金融专业英语证书考试学习参考资料

REFFRENCES FOR FINANCIAL ENGLISH CERTIFICATE TEST (FECT)

INTERNATIONAL SETTLEMENT

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前　言

为适应我国金融业改革开放的需要，为国家及各金融机构培养造就大批既懂国际金融业务、又能运用英语从事银行业务及管理的中、高层复合型人才，提高金融系统职工队伍整体素质，并使金融系统职工培训工作逐步与国际专业培训接轨，经中国人民银行总行和国家教委批准，建立《金融专业英语证书考试制度》。这是我国第一个国家级的行业性英语证书考试制度。它是使用英语对金融系统专业人员的专业知识尤其是国际金融方面的知识和能力进行综合性的全面测试，并对金融从业人员进行全面、综合、科学的评价，从而为扩大国际金融人才资源并建立人才库提供依据。

金融专业英语证书考试主要面向全国金融系统(包括合资、外资银行和非银行金融机构)。凡具备一定的金融专业知识和英语水平的金融从业人员，外资、合资企业和从事进出口贸易、财务管理的人员以及社会上有志从事金融工作的人士均可参加本考试。

本考试分为初级、中级、高级三种程度。初级：要求掌握一定金融专业英语词汇量，能够阅读英文金融函电、信件等，能运用英语标准、规范地操作银行、保险等柜台业务。中级：要求能阅读英语金融专业报刊、书籍，能运用英语处理业务函电、信件和进行业务操作及管理工作。高级：要求有深厚的金融、国际金融专业知识和较高的英语文字、听力、口语水平，能熟练地运用英语从事银行业务综合管理工作和理论研究工作。

为配合考试工作的开展，我们编写了一套学习参考资料。本资料是经过一年多调查研究，抽调全国金融系统的部分专家、学者、教授及从事国际金融业务的领导干部和业务骨干，按照初级证书考试大纲规定的所需知识和能力的标准，紧密结合实际业务工作，参考国际上最新业务实务和资料编辑而成的。希望本套资料能够为金融系统广大职工学习金融专业英语和参加证书考试提供帮助。

本套学习资料共分六部分，由编辑委员会集体讨论定稿，送有关专家审阅。六部分的题目分别是：总论、外汇、会计、国际结算、信贷、金融函电。共分三册出版，第一册：中国的金融业(总论、外汇、会计、信贷)；第二册：国际结算；第三册：金融函电。随着金融业务的发展，本学习资料还将陆续出补充材料。

本学习资料是在时间紧、素材缺乏的条件下编写而成的，又是初次编写这种资料，由于我们水平有限，疏漏、不当、乃至错误之处在所难免，敬请专家、同行以及广大读者不吝赐教。

编　者

一九九五年七月

INTERNATIONAL SETTLEMENT

CONTENTS

Cheque

Definition

A cheque is defined as an unconditional order in writing drawn on a bank signed by the drawer, requiring a bank to pay on demand a sum certain in money to the order of a named person or to the bearer.

The meaning of the different parts of the definition are:

1. Unconditional Payment cannot hinge on certain conditions being met, for example: 'pay Mr Jones £50 provided my salary cheque has been paid into my account'.

2. Writing It must be in writing, pen, biro, print, even pencil can be used although the latter is not recommended because details can easily be altered.

3. Signed A cheque must be signed by the drawer who is the person paying the money.

4. On demand It is expected that the cheque will be paid as soon as it is presented to the other bank.

5. A sum certain The amount of the cheque must be definitive, both in words and figures.

6. Named person or bearer The cheque must be payable to someone by name or payable to 'the bearer'.

Clearing cheques

To obtain payment for its customers for cheques that are paid into the branch from customers of other branches, the bank needs a system of sending these items from one to another. This process is known as cheque clearing.

This system identifies two key roles that branches have to play in the cheque clearing system. These are the roles of collecting bank and paying bank.

A. The collecting bank

When a customer pays a cheque into his branch which is drawn on another branch or bank, he is asking his branch to obtain payment on his behalf and to have his account credited. The bank is here acting as a collecting bank.

The term collecting bank is applied to the bank who accepts a cheque for credit into an account. The duty of a collecting bank is to credit the customer's account with the value of cheques deposited and to collect the money from the bank on which the cheque is drawn. It must ensure that the cheque is being credited to the account for which it is intended.

To carry out the role of collecting bank, it is important that all the cheques accepted for deposit should be carefully scrutinised. The easiest and quickest way is to start from the top of the cheque and work downwards:

Date. There are three things to be considered when examining the date of a cheque. They are as follows:

Out of date. A cheque is valid for six months from the date of issue, unless a shorter period is written on the face of the cheque. For example, if a cheque dated 1st March 1992 was presented on the 5th September 1992, it would be out of date.

Post-dated. This means that the cheque is dated later than the day on which it is presented. In the above example, if the cheque was presented on any date before 1st March 1992, it would be 'post-dated'.

Undated. If a cheque is presented undated, the payee can insert a date and should be asked to do so by the cashier. If any undated cheques are mistakenly accepted, the date stamp can be used to insert it. However, once a date is entered on a cheque, it cannot be altered by the payee.

Payee. The payee's name should be the same as the one shown on the account that the cheque is being paid into. If the name is different, then an endorsement is required. If a cheque is presented with no payee's name entered, it cannot be accepted and it cannot be written in by the customer or by a cashier. Care should be taken if the payee's name is mis-spelt.

Words and figures. Both words and figures should be written and should agree. If they disagree, the cheque should be returned to the drawer for amendment or for a new cheque to be issued.

Signature. The cheque must be examined to see if it is signed. Presence of a signature is sufficient for the purposes of a collecting bank.

Crossings. When a cheque is crossed, it must be paid into a bank account and cannot be cashed over the counter.

Endorsements. There are occasions when the person to whom a cheque is made payable (that is the payee) wishes to transfer the cheque to a third party. In order to do this, the payee signs the cheque on the back. This signature is called an endorsement.

For example:

1. A cheque payable to a Mr A Jones can be paid into an account in a different name if Mr A Jones has signed on the back of the cheque.

2. A cheque payable to joint names, Mr A & Mrs D jones, is presented for deposit to the sole account of one of the payees Mrs D Jones. The cheque must be endorsed by the other payee(s). In this example Mr A Jones must sign the cheque on the back.

The endorsement signature must, as far as possible, accurately reflect the name of the payee. The endorsement should be the normal signature of the payee. Courtesy titles such as Mr, Mrs, Captain must not be included as a prefix to the signature (but may be included as a suffix):

Payee	How endorsed
Dr J Brown	James Brown Dr or MD
Capt M Philips	M Philips Capt.

A married woman must endorse with her normal signature and may add her courtesy title as a suffix:

Payee	How Endorsed
Mrs Alice Jones	A Jones
	Alice Jones
	A Jones Mrs
	Alice Jones Mrs

If, however, the cheque is payable to her husband's Christain name or initials, the endorsement must include such words as wife of…

Actual Name	Payee	Endorsed
Mrs Alice Jones	Mrs Jack Jones	Alice Jones wife of Jack Jones

There are three types of endorsements, blank, specific and restrictive:

(a) Blank. A blank endorsement or general endorsement is a signature of the payee on the back of a cheque. The effect is to make the cheque payable to the bearer. For example, payee J Smith endorsed James Smith'.

(b) Specific. A specific endorsement consists of the payee's signature on the back of a cheque, together with the name of the person to whom the cheque is being transferred, for example, payee J Smith endorsed 'James Smith pay to L Green or order'.

(c) Restrictive. A restrictive endorsement is one which consists of a specific endorsement with a restrictive wording added. The additional wording prevents further transfer of the cheque, for example, payee J Smith endorsed 'James Smith pay to L Green only'.

Banks usually ask for endorsements in the following circumstances:

——when cheques in favour of joint payees are credited to a sole account;

——when cheques are cashed over the counter (not usually for customers'own cheques);

——when R (receipt) is printed on the cheque, for example, a cheque issued by an insurance company to a policyholder who is receiving the benefits of the policy;

——if the cheques are payable overseas;

——if cheques have been negotiated;

Endorsements are not required when

——a cheque is paid into the payee's account;

——cheques in favour of a sole payee are credited to a joint account.

B. The paying bank

When a cheque has been passed through the clearing system, it will reach the paying bank whose role is to debit the cheque to the customer's account. Before a cheque is debited, however, the paying bank has a duty to ensure that the cheque is correctly completed and that it is paid in accordance with the account mandate or returned within the legally recognised time limits.

It is important to consider:

legal obligations of the paying bank;

identifying the paying bank and the time limits for dishonouring cheques;

scrutinising the cheques and the drawer's account;

risks and protection;

returning cheques—reasons and replies.

(1)Legal obligations of the paying bank

The paying bank has a legal obligation to honour his/her customer's cheques provided that:

——there is a sufficient cleared credit balance or an available overdraft limit;

——the cheque has been completed correctly and has no defects;

——there is no legal bar to payment such as death and bankruptcy.

The bank MUST NOT PAY the cheque if:

——it has notice of defect in the presenter's title, that is where the bank has received notice that the cheque is lost or stolen and it is then presented for payment;

——the drawer's signature is forged.

The banks must always honour a cheque guaranteed against a cheque card issued in accordance with the cheque card regulations.

(2)Identifying the paying bank and the time limits for dishonouring cheques

A bank is acting as a paying bank when it is presented with a cheque to be debited from an account held at that branch.

(3)Scrutinising the cheque and the account mandate

Before debiting a cheque from the customer's account the following details must be checked:

——date

——payee

——endorsements

——crossings

——alterations

——drawer's signature

——mutilation

——stopped cheque

——legal bars to payment

——payment in accordance with the Account Mandate.

C. The Payee

The payee's name must be presented on the cheque.

Endorsements

The paying bank should ensure that any endorsement on the cheque is consistent with the payee's name.

D. Crossings

A crossing is a direction to the paying bank and it appears as two parrallel lines drawn across the face of the cheque reasonably near the centre.

A crossing may be pre—printed or hand written. It means that the cheque must be paid into a bank account. It is a means of minimising the chances of someone fraudulently obtaining payment of a cheque. Uncrossed cheques do not have to be paid into a bank account and payment can be made over the counter.

Draft

Definition

A draft is an unconditional order in writing prepared by one party(drawer) and addressed to another (drawee) directing the drawee to pay a specified sum of money to the order of a third person(the payee),or to the bearer,on demand or at a fixed and determinable future time.

Clean or documentary drafts

A documentary draft is one that is accompanied by the relevant documents that are needed to complete the export transaction.

A clean draft is one that has no documents attached and is usually handed to a bank for collection in a foreign country. Such a draft may be drawn for many purposes,among which are dthe collection of an open account,the sale of stocks and bonds,payment for services,and other transactions that arise in international trade but for which no shipping documents exist. Bank drafts are usually clean drafts.

Sight or time drafts

Drafts may be drawn either at sight or at a specified number of days after sight. The time at which payment is to be made is called the tenor or usance of the draft. As its name implies,the sight draft is supposed to be paid when it is first seen by the drawee. In some countries,however,a grace period of a specified number of days is allowed. Time drafts are those that specify payment a certain number of days after sight.

In some countries it is customary for the drawee to delay payment of a sight draft until the merchandise arrives. For this reason the exporter should always have an understanding with the customer as to whether he will accept or pay a sight draft immediately or whether acceptance or payment may be delayed until the arrival of the merchandise.

With or without recourse

When financing is without recourse this means that the purchase by a bank or another financial institution of drafts is made with the understanding that the bank has no recourse to the drawer of the drafts if such drafts are dishonored. In other words,the bank that purchases drafts or bills of exchange assumes full responsibility for payment,discharges the exporter of his or her obligation as guarantor,and looks to the consignee to accept the draft and to pay it at the due date.

The term with recourse means the exact opposite—the bank does not,in the usual sense of the term, buy or purchase the draft or bill of exchange.

The transaction is simply that the bank lends a certain amount of money to the exporter against a clean or documentary draft. If the consignee fails for any reason to meet the draft at the due date, the bank immediately has recourse to the original drawer of the draft. When the draft or bill of exchange is discounted or sold with recourse, the drawer assumes full responsibility for the payment of the draft.

Bank Drafts

A bank draft is in effect a cheque drawn by one bank on another. If sterling payment is required, the draft will be drawn on the vostro account; if currency payment is required, then the draft is drawn on the nostro account.

The UK bank will place sterling in the vostro account, or currency in the nostro account, to meet the drafts. The customer's account will be debited in reimbursement and charges will be passed.

The UK customer will forward the draft to the beneficiary who will pay it into his bank for credit to his account. Ultimately, the draft will be debited to the appropriate nostro or vostro account.

There are major disadvantages to the use of drafts for large transfers:

(a) The remitter is debited at the time the draft is issued, but there is a delay before the beneficiary can pay the draft into his bank account and obtain cleared funds.

(b) If the beneficiary does not bank at the bank on whom the draft is drawn, the funds will be treated as uncleared.

(c) The draft could be lost or stolen, and banks are reluctant to 'stop' a bank draft because it amounts to dishonour of the bank's own paper.

Promissory Note

Promissory note, defined in the Bills of Exchange Act 1882 s. 83 (1) as 'An unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer'. There is no acceptor, only the maker and the other parties are the payee, indorser, bearer and holder. The maker has prime liability while the other parties have secondary liability. Should the promissory note be made by two persons, then they are jointly and severally liable on the note according to its tenor.

Traveller's Cheque

Travellers' Cheque is a draft of a bank or travel agency which is selfidentifying and may be cashed at banks, hotels etc, either throughout the world or in particular areas only. The selfidentification is provided by obtaining the signature of the customer on the instrument at the time of issuance, with a second space for his signature being left blank until presentation for cashing, when the encashing agent will require signature in his presence. This gives reasonable safety, both for the traveller and for the party cashing the item, in the one case protection if the item is lost and in the other a means of identification of holder. It is, naturally, of prime importance that the cheque not be signed the second time until it is to be cashed, and then actually before the person cashing it.

Travellers' Cheques are in fixed, round, convenient amounts. Their wider range of acceptability makes them suitable for persons taking comparatively smeller amounts or travelling from place to place and likely to require cash over week—ends or holidays when banks are not open to negotiate drawings under Travellers' Letter of Credit.

Credit Cards

Credit cards

These were introduced first by Barclays Bank in 1965 with Barclaycard, now called Visa—although this is not just a credit card. The other banks introduced their version, Access, in 1971. Customers with a current account are provided with a credit limit and a plastic card for identification purposes. This card has raised numbers on it in order to identify the customer's account, the date on which the card will expire and the name of the customer.

Customers holding these cards can make purchases by using these cards so building up credit on their account. The system is as follows. The customer hands the card to the retailer who places it into a machine along with specially designed documents and, by impression, these pick up the details from the card. The customer signs these documents and receives the top copy as a record of the transaction. A specimen of the customer's signature is found on the card. For large amounts, the shopkeeper telephones the credit card company to find out if the customer is authorised to spend the amount required. At regular intervals, monthly, the customer receives a statement of account with a request to repay any amount above the minimum required. This depends upon the size of the balance outstanding. Thus the customer receives interest free credit for almost a month on any purchase made just after the settlement date if he pays the full amount by the next settlement date. Rates of interest range from up to 2 per cent per month on the amount outstanding. It is now possible for customers to make payments with these cards by telephone or for mail order by quoting their card number. The most popular use of these cards is to purchase petrol and electrical goods.

These should not be confused with charge cards like American Express or Diners Card where the holder is charged for the privilege of holding a card and is expected to clear the account when it is due and, therefore, cannot really get credit over the maximum of twenty—eight days.

Loss of the credit card should be notified to the credit card company as soon as possible so that a stop can be put on it. For this purpose, it is important for the customer to have the number recorded in a safe place. Fraud on cheque guarantee and credit cards is now reaching high proportions. It is believed that in 1985 £40 million was stolen by this method. A system is being developed using anti—fraud techniques to try and counteract this. This counterfeiting has reached considerable proportions in the USA and it is expected that this will develop in the UK. Here the banks offer a reward to shop assistants who spot a stolen card. Barclays paid out £600,000 in 1984 and Access £500,000. The banks feel that these payments could increase in the future and the card user now faces a new liability. Barclaycard, which operates British Visa, is to introduce a clause in its conditions of use which allows it to charge the cardholder for fraudulent misuse. Access consider they would have to prove that the cardholder had been negligent before they could refuse to cover such bills.

Mail Transfer (MT) and Telegraphic Transfer (TT)

Book—keeping for transfers of funds

When a UK bank customer wishes to transfer funds denominated in sterling to the bank account of a beneficiary abroad, the book—keeping is as follows, assuming that an account relationship exists between the respective banks:

(a) Debit the UK customer with the sterling amount, plus charges, and credit the sterling account of the overseas bank. This is a vostro account from the UK bank's point of view.

(b) On receipt of the advice, the overseas bank will withdraw the sterling from the vostro account, convert it to currency, and then credit the beneficiary with the currency equivalent, less its charges.

If the transfer is denominated in foreign currency, the book-keeping is:

(i) Debit the customer with the sterling equivalent, plus charges, of the required currency amount, and credit the currency to the nostro account. (If the UK customer maintains a foreign currency account, then the appropriate currency amount can be debited to that account, and there will be no need to arrange for conversion into sterling.)

(ii) Advise the overseas bank that it can debit the nostro account with the requisite amount of currency and credit the funds to the account of the beneficiary.

The various methods of settlement all involve the same book-keeping. The only difference is the method by which the overseas bank is advised about the transfer.

MT and TT

The UK bank will need to know whether to credit the account of the beneficiary with a named bank (in which case request the bank account number) or whether it is instructed to request the overseas bank to advise and pay the beneficiary, if the beneficiary banks elsewhere. In the case of transfers of funds to a private individual, the overseas bank can be asked to pay the beneficiary on application and identification.

On receipt of the customer's instructions, the book-keeping will be applied. The UK bank will advise the overseas bank of the transaction by airmail, and the instruction must be signed by authorised signatories.

If a telegraphic transfer is used, the same procedure as for mail transfers is adopted. However, the instructions to the overseas bank are sent by cable or telex, and the overseas bank will require a special authenticating code word before it will act.

Means of Payment

The following categories are the usual methods of payment to settle international trade transctions:

Cash in advance

Definition

The buyer places the funds at the disposal of the seller prior to shipment of the goods or provision of services.

While this method of payment is expensive and contains degrees of risk, it is not uncommon when the manufacturing process or services delivered are specialised and capital intensive. In such circumstances the parties may agree to fund the operation by partial payments in advance or by progress payments.

This method of payment is used:

■when the buyer's credit is doubtful,

■when there is an unstable political or economic environment in the buyer's country, and/or

■if there is a potential delay in the receipt of funds from the buyer, perhaps due to events beyond his control.

Advantages to the seller

■immediate use of funds.

Disadvantages to the buyer

■He pays in advance, tying up his capital prior to receipt of the goods or services,

■He has no assurance that what he contracted for will be:

- supplied,
- received,
- received in a timely fashion, and/or,
- received in the quality or quantity ordered.

Open account

Definition

An arrangement between the buyer and seller whereby the goods are manufactured and delivered before payment is required.

Open account provides for payment at some stated specific future date and without the buyer issuing any negotiable instrument evidencing his legal commitment. The seller must have absolute trust that he will be paid at the agreed date. The seller should recognise that in certain instances it is possible to discount open accounts receivable with a financial institution.

Advantages to the buyer

■He pays for the goods or services only when they are received and/or inspected, and

■Payment is conditioned on such issues as political, legal and economic issues.

Disadvantages to the seller

■He releases the title to the goods without having assurance of payment,

■There is a possibility that political events will impose regulations which defer or block the movement of funds to him, and

■His own capital is tied up until the goods are received and/or inspected by the buyer or until the services are found to be acceptable and payment is made.

Collection

Definition

An arrangement whereby the goods are shipped and the relevant bill of exchange (Draft) is drawn by the seller on the buyer,and/or document(s)is sent to the seller's bank with clear instructions for collection through one of its correspondent bank located in the domicile of the buyer.

Normally, title to the goods does not pass to the buyer(unless the buyer is the named consignee on the transport document) until the Draft is paid or accepted by the buyer. Collections provide the parties with an alternative arrangement other than open account or cash in advance. Collections are usually connected with the sale of goods rather than with the provision of services.

Normal precautions to be taken by the seller

The seller should:

■obtain a credit report on the buyer,

■obtain an economic and political analysis on the country of importation,

■not consign the goods to the buyer and not consign the goods to the buyer's bank(the Collecting Bank)without that bank's prior agreement, and

■establish alternative procedures for the resale,reshipment or warehousing of the goods in the event of non—payment by the buyer.

1. Documentary Collection

■The seller ships the goods and obtains the shipping documents and usually draws a Draft, either at sight or with a tenor of x days,on the buyer for the value of the goods,

■The seller submits the Draft(s) and/or document(s) to his bank which acts as his agent (the Remitting Bank). The bank acknowledges that all documents as noted by the seller are presented,

■The seller's bank(the Remitting Bank)sends the Draft and the other documents along with a collection letter to a correspondent bank(the Collecting Bank)usually located in the same city as the buyer,

■Acting as an agent for the Remitting Bank,the Collecting Bank notifies the buyer upon receipt of the Draft and documents,and

■All the documents,and usually title to the goods,are released to the buyer upon his payment of the amount specified or his acceptance of the Draft for payment at a specified later date.

Advantages to the seller

■Documentary collections are uncomplicated and inexpensive,

■Documents of value,i. e. title documents,are not released to the buyer until payment or acceptance has been effected. In the event of nonpayment or non—acceptance,the Collecting Bank,if properly authorised,may arrange for the goods release,warehousing,insurance or even reshipment to the seller,and

■Collections may facilitate pre—export or post—export financing.

Disadvantages to the seller

■He ships the goods without an unconditional promise of payment by the buyer,

■There is no guarantee of payment or immediate payment by the buyer, and

■He ties up his capital until the funds are received.

Advantages for the buyer

■Collections may favour the buyer since payment is deferred by him until the goods arrive or even later if delayed payment arrangements are agreed to.

Disadvantages to the buyer

■By defaulting on a bill of exchange he may become legally liable, and

■His trade reputation may be damaged if the collection remains unpaid.

2. Clean Collection

An arrangement whereby the seller draws only a Draft on the buyer for the value of the goods/services and presents the Draft to his bank.

The seller's bank (the Remitting Bank) sends the Draft along with a collection instruction letter to a correspondent bank (the Collecting Bank) usually in the same city as the buyer.

A clean collection may represent:

■an underlying merchandise transaction, or

■an underlying financial transaction.

3. Direct Collection

An arrangement whereby the seller obtains his bank's pre-numbered direct collection letter, thus enabling him to send his documents directly to his bank's correspondent bank for collection. This kind of collection accelerates the paperwork process.

The seller forwards to his bank (the Remitting Bank) a copy of the respective instruction/collection letter that has been forwarded directly by him to the correspondent bank (the Collecting Bank). The Remitting Bank treats this transaction in the same fashion as a normal documentary collection item, as if it were completely processed by such Remitting Bank.

Documentary Credit

Definition

The Documentary Credit or letter of credit is an undertaking issued by a bank for the account of the buyer (the Applicant) or for its own account, to pay the Beneficiary the value of the Draft and/or documents provided that the terms and conditions of the Documentary Credit are complied with.

This Documentary Credit arrangement usually satisfies the seller's desire for cash and the importer's desire for credit. This financial instrument serves the interest of both parties independently. The Documentary Credit offers a unique and universally used method of achieving a commercialy acceptable undertaking by providing for payment to be made against complying documents that represent the goods and making possible the transfer of title to those goods.

Unfortunately, fraudulent Documentary Credits issued by a fictitious non-existing "bank" are a fact of life. In some instances, the "Beneficiary" receives the Documentary Credit direct from some such "bank", i. e. without the intervention of a known Advising Bank in the Beneficiary's country, which Advising Bank may be able to check the apparent authenticity of the "Documentary Credit". This departure from normal banking routine can signal danger. In other instances, the Advising Bank purports to be a branch or office of the "Issuing Bank" but is an unknown name so far as the Beneficiary is concerned. This, too, can signal the need for caution. In all cases the safeguard is for the "Beneficiary" to check with his own bank before relying, or acting, on the "Documentary Credit".

Contractual arrangements

Under a Documentary Credit operation, there exists a distinct triangular contractual arrangement:

■First, the sales contract between buyer and seller,

■Second, the "Application and Security Agreement" of the "Reimbursing Agreement" between the buyer (the Applicant) and the issuer (the Issuing Bank), and

■Third, the Documentary Credit between the Issuing Bank and the Beneficiary. If the Documentary Credit is confirmed by another bank, then such bank undertakes its own contractual arrangement, in addition to that of the Issuing Bank, to the Beneficiary.

Each contract is independent and controls the respective relationship between the parties. The UCP 500 in sub-Article 3(a) recognises that relationship and states:

"Credits, by their nature, are separate transactions from the sales or other contract(s) on which they may be based, and banks are in no way concerned with or bound by such contract(s), even if any reference whatsoever to such contract(s) is included in the Credit. Consequently, the undertaking of a bank to pay, accept and pay Draft(s) or negotiate and/or to fulfil any other obligation under the Credit is not subject to claims of defences by the Applicant resulting from his relationships with the Issuing Bank or the Beneficiary."

And UCP 500 sub-Article 3(b) states:

"A Beneficiary can in no case avail himself of the contractual relationships existing between the banks or between the Applicant and the Issuing Bank."

Issuing a Documentary Credit

The buyer and the seller conclude a sales contract providing for payment by Documentary Credit

The buyer instructs his bank — the "Issuing" Bank — to issue a Credit in favour of the seller (Beneficiary)

The Issuing Bank asks another bank, usually in the country of the seller, to advise and perhaps also to add its confirmation to the Documentary Credit

The Advising or Confirming Bank informs the seller that the Credit has been issued.