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INSTITUTE OF INTERNATIONAL BANKING LAW & PRACTICE ANNOUNCES TASK FORCE ON MODEL ISP98 GOVERNMENTALLY MANDATED STANDBYS

The Institute of International Banking Law & Practice¹ (IIBLP) announces the formation of the Task Force on Model ISP98 Governmentally Mandated Standbys. Working with the IIBLP, the Task Force will help draft a model standby letter of credit form for use by U.S. federal, state, and local governments.

Standby letters of credit are widely used by local, state, and federal government agencies (who are typically the beneficiary) to assure performance by a contractor or other person applying for the standby. There are literally thousands of standbys mandated by governmental agencies. In theory, these standbys represent an efficient method of assuring performance. In practice, however, the standards for standby letters of credit are not well understood. Existing government standby forms are frequently copied from agency to agency without reflection. These forms are often unclear, incomplete, unnecessarily burdensome, or inadequate from the perspective of protecting governmental agencies as beneficiaries, and often require banks to make undertakings that violate safety and soundness requirements.

To address these issues, the Task Force will develop a Model Form to be used with ISP98 in situations where a government agency has mandated a form of standby letter of credit. The Task Force will bring together governmental entities such as agencies, departments, and government-owned corporations with private stakeholders such as bankers, lawyers, government contracting firms, and trade associations, to assist in drafting the Model Form and disseminating it to federal, state, and local governments.

To accomplish these goals, the IIBLP is actively seeking participation from government and private stakeholders. Specifically, the IIBLP is asking for sample standby letters of credit currently in use at either the federal, state, or local levels, as well as recommendations of those individuals who may be willing to serve on the Task Force or attend a forum at which a draft of the Model Form is considered. Interested individuals are invited to contact the Task Force's Project Director, Nicholas Lawson, by email at nlawson@iiblp.org.

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¹ IIBLP is a not-for-profit educational and research organization dedicated to achieving a better understanding of banking law and practice and their relationship to each other. In particular, the IIBLP focuses its efforts on the harmonization of letter of credit law and practice. Among its projects, the IIBLP issued the International Standby Practices (ISP98) (ICC Publication 590), practice rules for standby letters of credit. The IIBLP has also drafted Model Forms to be used in conjunction with ISP98. The forms are available without charge at www.iiblp.org. The Model Forms represent an efficient and effective way to harmonize the roles that bankers and lawyers play in the drafting and use of standby letters of credit.