Consider this scenario: Beneficiary insists on use of the following wording in a local standby LC to be issued subject to UCP600 in its favor:

“Funds under this Letter of Credit will be available to you upon your presentation of a drawing certificate, executed by one of your duly authorized representatives, in the form hereto attached as Exhibit A [a “Drawing Certificate”]. Presentation may be made for payment to you at sight upon demand on us, the Issuing Bank’s, counters located at [New York address], or, if our office at such location is closed or moved, at any other of our offices, on or before the expiration hereof against presentation to us of a Drawing Certificate, from you, the Beneficiary, substantially as follows, executed by your duly authorized representative: Payment will be made hereunder no later than 5:00 p.m. local time on the first Business Day following the date on which such demand for payment is presented.

As used in this Letter of Credit, the term “Business Day” shall mean any day of the year, other than a Saturday or a Sunday, on which banks located in New York, New York, are not required or authorized by law to remain closed or on which the payment system of the Federal Reserve System is operational.

With respect to Articles 14(b) and 16(d) of the UCP, we shall have three (3) Business Days to examine the document and determine whether to take up or refuse the document and to inform the party from which we received the document accordingly.”

For discussion purposes, text has been placed in bold and highlighted.

If issuing bank has three days to check documents, how can issuer make payment on the first business day the demand for payment has been presented? That is, if issuer takes full three days to check the document and on the third day finds out that the document presented is fully complying, then issuer would be held responsible or would have wrongfully dishonored because they did not make payment on the next business day (next day of receipt of the document, not next day after finding the document is complying) as required in the credit.

Putting yourself in the role of the bank, could the problem be alleviated if beneficiary agrees to replacement of the text highlighted with “after determining that demand for payment is in order.”?

If this does not do it, what would you do? Let us know! E-mail: info@doccreditworld.com

– Arshad H. Siddiqui

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