

PREFACE

Documentary credit is one of the oldest, most sophisticated and safest payment instruments used in international trade. Despite the fact that its demise has been anticipated for some time due to the increasing globalisation and developments in the area of e-commerce, the documentary credit is stronger than ever. It remains very important to carefully analyse the underlying risks in the foreign trade transaction and take appropriate measures. The recent global financial crisis has fully shown the importance of trade finance in the world economy and the need to appreciate and properly use the traditional, well-established payment and security instruments.

Documentary credit provides very effective tool for mitigation of the risk of non-payment by the buyer, which is thus replaced by the payment undertaking of a bank (banks) to provide payment against documents which comply with the terms and conditions of this instrument – the documentary credit. The seller therefore undertakes payment risk of the issuing bank, whose payment obligation is legally independent from the contract of sale or any other contractual relationship the documentary credit relates to. If the payment risk (and the country risk) of the issuing bank is still too high for the seller, it is possible to safeguard an additional payment undertaking of another bank by means of its confirmation.

For more than 80 years, the International Chamber of Commerce (ICC) has played an essential role in the standardisation of this payment instrument. In the year 1933 it established the first Uniform Customs and Practices for Documentary Credits (UCP), which have been revised several times since. The last revision took place in 2007 (UCP 600). The ICC Banking Commission developed a practical complement to UCP, firstly to UCP 500 (2003). This complement, ICC publication called International Standard Banking Practice for the Examination of Documents under Documentary Credits was updated with the revision of UCP 600 in the year of 2007.

It is self-evident that the most complex and demanding part of the documentary credit transaction is the examination of presented documents. The whole concept of the documentary credit instrument is based on the impartial professional examination of presented documents required by the credit terms and conditions by a bank documentary checker. It is crucial that all parties to the documentary credit transaction are familiar with the main aspects of the documents used in foreign trade, the seller and the buyer pay attention to specification of payment conditions in their contract of sale (correctly and sufficiently describing the terms and conditions of the documentary credit to be established by the buyer, above all the content of the required documents). The seller, the beneficiary of the credit, needs to be aware of the international standard banking practices, especially in relation to the examination of documents under documentary credits. After all, if documents he presents to the bank do not comply, he might not be paid at all!

The practice shows that the task to get the documents right is indeed difficult. To build the capacity of being able to professionally examine the documents and make a decision whether they comply with the credit terms and conditions is a demanding process, both in time and efforts. This guide has been designed to address this concern. All important aspects of the documentary credit practice in relation to examination of documents are explained fully and professionally. General problems and possible solutions are outlined in an overview and more detailed information is given in the part dealing with examination of the individual documents.

I wish to congratulate the author of the book, who also serves as the secretary of our active banking commission, for writing this practical guide down and updating it in the light of the new ISBP, ICC publication No. 745E. My acknowledgements go also to other members of our banking commission who actively participated in the development of this book. I believe that this very comprehensive, informative and practical guide will significantly assist proper understanding of the relevant international standard banking practices and will support the successful utilisation of documentary credits in practice.

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