



INSIGHTS FROM CASH MANAGEMENT, US

TreasuryPulse

Global Trade

UCP 600 Promotes Letter of Credit Use by Clarifying Governing Rules

Following a three-year effort, the International Chamber of Commerce (ICC) Banking Commission has approved the new Uniform Customs and Practice for Documentary Credits. UCP 600, which replaces the current UCP 500 and takes effect July 1, 2007, is designed to clarify the rules governing letter of credit (L/C) transactions. Many industry analysts believe the revision also will expedite letter of credit processing and make L/Cs more attractive as a trade risk mitigation tool within the global trade community.

Adopted by more than 90 countries around the globe, UCP 600 is the latest in a succession of revisions the ICC Banking Commission has made nearly every decade since the UCP's inception in 1933. The revisions aim to address language, documentary and marketplace evolutions in the banking, insurance and transportation industries.

When UCP 500 was adopted in 1993, for example, it recognized the evolution of electronic and multi-modal commerce. UCP 600 doesn't have a similar mandate but is more of a general attempt to clean up existing language, conform to today's trade practices, clarify some terms and address other legally contentious issues.

What the New UCP Means for You

The new rules will bring about considerable changes for practitioners who advise, issue or confirm and those who either check or create documents. Implementing this leaner set of rules—it has only 39 articles, 10 fewer than the UCP 500—may be time-consuming and costly. However, failure to comply could result in nonpayment to the beneficiary even after their goods have been shipped.

With payments at risk, it's important that importers and exporters become comfortable with the new rules and align their credit transactions accordingly. Here is some of what you need to know.

Action to Take Now

Anyone who touches an L/C—ranging from exporters, importers and bankers to lawyers and transport professionals—must make the effort to understand the nuances that distinguish UCP 600 from UCP 500. This evaluation process should identify what impact

UCP 600 will have an impact on internal processes and documentation, as well as trading partners and others associated with individual supply chains.

You can start with the sections concerning definitions and interpretations. These additions clarify previously ambiguous terminology that wasn't being interpreted consistently across global letter of credit transactions and therefore resulted in delays and legal battles.

Other notable facts about UCP 600 include:

- The phrase "reasonable time not to exceed seven banking days," used in reference to the amount of time made available for examining and measuring compliance of documents, has been replaced with a five banking-day limit.
- Article 10 clarifies the L/C amendment process. It states that terms of the original L/C remain in force until the beneficiary communicates acceptance of any amendments to the advising or issuing bank.
- Article 17 distinguishes original documents from copies to prevent disagreements about how documents required for shipping are categorized.
- Banks can now accept an insurance document that contains reference to any exclusion clause.
- The process for handling discrepant documents has been expanded.

Deutsche Bank Offers Training

In the near term, exporters and importers need to examine how their related forms, policies and procedures regarding the timing of L/C events—as well as their IT systems—must change to reflect the new rules in UCP 600. This includes all legal documentation that supports L/Cs.

One educational aid on the horizon will come directly from the ICC, which plans to publish a UCP 500/UCP 600 comparison paper this spring. You also may purchase a copy of the new regulation from the ICC Business Bookstore at www.iccbbooks.com.

Furthermore, to help you prepare for these changes, Deutsche Bank is conducting regional training and other smaller group forums. Contact John Baranello at (212) 250-9604 or john.a.baranello@db.com for more information. Baranello is Director of the Bank's Trade Finance Department and will be leading these sessions throughout the country. He can answer your questions about the new regulation, as well.