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Project Report

BUS 498

An overview of Export Activities of Prime Bank Limited

&

An overview of financial Performance of Prime Bank Limited

Report-159

Prepared For

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25 April, 2006

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Subject : **Submission of project report.**

Dear Sir,

It is my pleasure to submit the project report (an overview of export activities of prime bank Ltd. & an overview of Financial performance of Prime Bank Limited, which is considered as a part of Partial fulfillment of BBA degree. I have tried my level best to prepare my report

I hope you will consider my limitations while reading this report.

Thanking you and looking forward to receive your cordial approval of my submission.

Your sincerely

Farah Deeba Zaman

ACKNOWLEDGEMENT

At first, I would like to thank my Supervisor of the project program Dr. Tanbir Ahmed chowdhury. Associate Professor East West University except whom it is totally impossible to complete my project paper. I would not be able to express my feelings of gratitude in words toward him.

Secondly I would express my gratitude to my friend, shamsujjaman. IUB who helped me immensely for the completion of my report by giving proper information.

Lastly I would like to thank my husband, whose spontaneous inspiration motivated me a lot. My father and mother also made it possible to complete this project.

Finally, I thank the more to Al mighty Allah for make it possible for me.

Executive Summary

For many centuries, Bank have played a vital role in the financial system. That vital role continues today although the forms of Banking have changed as the needs of the economy have changed. Prime Bank Ltd has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMEL rating. In order to understand the Bank, On which the report was carried on, a brief overview of PRIME has been presented. Basically Prime Bank Limited is a solid, forward looking, modern local bank with a record of sound performance. This report focuses on export activities of prime Bank in Bangladesh. It deals with the detail descriptions of export activities of Prime Bank and how the bank's functions run with foreign exchange activities. It also highlights on financial performance from a discussion point of view.

Part A

Introduction of the report

Scope of the study

The report appraises the export activities of Prime Bank Limited and the financial performance of Prime Banks Limited. So the scope was limited only to foreign exchange department as this department is responsible for client's service related function of PBL.

I have also tried to evaluate the financial performance of PBL based on annual report and made some interpretation.

Methodology

To prepare this report various information was required. The data have been collected through the following sources:

a) Primary Sources:

- Discussion with the personnel of PBL (Approximately 15)
- Discussion with the customers of PBL (Approximately 30)

b) Secondary Sources:

- Annual Reports of PBL
- Web Site of PBL
- Published Documents
- Published Brochures

Limitation:

The following limitations have been faced in preparing the report:

- The department people always remain busy due to lack of supporting employees. So, they could not dedicate their full efforts to give me the information..
- Lack of time did not permit to prepare the report in details.
- Some limitation creates for my lack of knowledge on this topic.
- Lack of co-operation of the officials makes me unable to make the project effectively.
- Quality of the information was not in satisfactory level.



**AN OVERVIEW
OF
PRIME BANK LIMITED**



In the age of globalization bank plays a predominant and decisive role in determining the basic and fundamental course of events of an economy in the context of its comprehensive monetary and fiscal policy for its gradual development, progress and prosperity at the national level and its advancement towards international network with its contribution to the survival and the betterment of the human community. Banks are among the most important financial institutions in the economy.

There are various types of bank in our country. These are nationalized, private commercial bank, specialized bank etc.

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of establishing a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, **Prime Bank Ltd.** was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc. As a fully licensed commercial bank, a highly professional and dedicated team is managing Prime Bank Ltd. with long experience in banking. They constantly focus on understanding and anticipating customer needs. Prime Bank Ltd. has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through internationally accepted CAMEL rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation. Prime Bank Ltd. offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software. The bank has consistently turned over good returns on Assets and Capital. During the year 2002, the bank has earned an operating profit of Tk. 747.84 million and its capital funds stood at Tk 1664.31 million. Out of this, Tk. 700 million consists of paid up capital by shareholders and Tk. 964.31 million represents reserves and retained earnings.



The bank's current capital adequacy ratio of 12.43% is in the market and much above the stipulated line of 8%. In spite of complex business environment and default culture, quantum of classified loan in the bank is very insignificant and stood at less than 1.48%. Prime Bank Ltd., since it's beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, their strategy is to serve the customers through capacity building across multi delivery channels. Their past performance gives an indication of their strength. They are better placed and poised to take their customers through fast changing times and enable them compete more effectively in the market they operate.

Vision

To be the most efficient bank in terms of customer service, profitability and technology application.

Mission

Continuous improvement in their business policies and procedures, cost reduction through integration of technology at all levels.

Objective:

The main objective of prime bank limited is to maximization of profit by proper utilizing optimum resources through better customer services. Since the main goal of prime bank is earn huge profit on the other hand it also try to maintain social commitment. Prime bank limited has been working from the very beginning to assure the best use of its creativity, well discipline, and well management to achieve a perfect growth.

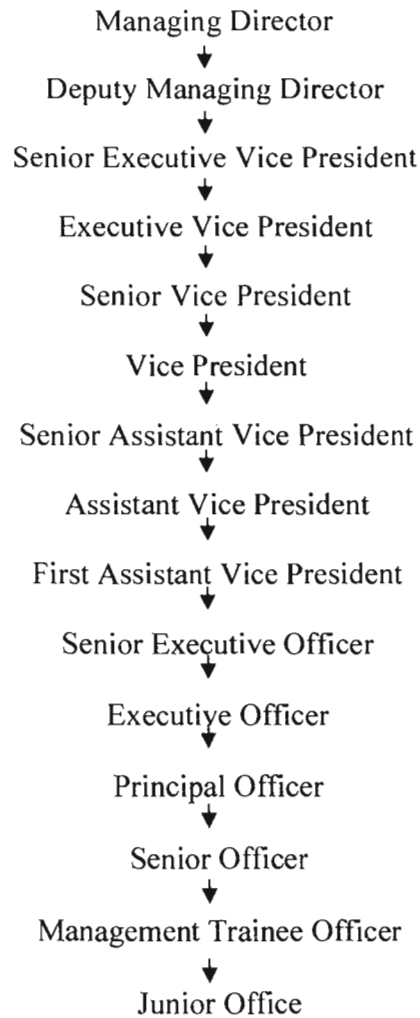


Business Description:

Name of the Company	Prime Bank Limited
Type of Bank	Commercial private Bank Limited (Scheduled bank under banking licensing)
Registration year	April 17, 1995
Registration Act	Companies act 1994
Registration Office	119-120 Motijheel C/A, Dhaka-1000



Management Hierarchy of PBL





Divisions and Departments of PBL:

Audit & Inspection Department:

A vice president and authorized workers are working directly under the control of managing directors of this department. The department is responsible to arrange periodical internal audit, conduct special audit, follow up, monitoring the banks overall activities.

Treasury Operation Unit:

This unit performs the works of money market operation. They borrow and lend money on call basis. An assistant vice president is working under direct supervision of the Managing Directors head this unit.

Personnel Department:

This department is assigned to the responsibilities of recruitment, posting, transfer, promotion and development of human resources of the bank. They also maintain service record of the employees, take disciplinary action, look for the employee's welfare, salary reconciliation, specimen signature etc. Presently an Assistant Vice President heads the department.

Development Department:

This department is responsible for maintaining and enhancing standard of customer service mobilizes deposits for the bank and deal public relation affairs.

Central Account Departments:

This department is maintaining all sorts of accounts of a bank, performs fund management, management information system, expenditure control etc. A Vice President presently heads the department.

Establishment Department:

They procure and supply dead lock such as furniture, machinery, equipment, stationary, and vehicles, render some other common services and control central dispatch service.

**Computer and Engineering Department:**

This department is assigned to lead the computerization of the bank. They procure and maintain computer hardware and software and to conduct computer training for the employees.

Branches control Department:

The main responsibilities of this department are to maintain inter branch accounts and maintaining everything of all the branches.

Operation Wings:

This is the focal point of every bank because the main income generation activities of loans, advances and investment are directed within this wing.

Credit Division:

This division is one of the most important division of a bank because this division control all loans and advances.

Investment Division:

One of the main objectives of the bank is to take part of the capital market and Money market in the country. To achieve this objective the bank established a separate investment division in which several departments are working.

International Division:

International division of Prime Bank Limited performs the responsibilities of foreign trade and foreign remittance on behalf of its branch.

Import Department

The import department deals with all the issues regarding opening, lodgment and payment of import letter of credit.

Export Department:



This department deals with the matters relating to export such as advising, negotiation export documents etc.

Training Institution:

Prime Bank limited training institution was set up in July 2,1998 with the aim to mould up a strong and skilled workforce. This institution is located at 19, Dilkusha C/A, Dhaka-1000.



**An Overview of Export Activities
of
Prime Bank Limited**



FOREIGN EXCHANGE TRANSACTION



Transaction means the exchange (buying and selling) of goods and / or services between two or more parties. When two or more countries agree to do business with each other then international trade happens and that is called international trade. The international trade activities have grown in importance overtime.

Complications:

International trade is critical due to its complication. Those complications are as follows:

1. The exporter might question the importers ability to make payment
2. Even If the importer is creditworthy, the government might impose exchange controls that prevent payment to the exporters
3. The importer might not trust the exporter to ship the goods order
4. Even if the exporter ship the goods order trade barriers or time lags in international transportation might delay arrival time.

The main considerations come forward in international trade are mentioned below:

- a) Seller
- b) Buyer
- c) An agreed product or services
- d) A sales contract
- e) Shipping and delivery details
- f) Term of payment
- g) Required documents
- h) Insurance Cover etc



FOREIGN EXPORT DIVISION



CHAPTER 1

Business and Operational Environment

Foreign Exchange Market

The world foreign exchange market is very big and getting bigger every day in cycle with growth of cross border trade and investment. Within a space of only 50 years world exports have recorded a phenomenal growth from \$57.2 billion in 1950 to nearly \$ 6,000 billion at the turn of the century. Simultaneously, turnover in the world foreign exchange market has reached a staggering number of nearly \$ 1500 billion per day.

On the global scale, Bangladesh's performance in the field of foreign trade and foreign exchange is very small. The picture is none-the-less getting better. The country's exports are growing at an encouraging pace. Bangladesh workers abroad send close to \$2 billion each year. The growth in foreign trade and remittances has had its impacts on the foreign exchange market. Buoyed by liberalization of exchange control by Bangladesh Bank the newly emerging foreign exchange market grew at a rapid pace-- from \$1 billion in 1994 to nearly \$30 billion in 2000. The growing market reflects diversification of foreign exchange transactions and the depth. **Prime Bank** should work towards carving a niche for itself in this market through a sustained program of **training, motivation and operational flexibility**.

Operation in The Foreign Exchange Market

Compared to the quietness that featured foreign exchange market in the early nineties, banks are now increasingly taking recourse to the inter-bank foreign exchange market to meet their needs: **buying, selling and switching of currencies and covering the risks**. Bangladesh Bank now deals only in US dollar within a fixed band around its buying and selling rates. Banks in the market naturally operate at finer than Bangladesh Bank's rates. **Unless the weight of market demand or supply on a particular date pushes the rates to a level that coincide with that of the central bank, Prime Bank should operate in the inter-bank market to cushion the shortfall or unload the excess foreign currencies.**

Exchange and Trade Controls

An important feature of foreign exchange business in Bangladesh is operation of exchange control administered by Bangladesh Bank under the Foreign Exchange Regulation Act, 1947. This Act empowers Bangladesh Bank to oversee the operation of foreign exchange business by banks and other entities. Although some of the restrictive measures have either been lifted or eased, Bangladesh Bank's instructions, rules and regulations still govern the entire range of foreign exchange transactions.



CHAPTER 2

Dealing in Foreign Exchange--General Principles

Transactions with the Customers

The main players in the foreign exchange market in Bangladesh are Bangladesh Bank, Authorized Dealers in Foreign Exchange and, to a small extent, authorized Money Changers. The banks' clientele consist of exporters, importers, indenting houses, foreign missions and firms, and public and semi-public enterprises.

Dealing in foreign exchange essentially involves buying and selling of foreign exchange for remittance to or from foreign countries. Remittances received from abroad are called inward remittances and involve purchase of foreign currency by the bank's branch in the form of foreign T.T., M.T., D.D., Cheques, Bills, Drafts, and T.Cs. etc.

Principles of Dealing in the Market

Dealing in the market involves buying and selling foreign currencies against Taka or other currencies on spot or forward basis. Prime Bank will operate in the market chiefly to--

- Replenish its Nostro (bank's account with other bank) Account with overseas correspondents,
- Unload the excess position i.e. long position beyond the open position limit,
- Switch currencies for profit taking and
- Cover or hedge the risks associated with sale and purchase of currencies.

The bank would normally find the local inter bank market quite attractive to meet its needs. Bangladesh Bank should be approached only as a last resort. For switching from one foreign currency to another, foreign correspondents would normally be found quoting competitive rates.

Exchange Rates Quotations

Crucial to dealing in foreign currencies is the exchange rates that constitute the 'bread and butter' for the bank. Banks and dealers around the world quote the rates against US dollar except in case of pound sterling, which is quoted in terms of other currencies including US dollar.

There are separate rates for forward delivery that could be quoted either as a premium i.e. costlier or at a discount i.e. cheaper. These quotations are somewhat tricky and the new comers in the foreign exchange department may find these rather confusing. The bank staff should assiduously study and practice the art of quotations used in the market before they begin to operate on their own. **Otherwise, they may find themselves at the losing end of the deals.**



CHAPTER 3

Dealing with the Client

Relationship Building

Relationship building, personalized services and professional efficiency would be key to building up a satisfied group of clientele. The staff should constantly address the special needs of the customers.

Bank should normally deal with known customers having accounts with the branch or another branch of the bank. However, the requirement of account relationship may be waived for release of foreign exchange for various kinds of travels and other miscellaneous remittances provided necessary papers are found to be *prima facie* genuine and sufficient.

Verification of Reputation and Credibility

The bank carefully verify the antecedents and credibility of new customers approaching the bank for opening letters of credit, financing exports and issue of guarantees or similar obligations. Bangladesh Bank's Credit Information Bureau, business associations and the previous bankers of the customers is their useful sources of information about potential clients. Some times discreet personal inquires would prove fruitful.

Maintenance of Records

Branches are maintaining systematic records of transactions with the customers, preferably in hard discs with backups so that these can be retrieved as and when necessary.

Handling of Notes, Drafts, and TCs etc.

The staffs familiarize themselves with the technique for verifying genuineness of the foreign exchange instruments presented by the clients. International Division equips the branches with descriptive literature and implements now used at the international level for detection of forgery and counterfeiting.

Compliance with Prevalent Laws and regulations

The staff must acquaint themselves with prevailing laws, regulations, customs, and practices with regard to various types of transactions with the customers.



CHAPTER 4

Export Receipts and Finance

Customs and Practices

Familiarity with international customs and practices with regard to cross border transactions is essential for efficient handling of transactions related to exports from Bangladesh. The discussions in this section will concentrate on these practices and customs.

Contracts and Letters of Credit

Exports from Bangladesh, as indeed from anywhere else, are normally made either against firm sale contracts or irrevocable LC. Shipments are also some times made without cover of an LC on CAD, DP or consignment basis according to the terms of relevant sale contracts. **The sale contracts must stipulate the requirement of the buyer about the quality, quantity, price, description of the commodity, schedule of shipment, insurance, marks, country of origin and terms of payments, i.e. whether payments to be made against bills drawn at sight, D/P, D.A. or CAD basis.**

Term of Sale

The sales contract may stipulate the price of the commodity as FOB, CFR, CIF, CIF&C etc. .

Insurance and Marks

Insurance is taken and marks on the crate/bale are given as mutually agreed upon by the buyer and exporter.

Inspection

The buyers and sellers may agree to have goods inspected at the port of shipment or at the port of destination by an internationally reputed inspection agency or other entity including the buyer himself.

Arbitration

Dispute or claim regarding short weight or short quantity, dampness, low quality etc. on receipt of the goods at the buyers end is settled by a body composed of seller's and buyer's representatives with Port Trust and Government officials. This arbitration is to be done in the port of destination. For goods like raw jute and jute goods the terms and conditions of the contracts are applied as per the London Jute Association standard contract form and the Bangladesh Jute Mills Association standard contract forms respectively.



Payment Terms

The terms of payment i.e. when and how payments are to be received by the exporters are incorporated in the sales contract as per mutual agreement between the buyer and the seller. These are normally the following:

Advance Payment: This system of payment is not common in respect of exports from Bangladesh. Under this method exporter may receive value of export in advance before actual shipment of the goods. This may be done by cheque, draft, M.T. or T.T. favoring the exporter. The exporter collects the remittance and subsequently exports goods as per terms of the contract.

CAD (Cash Against Document): Sometime goods are exported on CAD (Cash Against Documents) basis. In this case the export documents are presented to the importer through a bank in the country of importer and if the latter is satisfied with the documents he pays the bill in cash and takes delivery of the shipping documents (B/L, Invoice, etc.) to clear the goods from the port.

Consignment Sales: Under this method goods are shipped to the agent who receives and sells the same and remit sale proceeds to the exporter.

As per exchange control regulation only non-traditional items can be sent on consignment basis. Export of goods on consignment sale basis requires prior permission from Exchange Control Authorities. In case of sale on consignment basis the exporter must have sufficient knowledge regarding financial status of the agent. The exporter signs an agreement with importer to act as an agent of the exporter. As in this method generally no Bill of Exchange is drawn on the importer the seller (exporter) is exposed to possible default on the part of the importer.

Trust Receipt: Sometimes the drawee may take possession of the goods against "Trust Receipt". In this case responsibility for repatriation of export proceeds lies with the foreign bank that allows release of the goods to the importers against Trust Receipt. In this method exporter retains the title to the goods until final payment by the importer.

Documents against acceptance (D.A. Bill): In this case documents are delivered to the importer abroad on acceptance of the bill of exchange. He pays the cost on the due date but may also pay before the maturity date and avail some discount.

Documentary Against Payment (D/P): This is one of the widely used methods of payment in export trade. The exporter ships goods and draws a sight bill of exchange (draft) on the importer and the same is presented to the drawee (importer) along with the shipping documents for payment. The drawee pays the draft (Bill of Exchange) and takes delivery of documents. The bank in the importing country delivers the documents to the importer only against payment of the bill.



Documentary Usance Bill: Under this method the bill of exchange is drawn on the importer for payment after a certain period of time says, 90 d/s, 60 d/s etc. The bank presents the drafts to the drawee for acceptance. If the drawee accepts the draft, the collecting bank holds the accepted draft but release the shipping documents to the drawee for taking delivery of the goods from the customs. On due date the accepted draft is presented to drawee for payment.

Letter of Credit: The methods of payment discussed above involve some element of risks. Chief risk is the importer's inability or refusal to pay. In case of non-payment or non-acceptance of usance draft, it may be necessary to arrange storage of the goods and locate an alternate buyer for its resale, possibly at a low rate. On occasions it may even be necessary to bring back the shipment at considerable cost. The exporter runs a greater risk if the accepted draft of a term bill (D.A) is dishonoured on due date, as the importers have already taken possession of the goods. This may lead to expensive litigation abroad. In order to get rid of possible risks of payment, bulk of the international trade is conducted through the medium of documentary letter of credit. In view of the importance of letters of credit Chapter 5 of this project is fully devoted to a discussion of Documentary Credits in export and export trade.

Regulatory Environment

Regulatory Authorities

Bangladesh Bank and the Ministry of Commerce, Government of Bangladesh, controls physical and payment aspects of exports. The current 5 year Export Policy covers the period from 1997 to 2002. It outlines the Government's export development strategies and lays down the package of incentives to promote exports. It also provides a list of items, which are either banned for export or whose exports are subject to fulfillment of certain conditions.

Receipt and Advising of LC to the Exporter

Letter of Credit may be received from the opening bank either by short cable/telex, full text cable/telex or by airmail letter. Short cable/telex LC can be treated as only an advance information to the beneficiary to the effect that a LC has been opened in his favor, so that he can go ahead with the arrangements for procurement of the goods for shipment. Subsequently, the relative full airmail LC will be received from the issuing Bank abroad. Short cable/telex LC cannot be used for negotiation of export documents. LC sent by cable or by other electronic media will be deemed to be operative only if it is so mentioned in the cable. The branch need not wait for a formal airmail LC. In this case, however, the issuing bank will send by airmail the confirmation copy of the cable. Full cable LC is valid for negotiation on presentation of the relative shipping documents by the exporter.

Receiving the LC and advising it to the Beneficiary:

On receipt of the LC the steps to be taken are the following:

- ❖ The branch should enter full particulars of the LC in the LC advising Register allotting separate serial number for each LC. Serial number of the register should be



recorded on the left-hand top corner of the printed LC advising form or on the original LC itself as the case may be.

- ❖ In case of cable LC, on receipt of mail confirmation update the record by noting the particulars in the LC advising Register.
 - ❖ Particulars of all amendments (if any) are also to be recorded in the same register before advising the same to the beneficiary.
 - ❖ If the credit is an Air Mail LC “Hand-on-credit”, addressed to the beneficiary, dispatch the same in original to the beneficiary under cover of the Bank’s forwarding letter either by registered mail or through messenger, as may be convenient, retaining a photo copy for the bank’s record.
 - ❖ If the LC is addressed to the branch, reproduce the text of the LC in the Bank’s printed LC advising format and forward the same under covering letter to the beneficiary by registered mail or through messenger, as may be convenient Retain the original LC for the bank’s record.
 - ❖ In case of full text cable/ telex LC, make a photocopy of the LC and forward it to the beneficiary duly attested under the cover of the bank’s forwarding letter by registered mail or through messenger as might be convenient, retaining the original cable/ telex for bank’s record. The text of the cable/telex may also be reproduced in the bank’s printed form.
 - ❖ Unless requested by the issuing bank the advising bank must not add their confirmation on the LC. In such a case the fact that the LC is not confirmed should explicitly be made clear to the beneficiary by incorporating the following clause in the advising letter and/ of in the body of the LC advising format as the case may be:

“Since we have not been requested by the opening bank to confirm the LC, this advice conveys no engagement or responsibility on our part”.
 - ❖ If they are requested by the opening bank to add the confirmation to the credit forward the case to the Head Office (International Division) for authorization. On Head Office’s approval advise the credit to the beneficiary incorporating a clause on the following lines either advising letter and/or in the body of the LC advising format, as the case may be under the signature of an authorized official.

“This carries our confirmation and we hereby agree with the drawers, endorsers and holders in due course of drafts drawn under this credit that such drafts will be duly honored on presentation provided that all the terms and conditions of the credit are complied with”.
- A register should be maintained for recording such confirmation of LC.
- ❖ The Head Office, before approving the confirmation of the LC, will ensure that the issuing bank is our correspondent and LC confirmation limit has already been sanctioned for this correspondent after proper verification of the credit standing.
 - ❖ Branches should neither forward any case to Head Office for approval for adding confirmation to LCs issued by a bank which is not our correspondent or in respect of revocable LC; nor should they add any confirmation to an LC without prior approval of the competent authority in the bank.
 - ❖ Any amendment to an LC received from Issuing Bank should be advised to the beneficiary promptly. Only request of Issuing bank for any amendment should be accepted.



- ❖ The branch should carefully check-up the (i) date of shipment, (ii) date of expiry of the LC and (iii) the name and full address of the reimbursing bank and keep proper records of the same.
- ❖ A suitable clause should be incorporated at the bottom of the LC stating that the LC is subject to the provision of UCPDC - ICC Publication No.500,

Documents required for Shipment of Goods:

The LC requires submission of various documents by the exporter for payment/negotiation. Detail discussions of these documents are made in Chapter 8. The following important documents should, however, be carefully collected:

- ❑ EXP form in quadruplicate duly filled in and signed by the exporter and certified by the authorized officer of the Bank under seal and signature, for submission to customs.
- ❑ Photocopies of ERC, LC, firm contract.
- ❑ Freight certificate in case of FOB contract.
- ❑ R/R (Railway Receipt), B/R (Barge Receipt), S/R (Steamer Receipt) evidencing dispatch of goods from up country to the port of shipment. If shipment involves finance from the bank these documents should be made out to the order of PBL and should be consigned to bank's approved C&F agent (clearing & forwarding Agent).
- ❑ Shipping instructions containing description of the goods, the name of the bank to whose order the B/L is to be made out; full name and address of the consignee and the notifying party; marks of the goods; freight clause etc., to enable the shipping agents to prepare B/L accordingly.
- ❑ Insurance policy arranged to cover transit risk. In case of bank finance, the policy should be made out in the name of Prime Bank Ltd. The policy normally remains valid for one month from the date of loading but in case of carriages by rail, the cover remains valid for 72 hours only. In that case, the exporter must obtain jetty cover.
- ❑ In case bank finance is involved the branch should forward the documents to its approved C&F agent to whom necessary instructions should be issued.

Certification of Exports

Form Prescribed for Declaring Exports and Certification

All exports must be declared on the EXP form (Appendix 5/64 of BB Guidelines for Foreign Exchange Transactions, 1996). The branches will collect the forms from the Head Office and supply these to their clients engaged in export trade.

'EXP' Forms are numbered serially and issued in quadruplicate. Before the export forms are lodged by the exporters with the Customs/Postal authorities, they should get all the copies endorsed by the branch.



Before lodging the EXP Forms with the Customs/ Postal Authorities, the exporter will approach the branch for certification of the forms. On receipt of the EXP Forms the branch will ensure that each set is duly filled in. Thereafter, it will record full particulars of the forms in the Export Register to be maintained as per proforma at appendix 5/56 of Bangladesh Bank's Guidelines and assign a number for each set of the EXP forms in the space provided at the top of each form as follows:

EXP No.	AD's			Register				Year	
	Code Number			Serial					

The first three boxes of EXP number will bear the branch code prescribed by Bangladesh Bank for the branch and the next 5 boxes are meant for mentioning the serial number of the Export Register (Appendix 5/65 of BB Guidelines for Foreign Exchange Transactions, 1996) of the branch and the last two boxes are meant for mentioning the last two digits of the year of registration. The branch will also have to complete the forms themselves by mentioning all the required information/ particulars /code number etc. in the forms at the appropriate spaces and certify the forms in the manner prescribed therein under the seal and signature of the authorized official.

In the export form there is provision for indicating separately,

- FOB value;
- Insurance;
- Freight; and
- Total CFR value.

Therefore, where the exports are on CFR or CIF basis, the FOB value is required to be shown separately. The branch should ensure that in all export forms relating to export of raw jute, FOB value of shipment of raw jute is invariably shown separately, In case of shipment on FOB basis, other columns for insurance, freight and total CIF value should be penned through. The branch while certifying realization of the export proceeds will indicate on the reverse of the duplicate/triplicate forms the FOB value, insurance and freight separately. For this purpose they should use a rubber stamp reading as under:

- FOB / Free Frontier value
- Insurance.
- Freight
- Total CFR /CIF value

The branch should not certify any EXP form unless it has satisfied itself with regard to the following:

- Arrangement has been made for realization of export proceeds within the prescribed period.
- Arrangement has been made for receipt of title to goods like Bill of Lading, Airway Bill etc. by the branch on shipment of the goods.



- The EXP Form is signed either by the exporter or one holding valid legal power of attorney from the exporter and the terms of the power of attorney are such that both the exporter and the attorney may be held responsible jointly and severally for repatriation of export proceeds.
- Bonafide of the buyers/consignees abroad and their credentials etc. should be checked. The branch may make discreet inquiry through their correspondents abroad. Greater care should be taken particularly in case of shipments against Trust Receipts and shipments on CAD or DA Basis. Where the branch suspects the bonafide and standing of the buyers/consignees abroad or where, owing to common interest or otherwise, they suspect collusion with the intent of delaying or avoiding repatriation of export proceeds, the branch should report such cases promptly to the Head office for the purpose of sending a report to Bangladesh Bank.
- Similarly, the branch should report to the Head office if it comes to its knowledge that the exporter is directly or indirectly connected with or have any financial or other interest in the buyer/consignee abroad. If necessary, discreet inquiry about the bonafide and credentials of the charter party should also be made in case the shipment is proposed to be made against a charter party Bill of Lading.
- Goods are permissible for export and the destination e.g. Israel is not on the government's black list.
- Special care should be taken if shipment is proposed to be made against a charter party B/L. If necessary confidential reports on the charter party should be obtained.

Submission of EXP Forms to the Customs

The EXP Form will be completed and signed by the exporter or his authorized agent. After the branch certifies the form this should be submitted to the Customs/Postal authorities along with the shipping bill. The Customs Authorities after filling in the portion relating to them and affixing their seal and signature will return the duplicate, triplicate and quadruplicate copies to the exporter / his authorized agent. The Customs authority will forward the original copy to the Bangladesh Bank.

Submission of Export Documents to the Branch

On completion of customs and other formalities the exporter must submit all the copies of the EXP Form along with the invoices etc. to the branch within 14 days of shipment. An extra copy of the shipper's invoice should be attached to the duplicate copy of the EXP Form for submission to the Bangladesh Bank. If the branch negotiates or collects bills relative to export originally certified by another authorized dealer it should communicate the particulars of exports to the said AD to note in the Export Register.

Scrutiny of EXP Form with Documents

On receipt of the EXP Form and the document covering the exports the branch should:



- Compare the signatures appearing on the bills of lading with the specimen signatures of the duly authorized officers of the steamer company on record to ensure genuineness of the documents.
- Compare the relative bill and other documents with relative form and satisfy that the declaration made on the form is correct. In particular, it must be seen that the amount of bill and invoice drawn by the exporter is not smaller than the export value certified by the Customs. If the difference between the value stated on the form and the amount of the bill/invoice is small and accounted for by legitimate trade charges etc. the branch may accept the bill / documents for negotiation / collection. The details of such adjustments must be given on the relative form and must be authenticated by the branch under its stamp and signature.

Certification by the Branch

After negotiation of the bill or acceptance of the documents for collection, the branch should complete the certificates in the space provided on the duplicate copies of the EXP Form to the effect that they have negotiated bills/received shipping documents for collection for the value stated on the form.

When payment is received the branch shall certify on the reverse of the Triplicate copy of the form retained with them and forward it to the Bangladesh Bank with the usual return. The quadruplicate copy will be retained by the branch for record.

Scrutiny of Export Documents

Checking of Documents

After the shipment of goods the exporters will submit the export documents to the branch for negotiation. The letter of credit stipulates the number and types of documents required for negotiation of export bills. The branch should ensure that the documents are prima facie correct, complete, genuine and are in accordance with the LC terms. A detailed checklist for the purpose is given in chapter 9.

The LC opening bank will only honor its commitments if the beneficiary fully complies with all the terms and conditions stipulated in the LC. A slight deviation from the stipulated terms and conditions or discrepancy in the documents may give an excuse to the issuing bank to refuse payments. The branch should not, unless specifically authorized by the LC opening bank, negotiate export bills which are not strictly in conformity with the terms of the LC. They may, however, in exceptional circumstances negotiate export bills with discrepant documents under “Reserves” on execution of Indemnity Bond by the exporter in the Bank’s prescribed form. This will be discussed in the later part of this section.

Before negotiating the export bills the documents should be thoroughly verified with reference to the terms and conditions including subsequent amendments to the LC. It should be ensured that in case of cable LC, both the cable as well as the airmail confirmation copy



along with subsequent amendments, if any, is available with the branch at the time of negotiation/purchase of the export bills under LC.

Negotiation of Documents under LC

The following steps are involved in the process of negotiation of export bills under LC:

- Preparation of checklist.
- Lodgement of documents.
- Preparation of negotiation letter.
- Preparation of accounting Entries.
- Dispatch of documents to foreign correspondent.

If, on proper scrutiny, the documents are found in order, an offering sheet should be prepared and necessary approval of the competent authority obtained for negotiation / purchase / discounting the bill.

On approval, the full particulars of the documents should be entered in the F.B.P Register. These should also be recorded in the party-wise Export Ledger. Details of negotiation should then be endorsed on the back of the original export LC & Invoice.

FBP rubber stamp with FBP serial number should be affixed to all the pages of each document including EXP. form.

Special foreign bill stamp (at the prescribed rate of stamp duty) should be affixed on the back of all usance DA/DP bills negotiated/purchased.

Discrepant Export Documents

If discrepancy, if any, in the documents is noticed it should be pointed out to the exporter for rectification, wherever practicable, as per terms of LC. If it is not possible and if the exporter so desires, the LC opening bank should be contacted by telex to enquire from the buyer whether documents, in spite of the discrepancy, will be acceptable to them. If an affirmative reply is received from the issuing bank, the branch may negotiate the documents. Otherwise, with the consent of the exporter, the documents may be sent to the foreign correspondent on collection basis for realization of the export proceeds.

Negotiation Under Reserve

In special cases, the branch may also negotiate discrepant documents drawn under LC under “Reserve” on execution of Letter of Indemnity by the exporter on bank’s approved proforma, if approved by competent authority of the bank.

Letter of Indemnity is a written undertaking that the exporter will be obliged to indemnify the bank and repay the entire amount of the discrepant bill negotiated by the bank along with



accrued interest, charges, etc if the LC issuing bank fails to reimburse the amount of the discrepant bill for one reason or the other.

This type of Letter of Indemnity is used at the time of negotiation/purchase of export bills under “Reserve” on account of discrepancy. Documents are thereafter forwarded to the LC issuing bank under cover of forwarding schedule mentioning the discrepancies in the bill for obtaining payment from the buyer as per usual procedure asking them to advise the fate of the bill by telex, recording the particulars in the FBP Register and Indemnity Register.

On receipt of the documents, the LC Issuing bank advice the buyer (applicant of the LC) about the discrepancies mentioned in the forwarding schedule. If the applicant (buyer) accepts the discrepant documents, the issuing bank will advise the negotiating bank by telex/cable as per instructions contained in the bank’s forwarding schedule.

On receipt of reimbursement advice from the Issuing bank, the negotiating branch will lift the “Reserve” and relieve the exporter from the letter of indemnity duly recording particulars in the Bill Register and Indemnity Register.

Endorsement of Documents

The B/E (draft), B/L and Insurance Policy/certificates should be properly endorsed as per LC terms under Bank’s rubber stamp and authorized signature, Care should be taken that no ‘Blank Endorsement’ is made on transport documents if not generally or specially authorized by Bangladesh Bank.

Dispatch of Documents to Issuing Bank

Forwarding Schedule

A forwarding schedule should to be prepared as per terms of LC and thereafter the documents should be dispatched to the LC issuing bank under cover of the forwarding schedule by Registered Airmail or courier service in two consecutive lots or as per terms of LC for realization of the proceeds of the bill, stating clearly the mode of reimbursement. A copy of the forwarding schedule should be sent to Head Office (ID).

The negotiating branch should claim reimbursement from the LC opening bank or from the reimbursing bank as per the arrangement outlined in the LC. The branch should give clear instruction to the reimbursing bank to credit the proceeds of the bill to the Prime Bank Ltd., Head Office Nostro Account maintained with the named correspondent bank abroad under telex intimation to the branch and Head Office (ID).

If the LC stipulates reimbursement from a bank other than the bank that opened the LC, all other documents except draft should be forwarded to the LC opening bank. The draft should be forwarded to the reimbursing bank along with a certificate of compliance of all the terms of LC in the unusual form for reimbursement of bill amount.



The branch should also prepare a statement of all export bills purchased/negotiated on each day in the prescribed form and send the same to Head Office (ID) for arranging necessary forward exchange cover.

Realization of Export Proceeds

For obtaining quick reimbursement from the LC issuing bank/reimbursing bank abroad, the negotiating branch should keep close watch through a diary. The matter should be pursued vigorously till settlement. If the proceeds are not realized within 4 months, a report should be sent to the Head Office (Return Section) with full particulars along with the EXP number and an explanation from the exporter with a copy endorsed to International Division, Head Office. Head Office, in turn, apprise Bangladesh Bank accordingly.

If any export bill remains overdue beyond 21 days after the date of negotiation/purchase, overdue interest may be recovered from the exporter concerned and credited to Income Account- Interest on FBP.

FBP Register should be balanced at the end of each month and a monthly statement of all outstanding export bills (FBPs) should be sent to Head Office (ID) by the 7th of the following month. The total amount outstanding as shown in the statement must tally with the FBP balance in the General Ledger.

Accounting Entries on Realization of Payments

On receipt of realization advice (credit advice to Nostro Account) from the foreign correspondent the accounting entries are to be passed and relative tickets prepared as per instructions given in annexure 3

Payments to Exporter

Negotiation/ Purchase of Documents

On negotiation/purchase of the export bill, the exporter may be paid the value of the bill after converting the bill amount into Bangladesh Taka at the ruling bill buying rates--OD (Export Bill) buying rate for sight bill and long bill buying rate for usance bill. Other approved charges of the bank may also be adjusted against the bill amount. If forward cover had been booked with the branch, the conversion should be made at the booked rate of exchange.

Advance against export bill

When shipment is not covered by an LC or the documents are found discrepant even though shipment is made against LC, the export bill is sent to the correspondents for collection. In that case, the bank may give advance to a trust worthy exporter against the security of the export bills ranging from 50% to 80% of the value of the bill, depending upon the merit of each case. In such cases, bank may also insist on collateral securities, like guarantee from third party or equitable/legal mortgage of property.



Purchase/Negotiation of Export Bills on CAD basis

Purchase/negotiation of export bill drawn on CAD basis against firm export contract should be handled very carefully. Head Office prior approval is required for purchase/negotiation of such bill in each case.

Export Documents in Collection Basis (FDBC)

The branches are not authorized to purchase/negotiate export documents, which are not covered by irrevocable letter of credit and/or documents not drawn strictly in terms of the credit. These documents are accepted on collection basis with the approval of the shippers. The shippers should always be kept informed about the development of payment of the documents. The branch should lodge the documents in FDBC (Foreign Documentary Bills for Collection) entirely at the risk of the shippers. On receipt of payment the branch may pay shippers at the rate of exchange (O.D. buying rate) prevailing on the day of realization.

The branch should forward the documents to our correspondents for presentation to the drawee for payment or acceptance as the case may be. At the time of sending documents on collection basis a single entry will be passed in the Memo Account as follows.

Cr. Bills for Collection

The entry is to be reversed, either on realization of the proceeds of the bill sent for collection or on return of the same dishonored.

On receipt of advise of realization of the proceeds of the bill sent for collection, from the foreign correspondent, the branch may make payment to the exporter at the O.D. buying rate of exchange for sight draft, prevailing on the date of realization and book the transactions as per instructions given in annexure 3

After acceptance of export documents on collection basis, the branch will submit the duplicate copy of the EXP form to Bangladesh Bank, along with related invoice within 14 days from the date of shipment.

On realization of full export proceeds (both in case of FBP and FDBC) the triplicate copy is to be submitted to Bangladesh Bank along with schedules AS-1 or A-2 (as the case may be) attached with monthly summary statements (S-1, S-2, S-4 etc.) In case of part realization of export proceeds the triplicate copy of the EXP form is not to be forwarded to Bangladesh Bank but a "Voucher" called "EXP not attached voucher" is to be prepared for reporting the part amount to Bangladesh Bank. Triplicate copy will remain with the branch till full proceeds are realized. Sometimes advance remittance is received to cover export. In that case "Advance Remittance Voucher" is to be prepared and reported to Bangladesh Bank. Full particulars of reporting of duplicate, triplicate copies of EXP form are to be recorded in the EXP form certifying register.



Short Shipment

Where a portion of a consignment is short shipped and the exporter consequently draws a bill or writes an invoice for a quantity shorter than that declared on the EXP form to the Customs, he must make a declaration on the remaining copies of the form that the shipment was partially shut out specifying the quantity short shipped.

In all case of short shipments, the exporters should be asked to give notice of short shipment on the prescribed form in duplicate to the Customs who will forward a certified copy of the notice to the Bangladesh Bank.

Export Finance

General

Exporter needs finance at pre-shipment as well as at post shipment stages. Pre-shipment finance is required for procurement of goods, processing the raw materials, packing, baling and transportation from up country godown/factory to port of shipment, payment of freight, inspection and other charges including export duty, where necessary.

Pre-shipment credit is essentially a short-term credit and is liquidated by negotiation/purchase of export bills covering goods for which credit was given. Pre-shipment credits are in most cases granted against irrevocable/confirmed LC or firm contract received by the exporter from overseas buyers. In all cases, the credit-worthiness and reputation of the foreign buyer needs to be ascertained before extending such credits. The credit worthiness and performance of the exporter are also taken into consideration while sanctioning the credit limit to the exporter. In case of a relatively new customer or one who is not particularly familiar to the branch requests an export credit, the branch may ask for a credit insurance from the Export Credit Guarantee Fund administered by the Sadharan Bima Corporation.

Pre-shipment Export Credits

O/D (Hypothecation)

Under this arrangement, limit is sanctioned against firm export contract/irrevocable LC on hypothecation of raw materials or finished goods meant for export. The exporter creates a charge in favor of the bank on the goods hypothecated by signing a duly stamped letter of hypothecation. Both the possession and ownership of the goods as well as control remain with the borrower. The borrower binds him to hand over possession and control over the goods to the bank whenever called upon to do so.

This type of facility is given only to the first class exporter having undoubted integrity, for procuring and processing of raw materials before these could be made ready for export. The branch may, if necessary, asks for collateral security in the form of land and building and personal guarantee from the directors of the company or the partners of the exporting firm. In addition, the exporter is required to complete all other formalities required for general O/D.



(hypothecation). The branch should periodically obtain Stock Reports and conduct Inspection of exporter's godown.

O/D (Pledge)

In this case, OD limit is sanctioned against the pledge of the goods meant for export. The borrower signs a stamped letter of pledge surrendering physical possession of the goods under the bank's effective control. The ownership, however, remains with the borrower. The pledge creates an implied lien in favor of the bank. In the event of failure of the borrower to liquidate the debt, the bank can sell the goods after giving due notice to the exporter. Normally no collateral security is obtained in case of pledge.

OD against Trust Receipt

Under this type of credit facility, the exporter is required to execute a stamped Trust Receipt in favor of the bank undertaking to hold the goods or sale proceeds thereof in trust on behalf the bank, till the loan is liquidated. As the goods remain under the custody of the exporter, it may be necessary to ask the customer to provide collateral security acceptable to the bank.

This type of credit facility is granted to very trustworthy customers, whose integrity is beyond any doubt. It is intended for procuring, processing, packing etc., of exportable merchandise, which cannot be conveniently taken to bank's custody. The branch should conduct periodical inspection of the exporter's godown.

Packing Credit

Packing Credit limit is sanctioned to the exporter against the security of R/R, B/R, Truck Receipt etc. evidencing transportation of goods from up-country to the port for shipment, in addition to the usual charge documents and original export letter of credit/firm contract. This type of credit is given for transit period starting from dispatch of the goods to the port till the negotiation/purchase of export bills. This credit is intended to enable the exporter to finance purchase/procurement of goods to sustain the export activity. The goods are generally shipped through the bank's approved C&F agent as per shipping instructions issued by the branch. The previous drawings under OD are normally adjusted at the time of allowing drawing under packing credit. The packing credit, in turn, is finally liquidated by negotiation/purchase of export bills, it may at times be necessary to obtain collateral security before sanctioning the Packing Credit limit.

Back-to-Back LC

Under this arrangement opening an inland or overseas LC on Back-to-Back basis on the request of the beneficiary of an Irrevocable Letter of Credit received from the foreign buyer finances export trade. The beneficiary is normally a middleman who does not manufacture the goods to be exported under the credit. This back-to-back LC is opened by the bank in favor of the actual manufacturer or producer of the goods on the strength of the original foreign LC. A lien is created on the original export LC as security. Export of jute goods and ready-made garments from Bangladesh are financed under this type of LC. The actual supplier of the goods effects the shipment on behalf of the beneficiary of original LC and submits the shipping documents to the bank that opened the Inland LC for payment. The



letters of credit opened in Bangladesh for import of inputs for export of RMG are known popularly as back-to-back letter of credit. Strictly speaking these are not back-to-back letter of credit but are in fact separate letters of credit, not different from other ordinary letters of credit.

Under the back-to-back letter of credit of the ordinary type some of the documents, such as drafts, invoice etc. are replaced by a fresh set of corresponding documents prepared by the beneficiary of the original foreign LC, who submits his own draft and invoice, etc. for the full amount of original LC for negotiation. The local bank negotiates the documents submitted by the beneficiary of the foreign LC and makes payment of the bill drawn against the Inland LC. In this case also the bank may sometimes need to insist on collateral securities on the merits of the cases.

The back to back LC must conform to the terms and conditions of the original foreign LC with the following exceptions:

- ❖ The name of the actual supplier is substituted by that of the beneficiary.
- ❖ The amount of LC should be somewhat smaller than the original LC, to cover the profit margin and other expenses incurred by the original beneficiary.
- ❖ The period of validity for shipment and negotiation should be a few days earlier than the expiry date of the original LC.

Advance against Red Clause LC

Under this facility, which is not commonly used in Bangladesh, the LC opening bank authorizes the exporter's bank (negotiating bank under LC) to make advances to the exporter (beneficiary of LC) prior to shipment. This special arrangement is intended to enable the exporter to procure the goods and execute the order of the foreign buyer. It presupposes a strong commercial relation between the buyer and the seller. The advance is liquidated against the export bills negotiated under the LC. This clause in the LC authorizing the negotiating bank to make advance to the beneficiary of the LC, is written or typed in red ink. It gives the name Red Clause LC. This advance is made at the risk of LC opening bank and is restricted to the amount authorized under the red clause.

Before disbursement of the advance all necessary documents including an undertaking, must be obtained from the beneficiary of the LC (exporter) in conformity with the terms and conditions of the LC and Red Clause.

Green Clause LC

Under this type of Letter of Credit, which also is not commonly used in Bangladesh, a clause printed or written in green ink is included in the LC, authorizing the negotiating bank not only to make Pre-shipment advance to the exporter but also to provide the facility for storage of the goods to be exported under the LC, in the name of the LC opening bank till the goods are actually shipped.



Precaution for Sanctioning Pre-shipment Credit:

- ❖ Credit worthiness of the exporter should be properly assessed by preparing credit report in the Bank's prescribed proforma. Past export performance and behavior of the exporter should be verified from the bank's records and financial statements. Similarly, credit worthiness and solvency of the foreign buyer should also be verified through foreign correspondents.
- ❖ Period for which the credit is sanctioned should be clearly mentioned in the sanction letter.
- ❖ Charge documents as well as any other documents as mentioned in the sanction letter should be obtained and got properly executed by the borrower. The bank's legal adviser should be asked, if necessary, to vet the memorandum of deposit under equitable mortgage.
- ❖ The exporter should be advised to book forward sale contract in case the bill is to be drawn in foreign currency, especially non-dollar currency, to avoid risk of fluctuations in the exchange rate.
- ❖ Export documents should be carefully scrutinized before negotiation of export bills. If the export bill is negotiated under LC, it should be ensured that all its terms and conditions have been fully complied with.
- ❖ The LC should be from our correspondent bank or a reputable foreign bank whose status should be verified. The LC must be irrevocable (preferably confirmed) and unrestricted. The original LC should remain deposited with the bank and a lien mark should be given on it. But before marking lien the LC terms should be thoroughly scrutinized to see that no clause detrimental to the bank's interest or contrary to existing exchange control and regulation has been incorporated in it.
- ❖ The date of expiry of LC should be properly recorded in the Register. No drawings should be allowed after the expiry of the credit unless extended. If shipment could not be made within the date stipulated in the LC, the advance should be called back.
- ❖ If the shipment is covered by policies issued by Sadharan Bima Corporation under the Export credit guarantee scheme, the related policy should be obtained in favor of the bank. It should also be ensured that the exporter/bank fulfils all the terms and conditions of the Insurance Policy.

Foreign Back-to-Back Letter of Credit

The Government of Bangladesh has devised a special procedure under which the export oriented garment units are allowed to import their inputs free of duty under the bonded warehouse arrangement. Back-to-back letter of credit, in essence, is used to import the inputs generally on credit terms up to 180 days on the strength of the foreign LC received from the overseas buyers.

Formalities & Procedure

For opening back-to-back LC for readymade garment industries engaged in export the branches should follow the following guidelines meticulously:



- ❖ The industry applying for opening the LC should be recognized by the Textile Division of the Ministry of Textiles as an export oriented readymade garment industry and possesses a valid Bonded Warehouse Licence.
- ❖ For new customers, the branch should satisfy itself, if necessary from the Credit Information Bureau of Bangladesh Bank, that they have no outstanding liability with any other bank.
- ❖ The irrevocable export LC, on the strength of which the back-to-back LC is desired to be opened, should be from a first class internationally reputed bank. The LC should conform to the Uniforms Customs and Practices for Documentary Credit--ICC Publication (Brochure No. 500).
- ❖ The branch should ascertain whether there is any quota restriction for the item of export. In case of quota restriction, branch shall ensure that the party has obtained quota allocation/licence from EPB.
- ❖ Finally the branch should satisfy itself that the industry has organizational and necessary logistics to fulfil the export order within the stipulated period.

The import LC will be opened to the extent prescribed by the government from time to time for knit items and woven/jacket on the basis of value addition. For computation of FOB value, freight charges, insurance and commission involved in shipment of the merchandise under export LC must be deducted. If the freight is not shown separately, a certificate from the shipping company or the shipping agent should be obtained.

The import order for fabrics should clearly describe the fabrics, and details as composition of the fabrics (65% polyester & 35% cotton and so on) stripe, checks, prints, solid (white or dyed) yarn count, length flannel, shirting, poplin, drill, twill etc. should be inserted in the LC. These descriptions should also be mentioned in the LC. The LC should provide for submission of packing list showing the gross and net weight of each bale and carton or crate or wooden boxes. These descriptions are necessary to ensure that the fabrics imported are actually required to meet the export order.

Import LC should contain a provision for pre-shipment inspection by an internationally reputed inspection firm etc. to ensure quality and quantity of the inputs for which LC is opened.

The LC shall be valid for a reasonable period of time to cover shipment of merchandise after completion of the manufacturing process.

The import LC will be opened on usance basis covering a period from 120 days to 180 days sight.

Interest for the usance period shall not exceed LIBOR or as may be prescribed by Bangladesh Bank from time to time.

All amendments to the Export LC shall be recorded carefully to avoid chances of incurring excess obligation under import LC.



- ❖ Demand Promissory Note
- ❖ Letter of Arrangement
- ❖ Letter of Lien for Packing Credit (on special adhesive stamp)
- ❖ For Packing Credit ---Letter of Disbursement
- ❖ For Export Cash Credit--Letter of Continuity
- ❖ Packing Credit Letter

Payment of Back-to-back LC, and Adjustment Credit

On manufacturing the garments is exported and the party submits the related shipping documents to the bank for negotiation / collection. After receipt of the documents, the same is duly scrutinized with the respective export LC and if found drawn strictly in conformity with LC terms and conditions up to 20% of the documents value is negotiated if requested by the party.

The PC/ECC, so allowed is adjusted with interest at the time of negotiation.

Export Claims

Please see Chapter 8 for information on remittance of export claims



CHAPTER 5

Documentary Credits in Imports and Exports

Letter of credit

Letter of credit is the most important document for settlement of international transactions. It is basically a guarantee given by a bank, at the behest of its client, to make payment to a third party, called beneficiary, for goods supplied or services rendered on fulfillment of stipulated conditions. The staff should carefully study all aspects of letter of credit to avoid any controversy, confusion and disputes with clients and correspondents.

Parties to an LC

Applicant for the Credit

The importer or buyer on whose request and on whose behalf the letter of credit is opened is called the applicant.

Issuing Bank/Opening Bank

The bank that opens a letter of credit, at the request of the importer, is known as Issuing Bank. The issuing bank is the buyer's bank and is also called opening bank.

Beneficiary

The party, normally the supplier of the goods, in whose favor letter of credit is opened, is called beneficiary. The seller, after shipping the goods as per terms of the credit, presents the documents to negotiating bank/confirming bank for negotiation.

Advising Bank

The bank in the exporter's country, usually the foreign correspondent of the importer's bank, through which letter of credit is advised to the supplier is called the 'advising bank'.

Confirming Bank

If the advising bank also adds its own undertaking to honour the credit while advising the same to the beneficiary, he becomes the confirming bank. The confirming bank, in addition, becomes liable to pay for documents in conformity with the LC terms and conditions.

Negotiating Bank

The bank, which negotiates the bill (draft) of the exporter drawn under the credit, is known as negotiating bank. If the advising bank is also authorized to negotiate the bill (draft) drawn by the exporter it itself becomes the negotiating bank.

Accepting Bank

A bank that (as specified in the Letter of Credit) accepts time or usance drafts on behalf of the importer is called the accepting bank. The LC issuing bank can also take on the responsibility of an accepting bank.



Paying Bank

The bank that effects payment to the beneficiary (as named in the letter of credit) is known as paying bank/drawee bank.

Reimbursing Bank

If the issuing bank does not maintain any account with the negotiating bank an alternate arrangement is made to reimburse it for the amount payable under a credit from some other bank. The latter bank is termed as reimbursing bank. An authority to debit his account is sent to the bank with whom the account is maintained to honor the claims placed by a negotiating bank.

Types of Documentary Credits

Sight Credit

The beneficiary receives the proceeds of the credit upon presentation of the documents in accordance with the LC terms. The negotiating bank is given a reasonable time, not exceeding seven banking days following the day of receipt of the documents, to examine the documents. There are, however, sight credits under which payment is made with the value date deferred by a few days. This occurs mainly when the nominated bank must obtain cover via several intermediaries.

Acceptance Credit (Credit with time drafts)

Under an acceptance credit, the exporter draws a time draft either on the issuing or confirming bank, or on another bank, depending on the credit terms. The payment date under an acceptance credit may be, for example, 90 days after the invoice date or the date of shipment evidenced by the transport document. When the documents are presented, the importer is asked to accept the draft. The acceptance implies that the beneficiary binds himself to pay, on maturity, the value of the draft.

Deferred Payment Credit

The credit with deferred payment differs from the credit with time draft only slightly in its effect on the beneficiary. The main difference is the absence of an accepted draft in the case of credit with deferred payment. On the other hand a draft accompanies a credit with time draft. Upon presentation of the proper documents, the bank so authorized (the issuing or confirming bank) issues a written promise to make payment on the due date. It must, of course, be possible to calculate the due date on the basis of the credit terms. Deferred payments are possible under confirmed and unconfirmed credits.

From the standpoint of expenses, the credit with deferred payment can be more economical than the credit with time draft. The disadvantage compared with the acceptance credit is that a premature settlement of an amount due may normally be obtained only from the issuing or confirming bank, whereas there are various possibilities for discounting a draft.



Term credits, i.e., acceptance credits and deferred payment credits, are financing instruments for the buyer. During the deferred payment period, the buyer can often sell the goods and pay the amount due with the proceeds.

Negotiation Credit

A credit available by negotiation is either payable at sight or at a usance, usually at the counters of the issuing bank. The LC may authorize negotiation by any bank or may specify a particular bank (in both cases: the nominated bank). The beneficiary utilizes the credit by presentation of a draft (most often drawn on the issuing bank) accompanied by the stipulated documents, or of the stipulated documents alone, i.e. a draft is not a prerequisite (Article 9a-iv of the UCP). The validity for presentation of the drafts/documents expires at the counters of the issuing bank or, if so prescribed in the credit terms, at the counters of the nominated bank. Nevertheless, the place of payment still remains with the issuing bank and payment (at sight or maturity) is only made by the issuing bank at the given time after it receives the documents and finds them in conformity with the credit terms. The credit may also contain a clause authorizing the nominated bank to claim reimbursement from another party (the reimbursing bank). In such a case, unless the credit stipulates otherwise, the place of payment would then be with the nominated bank.

The negotiation of drafts/documents under such a credit by the nominated bank means that such bank gives value for these drafts/documents if they are found to be in conformity with the terms and conditions of the credit. In other words, the amount so paid by the nominated bank shall be the counter value of the drafts/documents less interest calculated from the time of negotiation until receipt of reimbursement from the issuing bank, either with recourse or without recourse, depending on whether the nominated bank did or did not add its confirmation.

Unless a nominated bank has confirmed the credit, it is not obliged to negotiate drafts/documents thereby giving value to the beneficiary (Article 10c of the UCP). If the nominated bank does not effect payment, it does in fact not negotiate the drafts/documents in the sense of Article 10b-ii of the UCP. Instead, in such an event, it receives drafts/documents and forwards them to the issuing bank and will effect payment to the beneficiary only after receipt of cover from the issuing bank.

Credit with Advance Payment

This type of credit is rarely used in Bangladesh but it is discussed here to enrich the knowledge of the staff to deal with any special situations. A special type of advance under a documentary credit is the so-called “red clause” credit. The red clause incorporates a special privilege for the seller. It authorizes the nominated bank to advance a part of the credit amount to the seller for procurement of the merchandise. This type of credit has been used particularly in the Australian wool trade.

The clause used to be formerly written in red ink and that gave it the name red clause. The LC, for instance, may read: “red clause A\$50,000 permitted.” This clause means that, with



the issuing bank assuming liability for the transaction, the nominated bank, for instance Prime Bank is authorized to advance the beneficiary A\$50,000 prior to the presentation of the documents. The advance is usually made against receipt, and the beneficiary also has to undertake to present the required documents before the credit expires. This advance payment is in reality made at the risk of the applicant.

Revolving Credit

Buyers often order more merchandise than they actually need in order to obtain a better price. However, the delivery of the goods is made in installments and at stipulated intervals. In such cases, the seller can request that a revolving credit be issued which guarantees each part payment. The text for such a credit might read “amount of credit US\$ 10,000, revolving 5 times to maximum US\$ 60,000.” As soon as the first installment of US\$ 10,000 has been utilized, the credit automatically becomes valid for the next US\$ 10,000 until the maximum amount of US\$ 60,000 is reached. The so-called “revolving” clause can be formulated in many ways to suit the needs of the buyers or sellers. It is also possible to fix the dates of individual installments. For example, it may read “credit amount US\$ 10,000, revolving every month for the same amount, for the first time in January, for the last time in May 20XX maximum amount payable under this credit is US\$ 60,000.” If an installment with a fixed date is omitted or only partially used, the words “cumulative” and “non-cumulative” may be used to indicate precisely whether unutilized installments or balances may or may not be added to later installments.

A documentary credit is not considered revolving if only specific part deliveries of goods must be shipped within prescribed periods of time. Special importance then attaches to Article 41 of the UCP, which prohibits the further use of the credit when the whole or part of a required part-shipment is omitted.

“If drawings and/or shipments by installments within given period are stipulated in the credit and any installment is not drawn and/or shipped within the period allowed for that installment, the credit ceases to be available for that and any subsequent installments, unless otherwise stipulated in the Credit” (Article 41 of the UCP). Revolving credit in Bangladesh can be opened only with the permission of Bangladesh Bank.

Documentary LC

Documentary LC calls for presentation of certain shipping documents evidencing shipment of goods along with the bill of exchange (generally called draft) while claiming for payment for the shipment under the LC.

Clean LC: But no such documents are called for in case of clean LC while demanding payment for the goods shipped by the supplier.



Transferable Letters of Credit

Under a transferable LC, the beneficiary is permitted to transfer his rights in part or in full to one or more parties. It is typically used when the original beneficiary acts as the middleman between the actual supplier and the importer. In some cases the seller is not the actual producer or manufacturer of the goods. In such cases original beneficiary requests for a transferable credit. The issuing bank can transfer a credit only if it is expressly designated as "Transferable". A transferable credit can be transferred once only.

Stand-by Letter of Credit

A stand-by LC authorizes the beneficiary to draw on a bank in the event of the non-performance of another party, or on the non-payment of funds that were expected to be received from another source or under other arrangements. It has the characteristics of a bank guarantee.

Performance Letter of Credit

A performance LC guarantees performance of an obligation. In the event of failure by the account party in the performance of an obligation e.g. contractual failure, failure to forward documents, failure to ship goods, the LC may be invoked.

Bid Bond credit

Very often various companies submit their respective bids in order to be awarded a contract. The beneficiary (the company which has requested the bids) will usually request a good faith deposit, which ranges from 1% to 3% of the total contract value. Instead, performance LC is issued to the beneficiary to cover the good faith deposit.

Performance Bond credit

As expressed in the "BID" situation, a performance LC (normally 10% of the entire contract value) will be issued stating that the performance will meet specified standards, If the standards are met, the credit expires, if not, the beneficiary would be reimbursed the amount of the LC. In essence this can be described as "penalty money".

Irrevocable Credits

Forms of Irrevocable, Confirmed Documentary Credit

A documentary credit takes many different forms. The first decision i.e. the choice of the basic form of the credit is usually made at the time of negotiation between the seller and the buyer. The terms of the credit will be determined in detail when the buyer instructs his bank to issue the credit. At this stage the seller, on being informed by the bank regarding the credit terms, should ensure whether the credit terms are agreeable and, if necessary, demand from the buyer a more precise wording of the credit terms or the necessary amendments. It is in the interest of both the parties to the contract that the individual terms of the credit transaction are



clearly and correctly stipulated. This facilitates the examination of the documents at the time of utilization.

Obligation of the Issuing Bank

Among the various types of credits, irrevocable credit is commonly used for international payments most of these credits are unconfirmed credits. Even though unconfirmed, the credit carries with it the assurance of the opening bank to make payment to the beneficiary. It is important to remember at the outset that payment should be made only if the documents are in absolute conformity with the required terms and that the bank has to decide on the basis of the documents alone. The Uniform Customs and Practice for Documentary Credits (UCP) of the International Chamber of Commerce in Paris defines this credit as follows:

“An irrevocable Credit constitutes a definite undertaking of the Issuing Bank, provided that the stipulated documents are presented to the Nominated Bank or to the Issuing Bank and that the terms and conditions of the credit are complied with:.....”

The UCP also provide the basis for judging the conformity of the documents. Article 4 of the UCP states:

“In credit operations all parties concerned deal with documents, and not with goods, services and/or other performances to which the documents may relate.”

The UCP rules are reprinted at annexure 1. In Bangladesh we deal mainly with irrevocable letters of credits. We will, therefore, confine our discussions to those credits only.

The irrevocable, unconfirmed credit is a commonly used type of documentary credit. In Article 9 of the UCP, it is clearly pointed out that the issuing bank has the obligation to make payment, or according to the terms of the credit to accept drafts, or to be responsible for their payment at maturity. Once this commitment has been entered into, the bank cannot disown its responsibility without the agreement of the beneficiary. A unilateral amendment or cancellation, as in the case of a revocable credit, is not possible in case of irrevocable, unconfirmed credit.

Since under the documentary credit a debt relationship exists only between the issuing bank and the beneficiary, it is advisable to assess the issuing bank's standing as well as the sovereign and transfer risks of the country involved.

In case of unconfirmed credits, it is important to know where the credit is available. If available with the issuing bank, the beneficiary assumes, in addition, the mailing risk associated with the delivery of the documents. The beneficiary must also realize that the deadlines for the delivery of the documents refer to the issuing bank mostly domiciled abroad. The situation is different when the issuing bank authorizes a correspondent bank in beneficiary's country to honor the documents in its place. In this event, the nominated bank (bank of the beneficiary) can examine the documents and make payment or take them up for a deferred payment or acceptance of a draft. But the nominated bank is not obliged to do this and in particular it does not assume any obligation to pay by examining the documents. This



is especially important in the case of deferred payment, because the nominated bank may refuse to make payment even after the documents have been taken up and forwarded to the issuing bank. In addition, the nominated bank usually effects payments under unconfirmed credits on the condition that cover is received.

“Unless the Credit stipulates that it is available only with the Issuing Bank, all Credits must nominate the bank (the “Nominated Bank”) which is authorized to pay, to incur a deferred payment undertaking, to accept draft(s) or to negotiate. In a freely negotiable Credit, any bank is a Nominated Bank.... “ (Article 10b-i of the UCP)

Irrevocable, Confirmed Credit

“A confirmation of an irrevocable Credit by another bank (the “Confirming Bank”) upon the authorization or request of the Issuing Bank, constitutes a definite undertaking of the Confirming Bank, in addition to that of the Issuing Bank, “ (Article 9b of the UCP)

In the case of an irrevocable, confirmed credit, the beneficiary has two safety nets: one is the obligation assumed by the issuing bank and the other is that assumed by the confirming bank. However, before the latter assumes such an obligation, certain criteria must be fulfilled.

- ❖ The credit should be issued irrevocably.
- ❖ The credit must clearly instruct or authorize the correspondent bank to add its confirmation. (For example, the statement “We hereby issue our irrevocable confirmed documentary credit” does not suffice.)
- ❖ The credit must be available at the confirming bank.
- ❖ The contents of the credit must be unambiguous and should not contain any conditions that allow the buyer to prevent the terms of the credit from being fulfilled (so-called stop clauses).

On the basis of the above observation, if the branch receives a request from a bank abroad to add its confirmation, it should not automatically confirm the credit. It should carefully evaluate the creditworthiness of the issuing bank, as well as sovereign and transfer risks before it promises to pay on the basis of a confirmation. If the bank is not prepared to confirm the credit and unless the credit stipulates to the contrary, the bank can advise the credit as unconfirmed but it must inform the issuing bank immediately.

With a confirmed credit, the beneficiary may (but is not obliged to) rely solely on the bank that has assumed this commitment. If the bank in question is a first-rate bank in the beneficiary’s country, the beneficiary is relieved of the problem of any political and transfer difficulties that may arise. The sovereign risk and the risks coupled with mailing the documents are also eliminated.

The confirmed credit offers a very high degree of security and it has still other advantages for the exporter. It may be used as a credit instrument in connection with transfer operations or for obtaining loans. In the case of a confirmed credit on a deferred payment basis, the bank



may also be prepared under certain conditions to effect a early settlement less interest of its payment commitment.

Documents in Documentary Credit Operations

A documentary credit should specifically state the documents required and their contents. If exact instructions are lacking, the banks accept the documents as presented, provided that their data content is not inconsistent with any other stipulated document presented (Article 21 of the UCP). General expressions that could lead to misunderstanding should be avoided. Such expressions include “first class”, “independent”, “official”, etc. (Article 20a of the UCP).

The UCP guidelines valid with effect from January 1, 1994 specifically describes transport documents, insurance documents and commercial invoices. Other documents are treated on a general basis only.



CHAPTER 6

The Documentary Collections

General Remarks on Documentary Collections

A documentary collection can be defined as the collection through a bank of a sum owed by a buyer against delivery of certain documents.

The bank acting as trustee and intermediary between the exporter and the importer presents documents - by order of the exporter - which are proof of the actual delivery of a product or service rendered and in exchange receives payment of the amount owed or obtains acceptance of a bill of exchange.

The basis of the execution of documentary collections is provided by the 'Uniform Rules for Collections' (URC) drafted by the International Chamber of Commerce in Paris (ICC) and approved by the banks. They regulate the main rights and duties of the parties with regard to the documentary collection. These rules and provisions, however, are only binding if they do not contradict any other agreements, which have been expressly concluded, or any national, federal or local legislation and/or stipulations, which take priority.

Liability of Banks

The liability of the banks with respect to the handling of documentary collection orders is restricted mainly to the forwarding and releasing of documents against payment or acceptance. Contrary to documentary credits the bank does not assume any responsibility if the buyer does not want or is unable to meet his payment obligation. According to URC (Art. 1), the banks have to "act in good faith and exercise reasonable care" but assumes no liability or responsibility for consequences arising from Acts of God, delays or losses in transit of any messages, letters or documents, in so far as these are not due to negligence on the part of the banks (URC, Art. 3/4/5). The exact text of the URC, which has been in force since 1979, is given in Annexure 2.

The documentary collection offers, in contrast to an open account, considerably more security for the seller, but not to the same extent as a documentary credit.

When to Use Documentary Collection?

In contrast to the documentary credit, the documentary collection involves a prior performance on the part of the seller i.e. the manufacture and dispatch of goods or the rendering of services before securing payment. This instrument can therefore only be recommended if:

- ❖ The seller (exporter) and buyer (importer) know each other to be reliable
- ❖ There is no doubt about the buyer's willingness and ability to pay
- ❖ There is stable political, economic and legal conditions existing in the importing country



- ❖ There is international payment system of the importing country; payment is not constrained or threatened by foreign exchange controls or similar restrictions.

Advantages of a Documentary Collection

- ❖ Simple and inexpensive handling;
- ❖ Often swifter payment settlement than on open account;
- ❖ Possibility of handing over documents, i. e. title to the merchandise, to the buyer against simultaneous payment of the amount owed or against acceptance of a draft (possibly with bank guarantee).

Nevertheless, if the buyer refuses to honor the documents, the search for a substitute buyer or the return transport of the merchandise might become an expensive proposition.

Parties Involved in a Documentary Collection

There are generally four parties involved in a documentary collection:

Principal or remitter

Usually the seller/exporter, who hands over the documents to his bank together with a corresponding collection order.

Remitting bank

The bank to which the principal entrusts the documents. This bank forwards the papers in accordance with the instructions in the collection order to the collecting bank in the buyer's country.

Collecting or presenting bank

The bank takes care of the actual collection or the obtaining of an acceptance from the drawee in accordance with the collection instructions of the remitting bank.

Drawee

The buyer or importer to whom the collection documents is presented.

Forms of Documentary Collections

Documents Against Payment (D/P) or Cash Against Documents (CAD).

The collecting bank may only release the documents against immediate payment, in so far as national, federal or local laws or regulations do not prevent it. For instance, the law may prescribe that collection documents may be handed over against payment in the national currency. It is, therefore, contrary to Article 12 of URC (foreign exchange authorization procedure in countries with exchange controls).



Experience has shown that some buyers prefer to delay the takeover of the documents and payment until the goods arrive, unless the contracting parties have agreed that the papers should be honored “on first presentation”. In this case, a suitable clause should be included in the collection order.

Documents Against Acceptance (D/A)

The presenting bank may release the documents against the buyer’s acceptance of a draft, for instance, drawn payable 60-180 days after sight (after-sight draft) or due on a definite date (time draft). In this way, the drawee gains possession of the merchandise before payment is made; by reselling the goods immediately, he is able to raise the necessary funds to pay the draft on its due date. The seller thus grants the buyer a period of grace and in return receives a draft accepted by the drawee as security. As this is all he can rely on until the draft matures, the seller bears the risk of non-payment. He may therefore request the drawee to arrange that the presenting or another first-rate bank issues a guarantee for the payment of the draft.

Release of Documents Against Letter of Undertaking

The collecting bank may release the documents to the buyer against a letter of undertaking, the exact wording of which is determined by the principal or the remitting bank. The buyer thereby undertakes to pay the amount owed at a fixed date. For the enforcement of such a letter of undertaking, it is imperative that it is clearly and unambiguously formulated.

Collection with Acceptance

Although seldom employed in practice, the following type of collection should also be mentioned for the sake of completeness:

The party remitting the documents gives instructions for the drawee to accept a draft drawn at, say 30 days after sight, on presentation of the documents. These, however, may only be released to the buyer after payment of the draft.

Collection of Payment by the Collecting Bank

In a documents-against-payment collection, the drawee will, under normal circumstances, effect payment in exchange for the documents presented by the collecting bank and the letter will forward the proceeds to the remitting bank.

It should be noted, however, that in countries without fully convertible currencies banks adopt the practice of releasing documents against payment of the counter value in local currency although instructed otherwise by the collection order.

In a documents-against-acceptance operation the drawee accepts the draft, which obliges him to honor it at maturity. The accepted draft remains at the presenting bank or is returned to



the remitting bank in accordance with the instructions in the collection order. The principal then has the choice of discounting the draft or of collecting the amount at maturity.

To assist the buyer in connection with documentary collections, a checklist has been included in the section “What special points must the buyer observe in documentary collection operations?”

What Special Points must the Seller Observe?

Before negotiating the contract, it should be ascertained whether the documentary collection provides the necessary security. The seller should consider the following points:

- ❖ Credit standing and trustworthiness of the buyer;
- ❖ Previous business experience with the buyer’s country;
- ❖ Political, economic and legal situation in the importing country;
- ❖ Exchange controls and import restrictions in the importing country;
- ❖ The possibility of retrieving the goods or of finding a new customer in the event of non-acceptance or non-payment of the merchandise. If so, at what cost?

After selecting the documentary collection as an instrument for securing payment

If the seller intends to deliver the merchandise against acceptance by the buyer with, for instance, a 180-day period of credit, the credit standing and reliability of the buyer assume increased importance. By the settlement date, the goods will have long been sold or used and the seller’s only security is the buyer’s acceptance.

Possible alternative: The collecting banker or another first-rate bank guarantees payment of the draft accepted by the drawee.

- The bill of lading, being a title document and a contract of carriage for marine shipments, can be made out to “order” and signifies ownership of the goods. Thus, the merchandise may only be released to the bill’s legitimate holder. This guarantees that the buyer can only take possession of the goods after he has honored the documents or accepted the draft.
- When goods are dispatched by air, rail, mail or truck direct to the address of the buyer, they will be handed over to him regardless of whether or not he has honored the collection documents. In this case, the collection order becomes nothing more than a collection of receivable.

Another alternative: Dispatch of the goods to the collecting bank in the buyer’s country or to a forwarding agent at the disposal of a bank. The buyer can then take possession of the merchandise only if he honors the documents or accepts the draft. The “Uniform Rules for Collections”, Art. G, state, however, that banks have no obligation to accept delivery of such shipments if prior consent has not been given. The bank concerned must be willing to act as addressee for the shipment. Its terms for this service should be ascertained.



- ❖ Can the goods be imported into the country in question and has the required authorization been issued (import permits)?
- ❖ Are foreign exchange transfers freely allowed in the importing country or do transfer regulations have to be observed? Duration of the authorization procedure?

Releasing the documents against payment or acceptance

- The release of the goods if they have been addressed to a bank or addressed to a freight forwarder at the disposal of a bank,
- Collection of the accepted draft at maturity,
- It is emphasized that collecting banks in certain countries are prepared to release documents without specific authorization against a corresponding deposit in local currency.
- The collection order must mention whether the collecting bank should hold the acceptance in trust or whether the draft should be returned to the remitting bank and placed at your disposal.
- If available, give the name and address of a representative or agent who in case of need, i. e. in the event of non-payment, will take care of the merchandise. The powers delegated to him should be defined in the collection order.

Special Points to be observed by Buyers

The purchaser of merchandise on the basis of a documentary collection will be informed in due course by the collecting bank that the documents have arrived. This notification contains the terms of collection and the most important details concerning the type of documents and the merchandise sent. Therefore the buyer will see whether possession can be taken of the goods and whether the consignment can be cleared through customs with the papers held by the collecting bank.

Special attention should also be given to the following points:

The drawee is entitled to examine the documents at the collecting bank prior to making payment. However, prior inspection or examination of the goods is not permissible without special authorization from the principal.

If the drawee is a good and regular customer, the collecting bank may send him the documents “in trust”. However, the bank must be sure that he will on no account make use of the documents before the collection conditions are fulfilled. The collecting bank remains responsible towards the principal and remitting bank and bears the full risk of loss or unauthorized use of the documents by the drawee. Should the drawee decide not to take up the documents, he must return them to the collecting bank forthwith.

The collecting bank is only permitted to release the documents if the collection conditions are fulfilled. Without express authorization by the principal, the bank is not empowered to accept partial payments.



In the event of non-payment or non-acceptance, the collecting bank has to notify without delay the bank that send the collection order. On receipt of such notification, the remitting bank must give suitable instructions within a reasonable time regarding the further handling of the documents. If the collecting bank does not receive such instructions within 90 days after its notification of non-payment or non-acceptance, the documents can be returned to the bank from which the collection order came.

The collecting bank is not responsible for checking the documents received from the remitting bank. It cannot accept any liability for their form or correctness or for the condition of the merchandise, even if it may originally have been sent to its address or at its disposal. Any complaints concerning the goods should be addressed directly to the seller.



CHAPTER 7

Sales Terms

What Sales Terms Are?

Sales terms are used to describe and explain how goods are to be delivered by the seller to the buyer. They are also known as Delivery Terms. Sales or Delivery Terms have been standardized and incorporated into a wider classification of defined terminology by the International Chamber of Commerce to facilitate international trade. This classification is known as Inco-terms. The basic purpose of Sales Terms is to determine at what points the seller has fulfilled his obligations so that the goods in a legal sense could be said to have been delivered to the buyer. Thus the Sales Terms are so expressed as to indicate clearly:

- ❖ Who will arrange and pay for the carriage of the goods from one point to another?
- ❖ Who will bear the risk if these operations cannot be carried out?
- ❖ Who will bear the risk of loss or damage to the goods incurred in transit?

It is possible to imagine a number of options for sharing the costs, risks and responsibilities between the seller and the buyer in international trade. This is exactly what Sales Terms/Delivery Terms/ Incoterms are designed to do. These terms have emerged as a consequence of the different requirements of time, place and traded merchandise.

Types of Sales Terms

Currently there are fourteen standardized Sales Terms designated by the International Chamber of Commerce. These terms are three-letter abbreviations. They indicate the rights and obligations of each party to a transaction when it comes to transporting the goods as follows:

EXW: EXW means “Ex Works”. Under this term the seller’s only responsibility is to make the goods available at his premises (i.e., works or factory), and thus denotes the minimum obligation of the seller.

F.O.B: F.O.B means, “Free on Board”. The goods are placed on board a ship by the seller at a port of shipment named in the sales contract. The risk of loss or damage to the goods is transferred from the seller to the buyer when the goods pass the ship’s rail.

FRC: FRC means “Free Carrier...(Named Point)”. This term has been designed to meet the requirements of modern “multi-modal” transport. It is based on the same main principle as FOB except that the seller fulfils his obligations when he delivers the goods into the custody of the ‘Carrier’ at the named point. ‘Carrier’ means any person by whom, or in whose name, a contract of carriage by road, rail, air, sea or a combination of transport modes has been made.

FOR/FOT:FOR and FOT mean “Free on Rail” and “Free on Truck”. They should only be used when the goods are to be carried by rail or truck.



- FOA:** FOA means ‘ FOB Airport’ and is based on the same main principle as the ordinary FOB term. The seller fulfils his obligations by delivering the goods to the air carrier at the airport of departure.
- FAS:** FAS means “Free Alongside Ship”. Under this term, the seller’s obligations are fulfilled when the goods are placed alongside the ship on the quay or in lighters.
- CFR:** CFR means “Cost and Freight”. The seller must pay the costs and freight necessary to bring the goods to the named destination, but the risk of loss of or damage to the goods as well as of any cost increase is transferred to the seller to the buyer when the goods pass the ship’s rail at the port of shipment.
- CIF:** CIF means “Cost, Insurance and Freight”. This term is basically the same as CFR, but with the addition that the seller has to procure marine insurance against risk of loss of or damage to the goods during the carriage.
- DCP:** DCP means “Freight or Carriage Paid to...” Like CFR, it signifies that the seller pays the freight for the carriage of the goods to the named destination. However, the risk of loss of or damage to the goods, as well as of any cost increases, is transferred from the seller to the buyer when the goods have been delivered into the custody of the first “Carrier” and not at the ship’s rail. means “Cost, Insurance and Freight”. This term is basically the same as CFR, but with the addition that the seller has to procure marine insurance against risk of loss of or damage to the goods during the carriage.
- CIP:** CIP is the abbreviation of “Freight or Carriage and insurance paid to....”,. This term is the same as “ Freight or Carriage Paid to...”, but with the addition that the seller has to procure transport insurance against the risk of loss of or damage to the goods during the carriage.
- EXS:**EXS means “Ex Ship”. Under this term, the seller shall make the goods available to the buyer on board the ship at the destination and has to bear the full cost and risk involved in bringing the goods there.
- EXQ:**EXQ means “Ex Quay”. Under this term, the seller makes the goods available to the buyer on the quay (wharf) at the destination designated in the sales contract. The seller has to bear the full cost and risk involved in bringing the goods there. There are two “Ex Quay” contracts in use, namely, “Ex Quay (duty paid)” in which the duties, etc., at the port of destination are paid by the seller; and “Ex Quay (duties on buyer’s account)”, in which the liability to clear the goods for import are borne by the buyer instead of by the seller.
- DAF:**DAF is the abbreviation of “Delivered at Frontier” which means that the seller’s obligations are fulfilled as and when the goods arrive at the frontier, i.e., at ‘the customs border’ of the country named in the sales contract. The term is primarily intended to be used when goods are to be carried by rail or road, though it may be used irrespective of the mode of transport.
- DDP:**DDP means “Delivered Duty Paid”. While the term “Ex Works” signifies the seller’s minimum obligation, the term “Delivered Duty Paid”, when followed by words naming the buyer’s premises, denotes the other extreme-the seller’s maximum obligation



Implications of Sales Terms

The basic utility of Sales Terms lies in their facilitating a clear understanding of the functions and costs of an international transaction. By reference to the appropriate sales term, the exporter can clearly express to the importer the extent of his obligation and responsibilities in transportation of the goods.

Since the standardized Sales Terms offer uniform meaning and interpretation, their use in an export contract help to minimize the problems arising out of conflicting national laws and their interpretations. By resorting to standardized Sales Terms, both parties to a foreign trade transaction can, therefore, be sure that their legal relations are grounded in a fair and reasonable international standard

Sales Terms are also the guiding factors for quoting export prices, as price quotations will clearly differ, depending on the nature of the Sales Terms.

It should be emphasized that the use of terms like FRC, DCP and CIP presupposes the existence of the services of internationally recognized freight forwarders having a network of collection points in different parts of the country. Since this facility has not yet been developed in Bangladesh, the most common terms that are in use in this country are CFR and CIF.



CHAPTER 8

Credit Instruments and Documents used in Foreign Trade

Credit Instruments

T.T. (Telegraphic Transfer)

T.T. is an order for payment of money sent by telex or other instant electronic media. Funds are paid to the beneficiary in the foreign centre usually on the same day. No loss of interest or expenses on stamp duty etc. is involved. T.T. rate is the bank's finest or basic rate of exchange on the basis of which all other rates of exchange are built.

M.T. (Mail Transfer)

M.T. is an order issued in the form of a letter for payment of money, sent by mail. The purchaser pays cash while buying but the beneficiary at foreign centre gets payment on arrival of the mail advice. This involves loss of interest to the purchaser and hence banks can afford to make M.T. rate cheaper than T.T. rate.

D.D. (Demand Draft)

A foreign demand draft is an order for payment of money, drawn by a bank on another bank or a branch of the same bank in a foreign centre, on presentation of the draft.

T.C. (Travellers' Cheque)

People usually use TCs to meet their expenses for overseas travels. It reduces the risk of carrying currency notes. These are drawn in freely convertible currency such as US dollar and pound sterling for fixed denominations, which can be encashed into local currency at the foreign centre, at the ruling rate of exchange. The purchaser puts his signature at the space provided for the purpose while purchasing the same and again signs at the prescribed space in the presence of the paying banker at the time of encashment. If both the signature tallies, payment is made.

Letters of Credit

Letters of Credit is an instrument issued by the bank on behalf of the importer at his request, in favour of the foreign supplier or his banker, authorising the exporter's bank to pay/negotiate or accept the bill of exchange (draft) drawn by the foreign supplier for specified amount covering the shipment of specified items and quantity of goods within stated period under certain terms and conditions and undertaking to reimburse or make payment of the amount of the relative bill on production, if found otherwise in order and in accordance with the terms of LC. In view of its importance in settlement of international transactions a special chapter-- Chapter 5-- is devoted to LC separately.



Documentary Trade Bills

When a bill of exchange (draft) is accompanied by documents of title to goods (B/L etc.) and other shipping documents, it is called documentary bills. A documentary trade bill may be drawn either payable at sight or after a fixed period of time.

Sight bills (Sight Drafts)/ Usance bills

Trade bills payable at sight on demand is called sight bills or sight drafts while bills drawn payable after a certain period of time is called usance bills.

DA/DP Bills

Usance bills may be drawn on D.P. (Documents against Payment) or D.A. (documents against acceptance) basis. A usance bill may again be drawn on "after date" or "after sight" basis. In case of an "after date" bill, it begins to run towards maturity from the date written on the bill. On the other hand, the "after sight" bill begins to run towards maturity after it has been sighted and accepted by the drawee at the foreign centre.

Short bill/Long bill

A DA bill that has only a few days to run towards maturity is called short bill while a bill having usance of one month or more is called a long bill.

Bank Bill/Trade Bill

A Bill, which bears the acceptance of a bank, is called Bank bill, while a bill drawn and accepted by commercial firm or company is called trade bill.

Transport Documents

Documents evidencing shipment of goods are known as shipping documents and include B/L, Invoice, certificate of origin, packing list, marine insurance policy etc.

Following is a list of the transport documents. It is understood that beside the terms specified, such transport documents must meet in all other respects the stipulations of the credit.

Marine/Ocean Bill of Lading (B/L)

A Bill of Lading is a document issued in favor of the consignor of the goods duly signed by the master of a ship or his agent, acknowledging the receipt of the goods on board a named vessel and undertaking to carry the goods to the port of destination named therein, on payment of prescribed freight, in the same condition in which the goods were received on board. B/Ls are issued in sets of two or three original copies all of which are signed and are called negotiable copies. A few non-negotiable instruments are also issued. B/L is a quasi-negotiable instrument, as the bonafide holder cannot give a better title to the transferor than that he has.



Article 23 of the UCP stipulates that, if the credit calls for a bill of lading covering a port-to-port shipment (the credit does not have to refer to the words “marine/ocean”), such B/L. must indicate:

- ❖ The name of the carrier and has to be signed/ authenticated either by the carrier or the master, or by a named agent for the carrier or for the master.
- ❖ Those goods have been loaded on board or shipped on a named vessel.
- ❖ In case a specific “on board”-notation is shown on the document, such notation must be dated. - port of loading and port of discharge stipulated in the credit.

Bills of lading must consist of the sole original or of a full set, if issued in more than one original, unless otherwise stipulated in the credit.

The bill of lading differs from other types of transport documents in that it has the character of a security. An original bill of lading represents the title to the goods. It is therefore usually not possible to obtain possession of the goods from the shipping company without presenting the original bill of lading.

Bills of lading are almost always made out in several originals. All of the originals together form the full set, whereby one original suffices for taking possession of the goods.

Depending on the consignee, a distinction is made between bills of lading, straight bills of lading and bills of lading made out to the order of a party.

Bearer bills of lading are rarely used. The word “bearer” appears under the address of the consignee. Any party in possession of the bill may claim the goods.

The straight bill of lading names the consignee but does not bear the remark “to order”. Only the consignee mentioned may claim the goods. A transfer of ownership must be made by means of a declaration of assignment (an endorsement is not effective). Bills of lading bearing the phrase “Consigned to” above the address of the consignee are also classified as straight bills of lading.

The bill of lading made out to order bears the phrase “to the order of” or “to order” before or after the name of the consignee. The consignee can transfer this type of bill of lading by simple endorsement. If it is a blank endorsement, the bill virtually becomes a bearer security. If there is no mention of the consignee in a bill of lading and, instead, there is the remark “to



the order of shipper” or even more simply “to order”, the consignor may transfer the bill of lading to any other party by means of endorsement.

So-called “short-form/blank back” bills of lading are accepted under documentary credits as long as otherwise all afore-mentioned conditions and those as per Article 23 of the UCP are fulfilled, and the credit terms do not stipulate anything to the contrary.

Mate's Receipt

Before shipment of the goods, the master of the ship or his agent issues a receipt known as "Mate's receipt" merely acknowledging the receipt of the goods on board the vessel, which is substituted later on by the regular B/L. Mates' receipt are not document of title to goods.

Short Form BL

A B/L, which does not contain the details of all usual terms and conditions of carriage, is called Short Form B/L.

On Board/Shipped B/L

On Board or shipped B/L is one that indicates that the goods have actually been loaded on board a named vessel, which will commence its voyage shortly. It is the best type of B/L and is readily accepted by the Bank.

Received for Shipment BL

When the BL indicates that the goods have been received for shipment by any ship without mentioning the name of any specific vessel on which the goods have been loaded it is called "Received for Shipment B/L". Such B/L is not acceptable to a bank as there is no certainty as to when the goods will be shipped or reach the destination.

Through or Transportation B/L

A B/L which indicates trans-shipment i.e. carriage of goods by different ships or by ship and rail (sea and land routes) during transit, is called through or transportation B/L. unless authorised by terms of LC, banks should not accept such B/L.

Ocean B/L

A B/L, which shows that the goods will be carried over seas and oceans to reach the port of destination, is called ocean B/L and is readily acceptable to the Bank.



Clean B/L

A B/L, which indicates that the goods were accepted on board apparently in good condition and does not contain any reservation or adverse remarks/notations/qualifications etc. about its condition, is called clean B/L.

Dirty, Foul, Claused B/L

A B/L which bears a super-imposed clause or clauses/notations declaring the defective condition of the goods or packing or which contains any adverse remark/qualification about the condition of the goods or the packing etc., is called Dirty, Foul or Claused B/L.

Stale B/L

A B/L though, otherwise in order, which has been tendered so that the same cannot be dispatched to the correspondent abroad before the arrival of the carrying vessel to the port of destination, is called stale B/L. If the B/L does not reach the hands of the importer before arrival of the vessel carrying the goods, it will incur demurrage at the port of destination and as such the importer may refuse to accept it and dishonor the bill. Banks should not accept any stale B/L without authority from the LC opening bank/importer. A B/L may also become stale if it is tendered after the expiry of the period specified in the LC for negotiation or if it bears a date of issue later than the last date of shipment specified in the LC.

In case, however, no specific period is mentioned in the relative LC for presentation to negotiating bank, it will be treated as stale if the same is tendered 21 days after the date of its issue as per provisions of U.C.P.D.C.

Charter party B/L

A B/L issued by a Charterer, who chartered a ship from a third party ship owner, is called Charter party B/L. Unless specifically authorized in LC, such B/L should be rejected.

Multimodal Transport Document

According to Article 2G of the UCP such document is used when the documentary credit calls for a transport document covering at least two different modes of transport.

The same terms as for port-to-port bill of lading under Article 23 of the UCP are applicable except that multimodal transport documents must indicate:

- Name of carrier or multimodal transport operator and have to be signed/authenticated either by the carrier, or multimodal transport operator or master, or by a named agent for the carrier/multimodal transport operator/master
- That goods have been dispatched, taken in charge or loaded on board
- The place of taking in charge and place of final destination stipulated in the credit.

Short-form/blank back multimodal transport documents are acceptable at the conditions stated in Article 26 of the UCP.



Air Transport Document

Airway Bill/Air consignment Note

If the goods are exported by air, the airlines issue either airway bills or air consignment notes. Airway bills are issued in triplicate-- the first copy is for the carrier, the second copy for the consignee and the third copy for the consignor. Airway bill is not a document of title to goods and is not treated as a negotiable instrument as in case of B/L.

Under the Exchange Control Regulations, the Airway bills or air consignment notes are required to be issued to the order of a bank in the importer's country nominated by the bank in Bangladesh, through whom the documents will be negotiated or collected.

According to Article 27 of the UCP the air transport document must indicate:

- The name of the carrier and has to be signed/authenticated by the carrier or a named agent for the carrier
- That the goods have been accepted for carriage
- The airport of departure and the airport of destination stipulated in the credit.

A specific notation is required if actual date of dispatch is called for in the credit. The original for consignor/shipper is sufficient even if the credit calls for a full set.

Road, Rail or Inland Waterway Transport Documents

Article 28 of the UCP stipulates that such documents must indicate:

- the name of the carrier and have to be signed/authenticated and/or bear a reception stamp by the carrier or a named agent for the carrier
- that goods have been received for shipment, dispatch or carriage
- the place of shipment and the place of destination stipulated in the credit.

Any document presented will constitute as original.

Courier and Post Receipts

Article 29a-i of the UCP stipulates that a post receipt or certificate of posting will be accepted if it “appears on its face to have been stamped or otherwise authenticated and dated in the place from which the credit stipulates the goods are to be shipped or dispatched.”



Article 9 b-i of UCP stipulates that a document issued by a courier or expedited delivery service will be accepted if it “appears on its face to indicate the name of the courier/service, and to have been stamped, signed or otherwise authenticated by such named courier/service...”

Insurance Documents

Insurance documents must be in the form stipulated in the credit and be issued and signed by an insurance company, an underwriter or its agent. Cover notes from insurance brokers will not be accepted unless they are expressly authorized in the documentary credit. If not otherwise stated in the credit, the insurance cover must begin at the latest either on the date of loading on board or dispatch or taking in charge of the goods. Unless otherwise stipulated in the credit, the insurance cover must be expressed in the same currency as the credit and must cover at least the CIF or CIP value of the goods plus 10%. If, on the basis of the documents, this minimum value cannot be determined, the basis for the amount will be the gross amount of the commercial invoice or the amount to be paid under the credit, whichever is greater (Article 34 of the UCP).

The credit should stipulate the exact type of insurance required and the types of risks to be covered. If such stipulations are lacking, banks will accept the insurance documents as presented without accepting any responsibility for risks that are not covered (Article 35 of the UCP).

Commercial Invoice

A commercial invoice is a document containing full description of the goods shipped, its quality, quantity, weight, unit price and total price, terms of sale, packing specifications, shipping marks, LCAF No., LC No., exporter's Registration Number, B/L No. name of the vessel etc.

It is prepared and signed by the exporter and addressed to the Importer. If shipment is made under LC, the above descriptions must conform to those required by the LC. Commercial Invoice is normally made out in set of five copies all of which must be signed by the exporter.

Consular Invoice

Some importing countries require a special type of Invoice signed by their own consul located at the exporter's country. This is called consular Invoice. Countries like U.S.A., Canada, Philippines; Mexico etc sometimes require this type of documents. This invoice helps the importer in collecting accurate information about the volume, value, quantity, grade, source etc. of the goods imported in connection with assessment of import duty as well as clearance of the goods from the customs without undue delay. Such invoices are provided by the consul of importing country on payment of stipulated fees.



Customs Invoice

Certain countries such as, U.S.A., Canada need Customs Invoice, Canada has prescribed a specific form of customs invoice for allowing entry of merchandise into Canada at preferential Tariff rates. Such invoices are also required for inter commonwealth trade for the purpose of obtaining preferential Tariff rates. Specific forms of invoices approved by the customs of importing country are supplied to the exporter through the Embassy of the concerned country.

Certificate of Origin

This is a document that certifies the actual country of origin of the goods i.e. where the goods were produced or manufactured. In most cases, this document forms part of the invoice and generally appears on or at the back of the commercial Invoice and issued by the Chamber of Commerce or Trade Association of the country from where the goods are exported.

Packing Lists

Packing list gives the particulars about the quantity, description, weight etc. of the goods packed in each box, bale or container for the purpose of identification at the time of clearance of the goods at the port of destination.

Marine Insurance Policy

Marine insurance policy is taken out to protect the consignee against any loss that may be incurred by him in respect of the merchandise exposed to the perils of the sea while in transit on high seas from the port of shipment to the port of destination. The insurance policy or cover note may cover all risks or any particular risk insured. The next chapter is devoted to deal with this subject.

Quality control certificate

It is a certificate, which is issued by the Quality Control Department of the country certifying as to the quality of the commodity exported. In some cases the name of the organisation that will issue such certificate is indicated in LC.

G.S.P. Certificate

Many advanced/developed countries allow entry to the exporters of certain items of the developing countries at nil or reduced rates of duty. This financial facility is termed as generalized system of preference. The Export Promotion Bureau when called for in the LC issues it.

Phytosanitary Certificate

Plant protection department in the country of export generally issue this certificate ensuring that the items of goods exported are free from any sort of germ and poisonous insects. The importing country generally demands this certificate when there is out break of infectious diseases in the country of export.



Compliance Certificate

The authorized dealer prepares it immediately after negotiation of the export document addressed to the LC opening bank giving description of the goods, number of packets/cages/bales shipped, port of shipment, port of destination, B/L number and date and the name of the shipper/exporter. When there is indication in the LC as to the disposal of shipping documents this certificate is to be issued for sending the documents to the LC opening bank or to others. Sometimes when LC opening bank gives special instructions to send draft or B/E and a copy of compliance certificate to reimbursing bank and rest of the shipping documents to them, this certificate is required.

The negotiating branch must certify that all the terms and conditions of the credit have been complied with and the documents have also been disposed off in terms of the credit.

Packing List

This list is prepared by the exporter according to their usual system stating therein generally the description of goods, net and total weight, number of packets, cages etc. so that the importer can easily take delivery of goods from the ship.

Commercial Invoice

One of the most important credit documents is, without doubt, the commercial invoice. By describing the goods exactly as they are stated in the credit, the seller confirms that they have been delivered as contracted.

It is up to the nominated bank whether it will accept an invoice in excess of the credit amount. If the bank does accept such an invoice, only the maximum amount stipulated in the credit will, of course, be paid. The release of the documents may not be made dependent on the payment of the remaining amount.

Other Documents

Although no specific reference to other documents is made in the UCP, it is important that these documents also satisfy the credit conditions. It should be mentioned once again that, failing specific instructions, banks will accept other documents as they are presented as long as the requirements stipulated in Article 13 and 21 of the UCP are fulfilled.

Discrepancies in the Documents

It has already been pointed out that in the event of discrepancies in the documents, the security given by the credit is largely lost. The beneficiaries under a documentary credit should, therefore, examine all documents and the terms of the credit - the latter immediately upon receipt of the credit - in order to avoid any discrepancies. If, however, inconsistencies are discovered, they should be corrected whenever possible. If the beneficiary is not in a position to do so, the nominated bank may declare itself prepared to pay under reserve the amount in question on the condition that the buyer takes up the documents. The prerequisites for payment "under reserve" are, however, that the credit terms do not exclude such



procedure, that the irregularities are not major and that the beneficiary reliably guarantees repayment on first demand. If the documents are not accepted because of discrepancies, the nominated bank must refund the amount paid out, plus commissions, charges and any accrued interest, to the issuing bank. The issuing bank is obliged to hold the documents at the disposal of, or return them to, the bank from which it received same, upon immediate notification and citing of the reasons for non-acceptance.

Now and again, a seller requests without due consideration payment “under reserve”. A seller assumes a considerable risk in that the goods are already under way or have arrived at their destination without the seller knowing whether the documents will be accepted. If the documents are rejected, he must return the proceeds plus interest etc. and have the goods shipped back or attempt to sell them in the country to which they were shipped, which may entail losses.

In many cases, it is therefore better to contact the issuing bank for acceptance of the discrepancies.



CHAPTER 9

Check List for Scrutiny of Documents

Received For Exports

On receipt of the airmail/LCable/Telex LC (short or full), the branch should scrutinize it as follows:

- ❖ Ensure that the issuing bank is our foreign correspondent Bank.
- ❖ See that the letter of credit relates to the documents being examined.
- ❖ Verify the signatures appearing on the airmail LC with the specimen signature of the authorized officials of the issuing bank recorded with us.
- ❖ Decode the full cable/short cable LC and verify the Test number with Test Key of the bank in respect of both the cable and the telex LC (full or short).
- ❖ If the signature of the authorized official on the airmail LC differs, bring the same to the notice of the issuing bank immediately by telex for proper authentication.
- ❖ Ascertain whether the airmail LC is the operative credit instrument and not merely a confirmation copy of the cable LC.
- ❖ See whether the LC is revocable or irrevocable; revocable LCs are not acceptable to the bank.
- ❖ See that the goods specified in the LC are permissible for export.
- ❖ Examine the terms and conditions of LC very carefully to see that the same are in conformity with the existing Exchange Control or Trade Control Regulations. If any terms or conditions in the LC are not in accordance with these regulations, advise the issuing bank at once by telex (at beneficiary's or opener's cost) to get the offending terms and conditions amended. The beneficiary should also be kept posted with the developments in the matter.
- ❖ See whether the LC is transferable/divisible or restricted one. A transferable LC can be transferred once only in favour of the second beneficiary or beneficiaries. In case of restricted LC, the exporter must tender the documents to the restricted bank only.
- ❖ If the latest number of the cable/telex LC does not agree or if the cable/telex is not a tested one take up the matter at once with the issuing bank abroad through telex for proper authentication and wait for the mail confirmation or tested telex confirmation. The charges incurred in this regard should be recovered from the beneficiary in due course. Only after receipt of mail confirmation or tested telex confirmation, LC should be advised to the beneficiary. Branches may however give preliminary notice to the beneficiary without any responsibility on our part, only for his information.
- ❖ Ascertain whether the cable/telex advice is intended to be operative credit instrument or it is a short cable. If such advice contains indication that mail confirmation shall be operative credit instrument or wordings like "full details to follow etc." wait for such confirmation or full details from the issuing bank abroad.
- ❖ If the cable/telex advice is not intended to be the operative credit instrument, brief particulars may be passed on to the beneficiary by a letter for his advance information only stating clearly that the cable message is merely an advance information and full



details will follow on receipt of airmail confirmation copy. If the postal confirmation is not received within reasonable time the matter should be pursued with the opening bank.

- ❖ In the absence of any indication to the contrary in the cable/telex LC advise, the branch may treat it as the operative credit instrument and advise the beneficiary accordingly.
- ❖ In case some particulars of the LC are found missing or if the cable/telex message is found mutilated in course of transmission, obtain clarifications immediately from the issuing bank under advice to the beneficiary. It may be noted that while the advising branch may claim protection under Article 18 of U.C.P. - I.C.C. publication No.500 for advising mutilated LC but in no case the branch will get any protection under UCP for any act of negligence on their part. The branch should, therefore, take special care in advising LC to the beneficiary.
- ❖ Review the LC to find out any special instructions. For example, if the LC should be advised through another local bank?
- ❖ Whether any commission or charges are to be collected from the beneficiary.
- ❖ Whether we have been requested to add confirmation.
- ❖ Time stamp all cables/telex/original airmail LC and forwarding letters received from the Issuing Bank abroad.
- ❖ Prepare separate LC folder for each client for keeping Departmental copies of LC transactions.

Amendment (s) of Letters of credit

- ❖ Determine which amendment, if any, has been accepted or rejected by the concerned parties; you may need to contact the beneficiary or other parties to so determine,
- ❖ You may need to determine acceptance or rejection by an examination of the documents.

Bill of Exchange (Draft)

- ❖ It is correctly endorsed, if necessary. Unless otherwise stipulated in the credit, draft drawn on banks in the US should not bear restrictive endorsements or be enfaced or endorsed "without recourse".
- ❖ Its amount in words is exactly equal to its amount in figures, and both the amounts indicate the currency, as stipulated in the letter of credit.
- ❖ Drawee is as required in the letter of credit.
- ❖ Amount does not exceed the balance of the letter of credit or the amount permissible under the letter of credit. Revolving, installment or special purpose credits may have bearing on the permissible amount.
- ❖ Amount agrees with that of the invoice, unless otherwise stipulated in the credit. The draft may be drawn for an amount less than the invoice amount-See UCP 500, Article 37b.
- ❖ It does not appear to have been altered, but if so that alterations have been authenticated. (Mexican law does not permit alterations to drafts).
- ❖ It contains appropriate clauses required in the letter of credit.
- ❖ If the payee is someone other than the beneficiary, or the presenting bank, refer to your internal procedures.
- ❖ The draft must be drawn strictly in accordance with the terms of LC and sale contract.



- ❖ It is dated and drawn or endorsed to the order of the Bank.
- ❖ It appears to be drawn and signed by the beneficiary (the second beneficiary, if the documents are under a transfer). If you issued the credit and it is transferable, and you receive documents from a party other than the first beneficiary, ensure that it is a transferable credit.
- ❖ It is drawn on the party indicated as “Drawee” in the LC.
- ❖ It is marked as drawn under proper LC and bears the reference of appropriate LC No. and name & address of the LC issuing bank abroad.
- ❖ The tenor of the bill is in accordance with that stipulated in the LC.
- ❖ In case of usance bill (time draft) it is properly stamped with bill stamp (No bill stamp is required in case of sight bill or sight draft).
- ❖ It bears interest clause in case of time bill where necessary as per contract / L.C. terms.
- ❖ It does not bear any correction/alternation without proper authentication..
- ❖ It is drawn in sets as per terms of LC and all the copies of the set are presented for negotiation.

Commercial Invoice

- ❖ It should be prepared in exporter’s own printed Invoice form.
- ❖ The Invoice must be certified to be correct and duly signed by the beneficiary of the LC (exporter), but in case of transferable LC it may be done as per ICC Publication 500 Article 54(f).
- ❖ Must be addressed to the importer, (Opener in case of LC.)
- ❖ Required number of copies of Invoice as specified in the LC has been presented. If LC stipulates customs or Consular Invoice, such Invoices have been furnished. Beneficiary’s invoice is not acceptable in such cases.
- ❖ Must bear marks the marking and numbering on the packages/crate must be same as shown in the transport document (i.e. B/L, R/R etc.) The marks must be identical in all documents.
- ❖ Description of the goods in invoice must correspond word for word to that given in LC or contract.
- ❖ Invoice must specify quantity clearly, words like approximate, about, nearly, must be avoided. The quality and quantity must correspond to that indicated in LC.
- ❖ Amount must be expressed in the currency of LC both in figure and in words - amount must not be in excess of LC value and must be same as declared in the relative EXP forms. The amount of invoice must agree with the amount of the draft. Calculations of invoice value are correct. /
- ❖ Must contain brief reference to transport documents like B/L or airway bill No.
Dated Name of carrying vessel/ aircraft, port of shipment and destination.
- ❖ Must disclose basis of pricing i.e. FOB of CFR or CIF etc. and must correspond to the pricing indicated in LC.
- ❖ Brief reference of LC is required to be stated in invoice - LC No., date, name and address of opening bank-number and date of relative contract between exporter and importer.
- ❖ Shall also bear number and date of EXP form and EPC or ERF form in case of export of raw jute/jute goods and Exporters Registration number.



- ❖ Must be legalized by the respective consulate for shipment to Egypt, Sudan, Libya, Syria, and Iraq etc. if LC requires it.
- ❖ Must be certified by Chamber of Commerce for shipment to Iran, if otherwise not stated.
- ❖ Invoice must be authenticated by the trade section of the USSR, Poland, and Rumania etc. for shipment to these countries.
- ❖ Extraordinary charges such as cable cost, storage or commission etc. are not to be included unless permitted in the LC.
- ❖ Particulars must not be inconsistent with those of other documents.
- ❖ The invoice is on the letter-head of the firm made out in the name of the importer;

- ❖ The invoice issued by the beneficiary named in the credit and, if an address is shown, it is the same as that called for in the credit.
- ❖ The invoice is issued in the name of the applicant and, if an address is shown, it is the same as that called for in the credit.
- ❖ The description of the merchandise must correspond to the description in the credit.
- ❖ Invoice value of the goods, unit price and quantity agree with those specified in the letter of credit. (Banks are not responsible for checking detailed extensions or mathematical calculations).
- ❖ It states the term specified (e.g., FOB or CIF, etc.) if such terms are called for in the credit, and does not include charges that are beyond such terms.
- ❖ The invoice amount is at least equal to the amount for which the draft is drawn or demand is made. If no draft is required and no amount is indicated on the cover letter, the amount on the commercial invoice may be taken as the amount demanded. A bank authorised to pay, incur a deferred payment undertaking, accept draft(s) or negotiate has the option of accepting or rejecting invoices in excess of the amount available under the credit, provided the drawing does not exceed the amount available under the credit. (See UCPDC, Article 37 b).
- ❖ The invoice is signed by the beneficiary or otherwise authenticated, if required by the credit.
- ❖ The invoice is notarized, legalized, or issued, if required in the credit.
- ❖ IRC No LCA No., Bangladesh Bank's Registration Number etc. as required by the LC, have been properly quoted;
- ❖ If a certification is required on the commercial invoice:
 - Where a signed invoice is required by the credit, the certification need not be separately signed.
 - Where a signed invoice is not required by the credit, the certification or invoice must be signed and dated.

- ❖ The descriptions with regard to price quantity etc. correspond to those mentioned in the LC;
- ❖ Shipping marks and numbers on the invoice, if shown, are consistent with those appearing on any other stipulated documents.

- ❖ The quantity of merchandise, weights, and measurements shown on the invoice are



consistent with those appearing on any other stipulated documents. In order to check this it may be necessary to convert metric to non-metric measures or vice versa.

- ❖ The invoice does not include:
 - Over-shipments, or
 - Merchandise (e.g., free samples) not included in the letter of credit, and
- ❖ When the credit prohibits partial shipments and the invoice is not for the full letter of credit balance, that the invoice amount covers a complete shipment of merchandise, or is within the tolerance of 5%. See UCPDC, Article 39 c.
- ❖ The required number of originals and copies are presented, and is consistent with UCP DC 500, Article 20 b, c.
- ❖ It shows all discounts or deductions as required in the credit.
- ❖ If the credit calls for installment shipments, the previous installment(s) were shipped as a required by the credit and the current installment (this drawing) is not inconsistent with the credit requirement for this installment.
- ❖ Is not marked “provisional,” “pro-forma” or similar expressions, unless specifically authorized in the credit.

Airway Bill/Air Consignment Note

- ❖ **Airway Bill:** The carrier or its agents confirms in the Airway Bill (AWB) that the goods have been received for carriage to the destination. This document contains information on the air route, the handling of goods and their delivery to the consignee. House Airway Bills (HAWB) is also common in the transport business today. Freight forwarders for consolidated airfreight shipments issue these. In documentary credit HAWBs are treated exactly in the same way as AWBS, if the credit permits the acceptance of an HAWB.
- ❖ **Air Consignment Note:** The carrier prepares Air Consignment Note in 3 parts - 1st part is marked for the carrier, second part is meant for consignee. First part is delivered to the aircraft and second part accompanies goods. Third part marked “for consignor” is signed by the shipper and carrier and handed over to the shipper. This third copy is to be presented under LC calling for an Airway Bill.
- ❖ Air Consignment Note is a document of title to goods and therefore, not a Negotiable Instrument. As per exchange control regulation the air consignment note should be made out to the order of a bank in the country of import as nominated by the authorized dealer and in case of advance remittance, the airway bill may be made out to the order of authorized dealer who will endorse the same in favor of the importers.
- ❖ Basically examination of the Air Transport Documents will follow the guidelines given for checking Ocean Bill of Lading. It should however be seen that the document should not infringe any of the underlying LC terms and the air transport document appears to contain all the terms and conditions of carriage, or some terms and conditions by reference to a source, or document other than the air transport document.



Road Rail or Inland Waterway Transport Document.

The following points should be considered:

A full set of transport documents has been presented, but in the absence of an indication of the number issued you may accept the number presented as constituting a full set. These transport documents will be accepted as originals even if not marked as such.

Post receipt or Certificate of Posting

- ❖ The document appears to have been
 - Stamped and dated, or
 - Otherwise authenticated and dated in the place stipulated in the credit from which the goods are to be shipped or dispatched.
- ❖ It is addressed as stipulated in the credit
- ❖ It does not appear to be issued by the beneficiary
- ❖ The date as stated in number one above will be deemed to be the date of shipment or dispatch
- ❖ The date as stated in number one above is on or before the latest date allowed for shipment in the credit.
- ❖ The documents are presented within the period required by the credit. See UCP 500, Article 43.

- ❖ If the post receipt or certificate of posting covers a supplemental dispatch of original documents, copies of documents, samples or the like, and is not the primary transport document, numbers four, five and six above do not generally apply, but the credit may contain specific instructions applicable thereto.
- ❖ Changes, alterations and/or corrections bear an initial or stamp of the issuer.

Courier or Expedited Delivery Service Document.

- ❖ The documents appear on its face to be issued by a courier, or expedited delivery service.
- ❖ It is signed, stamped or otherwise authenticated by the issuer.
- ❖ The document indicates the date the goods have been picked up or received for shipment, or wording to that effect.
- ❖ If the credit calls for courier charges to be paid or prepaid you may accept a document evidencing courier charges are for the account of a party other than the consignee.
- ❖ It is dated on or before the latest date for shipment stipulated in the credit. The date of pick-up or receipt or other words to this effect will be considered as the date of shipment or dispatch.
- ❖ it is presented within the period required by the credit. See UCP 500. Article 43.
- ❖ It is consigned/addressed as stipulated in the credit.
- ❖ Evident changes alterations and /or corrections bear an initial or stamp of the issuer.



- ❖ Note: If the document covers a supplemental dispatch of original documents, copies of documents, samples or the like and is not the primary transport document, numbers five and six above do not generally apply, but the credit may contain specific instructions applicable thereto.

Certificate of Origin

- ❖ It is signed, dated and properly titled.
- ❖ It certifies the country (is) of origin. If the credit stipulates the country (is) of origin, the certificate indicates.
- ❖ The party stipulated in the credit issues it. If the credit does not stipulate, then a document issued by the beneficiary is acceptable.
- ❖ The document appears to relate to the invoiced goods.

Packing list

- ❖ For shipment of Jute Goods, hides skin, packing list or specification is essential. It is prepared for each package showing each bale-wise weight, measurement and total weight both gross and net.
- ❖ For shipment of jute goods packing list must show details of each package for full quantity i.e. if 800 bales are shipped packing list must show bale-wise details from bale No.1 to 800. For shipment of hides and skin specification must show selection and average.
- ❖ It must show full description of goods, and full marks as stated in transport documents.
- ❖ It is titled as packing list.
- ❖ Banks are not responsible for checking mathematical calculations of extensions or additions on the packing list.
- ❖ The document appears to relate to the invoiced goods/packages.

Weight Certificate/List

- ❖ If the credit stipulates a weight certificate, it is so titled and signed and dated.
- ❖ If the credit stipulated a weight list, it should be so titled but need not be signed and dated unless stipulated by the credit.
- ❖ It states the weight(s) of the goods being invoiced.
- ❖ The weights on the certificate/list correspond with the weight on the transport document and/or invoice.
- ❖ Banks are not responsible for checking mathematical calculations, extensions or additions on the weight certificate/list.

Inspection Certificate

- ❖ It is properly titled, signed and dated
- ❖ It complies with the inspection requirements contained in the credit, if any; Statements referring to the condition of the merchandise will be disregarded unless otherwise stipulated in the credit.
- ❖ The document appears to relate to the invoiced goods.



- ❖ If the credit requires a “Clean report of Findings” ensure that the document presented is so titled, and signed and dated.
- ❖ Unless otherwise stipulated in the credit, statements that only a sample or samples of merchandise has been inspected are acceptable.

Forwarding Schedule of Negotiating Bank

- ❖ Whether there is any special instructions;
- ❖ Whether these instructions can be complied with;
- ❖ Whether the negotiation commission realised.

Certificate of Origin of Goods

- ❖ Must clearly indicate correct description of goods exported - their quantity, quality, name of vessel, port of shipment and destination and must correspond to those shown in the invoice.
- ❖ Signed by the Exporter
- ❖ Countersigned by the Chamber of Commerce and Industry with date or other authority specified in the LC.
- ❖ For shipment to Syria, Lebanon and Jamaica this certificate is combined with invoice if otherwise not stated in LC.

Exchange Control Requirements	EXP Forms:
--------------------------------------	-------------------

- ❖ The duplicate and triplicate copy of EXP forms duly certified by customs is submitted with the export bill (draft) for negotiation.
- ❖ The details of EXP form should be checked with reference to details given in the invoice.
- ❖ The certificate on the reverse of EXP form should be properly filled in and certified by the authorized official under seal and signature.
- ❖ A copy of the invoice should be attached to the duplicate EXP forms and send to Bangladesh Bank after negotiation of Export Bill. If the purchase transaction is put through the Nostro Account, the same should be reported through monthly return supported by “A” schedule.
- ❖ The triplicate copy should be retained for further action till receipt of advises of realization of export proceeds from the foreign correspondent.
- ❖ On realization of export proceeds the triplicate copy of the EXP form should be forwarded to Exchange Control Department of Bangladesh Bank along with summary statement and “A” schedule, where applicable.



CHAPTER 10

Scrutiny And Negotiation Of Export Bill

Bank deals with documents not with goods. The bankers are to ascertain that the documents are strictly as per terms of L/C. Before negotiation of the export Bill the bankers are to scrutinize and examine each and every document with care. Negligence on the part of the bankers may result in non-repatriation or delay in realization of export proceeds as incorrect documents may put the importers abroad into unnecessary troubles.

The scrutiny of the Bill of Exchange (Draft) and other related documents should ensure that.

- ❖ The documents are presented for negotiation before the expiry of the relative credit.
- ❖ The amount does not exceed the amount available under the credit.
- ❖ All the documents stipulated in the L/C are submitted.
- ❖ The corrections and alteration are properly authenticated in all documents.

Export documents checking:

1. General verification:
 - a) L/C restricted or not.
 - b) Exporter submitted documents before expiry date of the credit.
 - c) Shortage of documents etc.
2. Particular verification:
 - a) Each and every document should be verified with the L/C.
3. Cross verification:
 - a) Verified one documents to another.

After proper examination or checking of a described Export document we may find following discrepancies:

Ψ GENERAL

- Late shipment
- Late presentation
- L/C expired
- L/C over-drawn
- Partial shipment or transshipment beyond L/C terms.

Ψ BILL OF EXCHANGE (B/E)

- Amount of B/E differ with Invoice
- Not drawn on L/C issuing Bank
- Not signed
- Tenor of B/E not identical with L/C
- Full set not submitted.



Ψ **COMMERCIAL INVOICE (C/I)**

1. Not issued by the Beneficiary.
2. Not signed by the Beneficiary.
3. Not made out in the name of the Applicant.
4. Description, Price, Quantity, sales terms of the goods not correspond to the credit.
5. Not marked one fold as original.
6. Shipping Mark differs with B/L & Packing List.

Ψ **PACKING LIST**

1. Gross weight, net weight & Measurement, Number of cartoons / Packages differ with B/L.
2. Not market one fold as original.
3. Not signed by the Beneficiary.
4. Shipping marks differ with B/L.

Ψ **BILL OF LADING / AIRWAY BILL ETC (TRANSPORT DOCUMENTS)**

1. Full set of B/L not submitted.
2. B/L is not drawn or endorsed to the order of Prime Bank Limited.
3. "Shipped on Board", "Freight Prepaid" or "Freight Collected" etc. notations are not marked on the B/L.
4. B/L not indicate the name and the capacity of the party i.e. carrier or master, on whose behalf the agent is signing the B/L.
5. Shipped on Board Notation not showing name of pre-carriage vessel /intended vessel.
6. Shipped on Board Notation not showing port of loading and vessel name (in case B/L indicates a place of receipt or taking in charge different from the port of loading).
7. Short Form B/L.
8. Charter party B/L.
9. Description of goods in B/L not agree with that of Invoice, B/E & P/L.
10. Alterations in B/L not authenticated.
11. Loaded on Deck.
12. B/L bearing clauses or notations expressly declaring defective condition of the goods and / or the packages.

Ψ **OTHERS:**

- N.N. Documents not forwarded to buyers or forwarded beyond L/C terms.
- Inadequate number of Invoice, Packing list, B/L & others submitted.
- Short shipment Certificate not submitted.



While checking the export documents following things must be taken in consideration:

Ψ **L/C terms:**

Each and every clause in the L/C must be complied with meticulously and ensure the following:

1. That the documents are not state;
2. That the documents are negotiated within the L/C validity, if a credit expires on a recognized bank holiday its life is automatically become valid up to the next working day.
3. That the document value does not exceed the L/C value.

Ψ **Draft / Bill of exchange:**

Draft is to be examined as under:

1. Draft must be dated
2. It must be made out in the name of the beneficiary's bank or to be endorsed to the bank.
3. The signature of the drawer must be verified by the negotiating bank.
4. Amount must be filled with the invoice amount.
5. It must be marked as drawn under L/C No. dated issued by
.....Bank

Ψ **Invoice:**

It is to be scrutinized to ensure the following:

1. The invoice is addressed to the importer
2. The full description of merchandise must be given in the invoice strictly as per L/C.
3. The price, quality, quantity, etc. must be as per L/C.
4. The invoice must be language in the language of L/C.
5. No other charges are permissible in the invoice beyond the stipulation on the L/C.
6. The amount of draft and invoice must be same and within the L/C value.
7. If L/C calls for consular invoice, then the beneficiary's invoice is not sufficient.
8. Number of invoice will be submitted as per L/C.
9. The shipping mark and number of packing list shown in the B/L must be identical with those given in the invoice and other documents.
10. The invoice value must not be less than the value declared in EXP Forms.
11. Invoice amount must be correct on the basis of price, quantity as per L/C.
12. Invoice amount, indicate sale terms/ Inco terms VIZ FOB, CFR, CIF etc.
13. Consular invoice must be stamped by the local consulate/embassy of the country to which the goods are imported.



Ψ **Other Documents**

Beneficiary statement, VISA / Export License issued by EPB, Certificate of Origin, Weight Certificate, Phytosaitary Certificate, Packing List, Inspection Certificate.

Certificate of analysis, quality certificate, MCD duly signed and nay other documents required by L/C each of these certificates / documents conform to the goods invoice and are relevant to L/C.

Negotiating Bank will check the above documents whether it is as per L/C or not. If Negotiating Bank find everything in order or as per export L/C, bank will negotiate the document and will disburse the generated fund as pre Banks norms.

If the Negotiating Bank will find any discrepancies in the documents, they will send the documents on collection or they can negotiate under reserve by the request of the exporter or they can seek permission/ Negotiation authority from issuing Bank to allow Negotiating Bank to Negotiate the documents despite the discrepancies. L/C issuing Bank will inform the matter to buyer, if the buyer accept the discrepancies mentioned by Negotiating Bank, issuing bank will authorize the Negotiating bank to negotiate the discrepant documents.

Ψ **Collection Documents:**

Normally negotiating Bank will send the documents on collecting basis mainly for the following discrepancies.

1. L/C expired
2. Late shipment
3. Late presentation
4. L/C overdrawn
5. Unit price difference between L/C and commercial invoice.
6. Consignee Name and address differ between L/C and other documents.
7. Discrepancies in B/L
8. Any other major discrepancies.



❖ **Recording in the Register:**

After checking and disposal instruction/ sanction of the competent authority the full details of the shipment and all the relevant documents are recorded in the Bank prescribed FDBC / FDBP register. The following particulars are to be noted:

- Date
- Export Bill No.
- Drawer
- Particulars of Goods
- Steamer / Carrier
- Bill amount in F.C.
- Exchange rate
- Taka amount.
- Amount paid to party with details of deduction
- Tax deducted taka.
- Initial
- EXP Form No.
- Collecting Bank
- Tenor / Due Date
- Amount realized & Date of Realization
- Date of reporting to Bangladesh Bank.
- Discount paid, if any
- Date of PRC issued.
- Date adjusted
- Initial
- Export L/C No.

❖ **Proposal, vouchering and accounting, Mechanism for Export Bill purchased / Negotiation are furnisher as under:**

Example: (1) Document value = US\$10,000/= i.e. Invoice value US\$ 10,000/=

(2) Beneficiary / Exporter: M/S SAMEEN APPARELS LTD.

Ψ **When the export proceed realized then the following vouchers should be passed:**

DR. Prime General A/c. (FAD) ID @ OD sight export for BTB and FCAD (Exp) portion (for rest amount)

CR. F.C. held against BTB L/C @ OD sight export.

CR. FCAD (Exp) A/c. (Retention Quota) @ OD sight Intt. For BTB portion.

DR. Prime General A/c. (FAD) ID @ B. Bank Ready Buying (for purchase amount)

CR. FDBP A/c. (Which was created at the time of import bill purchased)

CR. Income A/c. Exchange gain on FBP (difference between B. Bank ready buying rate and OD sight Export rate)



Ψ **When Export Bill negotiated under reserve then the following vouchers should be passed:**

- DR. FDBP A/C (90% of the Invoice value)
- CR. F.C. held against BTB L/C A/c.
- CR. Marginal deposit A/c.

When Export proceeds realized under reserve following vouchers should be passed.

- DR. Marginal deposit A/c
- CR. S/D. A/c Export Bill courier
- CR. S/D. A/c Export Bill reserve margin for (FDR) @ 2.5% of the Invoice value.
- CR. S/D. A/c Export against commission (L)
- CR. S/D. A/c. Income Tax on Bills @ 0.25% / Govt. reserve @ 0.10% (only for Jute and Jute goods)
- CR. S/D. A/c Margin on L/C (cash)
- CR. Packing credit A/c.
- CR. Hire Purchase A/c. (if any)
- CR. Lease Finance A/c. (if any)
- CR. SOD (Export) A/c. (if any)
- CR. Commission on FDBP (0.2% on Invoice value)
- CR. Others (if any)
- CR. Customers A/c.

For purchase amount (90%) of Bill value

- DR. Prime General A/C. [(FAD) ID HO A/C @ B. Bank Ready Buying rate].
- CR. FDBP A/C. (which was created at the time of Bill purchase)
- CR. Income A/c. [Exchange gain on FBP. Difference between B. Bank Ready Buying Rate and O.D. sight (export) rate].
- DR. Prime General A/C. (FAD) ID. H.O. A/C. @ OD sight (export) rate.

For rest 10% amount or less than 10% amount

- DR. Prime General A/c. (FAD) ID HO A/C. @ OD sight Export Rate.
- CR. F.C. held against BTB L/C @ OD sight (Export)

Now a day, the bill purchase under Reserve method has lost its popularity.

When Export documents sent on collection basis, in that case following vouchers should be passed.

- DR. Foreign Bill lodge A/c. (FDBC)
- CR. Foreign Bill Collection A/C. (FDBC)



Ψ **When FDBC realized the voucher are as under:**

- DR. Prime General A/c. (FAD) ID @ OD sight (Export) for BTB portion.
- CR. F.C. held against BTB L/C. @ OD sight for BTB portion.
- DR. Prime General A/C. (FAD) ID @ B. Bank Ready Buying (for rest amount)

- CR. S/D. Courier service @ TT (doc)
- CR. S/D. A/C. Reserve margin @ TT (doc), FDR @ 2.5% of the invoice value @ TT (doc)
- CR. S/D. A/C. Export Bill Agent Commission (local) @ TT (doc)
- CR. S/D. A/C. Income Tax on Bills / Govt. Reserve @ 0.10% @ TT (doc)
- CR. S/D. A/C. Margin on L/C (cash) if any @ TT (doc).
- CR. I/A. Exchange gain on FBP (difference between B. Bank Ready Buying Rate and TT doc Rate.
- CR. Packing credit A/C. (If any)
- CR. Hire purchase A/C. (If any)
- CR. SOD (Export) A/C. (If any)
- CR. Others (If any)
- CR. Customer A/c.



Prime Bank Limited

Motijheel Branch

Dhaka

PROPOSAL FOR NEGOTIATION / COLLECTION OF EXPORT BILL

FEBP NO. 01-0001-2005 Value: US\$ 10,000.00

Date: 01-01-2005

EXP NO. 1539-0001-05

A/c. M/s. Sameen Apparels Limited

Export L/C No. : RGDC FEX 20	Export made	:	US\$10,000.00 .
Value : US\$50,000.00	Outstanding P/C	:	Tk.250,000.00
Expiry : 31.03.2005	O/D P/C	:-	
	O/D H/H	:	Tk. 20,000.00

Subject Export Bill comprising of:

	B/E	INV	P/ L	C/ O	B/L	L/C Cop y	VISAED COMM INV	M.CT RY DEC	BENE CER	EXPO RT LICN	SHI P CER T	MI SC
FIRST BILL	3	8	8	6	3+4	3	4	2	4	3	3	16
Doc. Req. as per LC	2	6	6	4	3+2	12	3	1	3	2	1	9

Upon examination we find following discrepancies in the document / the documents are in order in all respects.

- B/E not signed by the Beneficiary.
- Invoice not marked one fold as original.
- Alteration in B/L not authenticated by shipping lines.

APPROPRIATION OF BILL AMOUNT

i. Export Bill value	:	\$10,000.00
ii. Less: FC to be retained for payment of accepted bills	:	\$ 6,000.00
iii. Less: FC deposit (Retention Quota) FCAD (Exp) 7.50%	:	\$ 750.00
iv. Less: Commission / charges to Foreign Bank 2%	:	\$ 200.00
v. Less: Our charges	:	
vi. Less: Local Agent Commission	:	
vii. Net Amount	:	\$ 3,050.00
DR. 7431 FDBP US\$3,050.00 @ 50.6215	:	Tk. 1,54,395.00
Cr. 2011429-1 S/D A/c. Courier Service	:	Tk. 1500.00
Cr. 2011428-4 S/D A/c. Export Bill Reserve Margin	:	Tk. 1300.00
For (FDR)@205% of Invoice Value		
Cr. 2011410-7 S/DA/c. Export Bill Agency Commission (L) \$150	:	Tk. 7,593.00
Cr. 2011411-4 S/D A/c. S/D A/c. Income Tax on Bills G. Rev@0.10% (Jute)	:	
Cr. 2011417-8 S/D A/c. Margin on L/C (Cash)	:	
Cr. 7220000-1 S/D A/c. Packing credit	:	Tk. 50,000.00
Cr. 7220 S/D A/c. Packing credit	:	
Cr. 7280000-1 S/D A/c. Hire Purchase	:	Tk. 20,000.00
Cr. 7230000-1 S/D A/c. S.O.D (Export)	:	Tk. 5,000.00
Cr. Others (if any)	:	
Cr. CD-5349-2 Customers Account	:	Tk. 57,302.00
Total Credit	:	Tk. 1,54,395.00

Placed for decision to negotiate the document for US\$10,000.00 on above terms.

Checking Officer

Executive Vice President

Sr. Asstt Vice President (F. Ex.)
& Manager Operation



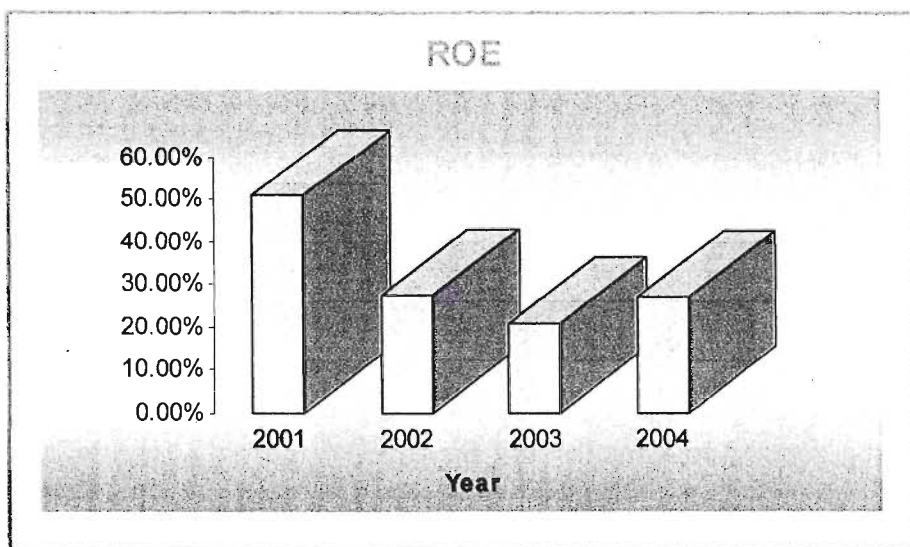
**An Overview of Financial Performance
of
Prime Bank Limited**



1. Return on Equity

Measures the rate of return the shareholders receive on their investment in business. Net Income for the Year is after taxes and interest because the shareholders are only entitled to the balance. Prime Bank has the following returns on equity for 2001 to 2004.

	Prime Bank
2001	50.92%
2002	27.39%
2003	21.07%
2004	27.32%



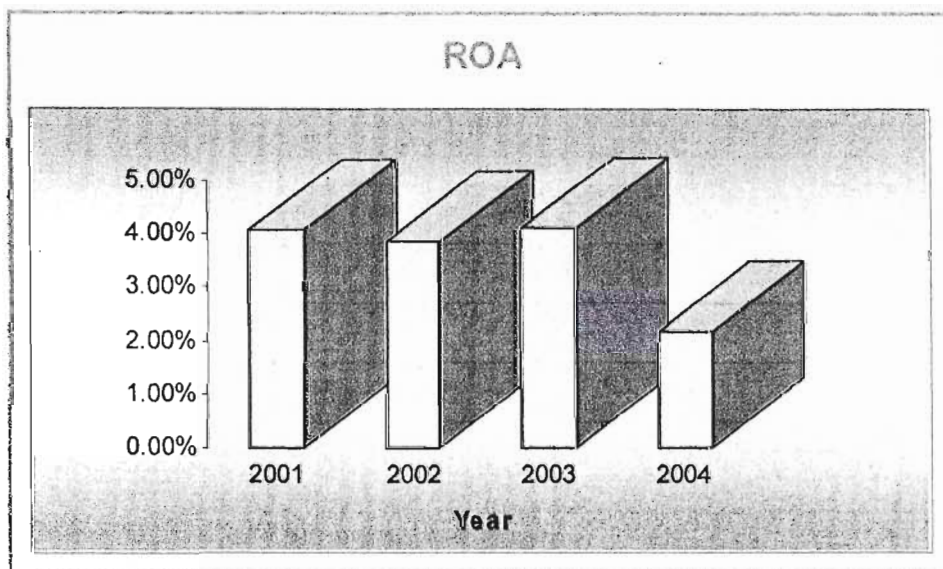
From the table and the graph it is easily understandable that Prime Bank provide highest return to its share holders in the year 2001. In the year 2002,2003 and 2004 the borrowing from other banks and institutions went up.



2. Return on Asset

Measures the efficiency of assets used to generate income by the amount of profit generated for every \$100 invested in assets. Income from Operations excludes any expenses such as income taxes and financing charges.

Prime Bank	
2001	4.07%
2002	3.86%
2003	4.13%
2004	2.16%



The calculation shows that except for 2004 the ratio has an increasing trend. In year 2004 the ROA of Prime Bank is 2.16% which is less than other year's ROA. The previous three years ratio indicates that the bank has been using its assets efficiently to generate income.

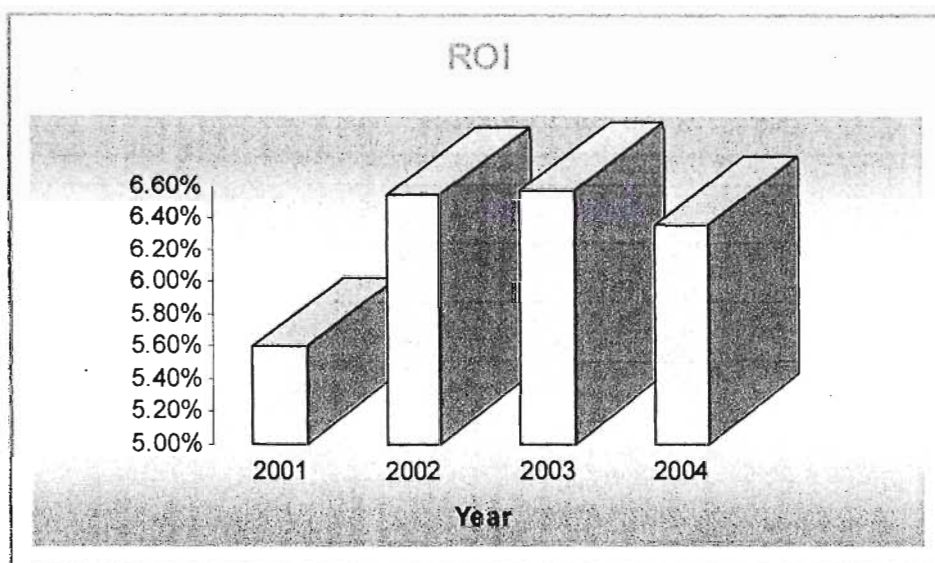


3. Return on investment

Measures the efficiency of invested assets used to generate income. It measures how much amount can be invested from the income of the business and earn positive return from those investments.

Prime Bank	
2001	5.60%
2002	6.55%
2003	6.58%
2004	6.36%

Table: Return on Asset



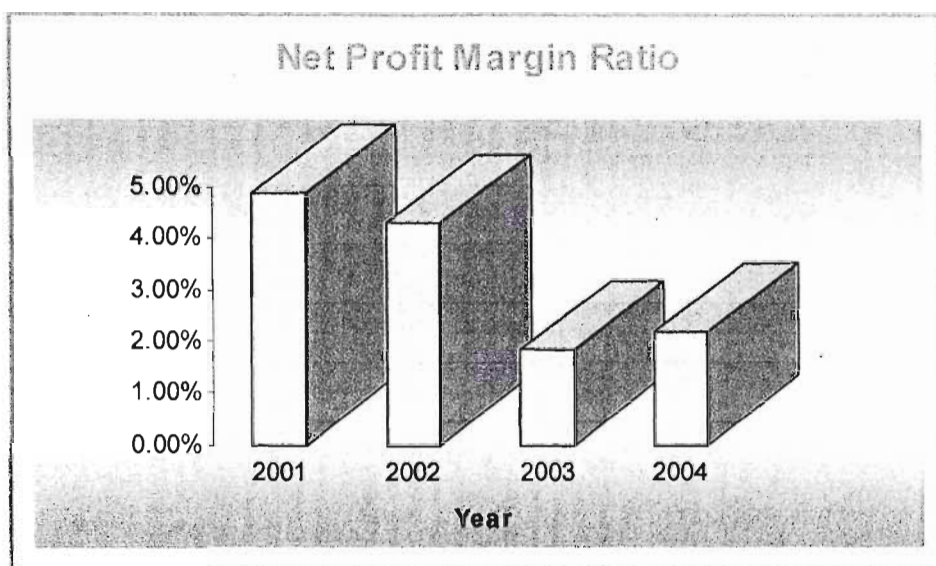
Prime bank has positive return on investment and it increasing year to year meaning that the bank is being able to generate positive pretax income and the amount is invested in different sectors which has provided higher positive return.



4. Net profit margin ratio

Net profit margin ratio measures the firm's expense controlling ability. It explains how effectively and efficiently the managers are managing the firm's expense.

Prime Bank	
2001	4.89%
2002	4.31%
2003	1.83%
2004	2.18%



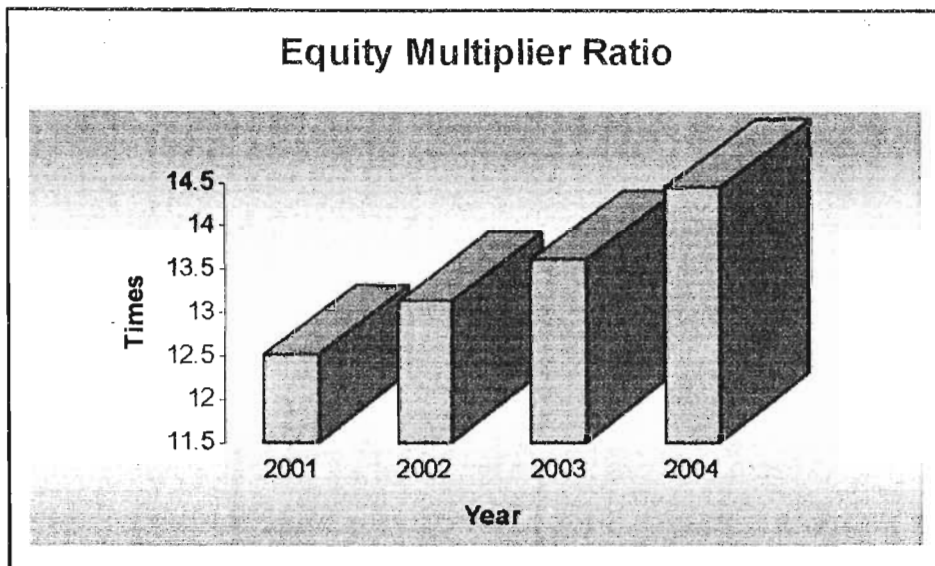
The management of Prime bank has been able to reduce the expenses in some delicate manner. Since 2001 the bank's net profit margin ratio has been declining.



5. Equity Multiplier ratio

To measures how much assets are backed by the bank's shareholders equity multiplier ratio can be a good measure.

Prime Bank	
2001	12.51
2002	13.13
2003	13.61
2004	14.45



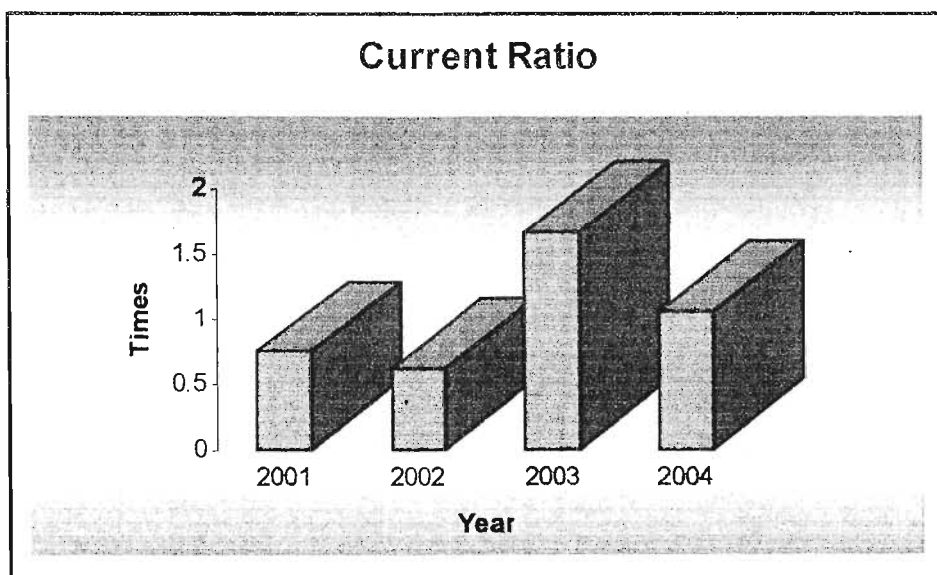
Prime Bank's increasing equity multiplier ratio indicates that the bank is concentrating more on raising its capital more by issuing bonus share and equity. As its financial performance is improving the bank offers more bonus share to its shareholder



6. Current Ratio

Also called the **Working Capital Ratio**, it measures the extent to which current assets are available to meet current liabilities (due within the next 12 months). The Current Ratio indicates whether the business has ample working capital i.e. the excess of current liabilities over current assets used to meet short-term obligations quickly.

	Prime Bank
2001	0.75
2002	0.62
2003	1.67
2004	1.06



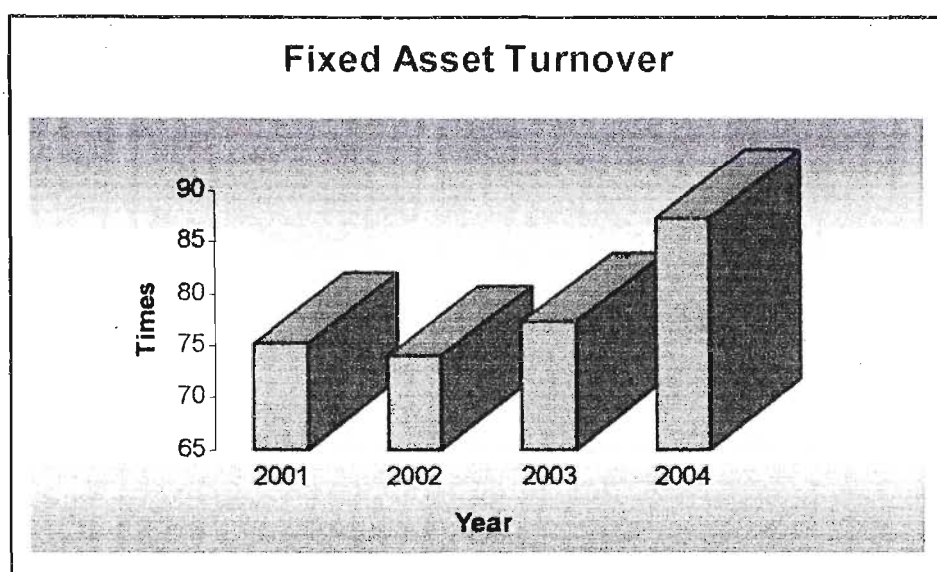
Prime bank's current ratio is increasing year to year meaning that the bank's ability to pay out its current obligations from its current assets is increasing.



7. Fixed asset turnover

It indicates how efficiently and effectively the organization is using its fixed assets to generate revenue. It gives the idea about total sales comparatively with its fixed asset.

Prime Bank	
2001	75.23
2002	74.02
2003	77.25
2004	87.26



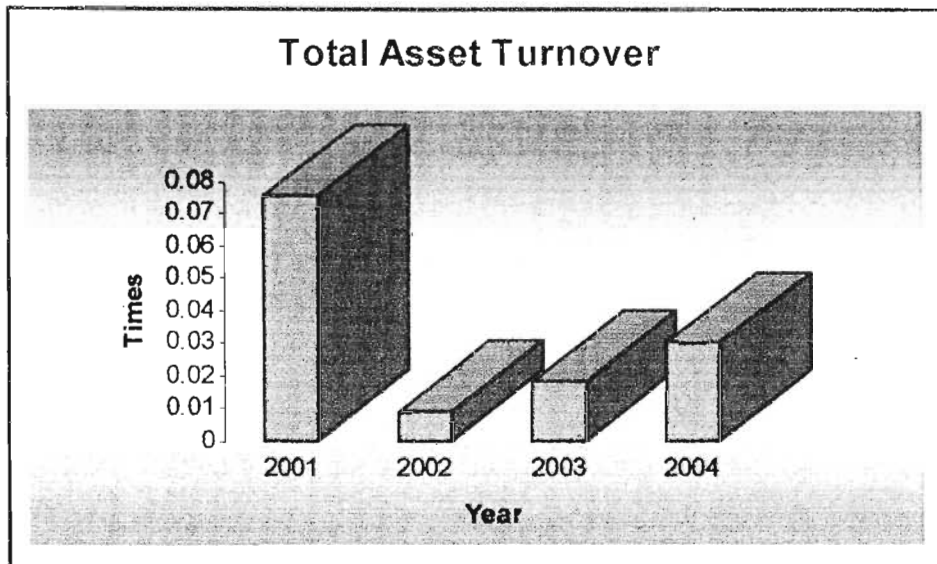
Higher fixed asset turnover ratio indicates the effective use of the fixed assets of the company to generate sales. Prime bank's higher fixed asset turnover ratio indicates that the bank has been able to use its fixed asset efficiently.



3. Total asset turnover

It measures the ability of management team of any organization to measure to employ assets effectively to generate revenue.

Prime Bank	
2001	0.076
2002	0.009
2003	0.018
2004	0.030



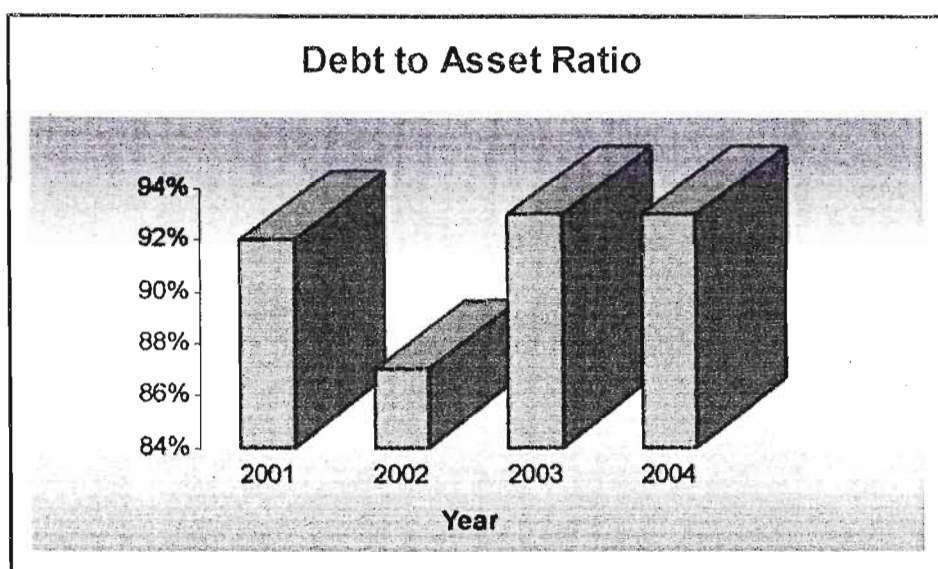
Prime bank has specific trend in the total asst turnover ratio. The management has performed averagely to generate maximum revenue by utilizing the total asset.



9. Debt to asset ratio

Also known as **Debt Asset Ratio**, it measures the extent to which the acquisition of assets has been financed by creditors.

Prime Bank	
2001	92%
2002	87%
2003	93%
2004	93%



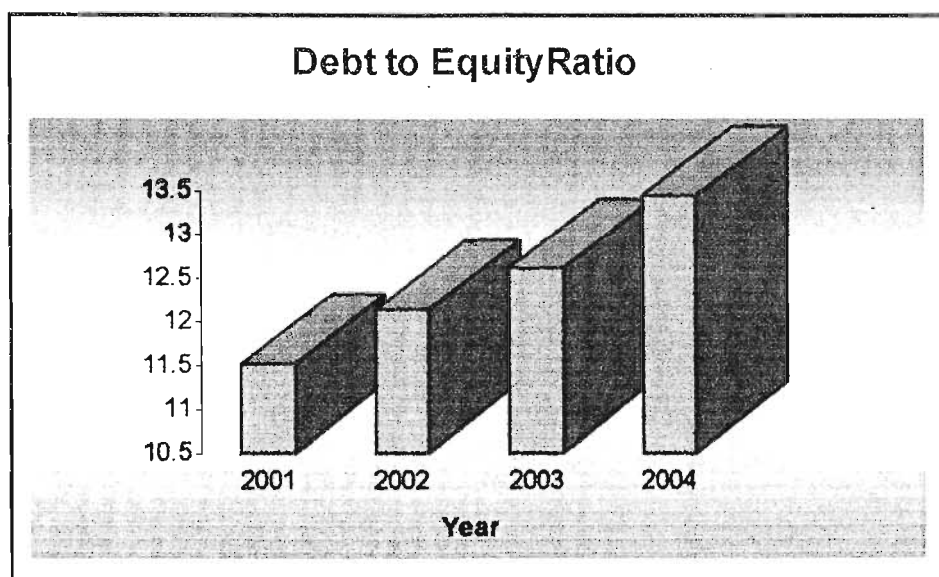
Prime bank relied heavily on debt for its operation. As the ratio shows that the bank has borrowed similar amount of debt from other financial institution and different individual lenders.



10. Debt to equity ratio

Measures management's reliance on creditor financing as well as the business's indebtedness compared to the amount invested by its owners. This ratio indicates the amount of liabilities the business has for every dollar of shareholders' equity. Because this ratio is a good indicator of a business's capacity to repay its creditors, it is considered very important by most term lenders.

Prime Bank	
2001	11.51
2002	12.13
2003	12.61
2004	13.45



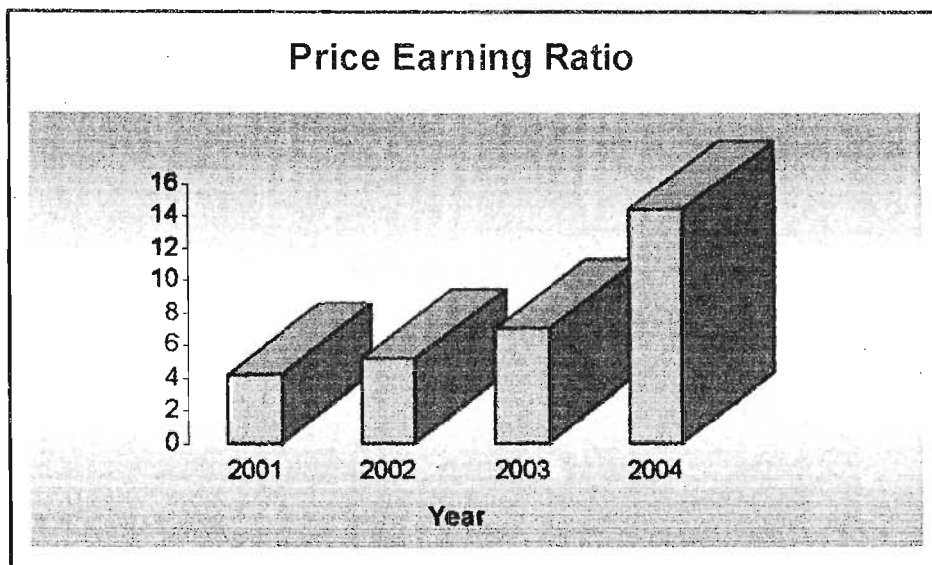
Prime Bank has a stable increasing debt to equity ratio which indicates that the bank have an increasing liability for shareholders equity that also indicates high risk. The bank is relying on debt to finance its activities.



11. Price earning ratio

It measures the relationship between market price of common stock and earnings per share. Organization with higher price earning ratio is likely to provide a better income to its shareholders.

Prime Bank	
2001	4.21
2002	5.15
2003	6.98
2004	14.37



Prime bank's price earning ratio is increasing at a rapid pace. It proves that the bank is operating efficiently which tend its common stock price to go up and market demand for this banks share has made the share price to go up.

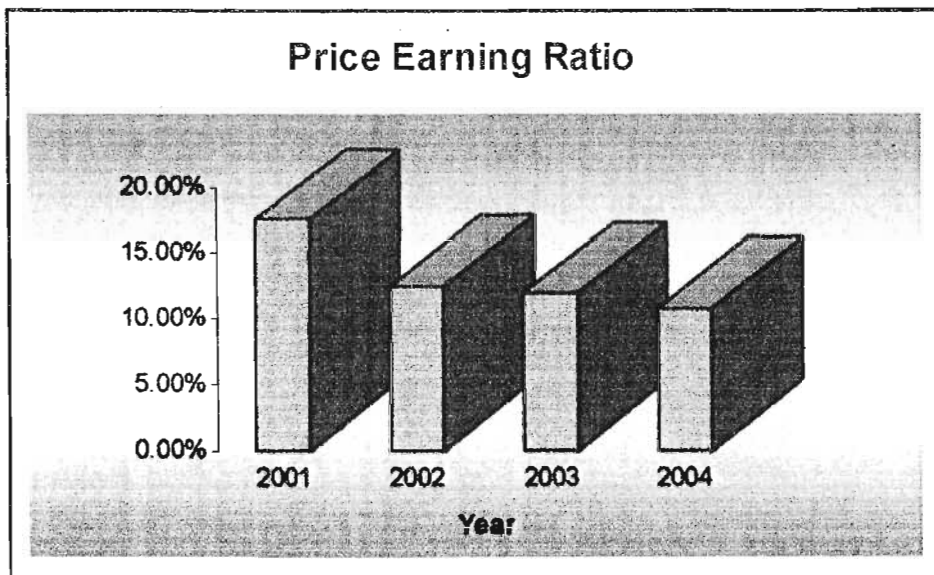


12. Capital adequacy ratio

A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Prime Bank	
2001	17.50%
2002	12.43%
2003	11.90%
2004	10.74%



Prime bank kept more tier one capital from 2001 to 2004 which protects the bank's depositors which can absorb losses without a bank being required to cease trading. The higher tier-1 capital works as a cushion for prime bank to take a moderate risk and yield high income.

Problems:

1. After taking interview from the customers (approximately-30), I found that the bank should make up to date statement of Liability for each and every customer. But Prime bank does not do it. They do it in once in a month. For that both parties are facing problem. Customer cannot get the recent liability position of their company. It creates problem to their decision-making. On the other hand bank may face problem, because customer may exceed their liability margin. By which bank may face more Default risk. If the account is not up to date shown in computer, then customer may lose some exchange gain. Bank has no authority to keep it in its account.
2. Sometimes foreign country bank cannot rely upon local bank, in that connection local bank have to collaborate with foreign bank, locally situated .In that circumstance local bank have to pay a certain amount of money. That is another problem that local bank are facing in international transaction.
3. Sometimes importer does not agree to accept goods just because of minor problem of goods. In that connection local bank sells those goods on discount basis to the importer or others parties.
4. Sometimes importer do not want to take goods because when importer apply for import goods that time he or she has been settle down the total costing of the imported goods or raw materials but when the goods will come to the importer that time due to unavoidable circumstances price of the goods goes down and importer can not make any profit, on the other hand he or she had to make loss. In that connection he or she will not contract with his or her bank to release the goods. Bank has to pay the penalty for buyer unexpected behavior.
5. Since international chamber of commerce has set the rules and regulation regarding L/C, so banks cannot do anything beyond the rules and regulation.
6. Uniform Customs and Practice for Documentary Credit” published by the international chamber of commerce, every ten years it has amended so it is very long time for amendment.
7. Banks are the followers of the standard rules and regulation
8. From the desk point of view, since the numbers of employees are limited they sometimes cannot pay attention to the prospective clients. In that case banks are loosing its potential clients. Sometimes the client cannot have scope to open an L/C.

Recommendation:

1. For smoothly executing the foreign trade transaction no of employees in foreign exchange department should be increase. Since the employees are limited they cannot pay much attention to all of its prospective clients.
2. Especially the foreign department people should get more training facilities regarding their assign job.
3. Every fifteen days or thirty days after every desk especially foreign desk must be monitor by specialist people for either their having any problem or not. Or there must be a discussion session for every department. There must be an interactive discussion period for every month.
4. Maintain an effective communication with the foreign importer banks so the matter of payment delay might not happen.
5. The more the local bank communicate with the foreign bank the more reliable ness, trustiness would grow up between the local and foreign banks. In that connection matter of payment will not delay.
6. Bank must monitor the exporter time to time either they are preparing goods according to the importer requirements. If it is found that goods are not making according to the importer demand bank should force the exporter to make the goods right manner.
7. To attract the foreign buyers we have to be very careful regarding the quality of the goods, we have to set an international standard and the bank can do that more fruitfully. Bank must assure the importer that goods must be international standard.



Conclusion:

Prime Bank Limited is one of the best banks in terms of their overall operational performance. We know Prime Bank Limited has started its operation on 17th April 1995. Since then it has enviable performance in terms of management, employees cooperativeness, sincerity and overall soft corner for this bank. Prime Bank has a very good working environment. Especially all the employees are very much conscious as well as careful regarding their job. Now it is graded as the top class bank among the nationalized, semi-nationalized and private commercial banks in the country. The banks provide better customer service by having updated technology. One of the most important income generating sources of any bank is his foreign exchange. Foreign exchange department has two sides one is Local and another one is Foreign side. In a local side it is performing tremendously better and every month it has earned a lot of profit. On the other hand, same thing is happening with the foreign side. There are some drawbacks in this department. That is all the employees are always been in a serious pressure. Because the number of employees who are working here are not sufficient. And there is no substitute employees are available in this department. Not only this particular department but also every department. Sometimes it is very difficult to continue the work. Sometimes it is not possible to pay attention to all the clients. We know it is very vital to serve the customer as best as possible, so that customer becomes satisfied and do their business more with the bank. Customer, bank-switching tendency may reduce if possible to provide better service. To attract the customer every bank nowadays are trying to provide most attractive and innovative services. To survive in this competitive bank business it is important to look after the customer more than rivals.



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