

Top 10 Discrepancies in Letters of Credit



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What is a discrepancy?

- There is no direct definition of a discrepancy under current letter of credit rules, UCP 600.
- Discrepancy can be defined as inconsistencies on the documents which are presented to the banks under letters of credit transactions.

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What is a discrepancy?

- Banks find discrepancies on most of the letter of credit presentations.
- According to ICC Trade Finance Surveys on average %70 of letters of credit presentations found to be discrepant on **first presentation.**

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Importance of most common discrepancies

- Most of the **discrepancies** can be classified under top 10 discrepancies I will be explaining on this presentation.
- By understanding these **discrepancies** well you can prevent possible **refusal of documents**.

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Most common discrepancy 1 : Inconsistency in Documents

- Data on each document presented under a letter of credit must be consistent to each other.
- UCP 600 states that "Data in a document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, but must not conflict with, data in that document, any other stipulated document or the credit."

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Most common discrepancy 1 : Inconsistency in Documents

- Example : If you state description of goods differently under different documents then you will receive an **inconstancy in documents discrepancy.**
 - Bill of Lading : Description of goods :“Red Apples”
 - Certificate of Origin : Description of goods :“Bananas”

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Most common discrepancy 2 : Incorrect Data

- UCP 600 states that " A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank must examine a presentation to determine, on the basis of the documents alone, whether or not the documents appear on their face to constitute a complying presentation."
- If you enter a data in any requested document resulting a conflict with the credit terms and conditions than you will receive incorrect data discrepancy.

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Most common discrepancy 2 : Incorrect Data

- Example : Letter of credit asking a bill of lading which should be showing “Port of Loading” as “Newark Port USA” as belows,

44E:Port of Loading/Airport of Departure

NEWARK PORT USA

- **If presented bill of lading is showing “Port of Loading” place as “Port of Philadelphia USA”** than you will be receiving an incorrect data discrepancy.

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Most common discrepancy 3 : Late Shipment

- Latest date of shipment is the latest date for loading on board/dispatch/taking in charge. There are two important point needs to be taken care of :
 - Latest date of shipment is the date of the transport document not your loading date from your factory. For example if credit requires for a bill of lading latest date of shipment is the date of bill of lading. No shipping company prints bill of lading until vessel departure from the port of loading.
 - Latest date of shipment will apply only if the credit request a transport document. Otherwise we will get a late shipment discrepancy.

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Most common discrepancy 3 : Late Shipment

- Example : Letter of credit requires presentation of a bill of lading with the details below.
- 46A:Documents Required
+3/3 ORIGINAL **BILL OF LADING** CLEAN AND SHIPPED ON BOARD TO THE ORDER OF BANQUE AL BARAKA D`ALGERIE, NOTIFY APPLICANT MARKED FREIGHT PREPAID.
- 44C: Latest Date of Shipment
121210 (should be read as 10.December.2012)
- We have to present a bill of lading showing “ship on board” date earlier than the latest date of shipment.

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Most common discrepancy 4 : Late Presentation

- If presentation contains a transport document as an exporter you have to collect all the required documents under the letter of credit and present them to the nominated bank. According to UCP 600 you have **21 days after shipment** to complete the presentation. But please keep in mind that this period can be shorten by the issuing banks.
- If you make the presentation after permitted periods then you will receive a late presentation discrepancy.

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Most common discrepancy 4 : Late Presentation

- Example : Letter of credit requires presentation of a bill of lading with the details below.
- 31D: Date and Place of Expiry
130121CHINA
- 46A: Documents Required
FULL SET OF CLEAN SHIPPED ON BOARD OCEAN BILLS OF LADING
DRAWN TO THE ORDER OF UNITED BANK LTD, SANA'A YEMEN
SHOWING FREIGHT PREPAID AND MARKED NOTIFY APPLICANT.
- 48 : Period for Presentation
21 DAYS
- We have to complete the presentation not later than 21 days after the bill of lading date.

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Most common discrepancy 5 : Letter of Credit Expired

- According to current letter of credit rules except as provided in sub-article 29 (a), a presentation by or on behalf of the beneficiary must be made **on or before the expiry date**.
- If you make the presentation after expiry date then you will receive a letter of credit expired discrepancy.
- Normally banks should not accept any document that has been presented after the **expiry date of the credit**. But banks left the ultimate decision to the applicants on this regard and evaluate late presentation after the expiry date as a discrepancy.

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Most common discrepancy 6 : Absence of Documents

- You have to present exact number of documents as it is requested under the credit. For example, where the credit requires:
 - a. “Invoice”, “One Invoice” or “Invoice in 1 copy”, it will be understood to be a requirement for an original invoice.
 - b. “Invoice in 4 copies”, it will be satisfied by the presentation of at least one original and the remaining number as copies of an invoice.
 - c. “One copy of Invoice”, it will be satisfied by presentation of either a copy or an original of an invoice.
- The number of originals to be presented must be at least the number required by the credit, the UCP 600, or, where the document itself states how many originals have been issued, the number stated on the document.

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Most common discrepancy 7 : **Carrier not defined on the bill of lading / bill of lading signed by Improper Authority**

- UCP 600 Article 20 indicates that :

A bill of lading, however named, must appear to:

- i. indicate the name of the carrier and be signed by:
 - the carrier or a named agent for or on behalf of the carrier, or
 - the master or a named agent for or on behalf of the master.
- Any signature by the carrier, master or agent must be identified as that of the carrier, master or agent.
- Any signature by an agent must indicate whether the agent has signed for or on behalf of the carrier or for or on behalf of the master.

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Most common discrepancy 8 : Incorrect Description of Goods

- The description of the goods, services or performance in the invoice must correspond with the description in the credit.
- The description of goods, services or performance in an invoice must reflect what has actually been shipped or provided.
- If a trade term is part of the goods description in the credit, or stated in connection with the amount, the invoice must state the trade term specified, and if the description provides the source of the trade term, the same source must be identified (e.g., a credit term “CIF Singapore Incoterms 2000” **would not be satisfied** by “CIF Singapore Incoterms”).

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Most common discrepancy 9 : **Incorrect Endorsement / Absence of** **Endorsement**

- If a bill of lading is issued to order or to order of the shipper, it must be endorsed by the shipper.
- The draft must be endorsed, if necessary.
- If a signature or endorsement is required to be on a document consisting of more than one page, the signature is normally placed on the first or last page of the document, but unless the credit or the document itself indicates where a signature or endorsement is to appear, the signature or endorsement may appear anywhere on the document.

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Most common discrepancy 10 : **Partial shipment or transshipment effected** **despite L/C terms**

- Sometimes issuing banks tend to prohibit transshipments. But letter of credit rules allow transshipments in some cases even if credit prohibits transshipment. For this reason exporters should be carefully investigate the situation in regards to their transport document. Because letter of credit rules approach transshipment for each transport document differently.
- If credit prohibits partial shipments than exporters have to make the shipment as indicated on the credit in once.

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