



# READER REACTION

## AUTO-EXTENSION DRAWING PERIOD: MISLEADING AND OPEN TO INTERPRETATION?

The latest *DCW* included writing by Kristine Siebel and Mary Ann McCarty on “The Reasons and Rationale for Producing the BAFT Guidance Paper for Automatic Extensions” (Nov/Dec 2019 *DCW* 39). As the article explains, a great deal of care and attention is needed when using automatic extension clauses.

Consider this wording I recently came across that was intended for use in an auto-extension credit:

“It is a condition of this Letter of Credit that it will be automatically extended for periods of one year each from the present or any future expiry date, unless we notify you in writing at least ninety (90) days prior to such expiry date that we elect not to further extend this Letter of Credit. Upon receipt of such notice, you may draw on this Letter of Credit by presenting your one sight draft to us for an amount up to the unused balance of this Letter of Credit at any time within 60 days of the then relevant expiry date, and accompanied by the following statement purportedly signed by an authorized representative of ...”

Current expiry date is December 31, 2019 and your bank receives a drawing from beneficiary on January 15, 2020.

### Questions:

- 1) Will you honor the drawing or reject it due to the reason for rejection “expired LC”?
- 2) What would your answer be if the LC stated “no more than 60 days prior to the then current expiry date” instead of “at any time within 60 days of the then relevant expiry date”?
- 3) If your Non-Renewal Notice includes wording that “notwithstanding anything to the contrary in the Letter of Credit as of close of our business day on December 31, 2019 the amount of the captioned Letter of Credit will be reduced to Zero thereby the Letter of Credit shall stand canceled and we will be automatically released of all our obligations towards you under this transaction.” Will you honor the drawing or reject it due to the reason for rejection “expired LC”?

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