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IMPORTANT AND CRITICAL ISSUES OF COMPLYING PRESENTATION BASED UPON LETTER OF CREDIT (L/C) PAYMENT

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Abstract:

In this study, there is suggested proposals and determined about such a way must be followed in complying presentation in accordance with letter of credit payment and the faults of exporting companies specific to Turkey in this issue. Beneficiary needs to provide complying presentation after preparing the papers appropriately at first letter of credit terms, rules of UCP 600 and ISBP 745 for applicant bank and if available confirming bank's pay obligation could continue against beneficiary company in letter of credit payment. Since provided complying presentation ability requires a certain level of experience and expertness; it is observed about exporter companies in Turkey localized, receive export prices late and pay extra charges/commissions, could not benefit from pay obligation guarantee of applicant bank and if available confirming bank because of their generally discrepant document, facing contradiction in terms on this complying document preparing. Moreover, a various letter of credit condition which are disadvantages of exporters and could be caused financial losses are discussed and includes advices in this study. Based upon the findings, there is determined about most important reason of the companies could not provide complying presentation is preparing certain documents within letter of credit conditions incorrect, and it is shown how to prepare the subjected documents appropriately to letter of credit payment as considering their main and critical properties.

Keywords: Letter of Credit, Discrepancy, Complying presentation UCP600, ISBP745

1. Introduction

By the time discussing in terms of operational, could be seen that foreign trade occurs through 3 different processes like the transfer of good¹, documents² and money. Making payment is importer's responsibility while preparing the document and subjected item is exporter's (beneficiary) responsibility. Banks that are financially reputable establishments could have got involved into paying responsibility based on payment methods with importer. In this research's subjected letter of credit payment method, both importer and importer's bank and if available confirming bank takes on the payment responsibility. Furthermore, primary payment responsibility is firstly on confirming bank if available then importer's applicant bank. Under the condition that complying presentation is existed, confirming bank pays to beneficiary even applicant bank does not credit the account and recedes to applicant bank for subjected amount. Likewise, applicant bank credits firstly confirming bank's account or else nominated bank's, and this once, applicant bank recedes to applicant firm for subjected amount or uses the guarantee that received form applicant before accredit. Applicant bank and if available confirming bank are considered as committed³ to afford the complying presentation to exporter who is in the position of beneficiary by the letter of credits becoming functional moment. It is determined for "honour" word in definitions part of article 2 of UCP 600⁴, is not only limited with

¹ Good, item and load are used in the same meaning in this research.

² Document means the papers used in foreign trade.

³ UCP 600 item 7,8 and 15

⁴ ICC (International Chamber of Commerce) is an institution centered in Paris, determines rules to make the foreign trade easy worldwide via 16 different institutions exist within it's structure. English version of ICC's one example methods and application

making payment, but also involves the meaning of accept the remitted policy and take the responsibility of payment in timed and acceptance credits. For letter of credit payment, the applicant bank blocks a guarantee amount from importer at least as letter of credit amount before taking the payment responsibility. Confirming bank takes the payment responsibility referring to its correspondent bank relation with applicant bank and its agreement also. This means, confirming bank will not add confirmation for every letter of credit letter even their content is appropriate, could add confirmation only with the condition that existing a correspondent bank contract between them. While the letter of credit payment provides a kind of bank assurance to beneficiary about cost receipting, exporter firms need to show complying presentation for taking advantage of this guarantee. Complying presentation is defined in article 2 of UCP 600 as “ it means a complying presentation for letter of credit conditions, practicable provisions of these rules and appropriate international standard banking application”. The implied statement in “International standard banking application ” sentence is, UCP 600 and ISBP 745⁵ which is broadcasted as complement of UCP 600. Beneficiary firms which could guarantee the cost provided that a complying presentation, prefer this payment method in their especially large amount trading⁶ . Despite this, they present discrepant document because of the reason that subjected payment method necessitates extensive know-how and experience as well. It is observed about discrepant document presentation is about 74% in Turkey-wide⁷. Initiative passes through to applicant firm after every presented document about paying the cost or not to, after this level, letter of credit transaction turns into cash against documents. This study’s motivation has occurred at this level and there is offered solutions about critical letter of credit conditions which could cause to financial losses with incorrect document arrangements made by exporter firms in Turkey localized.

2. Various Letter of Credit Terms Which Could Cause Financial Losses for Beneficiary Firms with Letter of Credit and Solutions

2.1. Letter of credits and letter parts which could be critical for beneficiary firms

Letter of letter of credits could be written in every language but English is adopted as common language in practice. As indicated below as well, it is seen that the subjected letter is partitioned by digit places and thus, it is converted to monotype (uniform) prepared texts in worldwide.

Letter of credit’s parts comprise of 20; 31C; 40 and E; 31 D; 50 ve59; 32 B and 39; 41 and 42 A, C, E, F, B; 44 A, E, F, B, C; 45 A; 46 A; 47 A; 71 B; 48; 49; 53; 78; 52 A; 57 and 72 number of digits. While every part is important about complying presentation, letter of credit’s parts which are obtained from open-end survey questions are detailed below.

- 40 A Form of documentary credit: This digit is organized as irrevocable, revocable and transferable. Transferable form of a letter of credit is preferred in trades and transit trades which the beneficiary firm is not the producer of good but is only broker or supplier.
- 20 Letter of credit reference: A kind of tracking number which is consisted of number and/or character group by applicant bank during the letter of credit start-up⁸.
- 31 D Date and place of expiry: The item makes conditional on the expire date, namely delivery date of letter of credit by beneficiary and latest delivery date for document to applicant or beneficiary bank⁹.

(ICC broadcast no. 600) regarding letter of credits. ICC has totally 5 more publications, firstly UCP 500 concerning the issue before UCP 600, and their validness are still continuing. It is a rule to mention on letter of credit about which broadcast is taken as main.

⁵ International Standard Banking Practice concerning to evaluate the presented documents under the letter of credits (ICC broadcast no.745).

⁶ Based on the survey studies that is made with 10 commercial bank’s letter of credit services in Turkey, there is discussed on the solution that letter of credit payment method is preferred as the trade’s amount is increasing. Although, letter of credit transactions could be used for every kind of amount as well.

⁷ It is obtained from survey study results which are made with 10 commercial bank’s letter of credit services in Turkey.

⁸ According to the information that are obtained from open-end survey questions, it is learned about beneficiary firms frequently write the subjected reference number wrongly or confuses with confirming bank’s reference number

⁹ According to the survey results, it is seen that this item could not be understood by beneficiary firms and presenting discrepant document and lately as well because of this reason.

- 44 C Latest date of shipment: This shows the date of good's shipment date¹⁰.
- 45 A Description of Goods or Services: The part where has detailed info about the trade subjected good's price, way of delivery and amount.
- 46 A Required documents: This part is accepted as the most crucial part in terms of providing complying presentation. The document's content and number information is located in this part which beneficiary firm needs to prepare or make it prepared¹¹.
- 47 A Additional (special) conditions: This area has two main intended purposes. First is, writing the special or standard conditions usable for every letter of credit by applicant bank, second is writing special conditions aimed at the deal between beneficiary and applicant firm (Kütükçü, 2013:480).
- 71 B Charges and Commissions: The part that shows how to share the banking services for letter of credit transaction with transferring costs between exporter and importer.
- 49 Confirming Instructions: The part that shows the letter of credit's being as confirm, without confirm or may add confirm. Despite of this digit is stated as confirm, letter of credit will become obligatory without confirm if the confirming bank does not add its confirmation for any reason. In practice, confirming bank could not add confirmation to letter of credit because of main tree reasons. First is the sanction decision for these countries by United Nations (UN) and/or country risk. Second is, as stated before, not to be a correspondent bank agreement concerning approval with applicant bank. Third reason is, various conditions are existed in letter of credit conditions like charter party bill of lading etc. that could cause risks for confirming bank. Confirming bank could be generally in beneficiary's own country's bank as well as could be any bank in abroad also. In practice, sometimes, although rare, there is seen more than one banks add confirmation on one letter of credit transaction.

2.2. Various Letter of Credit Terms Which Could Cause Financial Losses for Beneficiary Firms

Undoubtedly the biggest financial loss will be not to provide complying presentation for beneficiary in letter of credit payment. The beneficiary will face with risks like not to collect any cost, collect missing or collect lately. Otherwise, letter of credit conditions which cause financial losses for beneficiary are below with reasons.

- 40 A: Type of letter of credit: Letter could be opened as revocable or irrevocable. Opening irrevocable is much important for beneficiary firms. Likewise, there could not made any changes in letter of credit conditions without confirming bank's approval if available, applicant bank and importer's (applicant firm) approval also in irrevocable letter of credits. Opening the letter as revocable allows to applicant firm can change letter of credit conditions without beneficiary's agreement, so this situation will be disadvantageous to beneficiary firm. Revocable letter of credits could be applied in practice few and far between, but yet beneficiary firms need to be careful at this point about letter of credit arrangement as irrevocable.
- 31 D Letters of Credit due date and place: Most important issue in this section is in the part of letter of credit's place. This issue could be disadvantageous to beneficiary firm and could cause discrepant document presentation also. Definition of letter of credit's place as applicant bank's country or any other bank in abroad means the document must be in that country in specified date. In survey studies, there is seen about firms localized in Turkey falls into discrepant because of late complying presentation and their unawareness about the fine detail between letter of credit's place is being in Turkey or in a country abroad. In a letter of credit which's place is discussed as abroad, beneficiary firm needs to deliver the document 3-4 days before the date is mentioned 31 D, the fact remains that, a letter of credit could be delivered at due date if it's 31 digit discussed the place as Turkey. 3-4 days period mentioned above for carrier and delivery time of document's transfer from beneficiary bank's to bank in abroad.
- 46 A Documents required: The riskiest statement in this part is to define as applicant firm who prepares or approves a document within needed documents. Moreover, becoming effective of a letter of credit could be made conditional on various terms and substitutive documents about provided the terms definitely. This

¹⁰ According to the survey results, one of the most modified item after accredit.

¹¹ A position which is not needed to give place for required documents and properties only this part but also a frequently used situation by giving place in 47A at the same time

kind of required documents could be seen rarely and restricts the beneficiary's self-control on required documents, even risks the collection of cost.¹²

- 48 Period of Presentation: In this digit, there is stated that how long time after from loading the beneficiary must present to document to applicant bank. Article 14 c of UCP 600 limits this period as 21 days after shipment as well as this calendar could be shortened with a statement like "after 10 days after shipment" and could be prolonged also with a statement like 'stale document acceptable'. But, in every situation, the document presentation must be made before due date of letter of credit. On condition that respect to letter of credits date, 21 days after shipment or 'stale document acceptable' statement will provide advantage for beneficiary.
- 71 B Charges and Commissions: This is a part which could occur financial loss for beneficiary firms. According to the data that obtained from open-end survey questions, it is determined about this digit is arranged as "all banking charges and commissions outside of applicant bank are for beneficiary's account" and beneficiary firms are in mistake because of this arrangement's make equal sharing between purchaser and seller. However, the statement above creates the perception like both sides are undertaking the commissions and costs of only their own servicer banks; still the related statement causes reimbursing bank's cost and commissions are undertaken to beneficiary. To arrange this part as "all banking charges and commissions outside of beneficiary bank are for applicant's account" will occur an opposite situation of above and will provide advantages for beneficiary firms.

3. Preparing Document for Complying Presentation with Examples

As expressed before, preparing the good and documents are beneficiary firm's responsible. In the method of letter of credit payment, document preparing is conditioned to letter of credit terms differently from the other payment types like cash against documents, bank's obligation to pay, cash against goods, cash. Beneficiary firms, applicant bank and confirming bank if available, must prepare the document appropriately to both UCP 600 and ISBP 745 rules and present timely to nominated bank¹³.

Beneficiary firms prepare the papers like invoice firstly, packaging list, weight list, policy, shipping info etc. by himself in practice while they have some papers prepared to private and public institutions as well like consignment and road transport documents firstly, analysis, inspection, health, plant, quality and other certificates with certificate of origin, ATR, EUR.1, EUROMED, insurance policy, etc. Required documents which are based on trade's flow, trades property and demand of importer firm are not limited with aboves, there are shown main terms. Undoubtedly, preparing the document within complying presentation responsibility is on beneficiary firm whether the document is prepared by himself or servicer institution (Özkan ve Özçelik, 2015: 73).

3.1. Main document types with samples which are prepared by beneficiary firms, frequent mistakes and solutions

In this part of study, there will be focused on two main documents which are in documents prepared by exporter himself; invoice and policy. Furthermore, frequent mistakes are determined by surveys and made solving suggestions also. Policies are a kind of bills receivable that prepared by beneficiary firms in foreign trade technic whether valuable paper. Exporter who is drawer of the document calls it as "Draft" or "Bill of Exchange" and must prepare it depends on form requirements like preparation date of document, place, payment amount, date and drawer¹⁴. Frequent mistakes in preparing document and solving suggestions are tabulated below:

¹² Accredited and after occurring the notification to beneficiary, the beneficiary firm is free about to use the subjected letter of credit until it's date and not to be under any commitment. That's why, document presentation conditions are taken place by applicant firms in terms of receiving a certificate or a guarantee as to load by beneficiary firm. Undoubtedly, giving place to conditions like these in letter of credits makes practical effects. The applicant who worries about not to use letter of credit must have a kind of external guarantee letter, performance bond prepared to beneficiary.

¹³ According to the survey datas, the nominated bank and advising bank are the same banks in Turkey mostly.

¹⁴ The issue about how to prepare the policies is not existed in UCP 600 as well as the details of document is shown on item B ISBP 745.

Chart 1: Frequent mistakes during preparing policy by firms localized in Turkey and Correction Suggestions

L/C Terms	Discrepancy in presented draft	Problem that will be caused and correction suggestion
46A: Document Required: (Bill of exchange is not existed in required documents) 41D: Available with X Bank by acceptance 42 C: Drawee X Bank	Beneficiary firm does not present a draft because of non-existing situation of bill of exchange in required documents in field 46 A. 41D and 42 digits shows the obligation of draft presentation however 46 A digit has no require for draft presentation.	Document comes to discrepant position by the reason of not to present the draft. Beneficiary has to present the document appropriates to form requirements.
52 A: Issuing bank: X Bank 41 D: Available with X Bank by acceptance 42 C: Drawee X Bank 49 Confirmation Instruction: without	Showing the importer as drawee in presented draft by beneficiary firm.	In the payment by acceptance, draft acceptor must be importer, while the acceptor must be applicant bank in letter of credit payment. Drawed drafts on applicant firm are discrepant documents in letter of credit payment.
52 A: Issuing bank: X Bank 41 D: Available with Y Bank by acceptance 42 C: Drawee Y Bank 49 Confirmation Instruction : confirm	In presented policy, there is seen the drawee (means bill obligator) as applicant bank by beneficiary firm.	The document is with discrepant as is side column. Drawee is the applicant bank in unconfirmed letter of credits. In confirmed letter of credits, policy obligator must be arranged the part of draft in the name of confirming bank as drawee.

One of the other main documents is invoice which beneficiary prepared by in person. Invoices must be prepared unexceptional in all letter of credit types but policies must be prepared only in letter of credits which opened with the “by acceptance” condition. Technical explanations are arranged in article 18 of UCP 600 with ISBP 745 C. According to survey data’s findings, exporter firms make mistakes mostly in showing the number’s fractions wrongly. This subjected issue has its source in fraction showing system in Turkey and in abroad. In Turkey, dot (.) is used to make the reading easy in Turkey, while it corresponds to comma (,) in foreigner system.

Chart 2: Frequent mistakes during preparing invoice by firms localized in Turkey and Correction Suggestions

L/C Terms	Mistake in presented invoice	Problem that will be caused and correction suggestion
45 A: 90,000 kgs sunflower oil, unit price 2.004 usd/kg	90.000 kgs... unit price 2,004 usd/kg	The document has a risk to be subjected as discrepancy even letter of credit condition is provided by unit price with loaded good amounts. Dot and comma usage must be appropriate with letter of credit condition.

3.2. Main document types with samples which are prepared for beneficiary firms, by institutions, frequent mistakes and solutions

As a matter of course, beneficiary firms have the document of good’s transportation, insured, oversighting, etc. organized to private and public institutions who undertakes the business. The critical issue in here is, beneficiary must give correct instructions to his servicer institutions for preparing the documents appropriately to letter of credit technic. In reference to survey datas, it is reached to the finding that beneficiary firms make mistakes mostly in arrangement of Bill of Lading which is sea way chattel paper, CMR which is road transport chattel paper and insurance policies. And the frequent mistakes in preparing these tree documents are determined by surveys and solutions are shown below.

Chart 3: Frequent mistakes during preparing Bill of Lading (B/L)¹⁵, CMR¹⁶ and Insurance Policy¹⁷ by firms localized in Turkey and Correction Suggestions

L/C Terms	Discrepancy in presented document	Problem that will be caused and Correction Suggestion
46 A: Required documents + Full set bill of lading	Signatory party does not mentioned his title when signing the document.	Document is with discrepant at side column. Transporter and captain with their agencies can sign the B/L except charter party B/L ¹⁸ based on UCP 600 and ISBP 745. It must be absolutely determined the roles of signs on document.
46A: Required documents + Full set bill of lading	Signatory party of document does not give place carrier firm information despite of determining to sign it as the agency of carrier.	The document is with discrepant at side column. There must be absolutely mentioned for carrier firm information on B/L ¹⁹ . Mentioning the carrier firm information is important in terms of determining the responsible firm in case destroying the good during transport time.
46 A: + Full set ²⁰ bill of lading consigned to xxx	Consignee digit of B/L: to the order of xxx. Letter of credit conditions need to be arranged the B/L as "to the name" with "consigned to" statement even though the document is arrangement "to the order".	As long as the consignments are arranged as "written to the rule" it could be possible to endorsed the document's behind. But it could not be possible to endorsed the documents behind which are written as "to the name".
46 A: + Full set bill of lading consigned to order and blank endorsed	Consignee section of consignment: not to being endorsed of behind part although written "to the order"	The document as is with discrepant as side column. The exporter who is in the position of loader of good has to show transferring his right on the good with blank endorsed. If not endorsed, importer firm have difficulties in terms of ownership proof when clearing the goods from customs.
46 A: + Full set bill of lading...	Presented B/L hasn't got any board notation record although the document in question is received B/L.	The document as is with discrepant at side column. B/Ls could be arranged with two different types with printed papers as received bill of lading and shipped bill of lading. There is no need an extra on board notation (shipping record) for B/Ls which

¹⁵ It is organized in articles 19, 20, 21, 22 of UCP 600 about how to prepare only the multimodal transport documents that includes seaway and more detailed in ISBP 745 D, E, F and G items. Sea consignments are valuable papers (negotiable documents) because their good's ownership presentation.

¹⁶ CRMs are organized in article 24 of UCP 600 with ISBP 745's J item. Document's most important property is being a non-negotiable document, as different from B/L's, Insurance Policies and Drafts.

¹⁷ Insurance policies are valuable papers and organized in article 28 of UCP 600 with ISBP 745 K items. Make organized the insurance policy by beneficiary is about delivery type, and the insurance policy is prepared in the delivery types of CIP and CIF.

¹⁸ That is to say, according to the UCP600 item 22, Charter Party B/L (no matter how it is arranged under any name) which has an indication or record about being tied to charter party, could only be signed by captain or via an agency whose name is called on behalf of captain, or ship owner either via an agency whose name is called on behalf of ship owners, or also lessor either via an agency whose name is called on behalf of charterer.

¹⁹ There are 2 situations that not to giving place to carrier firm will not occur a discrepant. First is, letter of credit's allow for charter party b/l presentation. The second is, adding a statement like "freight forwarder transport document is acceptable" to letter of credit conditions

²⁰ "Full set" term means "team" that is used for both B/L and policies, and it shows also whole original ones of document must be presented. Copy documents are not included in Full Set. According to the rules of UCP, it must be understood through document about how many original copies occur the document (paper).

		are prepared as shipped bill of lading of its printed part. In addition to this, there is need an extra board notation (shipping record) for the consignments which's printed part shows the delivery of good to loading.
46 A: CMR consigned to... And indicated freight prepaid	Marking the Non-Franco digit which means any payment is not made while delivery method is C and D group in presented CMR.	The document is as with discrepant. In delivery types like C and D which the freight cost is played by beneficiary, there must not show any statement about freight cost without paying in CMR.
46 A: + Full set bill of lading... + Full set insurance document....	Insurance policy date of issue is later than the loading date of goods which are in B/L.	Insurance policy needs to guarantee the goods from dangers during the travel, that's why the insurance policy date must be the same date or before with goods loading date which are in B/L.

4. Conclusion

When viewing the ICC publications about letter of credit payment, the most important reason is determined as provided complying presentation by beneficiary for benefiting bank's payment guarantee that they are responsible for him. There is seen in survey studies that firms are localized in Turkey firstly could not be effective about complying presentation issue by the reason of lack of technical knowledge. Moreover, research findings show that the beneficiary firms do not take care of statements placed in letter of credit conditions. The reason of many incorrect document which are presented wrongly is not only lack of technical knowledge but also not to take care of statements placed in letter of credit conditions and thus, this could not be carried to presented documents. In some letter of credit payments, the documents which are unnecessarily and/or have the same functions existed in letter of credit conditions (for example, preparing both EUR.1 and certificate of origin which could proof the good's origin in required documents etc.).

In this research, there are touched upon to critical letter of credit conditions for beneficiary firms could collect the export costs in full and timely, moreover, brought explanations over examples based on the technical knowledge for frequent mistakes. In addition, letter of credit terms which could occur financial losses and risks for beneficiary firms are examined as well as the analysis of risks which are borned from country risk and sanction decisions, such solution suggestions could be thought are the matters of an another research.

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