.

Marked Freight Prepaid or Collect. Check the appropriate box as to whether the freight charges have been prepaid by the Exporter or if they are your responsibility and are therefore collect. This should be consistent with the trade term used in Section (N).

Notify: Name the party to be notified once the goods arrive at the destination point.

Trucking/Rail Bill of Lading consigned to _____. Transport document for shipment by truck or rail. These bills of lading are not negotiable and are usually consigned to you, the Applicant, but may be consigned to another named party.

Marked "Freight Collect or Prepaid". Check the appropriate box as to whether the freight charges have been prepaid by the Exporter or if they are your responsibility and are therefore collect. This should be consistent with the trade term used in Section (N).

Insurance Documents

Policy/Certificate. This document must be requested if the Exporter is responsible for arranging for the insurance on the shipment. It is recommended that the minimum amount of insurance be for 110% of the invoice value. You must also state what risks the insurance policy is covering. A standard insurance policy will cover all risks. The term "all risks", however, does not mean that all risks are covered. Certain risks such as war, strikes and riots are not included and must be specifically requested. Refer to the UCP 500, Articles 34-36 for detailed information regarding insurance. It is also recommended that you seek professional advice from your insurance broker or agent.

Other Documents

You may request documents other than those listed above. For all documents in this category, you must stipulate which party will issue the document as well as the wording of the document, otherwise it will be accepted as it is presented. The following is a list of commonly used documents that fall into this category.

Generalized System of Preference Certificate of Origin Form "A". This

document certifies the country of origin of the goods being shipped and may provide the Importer with a preferential duty rate. Indicate how many copies are required. You should contact Canada Customs or your Customs broker for information regarding whether this document is required.

Packing List. A list of the packing of goods being sent, which can assist you in the inventory and distribution of the merchandise.

Canada Customs Invoice. Imports into Canada require that a Canada Customs invoice be presented. This invoice can be prepared by you; however, it may be called for in the L/C. If this document is being requested, you must indicate how many copies you require.

Inspection Certificate issued by _____. An Inspection Certificate may be requested from a third party or an agent of the Importer located in the country of dispatch, to ensure a certain quality of goods. In this case, you must stipulate the issuer of such a Certificate and if necessary, the content or wording of the Certificate or banks will accept such a document as presented. It is recommended that an Inspection Certificate be requested wherever possible.

Weight List. A certificate stating the weight of the goods.

P Special Conditions

Transport Documents issued by Freight Forwarders acceptable. Exporters sometimes use the services of a freight forwarder to transport the goods and therefore, prepare the documents related to the shipment. Indicate here whether documents prepared by a freight forwarder are acceptable to you.

Please Advise Beneficiary by Phone or Fax. If it is urgent that the Beneficiary be notified immediately of this L/C, please include instructions as to who the Advising Bank must call or fax upon receipt of the L/C.

Q Documents to be presented within Number of days after shipment in which the Exporter is allowed to present documents to the "available with" Bank. The shortest presentation time possible is recommended to ensure your receipt of the documents prior to the arrival of goods at their destination.

R Banking Charges. Indicate who will pay the Exporter's banking charges, along with the charges of any other bank outside of Canada that is used in the transaction, such as the Reimbursing Bank, etc. It is not uncommon for all banking charges outside Canada to be for the Beneficiary's account. Note that the Issuing Bank charges are always the responsibility of you, the Applicant.

S Your branch must insert the date that you signed the Continuing Documentary Credit Agreement. Two authorized bank officers must sign and indicate their signature numbers.

T Your name must be typed/printed in full and the appropriate company signing officers must sign the form.

Once the branch has received the application form, it will be forwarded to TD's nearest International Trade Service office. You can feel secure knowing that the submitted application form will be closely reviewed and any clarifications will be discussed with you.

Amendments to a Letter of Credit

The situation often arises when the terms and conditions of the sale between the Exporter and Importer have changed after the Letter of Credit has already been issued. An example may be that the latest shipping date has been postponed. Any changes that need to be made to a Letter of Credit are called amendments.

To request an amendment, the Importer must obtain the appropriate form from its branch. It is on this form that any changes required to the Letter of Credit are listed. More than one change can be accommodated in one amendment. Once completed, the form must be forwarded to the same branch from which the Importer requested the original Letter of Credit. Amendment forms require the signature of 2 authorized signing officers of the bank prior to being sent to the International Trade Service office. Please note that this process can also be done electronically through Facilitrade®. Once processed, the International Trade Service office will send the amendment to the Advising Bank for delivery to the Exporter.

Any amendments to the Letter of Credit must be accepted by the Exporter. If there is more than one aspect to an amendment, e.g. the amount and shipping date are changed, they must be accepted as a whole as opposed to accepting or rejecting of individual items within the amendment.

Questions Commonly Asked by Importers

- Q** *When the Letter of Credit expiry date is set, should enough time be allowed for the goods to reach me or for payment to be made when extended payment terms have been negotiated (e.g. 60 days after sight)?*
- A** No. The expiry date should simply allow the Exporter sufficient time, after the latest shipping date, to present documents to the “available with” Bank. In a Letter of Credit, the Importer is not allowed the opportunity to inspect the goods prior to paying for them. Keep in mind that banks deal only in documents and not in goods.
- Q** *Is there any way that I can protect myself by using a Letter of Credit to ensure I do not get inferior quality goods?*
- A** Yes. This can be done by requesting appropriate third party documents to be submitted under the Letter of Credit that would evidence shipment of the proper goods, e.g. Inspection Certificate, Health Certificate, Agent's Certificate, etc.
- Q** *How quickly will the Exporter receive my Letter of Credit?*
- A** Once the Letter of Credit application form is received by TD's International Trade Service office, the Letter of Credit will be issued within 24 hours. If it is sent by teletransmission as requested in the application form, the Advising Bank will receive the advice the same business day. The Advising Bank then controls how quickly the Letter of Credit is sent to the Exporter. We recommend that if it is urgent that the Exporter (Beneficiary) receive advice of the Letter of Credit you include instructions in the application form for the Advising Bank to notify the Beneficiary by phone or fax and that you also include the relevant numbers to be used.
- Q** *What is the cost to issue a Letter of Credit?*
- A** The fees vary based on the dollar amount of your Letter of Credit and the length of time it is outstanding. You should contact your TD branch for a Schedule of Fees and Charges.
- Q** *Under a Letter of Credit, what recourse is available to me if the goods arrive and they are not the quantity or quality agreed upon?*
- A** Since banks deal only in documents and not in goods, all disputes of whatever nature may either be referred to International Chamber of Commerce Arbitration or handled through courts of law.
- Q** *What happens if my ocean shipment arrives before my transport documents?*
- A** You have two options. You can either wait for the transport documents and pay for storage of the goods or you can request TD to issue on your behalf a Bond of Indemnity under your line of credit in favour of the shipping line. The Bond of Indemnity allows you to obtain the goods without producing the transport documents. When the transport documents do arrive you must forward them to the shipping line in order to have your Bond of Indemnity returned to you and you, in turn, must deliver it back to the branch.

Facilitrade® for Importers – Electronic Processing

For those Importers issuing Letters of Credit on a regular basis, TD has developed a PC-based program to allow electronic processing and efficient management of Letters of Credit. Facilitrade for Importers allows you to:

- electronically transmit the Letter of Credit and amendment application forms to TD from your office, using databases and templates customized to your specific needs
- receive a Letter of Credit number within minutes of transmitting the Letter of Credit to TD (subject to credit authorization)
- electronically retrieve old Letters of Credit which may be replicated and re-issued without having to retype the entire Letter of Credit
- obtain weekly reports of your outstanding Letters of Credit by currency and activities
- obtain monthly reports detailing all of your Letters of Credit fees, and all Letters of Credit

The Facilitrade software does all of the above without any additional costs to the Importer. Our software, installation and training are all provided free of charge.

As an Importer, you can feel confident knowing that you are efficiently managing your Letter of Credit business.

For a demonstration of our software or more information, please contact your local TD branch or your nearest TD International Trade Service office.



Letters of Credit – Exporter's Perspective



Step-by-Step Process for the Exporter

The following is a detailed explanation of the process you, as an Exporter, follow when named as a Beneficiary under a Letter of Credit. In this explanation, TD is acting as the Advising Bank and Confirming Bank.

1. There are several different ways to notify you that a Letter of Credit has been issued in your favour. TD's Export Letter of Credit Department will call you directly and obtain instructions as to how you would like to receive the Letter of Credit. The choices include:
 - Faxing a copy of the Letter of Credit.
 - Sending the original Letter of Credit by courier or mail.
 - Electronically downloading the content of the Letter of Credit via our Facilitrade® software to your PC, allowing you to print your own copy of the Letter of Credit. Our Facilitrade software even allows you to electronically forward the contents of the Letter of Credit to your Freight Forwarder. See Page 30 for more information on this software.

Please note that an Exporter does not have to be a TD customer to be advised of an Letter of Credit through the TD.

2. Upon receipt of the Letter of Credit, you should read it carefully paying close attention to all terms and conditions to ensure they can be met. Accompanying the Letter of Credit is a covering letter which includes the address of TD's International Trade Service office and the appropriate phone numbers to call with any questions regarding the Letter of Credit. See page 20 for an illustration of a Letter of Credit in SWIFT format.
3. If any of the terms and conditions in the Letter of Credit differ from the sales contract between you and the Importer, you should request the Importer for an amendment to the Letter of Credit. It is recommended that shipments not be made against the Letter of Credit until all amendments have been received. Please refer to page 15 for further information regarding amendments.
4. Once the terms and conditions of the Letter of Credit meet your satisfaction and shipment is made, all documents requested in the Letter of Credit must be prepared or obtained. You forward these documents, along with the draft (if required) and a copy of the original Letter of Credit, to TD's International Trade Service office listed in the covering letter.

5. TD checks these documents to ensure they meet the terms and conditions outlined in the Letter of Credit. If the documents contain discrepancies, TD will discuss how they may be corrected as well as what other options are available. Discrepancies are discussed on Page 26.
6. When the documents are in order, payment under the Letter of Credit is made to any bank account designated by you or, in the case of a term Letter of Credit, payment will be made on the maturity date of the accepted draft.

Unconfirmed vs. Confirmed Letter of Credit

From the Exporter's perspective, the issue of whether the Letter of Credit is confirmed or not is an extremely important one.

When a Letter of Credit is issued, the risk of payment rests with the bank that has issued the Letter of Credit. This is an **Unconfirmed** Letter of Credit.

It may be the case, however, that the Issuing Bank is not considered an acceptable risk and/or the country where it is located has high political or economic uncertainty. In this situation, the Exporter should consider requesting a **Confirmed** Letter of Credit. With a Confirmed Letter of Credit, another bank, the "Confirming Bank", usually located in the same country that the Exporter is located, will add its "confirmation" to the Letter of Credit. By adding its confirmation, the Confirming Bank undertakes to honour the Exporter's claim under the Letter of Credit, assuming all terms and conditions of the Letter of Credit are met. The risk of payment is now assumed by the Confirming Bank, as well as the Issuing Bank, thereby providing more protection for the Exporter.

How to get a Letter of Credit Confirmed

An Exporter who decides to have a Letter of Credit confirmed should inform the Importer to instruct the Issuing Bank to issue a "Confirmed Irrevocable Letter of Credit". For a bank to add its confirmation, the Letter of Credit must state that a confirmation be added. The Confirming Bank will charge a fee for undertaking such risk. Which party bears the cost of the confirmation is subject to negotiation between the Exporter and Importer.

It is recommended that the Exporter check with its own bank prior to the issuance of the Letter of Credit, as to whether it is prepared to add its confirmation, should it be requested to do so. To make this decision, the bank will need preliminary information about the Letter of Credit such as the name of the Issuing Bank, country of issuance, expiry date and amount.

If the Advising Bank has agreed to confirm a Letter of Credit it also becomes the Confirming Bank. In the case of a Confirmed Letter of Credit, the covering letter attached to the Letter of Credit will include a clause similar to the following:

"THIS CREDIT CARRIES OUR CONFIRMATION AND WE HEREBY ENGAGE, WITH THE DRAWERS, ENDORSERS AND HOLDERS IN DUE COURSE OF DRAFTS DRAWN UNDER THIS CREDIT, THAT SUCH DRAFTS WILL BE DULY HONoured ON PRESENTATION AT OUR COUNTER, PROVIDED THAT ALL TERMS AND CONDITIONS OF THE CREDIT HAVE BEEN COMPLIED WITH."

Copy of a Letter of Credit in SWIFT¹ Format

RECEIVED FROM: BTTT76XXX UNIVERSAL BANK, TAIWAN
TO: TDOMCATTOR TORONTO DOMINION BANK, TORONTO, CANADA

ISSUE OF A DOCUMENTARY CREDIT

40A: FORM OF DOCUMENTARY CREDIT : IRREVOCABLE
 20: DOCUMENTARY CREDIT NUMBER : 001/5945
 31C: DATE OF ISSUE : 97/01/15
 31D: DATE AND PLACE OF EXPIRY : 97/02/20
 CANADA
 50: APPLICANT : A-TO-Z IMPORT LIMITED
 77, EWE STREET
 TAIPEI, TAIWAN
 59: BENEFICIARY : EXPORT TRADING INC.
 21 MAIN ST
 TORONTO, CANADA
 32B: CURRENCY CODE, AMOUNT : USD 50000.00
 41D: AVAILABLE WITH...BY.... : YOURSELVES
 PAYMENT
 42C: DRAFTS AT ... : SIGHT
 42D: DRAWEE : YOURSELVES
 43P: PARTIAL SHIPMENTS : NOT ALLOWED
 43T: TRANSSHIPMENT : NOT ALLOWED
 44A: LOADING ON BOARD/DISPATCH... : VANCOUVER, CANADA
 44B: FOR TRANSPORTATION TO ... : TAIPEI, TAIWAN
 44C: LATEST DATE OF SHIPMENT : 97/02/10
 45A: DESCRIPTION OF GOODS AND/OR SERVICES : 2 MOLDING MACHINES AS PER P.O.
 NUMBER 26578 CIF TAIWAN
 46A: DOCUMENTS REQUIRED
 1/FULL SET OF CLEAN ON BOARD MARINE BILLS OF LADING MADE OUT TO THE
 ORDER OF UNIVERSAL BANK, TAIWAN MARKED FREIGHT PREPAID AND NOTIFY
 APPLICANT
 2/COMMERCIAL INVOICE IN ORIGINAL AND TWO COPIES
 3/INSURANCE CERTIFICATE IN DUPLICATE FOR 110% OF INVOICE VALUE COVERING
 ALL RISKS
 4/PACKING LIST
 71B: CHARGES : BANKING CHARGES OUTSIDE OF
 TAIWAN ARE FOR BENEFICIARY'S
 ACCOUNT
 48: PERIOD FOR PRESENTATION : DOCUMENTS MUST BE PRESENTED
 NO LATER THAN 10 DAYS AFTER
 DATE OF SHIPPING DOCUMENTS
 FOR NEGOTIATION BUT WITHIN
 THE CREDIT VALIDITY
 49: CONFIRMATION INSTRUCTIONS : WITH
 53A: REIMBURSEMENT BANK : TDOMCATTOR
 72: SENDER TO RECEIVER INFORMATION : THIS IS THE OPERATIVE
 INSTRUMENT

END OF MESSAGE

¹ SWIFT (Society for Worldwide Interbank Financial Telecommunications): an international electronic interbank message system

What an Exporter Should Look for when Reviewing a Letter of Credit

(Refer to sample of an Export Letter of Credit on the opposite page)

- 1.** Which bank issued the Letter of Credit (L/C)? (*L/C Header under "Received From:"*) Is this bank a reputable one that can be relied on for payment? (Contact TD's local International Trade Service office if unsure.) If not, does the L/C allow for confirmation by another bank? (*Field 49*)
- 2.** Is the L/C irrevocable? (*Field 40A*) If it is not stated, the L/C is irrevocable.
- 3.** Are the Importer's (Applicant's) name and address spelled correctly? (*Field 50*)
- 4.** Are your name and address spelled correctly? (*Field 59*)
- 5.** Are the dollar amount and currency of the L/C correct? (*Field 32B*)
- 6.** Does the payment term agree with the sales contract? (*Field 42C*)
- 7.** If necessary, are partial shipments allowed? (*Field 43P*)
- 8.** Are the points of shipment (*Field 44A*) and destination (*Field 44B*) as agreed?
- 9.** Is it possible for you to meet the latest shipping date? (*Field 44C*) Are enough days allowed to present documents? (*Field 48*) You may need to check with the freight forwarder handling the shipment and preparing the documents for you.
- 10.** Is the merchandise description correct and if needed, does it include unit price, weight and quantities? (*Field 45A*) If necessary, does the L/C allow for any leeway on the quantity and/or dollar amount?
- 11.** Are the terms of the sale regarding insurance and freight charges as agreed? (*Field 45A*)
- 12.** Can all documents listed in the L/C be obtained? (*Field 46A*)
- 13.** Which party is responsible for the L/C banking charges? (*Field 71B*)
- 14.** Where is the L/C payable? (*Field 41D*) Note, this will affect the length of time required to receive your funds.

After reviewing the Letter of Credit, if you find any terms and conditions are not to your satisfaction, you must ask the Importer (Applicant) to instruct the Issuing Bank to make the necessary amendments to the Letter of Credit. It is recommended that you do not proceed with shipment until such amendments are received.

The Toronto-Dominion Bank

Instructions for the Issuance of a Letter of Credit
To be completed by the Beneficiary/Exporter

To: (Applicant/Importer, Name and Address) _____ _____ _____	From: (Beneficiary/Exporter, Name and Address) _____ _____ _____
---	---

Please issue your Irrevocable Letter of Credit as per the following:

Shipping Details

- The Letter of Credit shall be Advised By: **The Toronto-Dominion Bank**
 International Department,
 5th Floor, TD Tower
 55 King St. West, Toronto, ON
 M4K 1A2
 SWIFT: TD OMCATT
 TELEX: 055 24267

- The Letter of Credit should be negotiable and payable at the counters of The Toronto-Dominion Bank.
- The Letter of Credit shall be: confirmed
- The Letter of Credit shall be for: exactly up to _____
 (Currency & Amount)
- The Letter of Credit shall be: At Sight At _____ Days Sight At _____ Days from Bill of Lading Date.

- Partial drawings/shipments will be Permitted Prohibited
- Transhipments to be: Permitted Prohibited
- The Letter of Credit Shall state:
 All banking charges are for the account of the applicant.
 All banking charges outside applicant's country are for the account of the beneficiary.
- The Letter of Credit shall allow latest shipping date of _____
 dd / mo / yr
- The Letter of Credit shall allow documents to be presented at the counters of The Toronto-Dominion Bank within _____ days of latest shipping date.
- The Expiry Date Shall be: _____
 dd / mo / yr

Required Documents

- Commercial Invoice in: Duplicate Triplicate Quadruplicate Other: _____
 Terms: F.O.B. _____ C&F _____ CIF _____ Other: _____
 (departure) (destination) (destination)
- Covering: Merchandise as per Pro Forma Numbers: _____ dated _____ or
 as follows _____
- Transport Documents:
 On Board Ocean Bill of Lading
 Marked: Freight Collect or Freight Prepaid
 Consigned: to _____
 to the order of _____
- or-
 Multimodal Transport Document
 Marked: Freight Collect or Freight Prepaid
 Consigned: to _____
 to the order of _____
- or-
 Air waybill
 Marked: Freight Collect or Freight Prepaid
 The credit shall allow for forwarders air waybills
 Consigned: to _____
- or-
 Copy of Truck or Rail Bill of Lading Marked Freight Collect or Freight Prepaid
 consigned to: _____
- The transport document indicates shipment from: _____ and shipment to: _____
- Other Documents:
 Packing List
 Certificate of Origin Form A. Showing origin of goods as _____
 Insurance: Certificate or policy for _____ % of invoice value covering _____
 Drafts drawn on The Toronto Dominion Bank (if confirmed by The TD Bank) or an issuing bank otherwise
 Other: _____
- Special Instructions

Please forward this document to the Applicant for the prompt issuance of the Letter of Credit.

How to Convey Letter of Credit Requirements to the Importer

As an Exporter, you can be proactive and tell your customer (the Importer) exactly what terms and conditions you are agreeable to in a Letter of Credit. While this will not guarantee the Letter of Credit will arrive exactly as you specified, it can help avoid misunderstandings between you and the Importer. A sample of a Letter of Credit requisition form is illustrated on the opposite page. To obtain a copy, please contact the local TD International Trade Service office.

You may also request that the Letter of Credit be advised through the TD Bank regardless of whether or not TD is your banker. Simply provide the Importer with the address and SWIFT code of TD's nearest International Trade Service office. Please see back cover for a listing of these offices.

Document Preparation Checklist


The following checklist is intended to provide the Exporter with simple guidelines for document preparation. Note that in addition to checking the documents for inconsistencies with the Letter of Credit, the "available with" Bank checks for inconsistencies between documents.

It is recommended that Exporters unfamiliar with such documents, use or consult with a reputable **freight forwarder**. Since payment to the Exporter depends on the documents being in exact accordance with the Letter of Credit, the preparation of these documents is an extremely important part of the Letter of Credit process.

Draft

A Draft, also known as a Bill of Exchange, is a legally enforceable instrument, which is regarded as formal evidence of debt under a Letter of Credit. It is defined as *an unconditional order in writing addressed by one person to another, signed by the person giving it, and requiring the addressee to pay at a fixed or determinable time a certain sum of money to or to the order of a specified party*. A draft must be presented with all other documents requested in the Letter of Credit, unless stipulated otherwise. Drafts may be obtained from any of TD's International Trade Service offices.

Example of a Draft

38298	DUE – 1 _____	
<u>2</u> At sight	AFTER DATE FOR VALUE RECEIVED	<u>3</u> February 19 19 <u>97</u>
PAY TO THE ORDER OF		THE SUM OF
<u>4</u> USD Fifty-Thousand		\$ <u>5</u> USD 50,000
DRAWN AGAINST LETTER OF CREDIT NO. <u>6</u> 001/5945	DATED – <u>7</u> January 15	19 <u>97</u>
ISSUED BY <u>8</u> Universal Bank, Taipei, Taiwan		
TO <u>9</u> Toronto-Dominion Bank International Centre Toronto 55 King St. W. & Bay St. Toronto, Ontario	<u>10</u> 	EXPORT TRADING INC.

How to Complete a Draft

(Refer to the Letter of Credit in SWIFT format page 20)

1. If a specific date of payment is in the Letter of Credit, it must be entered here.
2. Payment term, e.g. "at sight", "30 days after sight", "60 days after Bill of Lading Date". (Field 42C)
3. Date you present documents to the "available with" Bank.
4. Dollar amount of the Draft in words along with the currency.
5. Dollar amount of the Draft in figures along with the currency.
6. Letter of Credit number assigned by the Issuing Bank. (Field 20)
7. Date the Letter of Credit was issued. (Field 31C).
8. Name and address of the Issuing Bank. (Listed in the Header under "Received From")
9. Name and address of the bank on which the Drafts are to be drawn. (Field 42D) If it states "yourselves", it is drawn on whichever of TD's International Trade Service offices advised the Letter of Credit.
10. Signature of an authorized signing officer of the Company. The Beneficiary's name must be spelled out below the line.

Commercial Invoice

1. Does the merchandise description – including weight, quantity and price – conform exactly with the Letter of Credit and other documents?
2. Are the name and address of the Importer and Exporter exactly as shown in the Letter of Credit?

3. Have the correct number of copies been presented and signed if required?
4. Is it made out in the same currency as the Letter of Credit?
5. Is the trade term listed, e.g. C.I.F.? (See page 11 for a listing of commonly used trade terms)

Transport Document (commonly referred to as a “Bill of Lading”)

1. Has it been submitted with all the required originals?
2. Is the merchandise description consistent with the Letter of Credit?
3. Are the points of loading and discharge consistent with the Letter of Credit?
4. Is the Bill of Lading consigned to the order of the party specified in the Letter of Credit?
5. Is it dated on or before the latest shipment date stipulated in the Letter of Credit?
6. Is the Bill of Lading endorsed correctly?
7. If the Letter of Credit states freight is to be prepaid, is this clearly indicated on the Bill of Lading?

Insurance Document

1. Does the insurance document cover all risks specified in the Letter of Credit?
2. Is a sufficient amount insured to meet the percentage requirement of the Letter of Credit and is it in the currency of the Letter of Credit?
3. Is the issue date of the insurance document prior to the shipment date of the goods?
4. Is the insurance document signed by or endorsed in blank by the insured or endorsed to the order of the party designated in credit?
5. Is the insurance document signed by the insurance company, underwriter or agent?
6. Is the merchandise described as per the Letter of Credit?

Certificates of Origin and Inspection

1. Ensure the documents are dated as of or before the Bill of Lading date.

Packing and Weight Lists

1. Does the quantity of units/weight match that which is indicated in the Commercial Invoice?
2. Is the breakdown of merchandise/weight per carton shown if requested in the Letter of Credit?

Dealing with Discrepancies

Any inconsistency found in documents presented or failure to comply with the terms and conditions of the Letter of Credit is deemed a “**discrepancy**.”

Certain discrepancies may be corrected by the Exporter or by the freight forwarder, either by amending the original documents or by replacing them with new ones. If discrepancies are noted in the Bill of Lading, insurance document or consularized invoice, the document(s) must be returned to the issuing party for correction.

Options Available to the Exporter with Discrepant Documents

If certain non-correctable discrepancies are noted, such as late shipment or presentation of documents past the expiry date, TD will contact the Exporter to request instructions. The Exporter has three options, as follows:

- 1. Forward Documents on Approval** – TD sends the documents at the Exporter's risk to the Issuing Bank, noting the relevant discrepancies. In this scenario, the Exporter believes that the Importer will approve the discrepancies. It also may be that the shipment has already arrived or is about to arrive and the Exporter does not want the shipment to incur a demurrage charge.

When the documents are received by the Issuing Bank, they will be checked and the discrepancies referred to the Importer for acceptance. Meanwhile, the documents will not be released to the Importer until the Issuing Bank receives the Importer's approval of the discrepancies. Once this occurs, payment will be made under the Letter of Credit.

Note: It is advantageous for the Exporter to advise the Importer directly of the discrepancies to ensure a quick response when the Importer is contacted by the Issuing Bank.

- 2. Cable for Approval** – TD sends a telex or SWIFT message to the Issuing Bank requesting authority to negotiate the documents, noting the discrepancies found. The Issuing Bank, in turn, will notify the Importer of these discrepancies. The Importer will then indicate to the Issuing Bank whether the documents are acceptable with the discrepancies noted. If authorization to waive the discrepancies is received by TD from the Issuing Bank, TD will send the documents to the Issuing Bank and payment will be made according to the Letter of Credit terms.
- 3. Indemnity** – The Exporter may provide TD with an acceptable Indemnity Agreement for the discrepancies. Such indemnity enables TD to effect payment immediately, even though there are discrepancies in the documents. If documents are not accepted by the Importer, TD has the right to claim the funds back from the Exporter under the Indemnity Agreement.

Acceptances

A Letter of Credit is said to be a “Term Letter of Credit” or “Usance Letter of Credit” when extended payment terms are agreed to, such as *60 days after sight* or *60 days after Bill of Lading date*. Once documents and a usance draft are presented under a Term Letter of Credit and are found to be in good order, instead of paying the Exporter right away, the Drawee Bank “accepts” the draft, which is essentially a promise to pay the Exporter on the maturity date stated in the draft. The Accepting Bank holds the accepted draft until it matures or it can be returned to the Beneficiary, depending on the Beneficiary’s preference.

Once a draft has been accepted, it becomes a negotiable instrument called a Banker’s Acceptance or simply referred to as an Acceptance. Acceptances can be discounted as discussed below.

Discounting Acceptances

Instead of waiting until the maturity date of an Acceptance to obtain its funds, an Exporter may have the accepted draft “discounted” at prevailing discount rates. This allows the Exporter to collect its funds, net of discount charges, as soon as the draft has been accepted, instead of waiting until the maturity date. In addition to the Exporter receiving funds prior to the maturity date, another advantage to discounting is that the discount rate is based on the risk of the Accepting Bank and, therefore is usually lower than the Exporter’s borrowing rate.

If the Exporter wishes to discount the Acceptance, a formal request is made to the Drawee Bank or any other bank. This request can be made at anytime prior to the maturity of the Acceptance. Contact one of TD’s International Trade Service offices for further information.

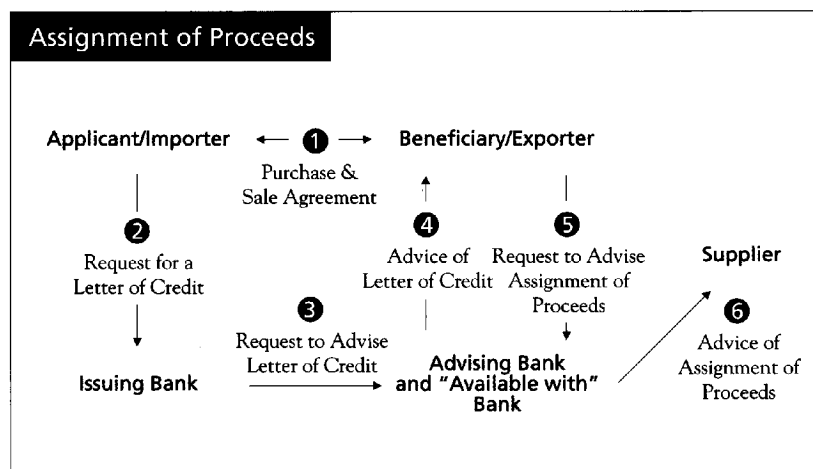
Assignment of Proceeds

An Exporter (Beneficiary) may *assign part or all of the proceeds* of a Letter of Credit to a third party (assignee) such as a supplier. A key point for the assignee to keep in mind is that payment is forthcoming only if the Exporter receives payment under the Letter of Credit, over which the assignee has no control. An assignment of proceeds is irrevocable and, therefore all parties must consent to any changes.

Assigning proceeds may be an acceptable alternative to a supplier who otherwise might request a Letter of Credit or demand funds in advance of shipment.

Procedure to Assign Proceeds

1. An Assignment of Proceeds form must be completed by the Exporter once the Letter of Credit is received. This form can be obtained directly from one of TD's International Trade Service offices.
2. Once the form has been completed, it is sent back to the International Trade Service office for acknowledgment.
3. An advice of the assignment is sent to the designated assignee.



Questions Commonly Asked by Exporters

- Q** *I have received a Letter of Credit but it does not meet the sale terms agreed upon. What should I do?*
- A** If the Letter of Credit is not acceptable to you, you should request an amendment to the Letter of Credit from the Importer. Refer to the section regarding amendments on page 15. If the Importer does not agree to the request for amendment, you may refuse to ship against the Letter of Credit and simply let it expire unused.
- Q** *What is the fee for having a Letter of Credit confirmed?*
- A** When a Letter of Credit is confirmed, a fee is charged by the Confirming Bank. This fee is calculated as a percentage of the face value of the Letter of Credit and is based on both the risks of the Issuing Bank and the country in which it is domiciled. The fee is usually quoted on a per-90-day period and currently ranges upwards from approximately 0.10%. The rate is subject to change at anytime based on prevailing market conditions.
- Q** *I just received a list of charges for a Letter of Credit that I presented documents under. What are "Reimbursing Bank" charges?*
- A** A Reimbursing Bank is one authorized by the Issuing Bank to facilitate the transfer of funds between TD and the Issuing Bank. It may be necessary to have a Reimbursing Bank involved because reimbursement is in a foreign currency or because the Issuing Bank and TD do not share settlement accounts. The Reimbursing Bank will charge a fee to facilitate the payment. This fee is the responsibility of the Exporter if the Letter of Credit states that all charges outside of the Importer's country will be paid by the Exporter.
- Q** *I received a Letter of Credit advised by a Canadian bank other than TD. Can I still negotiate my documents with TD?*
- A** If the Letter of Credit states that it is "negotiable with any bank", then you may negotiate your documents with TD. This information is found in the Letter of Credit SWIFT format in field 41D "Available with ...".
- Q** *How do I get a copy of the Uniform Customs and Practice for Documentary Credits (UCP) 500, (1993 revision)?*
- A** You can obtain a copy from your local TD branch or from one of TD's International Trade Service offices listed on the back cover of this guide.

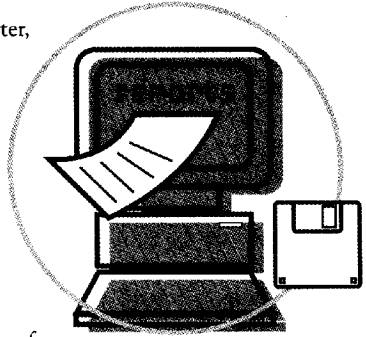
Facilitrade® for Exporters – Electronic Processing

TD has developed a software program called Facilitrade for Exporters, to assist you, the Exporter, in managing your Letter of Credit business.

The primary benefit of this software program is that it allows TD to advise Exporters electronically of their Letters of Credit as well as amendments to those Letters of Credit.

There are, however, many added features as listed below:

- weekly report issued, detailing the current status and history of all outstanding Letters of Credit
- on-line inquiry feature allows you to view/print the current status of any Letter of Credit
- ability to send a message electronically to your nearest TD International Trade Service office
- notification of any activity on the Letters of Credit, such as payment advice, is automatically sent to you by fax



Communicate with your Freight Forwarder

As an added feature, Facilitrade gives the Exporter the ability to electronically link its freight forwarder to the Letter of Credit process. This will allow your freight forwarder to obtain full details of the Letter of Credit or amendment through its PC as well as inquire as to the status of any outstanding Letters of Credit. This software can be used as the medium of communication between you, your freight forwarder and TD, allowing you to send and receive electronic messages.

The Facilitrade for Exporters software, as well as its installation and training, is provided free of charge to any Exporter. It is also important to note that the Exporter does not have to be a TD customer to subscribe to the software. Facilitrade is so flexible that it provides reporting and electronic communication for Letters of Credit advised through other banks but negotiated with TD.

By managing your export Letters of Credit more efficiently, Facilitrade for Exporters will save you both time and money. Now, with our recent software enhancement, you can not only communicate with your bank electronically but with your freight forwarder as well.

For more information regarding Facilitrade For Exporters, please contact your local TD International Trade Service office.

Other Types of Letters of Credit

Back-to-Back Letter of Credit

When one Letter of Credit is used to secure the issuance of another Letter of Credit, the parties are said to be dealing in a “Back-to-Back” Letter of Credit transaction. Such a transaction is often requested by the intermediary party, such as a broker, to provide settlement to the supplier from which the goods are purchased.

In a Back-To-Back Letter of Credit scenario, the intermediary party would receive and be the Beneficiary of a Letter of Credit from its customer that has agreed to purchase goods. This Letter of Credit is referred to as the *Prime Credit*. Subsequently, the intermediary party must issue a Letter of Credit, referred to as the *Secondary Credit*, to its supplier, for a lesser amount than the one received. At this point, the intermediary party would approach a bank, offering the *Prime Credit* received as collateral for the *Secondary Credit* it would like to issue.

The acceptance of the *Prime Credit* as security for the *Secondary Credit* is extremely risky to the intermediary party's bank. Circumstances may arise that prevent the intermediary party from meeting the terms and conditions in the *Prime Credit* e.g. insolvency. Therefore, the intermediary party's bank would be unable to draw under the *Prime Credit* it has taken as collateral. The supplier that received the *Secondary Credit*, however, would not be precluded from drawing under its Letter of Credit and, therefore, the intermediary party's bank would be forced to honour the drawing even though it could not collect funds under the *Prime Credit*.

Due to the riskiness of a Back-to-Back Letter of Credit transaction, banks will likely not participate in such a transaction. As an alternative, the intermediary party's bank may recommend using a Transferable Letter of Credit (described below).

Transferable Letter of Credit

A Transferable Letter of Credit is also used in cases where there are three parties to a transaction as described in the Back-to-Back Letter of Credit transaction; an Importer (Buyer), Exporter (Seller) and an intermediary party, such as a broker, who was responsible for arranging the sale.

In such a transaction, the intermediary party requests a Letter of Credit from the Importer as protection against non-payment. The Exporter, in turn, wants assurance from the intermediary party that payment will be made, and will also request a Letter of Credit. It may be the case, however, that the intermediary party has little working

capital or does not have access to a line of credit with its bank to issue a separate Letter of Credit to the Exporter. As an alternative, the intermediary party may provide such assurance to the Exporter by transferring over a portion of the Letter of Credit it received from the Importer. This is termed a Transferable Letter of Credit.

To transfer a Letter of Credit, the intermediary party must request a Transferable Letter of Credit from the Importer.

Under a Transferable Letter of Credit, the intermediary party must request, from the Importer, a Letter of Credit that is specifically marked “transferable.” If the Letter of Credit is not designated to be transferable, it cannot be transferred. The Letter of Credit can, however, be amended to allow it to be transferable.

The intermediary party would be the Beneficiary of the Letter of Credit and, in a Transferable Letter of Credit transaction, is referred to as the **First Beneficiary**. The First Beneficiary would then ask the Transferring Bank to transfer, in part or in full, its rights under the Letter of Credit to the manufacturer of the goods which is referred to as the **Second Beneficiary**.

A Transferable Letter of Credit may be transferred only once; therefore, a Second Beneficiary is unable to transfer a portion of a Transferable Letter of Credit to a Third Beneficiary. It may, however, be transferred to more than one Second Beneficiary.

Case Study

The following is a simplified example of a Transferable Letter of Credit transaction:

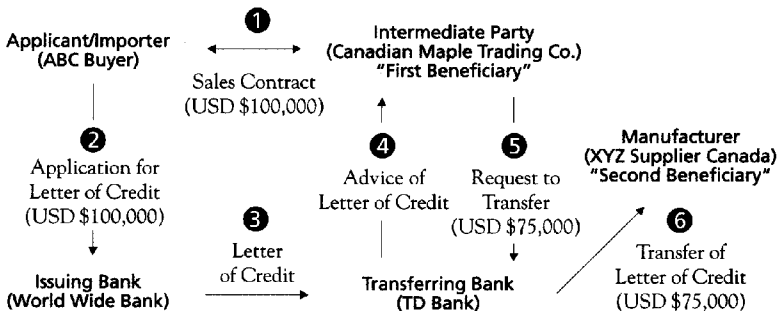
Importer:	ABC Buyer
Intermediary Party:	Canadian Maple Trading Company
Manufacturer:	XYZ Supplier Canada
Issuing Bank:	World Wide Bank
Transferring Bank:	TD Bank

As per ABC Buyer’s instructions, World Wide Bank issued a Transferable Letter of Credit in favour of Canadian Maple Trading Company, which is acting as the intermediary party in the trade transaction. This Transferable Letter of Credit is in the amount of USD \$100,000 and TD Bank is authorized and willing to do the transfer. The description of goods is 5,000 pairs of moccasins at USD \$20 per pair. Once Canadian Maple Trading Company as the First Beneficiary receives the Letter of Credit, it requests TD Bank to transfer USD \$ 75,000 to XYZ Supplier Canada, stating the same quantity of goods, 5,000 pairs of moccasins, but at USD \$15 per pair. TD Bank advises the partial transfer has been made to XYZ Supplier Canada, which now becomes the Second Beneficiary of the Letter of Credit.

Once XYZ Supplier Canada has shipped the goods, it presents documents in accordance with the Transferable Letter of Credit, along with its draft for USD \$75,000, to TD Bank. TD Bank then notifies Canadian Maple Trading Company of the presentation. Canadian Maple will present its own invoice and draft showing a value of USD \$100,000. TD Bank then substitutes these documents with the draft and invoice presented by XYZ Supplier Canada and forwards the documents to World Wide Bank. TD Bank receives USD \$100,000 and pays USD \$75,000 to XYZ Supplier Canada and USD \$25,000 to Canadian Maple Trading Company.

Note: *Transferable Letters of Credit are rarely as simple as they seem and many difficulties may arise. They should be undertaken only by experienced traders.*

Transferable Letter of Credit



Standby Letter of Credit

The basis of a Standby Letter of Credit is that it may be drawn on by the Beneficiary when the Applicant (Buyer) has failed to perform in accordance with the underlying contract between the Applicant and Beneficiary.

In simple terms, a Standby Letter of Credit is “standing by” to protect the Beneficiary in case the Applicant defaults on an agreed-upon sales contract. As with Documentary Letters of Credit, a Standby Letter of Credit is also governed by the *Uniforms Customs and Practice for Documentary Credits (UCP)*.

Unlike a Documentary Letter of Credit, the usual documents called for under a Standby Letter of Credit are no more than a written demand (or sight draft) from the Beneficiary, accompanied by its statement that the Applicant has defaulted in performance of the agreed-upon contract. Because the documents are much less stringent, the risk of a Standby Letter of Credit rests more heavily on the Applicant than the Beneficiary. A Standby Letter of Credit, therefore, should be issued only when the Applicant has no doubt as to the trustworthiness and integrity of the Beneficiary.

Standby Letters of Credit are commonly issued in favour of suppliers as security for goods purchased on open account. The Standby Letter of Credit, once issued, will secure shipments made up to the amount of the Standby Letter of Credit and before the expiry date of the Standby Letter of Credit. If the Applicant defaults in payment under the terms of the sales agreement, the supplier can stop further shipment and, at the same time, obtain payment for shipments that were made, by presenting the documents stipulated in the Standby Letter of Credit to the Issuing Bank prior to the expiry date of the Standby Letter of Credit. The following case study illustrates the use of a Standby Letter of Credit.

Case Study

A Canadian shoe importer, Best Shoes Importer Inc., has signed a one-year contract with a supplier in Brazil, Brazilian Shoes Supplier Inc., agreeing to purchase on open account leather shoes valued at CAD \$30,000/month. Under the open account arrangement, payment must be made 30 days after the invoice date. To guarantee payment by Best Shoes Importer Inc., Brazilian Shoes Supplier Inc. requires that an Irrevocable Standby Letter of Credit with an expiry date of one year from the date of issue be issued in its favour for CAD \$30,000.

An example of a Standby Letter of Credit used in such a transaction is as follows:

TO: (...ADVISING BANK...)

FROM: THE TORONTO-DOMINION BANK, 55 KING ST. W. AND BAY ST.,
TORONTO, ONTARIO, M4K 1A2

NOTIFY BENEFICIARY WE ISSUE IRREVOCABLE STANDBY LETTER OF CREDIT
NO. _____.

EXPIRING JANUARY 1, 19__

AMOUNT NOT EXCEEDING: \$30,000 CAD (THIRTY THOUSAND CANADIAN DOLLARS)

APPLICANT: BEST SHOES IMPORTER INC., 123 MAIN ST, LONDON, ONTARIO, N6A 4P5

BENEFICIARY: BRAZILIAN SHOES SUPPLIER INC., RUA TENENTE 777 , SAO PAULO,
BRAZIL

CREDIT AVAILABLE WITH THE TORONTO DOMINION BANK, INTERNATIONAL CENTRE,
55 KING ST. W. AND BAY ST., TORONTO, ONTARIO BY PAYMENT AGAINST
BENEFICIARY'S DRAFT(S) AT SIGHT ON THE TORONTO DOMINION BANK MARKED AS
DRAWN UNDER THIS CREDIT WHEN ACCOMPANIED BY THE FOLLOWING
DOCUMENTS:

COMMERCIAL INVOICE MARKED UNPAID

CERTIFICATE PURPORTEDLY SIGNED BY AN AUTHORIZED SIGNATORY OF
BRAZILIAN SHOES SUPPLIER INC. STATING THAT "THE ENCLOSED INVOICE(S) ARE
PAST DUE AND UNPAID FOR 30 DAYS FROM INVOICE DATE AND THE DRAFT
AMOUNT WILL BE APPLIED AGAINST SUCH INDEBTEDNESS."

SPECIAL CONDITIONS:

PARTIAL DRAWINGS ARE ALLOWED.

ALL BANKING CHARGES OUTSIDE OF CANADA FOR THE BENEFICIARY'S ACCOUNT.

CONFIRMATION INSTRUCTIONS WITHOUT.

SUBJECT TO UCP 1993 REVISION ICC PUBLICATION NO. 500. THIS IS AN OPERATIVE
CREDIT INSTRUMENT.