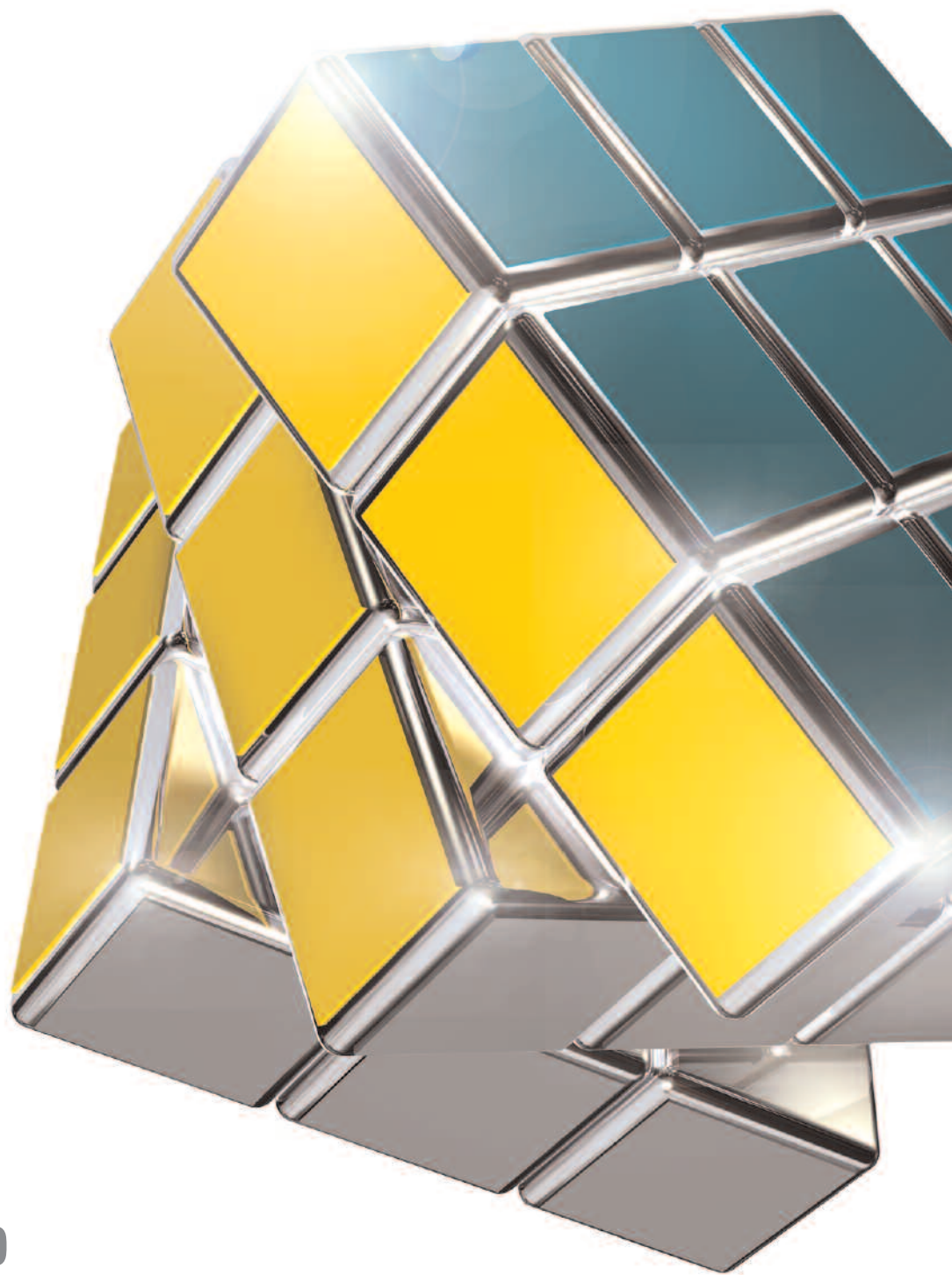


# WHAT IS UCP 600?



**UCP provisions have formed the backbone of Letter of Credit transactions for many years and facilitated the growth of international trade between counter parties across the globe. These universally accepted rules have recently been updated and the revised version - titled "UCP 600" comes into force from 1 July 2007. We recommend becoming familiar with the key clauses and their relevance or impact for your practices and procedures for conducting your international trade.**

### **What is the UCP 600?**

The UCP 600 ("Uniform Customs & Practice for Documentary Credits") is the official publication issued by the ICC (International Chamber of Commerce).

The UCP provisions have determined the rules of engagement between the various parties to a LC (Letter of Credit) and in particular between the banks involved in a transaction in some capacity. The current version of the UCP - UCP 500 - has been in force since 1993 and is now to be replaced with the revision titled "UCP 600".

The UCP 600 has taken over 3 years to develop and deliver a more proactive business oriented set of rules for those involved in international trade.

### **When does UCP 600 come into effect?**

The UCP 600 comes into effect from 1st July 2007.

All banks are expected to issue new LCs under the UCP 600 guidelines from that date. Existing LCs covered by earlier versions of UCP will continue until their maturity.

### **Why another revision to the UCP?**

UCP 500 - the existing version of the UCP - offered many improvements but still fell short of the expected reduction in disputes arising from inconsistent interpretation and application particularly of certain terms like 'negotiation' and 'reasonable time'.

The UCP 600 revision is ambitious and probably the most extensively reviewed UCP document. All the articles were reviewed intensely by a drafting group of 9 world renowned professionals, together with a consulting group consisting of 41 members from 26 countries. ICC opinions, DOCDEX cases, position papers, ICC decisions, court cases and ICC National Committee comments were all considered in the 15 drafting sessions that took place to develop the UCP 600.

A review was also made to see if incorporation of the URR 525 (rules governing bank to bank reimbursements), ISP98 (rules governing Standby LCs) and eUCP (the supplement to the UCP 500 covering digital documents in trade) was possible. Given low usage of eUCP, and the specific nature of these publications, these are being retained as separately applicable. The ISBP (The International Standard Banking Practice) is expected to be updated in line with the UCP 600 and will continue to serve the supplementary purpose as today.

### **Seven articles of the UCP caused more than 58% of all opinions.**

- Over 5000 comments from 40 ICC National Committees, and around 600 ICC opinions were reviewed!

The good news is that the changes have been made with a view to addressing any deficiencies of UCP 500 and keeping up to date with current business practices.

Further the UCP 600 includes only 39 articles, a significant reduction from the 49 articles of UCP 500.

While legal nuances on a case by case basis will always remain, the UCP 600 provides a stronger base for consistency and clarity on a number of issues and it is expected to support the continued use of LCs as a key facilitator of international trade.

### **"Reports of my demise have been greatly exaggerated.....": The LC**

- Whilst world trade payment trends are slowly moving to open account, Letters of Credit continue to be very much a reality in the foreseeable future.



## What are some of the key changes in UCP 600 that one must be aware of?

There are several changes that we recommend you become familiar with. While some are substantive in nature, many of revisions have been made to clarify terms and remove ambiguity contained in UCP 500 with regard to day to day operational practices - such as dealing with non compliant documents.

We summarise a few key changes.

### Article 2: Definitions

This is a new article not found in UCP 500. It is a significant improvement to the wording and structure of the UCP document as it defines key terms, creates consistency between clauses and improves clarity of interpretation. Notable definitions include:

**Honour** - A term introduced in the UCP 600 to clarify the obligations of an Issuing or Confirming Bank and remove ambiguity.

“Honour means:

- a. to pay at sight if the credit is available by sight payment.
- b. to incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
- c. to accept a bill of exchange ("draft") drawn by the beneficiary and pay at maturity if the credit is available by acceptance.”

**Negotiation** - a term which was not clearly defined in UCP 500 and open to different usage has been clarified.

“Negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to nominated bank.”

### Article 3: Interpretations

This is also a new article not found in UCP 500 which primarily addresses the terms used in LCs to describe required documents or state conditions. This article is likely to be of day to day practical use

and lead to better worded and simpler LCs being issued. Examples of items under this article are:

“Terms such as "first class", "well known", "qualified", "independent", "official", "competent" or "local" used to describe the issuer of a document allow any issuer except the beneficiary to issue that document.”

“Unless required to be used in a document, words such as "prompt", "immediately" or "as soon as possible" will be disregarded.”

### Article 12: Nomination

An important improvement on UCP 500 is the clarification provided by Art 12 (b) that a nominated bank is authorised to prepay / finance its own deferred payment undertaking - which is expected to clear the air vis à vis the discounting of deferred payment undertakings by banks following the famous Banco Santander - BNP Paribas case. Consistency has also been maintained with this in Articles 7 (Issuing Bank Undertaking) and 8 (Confirming Bank Undertaking).

“b.By nominating a bank to accept a draft or incur a deferred payment undertaking, an issuing bank authorizes that nominated bank to prepay or purchase a draft accepted or a deferred payment undertaking incurred by that nominated bank.”

### Article 14: Standard for Examination of Documents

The concept of “reasonable time” has been removed. Banks have a maximum of five banking days to determine if a presentation is complying.

“b.A nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank shall each have a maximum of five banking days following the day of presentation to determine if a presentation is complying. This period is not curtailed or otherwise affected by the occurrence on or after the date of presentation of any expiry date or last day for presentation.”

Clause “d” below is expected to reduce differences relating to inconsistency in dealing with documents under a credit.

“d.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.”

For corporates with different branches in the same country, the following new rule will help reduce discrepant presentations:

**“j.**When the addresses of the beneficiary and the applicant appear in any stipulated document, they need not be the same as those stated in the credit or in any other stipulated document, but must be within the same country as the respective addresses mentioned in the credit.”

#### **Article 17: Original Documents and Copies**

In addition to clarifying that original documents can also be presented under an LC that calls for copies, the description of an original document has been further defined:

**“b.**A bank shall treat as an original any document bearing an apparently original signature, mark, stamp, or label of the issuer of the document; unless the document itself indicates that it is not an original.”

#### **Articles 19-27: Relating to Transport Documents**

The aim of changes to these clauses has been to make the wording more crisp and to define more explicitly what the documents must evidence in line with the transport industry practises.

Effort has been made to define explicitly aspects like:

- 1) What is the document?
- 2) Who can sign it and how?
- 3) Determination of date of shipment
- 4) Nature and mode of transportation, including transshipment, for example

**“l.**A transport document may be issued by any party other than a carrier, owner, master or charterer provided that the transport document meets the requirements of articles 19-24 of these rules.”

#### **Other Articles of Relevance**

#### **Article 28: Insurance Document and Coverage**

Changes in this article include:

Signature by proxies:

**“a.**An insurance document, such as an insurance policy, an insurance certificate or a declaration under an open cover, must appear to be issued and signed by an insurance company, an underwriter or their agents or their proxies.”

Exclusion clauses:

**“i.**An insurance document may contain reference to any exclusion clause.”

#### **Article 36: Force Majeure**

This article now includes provision for acts of terrorism.

#### **And what about Digital Documents?**

The increasing use of digital documents and the number of providers now delivering documents online led to the development of the eUCP in 2002. The 12 Articles of the eUCP cover a range of issues including the format of electronic records, presentation, examination and, most controversially, corruption of an electronic record.

The eUCP has been updated and continues to be a supplement to the UCP 600 as with UCP 500. Letters of Credit need to stipulate application of eUCP, where applicable.

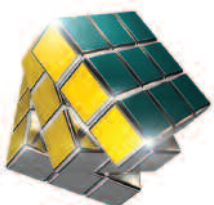
---

#### **How can ABN AMRO Bank help me?**

We have over 180 years' experience supporting our global trade partners. Widely acknowledged as industry experts and innovators, we combine a deep understanding of trading processes with detailed knowledge of local business conditions, regulations and practices.

ABN AMRO regularly plays leadership roles in ICC, SWIFT, IFSA and FCIB and actively participates in new industry initiatives such as the Trade Services Utility to ensure that the bank remains at the forefront of trade and supply chain innovation.

To find out more, please contact your ABN AMRO advisor. Alternatively, please visit us at [www.abnamro.com/transactionbanking](http://www.abnamro.com/transactionbanking) ■





## **ABN AMRO Transaction Banking**

ABN AMRO Transaction Banking delivers cash, trade and supply chain and card products and services to corporations and businesses, financial institutions, retail customers and private clients globally. These services are available in some 3,000 locations in some 50 countries, including LaSalle Bank in the US and Banco Real in Brazil. Underpinning this extensive global network is integrated technology supporting billions of payment, trade and card transactions every year. Global scale, a commitment to continuing product and service innovation and an in-depth understanding of local and global markets are key components of our offer.

No representation, warranty, or assurance of any kind, express or implied, is made as to the accuracy or completeness of the information contained in this document and ABN AMRO Bank N.V. (ABN AMRO) accepts no obligation to any recipient to update or correct any information contained herein. The information in this brochure is published for information purposes only. It does not purport to be all inclusive or constitute any form of recommendation and is not to be taken as a substitute for the recipient exercising his own judgement and seeking his own advice. ABN AMRO accepts no liability or responsibility whatsoever for any loss arising from any use of this document or its contents. This document may not be reproduced, distributed or published for any purpose without the prior written consent of ABN AMRO. Important information for the United Kingdom: in respect of distribution into the United Kingdom, ABN AMRO Bank N.V., London Branch of 250 Bishopsgate, London EC2M 4AA has issued and approved this document solely for the purposes of Section 21 of the Financial Services and Markets Act 2000. ABN AMRO Bank N.V., London Branch, is authorised by the Dutch Central Bank and by the Financial Services Authority, and regulated by the Financial Services Authority for the conduct of UK business.

© February 2007 ABN AMRO Bank N.V