

LETTER OF CREDIT GLOSSARY

ACCEPTANCE DRAFT

Payable at a fixed or determinable future date, upon the face of which the Drawee has acknowledged in writing his or her obligation to pay at maturity. See also "banker's acceptance" and "trade acceptance".

ACCEPTING BANK

The bank named in a term Letter of Credit 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.

ACCOUNTTEE:

The buyer, which is the same as the opener, applicant or account party.

ADVISING BANK

The bank to which the Issuing Bank sends the Letter of Credit, with instructions to notify the Exporter (Beneficiary).

AMENDMENT

Change to terms of a letter of credit. Beneficiary has the right to refuse the amendment under an irrevocable letter of credit.

APPLICANT

The party that has contracted to buy goods; the Importer in the Letter of Credit process.

"AVAILABLE WITH" BANK

The bank authorized in the Letter of Credit to effect payment under, accept or negotiate the Letter of Credit.

"BACK TO BACK" LETTER OF CREDIT:

A credit issued for the account of a buyer of goods (i.e., exporter) already holding a letter of credit from the foreign buyer in his or her favor. The "back to back" letter of credit is issued in favor of the supplier of the goods to cover the same shipment stipulated in the letter of credit already held by the U.S. seller of these goods (i.e., exporter). The terms of both letters of credit, with the exception of the amount and expiration date, are so similar that the same documents presented under the "back to back" letter of credit are subsequently applied against the credit in favor of the buyer (U.S. buyer). However, the

buyer or beneficiary of the first credit (U.S. buyer) substitutes his draft and invoice for those present by the supplier

BANKER'S ACCEPTANCE

Form of credit created when a bank "accepts" a time draft typically drawn on the bank by a seller of goods. By accepting a draft, the bank is obligated to pay the face amount at a specified time in the future, usually six months or less after acceptance. A seller of merchandise can sell the banker's acceptance for an amount less than face value and have immediate use of funds.

BENEFICIARY

The party that has contracted to sell the goods; the Exporter in the Letter of Credit process. This is also the exporter, shipper, or consignor on the bill of lading.

BILL OF EXCHANGE

An unconditional order in writing addressed by one person to another, signed by the person giving it, and requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum of money to or to the order of a specified person or bearer. This is also referred to as a draft.

COMMERCIAL DOCUMENTS

Documents exchanged between the buyer and the seller such as commercial invoices or transport documents that give detail about the goods and/or services contracted.

CONFIRMED LETTER OF CREDIT

Letter of Credit where a Confirming Bank, usually located in the Exporter's country, has guaranteed payment under the Letter of Credit assuming that all terms and conditions of the Letter of Credit have been met. With a Confirmed Letter of Credit, payment risk is assumed by the Confirmed Bank as well as the Issuing Bank, thereby providing more protection for the Exporter.

CONFIRMING BANK

The bank which, at the request of the Issuing Bank, adds its confirmation to the Letter of Credit. In doing so, the Confirming Bank undertakes to make payment to the Exporter upon presentation of documents under the Letter of Credit assuming all terms and conditions of the Letter of Credit have been met.

DISCREPANCIES

Any inconsistency found in documents presented or failure to comply with the terms and conditions of the Letter of Credit.

DOCUMENTARY CREDIT

Synonymous with Letter of Credit. See Letter of Credit.

DOCUMENTS AGAINST PAYMENT (D/P)

These are instructions given by a shipper to his or her bank that the documents are deliverable to the Drawee/payer only against his or her payment of the draft.

DRAFT

An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, on demand or at a fixed or determinable future time a certain sum of money to or to the order of a specified person or bearer. This is also referred to as a Bill of Exchange.

DRAWEE BANK

The bank named in the Letter of Credit on which the drafts are to be drawn.

EXPORTER

The party that has contracted to sell goods, also known as seller or beneficiary.

FINANCIAL DOCUMENTS

Documents used in international transactions that are directly related to payment. E.g. drafts.

IMPORTER

The party that has contracted to buy goods. Also known as buyer, accountee, account party, or applicant.

INCOTERMS

Standardized contract terms issued by the International Chamber of Commerce that describe the obligations of the Exporter and Importer with respect to freight costs, insurance, taxes, duties, etc. These are also called trade terms.

FAS

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

FOB

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

CFR

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

CIF

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

IRREVOCABLE LETTER OF CREDIT

A Letter of Credit that cannot be canceled or changed without the consent of all parties, including the Exporter. Unless otherwise stipulated, all Letters of Credit are irrevocable.

ISSUING BANK

The bank issuing the Letter of Credit at the request of its customer the Importer (Applicant) in favor of the Exporter (Beneficiary), guaranteeing payment under the Letter of Credit if all terms and conditions are met.

LETTER OF CREDIT

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. Also referred to as a Documentary Credit.

OPENING BANK

See "Issuing Bank".

REIMBURSING BANK

The bank designated in the Letter of Credit to reimburse the "available with" Bank which submits payment claims under the Letter of Credit.

REVOCABLE LETTER OF CREDIT

A revocable Letter of Credit can be revoked without the consent of the Exporter, meaning that it may be canceled or changed up to the time the documents are presented.

STANDBY LETTER OF CREDIT

A written instrument issued by a bank (Issuing Bank) at the request of its customer (Applicant) on behalf of a beneficiary, whereby the Issuing Bank agrees to provide financial remedy in the event that the Applicant defaults on any terms and conditions specified under the Standby Letter of Credit. Standby Letters of Credit are often issued at the request of Importers in favor of Exporters as financial security for goods purchased on Open Account.

TRANSFERABLE LETTER OF CREDIT

A Letter of Credit that allows the Beneficiary (Exporter) to instruct its bank to transfer the credit in part or in whole to a Secondary Beneficiary.

TRANSFERRING BANK

The bank authorized by the Issuing Bank to transfer at the Beneficiary's request all or part of the Letter of Credit to another party.

UNIFORM CUSTOMS AND PRACTICES FOR DOCUMENTARY CREDITS (UCP)

A set of guidelines, rules and definitions governing Letters of Credit published by the International Chamber of Commerce. For those banks that subscribe, UCP facilitates the standardization of Letters of Credit.

USANCE (TIME) CREDIT

A Letter of credit that calls for payment against drafts calling for payment at some specified date in the future. It gives buyers time to sell the goods to get the funds to reimburse the issuer.

USANCE LETTER OF CREDIT (L/C)

A letter of credit that calls for payment at a future date -- generally within six months -- and requires a draft drawn on the issuing/paying bank for the amount of the invoice. See also "letter of credit".