

LETTER OF CREDIT

MBA- IVSemester

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LETTER OF CREDIT

It is a key written financial Undertaking/document that facilitates international as well as domestic trade. It substitutes bank credit, for credit of customer.

ENTITIES involved In L/C DOCUMENTS

- ▶ Applicant
- ▶ Invoice
- ▶ Packing List
- ▶ Bill of Lading
- ▶ Insurance
- ▶ Bill of Exchange
- ▶ Inspection
- ▶ Certificate of Origin
- ▶ Duty Waiver certificates
- ▶ Beneficiary
- ▶ Issuing Bank
- ▶ Advising Bank
- ▶ Confirming Bank



Buyer

Types of LCs

- ▶ Regular
- ▶ Revolving
- ▶ Standby
- ▶ Sight
- ▶ Usance
- ▶ Red clause
- ▶ Green clause
- ▶ Confirmed
- ▶ Unconfirmed
- ▶ Transferrable
- ▶ Un-transferable
- ▶ Back to back
- ▶ Revocable
- ▶ Irrevocable



Seller

Letter of Credit

COMMERCIAL LC

- ▶ Standard LC, also called as documentary credit LC

EXPORT/IMPORT LC

- ▶ depending on who uses it. If used by exporter, LC he will name it to be exporter and vice versa.

TRANSFERABLE LC

As the name says, it is transferable to the next supplier in chain & that allows the beneficiary to provide its own documents. The beneficiary is only an intermediary for actual supplier.

UNTRANSFERABLE LC

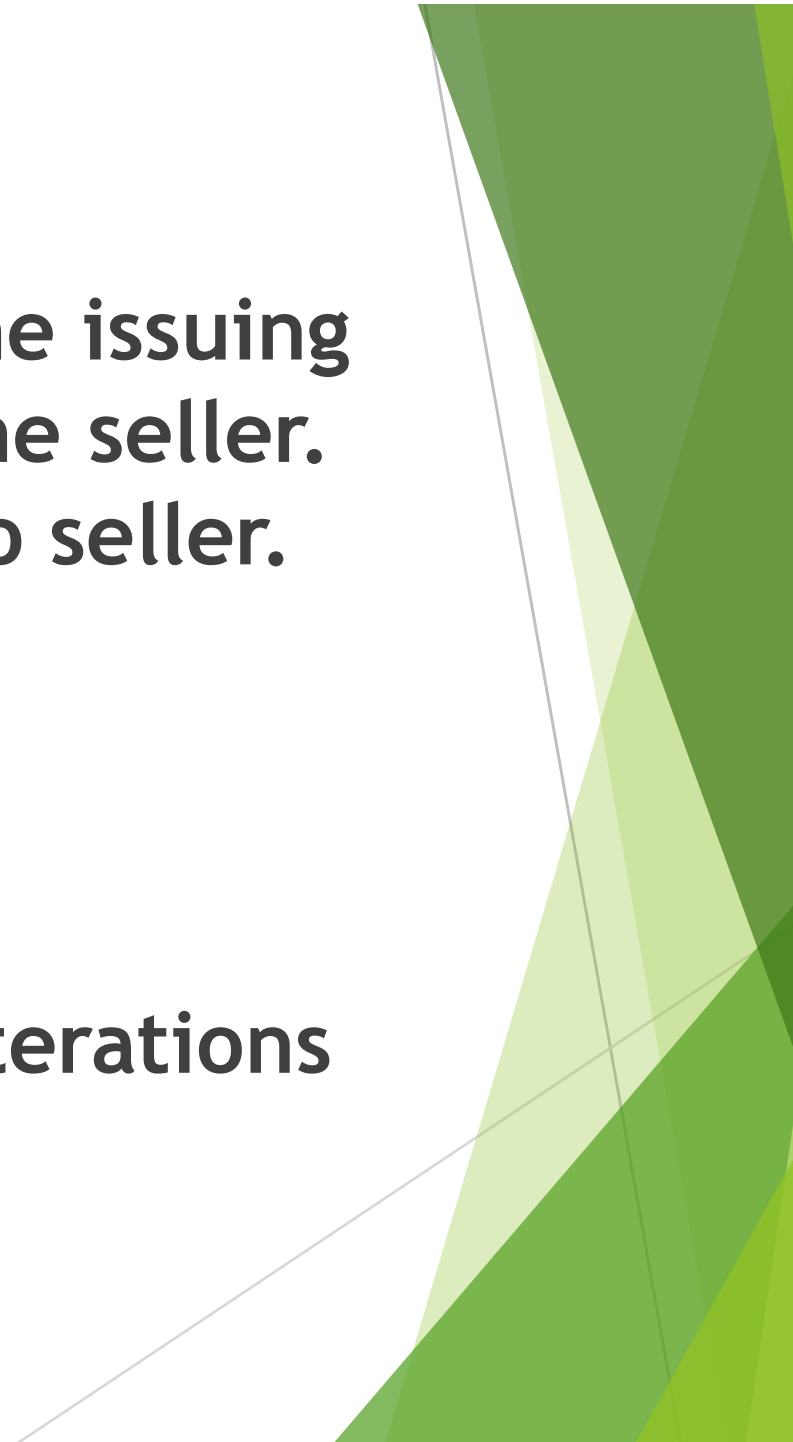
- ▶ The beneficiary is the recipient & cannot further use to transfer to third parties to pay anyone. In short, he is not allowed.

REVOCABLE LC

- ▶ Can be altered at any time by the issuing bank buyer without informing the seller. Not used frequently, no shield to seller.

IRREVOCABLE LC

- ▶ Without consent of seller, no alterations can be made by anyone.



STANDBY LC

- ▶ It ensures the payment to seller if anything wrong happens

REVOLVING LC

- ▶ These can be used be used for many payments, instead of issuing for each of them.

BACK TO BACK LC

- ▶ Two LCs are issued- one by the bank of buyer, to the intermediary and second by the bank of an intermediary to the seller.

CONFIRMED LC

- ▶ When the advising bank also guarantees the payment to the beneficiary, it is called Confirmed LC.

UNCONFIRMED LC

- ▶ This is assured only by issuing bank & not in need of second bank.

RED CLAUSE LC

- ▶ Partial payment before the goods are shipped like an advance against a written confirmation from the seller & the receipt.

GREEN CLAUSE LC

- ▶ Same like Red clause LC, but only difference is the proof of warehousing is also given to the seller.

LC Procedure At A Glance:

- ▶ Issuance of Documentary LC by Issuing Bank
- ▶ Shipping Documentation Document Submission & analysis by Advising Bank
- ▶ Checking of documents by Issuing Bank and
- ▶ Provide Payment Charges by buyer to Issuing Bank &
- ▶ getting of documents on receipt of it by issuing Bank
- ▶ Goods Clearing through documents received
- ▶ Transfer of payment by Issuing to Advising Bank
- ▶ Deduction of service charges by Advising Bank

THANKS

For Any Query
(in relation to this topic)
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Sincerely Acknowledge all the study material sources

