

# What is letter of credit

Understanding the main characteristics and usage

prepared by Ozgur Eker – CDCS  
Certified Documentary Credit Specialist  
[www.letterofcredit.biz](http://www.letterofcredit.biz)



# Understanding Letter of Credit

- Letter of credit is a payment method in international trade.
- Other payment methods in international trade are
  - Cash-in-Advance
  - Documentary Collections
  - Open Account

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# Other Names of Letter of Credit

Common definitions used to identify letter of credit term with the same meaning.

- Documentary Credit
- Documentary Letter of Credit
- Documentary Commercial Letter of Credit
- Credit
- Commercial Letter of Credit
- Standby Letter of Credit

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# Letter of Credit Definition

- *UCP 600 defines letter of credit as belows*

*“Credit means any arrangement, **however named or described**, that is **irrevocable** and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.”*

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# Letter of Credit Rules

- ICC, International Chamber of Commerce, publishes letter of credit rules.
- Letter of credit rules are called UCP, Uniform Customs and Practice for Documentary Credits.
- Letter of credit rules are regularly updated by ICC.
- Latest set of letter of credit rules is called UCP 600.

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# Parties in a Letter of Credit

- Main parties involved in a letter of credit transaction are indicated below;
  - Issuing Bank
  - Beneficiary
  - Applicant
  - Advising Bank
  - Nominated Bank
  - Confirming Bank
  - Reimbursing Bank

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