



The UCP 600: An Improved Playing Field for International Trade

July 1, 2008 marked the first anniversary of the implementation of the International Chamber of Commerce Uniform Customs and Practices for Documentary Credits Publication Number 600 (UCP 600). This new set of International Chamber of Commerce (ICC) rules replaced the UCP 500, which had been in effect since 1994. These rules, which were created in 1933, continue to be formulated by experts in the private sector as an excellent means to facilitate the flow of international trade.

Today's global marketplace has seen open-account trading become increasingly popular. It is so prevalent that it now captures nearly 80% of today's trading activities. While more exotic products such as supply chain finance structures generate a buzz, letters of credit (L/Cs) continue to form the foundation for risk mitigation in the facilitation and financing of trade globally. When the ability to receive payment is a concern, L/Cs are still a highly viable means to ensure payment.

Changes for the Better

The UCP 600 has made letters of credit more attractive as a trade risk-mitigation tool. These new rules are clearer, more concise, better organized and more applicable to today's global trade transactions.

The revisions have helped to expedite L/C processing. Whereas the UCP 500 contained 49 articles, the UCP 600 only has 39. There are major amendments that have been enacted in response to various UCP 500 articles that previously induced the greatest number of inquiries.

The UCP 600 addresses language, documentary and marketplace evolution in the banking, insurance and transportation industries.

The Rules of the Game

Ultimately, the effective use of letters of credit under the UCP 600, as under the prior UCPS, requires a thorough understanding of the rules as well as each participant's role and responsibilities. The UCP 600 needs to be considered as an integral whole, with article exclusions or modifications not necessary for it to be effective.

In the past year we have observed a decline in discrepant documentary presentations — proof that the UCP 600 has provided a complete set of rules that our clients can use without the need for any changes.

Complying with L/C Terms and Conditions

One of the key tenets of letters of credit that continues in the UCP 600 is that shipping documents must be presented in accordance with the terms and conditions of the L/Cs in order for payment to be effected. Our experience with the UCP 600 has shown that one of the best tools to assist in the creation of complying documents continues to be the International Standard Banking Practice for the Examination of Documents under Documentary Credits (ISBP). These guidelines that were created by the ICC in 2002 as a supplement to the UCP 500 have been amended and reissued as publication number 681 E to be consistent with the changes of the UCP 600.

The ISBP complements the UCP in two important ways: (1) It provides a checklist of items that document examiners could refer to in determining how to apply the UCP 600 in their daily practice. (2) It details the specifics of documentary credit operations — such as how to sign bills of lading, the key features of insurance documents and how to handle misspellings or typing errors.

We have found that exporters as much as banks should use the ISBP to educate L/C practitioners and ensure compliance of their L/C practice with the UCP 600. In the current environment, this also means that key ISBP items belong in relevant internal audit and control frameworks.

Additionally, we have seen greater use of the International Standby Practices, ICC Publication Number 590 (ISP98) by our standby letter of credit practitioners. This increase was a direct result of the global training effort that Deutsche Bank undertook when the UCP 600 was first introduced.

The implementation of the UCP 600 last July presented us with an opportune time to provide guidance and training regarding the handling of an L/C issued subject to both the UCP 600 and ISP98. It was during these sessions that our clients learned that due to its exclusivity for standby L/Cs, the ISP98 is a viable option for this type of business.

The Score Card

The updated UCP rules have significantly enhanced letter of credit processing. Before the UCP 600, more than 70% of beneficiary documents that were presented were rejected due to misinterpretation and misapplication of the UCP. This number has improved over the course of the past year, and L/Cs are now being viewed as a risk mitigation tool.

However, we have found that whichever approach or rules are taken to streamline and achieve global trade objectives, it's all about education and collaboration — both inside the bank and the companies we deal with — across the entire supply chain.