



LETTER OF CREDIT FAQs

Q1- What is a Letter of Credit?

A Letter of Credit (LC) is an undertaking by a bank (the Issuing Bank) at the request of the applicant to provide payment to a third party (the Beneficiary) for an agreed sum at an agreed time, usually upon the submission of the documents mentioned in the LC, provided that they comply with the terms of the LC.

Note: The bank's obligation to pay is solely conditioned upon the seller's compliance with the terms and conditions of the LC. In LC transactions, banks deal only in documents and not in goods.

Q2- What are the common parties to a Letter of Credit?

- The 'Applicant' is the person or company who has requested the issuance of a LC. This will normally be the buyer, opener or importer
- The 'Beneficiary' is the person or company who will be paid in accordance with the LC. This will normally be the seller, supplier or exporter
- The 'Issuing Bank' is the bank that issues the credit, usually at the request of an Applicant
- The 'Advising Bank' is the bank that will inform the Beneficiary or their designated bank of the credit, send the original credit to the Beneficiary or their designated bank and provide the Beneficiary or their designated bank with any required amendments to the LC
- The 'Confirming Bank' is a bank other than the Issuing Bank that provides more security to the Beneficiary by adding its confirmation to credit upon the authorization or request of the Issuing Bank
- The 'Negotiating Bank' is a bank, usually in the Beneficiary's country, that purchases the Beneficiary's draft under the credit, either due to designation of the Issuing Bank or due to a voluntary decision. By negotiating the draft, the Negotiating Bank becomes a holder of the draft and advances its own funds to the Beneficiary

Note: The parties to a LC may exceed the indicated above in accordance with the terms of the LC.

Q3- What are the common types of Letters of Credit?

Revocable

This letter can be canceled or amended at any time by either the Applicant or the Issuing Bank without formal notifications. Please note that, in the latest version of the UCP 1.1., revocable Letters of Credit have been removed for any transaction undertaken within their jurisdiction.

Irrevocable

Unless all three parties (Buyer, Seller and Issuing Bank) agree to terms, this letter cannot be canceled, amended or reversed.

Confirmed

This Letter of Credit will be granted a "confirmed" status once the Beneficiary's bank has added its obligation to the Issuing Bank.

Unconfirmed

An Unconfirmed Letter of Credit is only guaranteed by the Issuing Bank. There is no confirmation required from the Beneficiary's bank.

Transferrable

In scenarios where the Beneficiary is an intermediary on behalf of the suppliers, the payment will need to be transferred to the suppliers. With this letter, it is transferable to the next supplier in the trade chain.

Un-transferrable

For Un-Transferrable Letters of Credit, payments are prevented from being transferred to any third parties and the Beneficiary is the sole recipient.

Time

In this case, payments can be deferred with a Usance Letter of Credit, which gives the buyer time to inspect or sell the goods. The Issuing bank undertakes to pay on the due date after examining the submitted documents and ensuring their compliance with the terms of the credit.

Sight

If the LC is 'Sight', it is payable as soon as the documents are presented to and verified by the Corresponding Bank.

Q4- What is the Letter of Credit process?

The entire process consists of four steps:

Step 1 - Issuance of the LC

After the parties agree on the contract and the use of an LC, the importer requests an LC in favor of the exporter from the Issuing Bank. The Issuing Bank sends the LC to the Advising Bank. The Advising Bank (Confirming Bank) verifies the authenticity of the LC and forwards it to the exporter.

Step 2 - Shipping of Goods

After receiving the LC, the exporter is expected to verify it to their satisfaction and initiate the shipping process.

Step 3 - Providing Documents to the Confirming Bank

The exporter presents the documents to the Advising/Confirming Bank.

Step 4 - Payment Settlement from Importer and Possession of Goods

The bank, in turn, sends them to the Issuing Bank and the amount is paid and accepted. The Issuing Bank verifies the documents and obtains payment from the importer. It sends the documents to the importer, who uses them to get possession of the shipped goods.

Q5- What is the Incoterm?

The International Commercial Terms, referred to as Incoterms, are rules developed by the International Chamber of Commerce that were created as an industry standard to facilitate international trade.

Q6- What are the Incoterm codes for modes of transport?

- **EXW:** ex-works
- **FCA:** free carrier
- **CPT:** carriage paid to
- **CIP:** carriage and insurance paid to
- **DEQ:** delivered at terminal
- **DAF:** delivered at place
- **DDP:** delivered duty paid

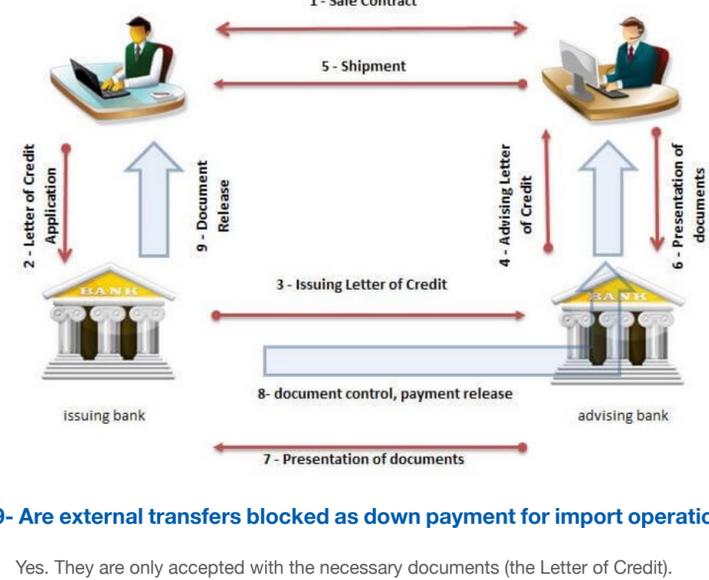
Q7- What are the Incoterm codes for sea and inland waterway transport?

- **FAS:** free alongside ship
- **FOB:** free onboard
- **CFR:** cost and freight
- **CFI:** cost insurance and freight

Q8- What is the difference between Documentary Collection (DC) and Documentary Credit (LC)?

	Documentary Credit (LC)	Documentary Collection (DC)
Bank Charges	High	Medium
Payment Risk	Payment is guaranteed by the Issuing Bank if the terms of credit are met	Payment risk is unchanged
Exporter's Country Risk	High Exporter requires confirmation from a bank in a low-risk country	Medium Exporter mitigates risk by using the banking system to retain control over the goods by holding on to title documents
Credit Facilities	Required	Not required
Governing Rules	Governed by UCP 600, ISBP 745 rules	Governed by URC 522 rules
Responsibilities of Banks	Banks play a key role in Letters of Credit transactions and have high levels of responsibilities against the exporters	Banks have almost no valid responsibilities against the exporters
Complexity	High	Much easier from an operational perspective

Basic Letter of Credit Transaction



Q9- Are external transfers blocked as down payment for import operations?

Yes. They are only accepted with the necessary documents (the Letter of Credit).

Q10- Can down payments be made under Letters of Credits that have yet to be issued?

All transactions require issued Letters of Credit to be completed.

Q11- Will the Avalized Documentary Collection be treated as equals to Letters of Credit since they both have the same general obligation?

No. Letters of Credit are not treated as equal to the Avalized collection documents. Transactions can only be completed using issued Letters of Credit.

Q12- Where do government companies, sovereign bodies and companies and their affiliates (including national projects such as Takaful and Karama, renewable energy projects and new cities) stand especially in regard to advance payments?

Transactions can only be completed using issued Letters of Credit.

Q13- In cases of import of production lines, spare parts, etc. for private use, will Form 6 complete the transaction?

Only Letters of Credit can complete the transaction.

Q14- Do these regulations include trade transactions that are registered on NAFZA through Documentary Collection?

Yes. These transactions need Letters of Credit.

Q15- In cases of imports that take place between Egyptian Companies and their branches/subsidiaries abroad, under open accounts system, can the companies complete trade transactions using Documentary Collection or direct transfers?

Only Letters of Credit can be used for these transactions.

