

DRAFTS/BILLS OF EXCHANGE

A draft or bill of exchange is a financial document that provides an unconditional order by the drawer to the drawee to pay a specified amount to a payee as per the tenor stated in the credit.

Key Points:

1. **Drawer:** The beneficiary of the credit is the drawer of the bill of exchange. If the name of the beneficiary changes after the issuance of the credit, the new name may be indicated along with the previous name as "formerly known as" without requiring an amendment to the letter of credit
2. **"Drawee":** This is the party upon whom the draft is to be drawn as per field 42A of MT 700. The drawee can be a nominated bank acting upon its nomination, a confirming bank, or the issuing bank, depending on the availability of the credit (Refer 41A of MT 700):
 - a. When the LC is available with the Issuing Bank by sight payment/Acceptance, the issuing bank is the drawee.
 - b. When the LC is available with a Confirming Bank by sight payment/Acceptance, the confirming bank is the drawee.
 - c. When the LC is available with a Confirming Bank by Negotiation, the drawee is a bank other than that nominated bank (typically the issuing bank or sometimes a reimbursing bank)
 - d. When the LC is available with a Nominated Bank by sight payment/Acceptance, if that bank agrees to act upon nomination, the nominated bank is the drawee.
 - e. When the LC is available with a Nominated Bank by Negotiation, if that bank agrees to act upon nomination, the drawee is a bank other than that nominated bank (typically the issuing bank or the confirming bank or sometimes a reimbursing bank).

Notes :

1. If the SWIFT address of the bank is indicated in Field 42A, the draft may show either the SWIFT address or the full details of the bank.
2. When the LC is available with a nominated bank by acceptance and the nominated bank is not acting upon its nomination, the beneficiary may either draw a draft on the confirming bank/issuing bank or request the nominated bank to forward the documents as presented to the confirming bank/issuing bank.
3. When the LC is available with any bank by acceptance, drafts may be drawn on any bank willing to act upon the nomination.
4. In the case of a non-complying presentation, if the nominated bank acting on its nomination or confirming bank refuses to accept the draft, the beneficiary may replace the draft on the issuing bank or request the confirming bank to forward the documents as presented to the issuing bank.

3. **"Payee"**: The party that is authorised to receive the payment. In many cases, this can be the beneficiary themselves or a nominated bank.

Notes:

1. When the beneficiary holds an account with the drawee bank, the payee is usually the beneficiary.

2. When the beneficiary does not have an account with the drawee bank, the payee is either the nominated bank or 'to the order of [nominated bank].' If the draft is made 'to the order of [nominated bank],' the nominated bank must endorse the draft. When the nominated bank has an account with the issuing bank, specifying 'to the order of' is not required, as the relationship allows direct processing. However, since the beneficiary may not be aware of the existing relationship between the nominated bank and the issuing bank, it is usually indicated as 'to the order of [nominated bank].' The nominated bank then endorses the draft before sending it to the issuing bank.

4. **"As per the tenor stated in the credit"**: This phrase specifies that the payment terms are in accordance with the field 42C of MT 700, which determines when the payment will be made.

Notes:

1. **At Sight**: Payment is made upon determining that the presentation is complying.

2. **At 60 days after sight**: Payment is made 60 days after the presentation to the drawee bank when documents are complying. When the drawee bank is confirming bank or nominated bank acting on its nomination, such drawee bank shall confirm the maturity date to the beneficiary and inform the maturity to the issuing bank.

3. **At 60 days after the BL date** : Payment is made 60 days after the Bill of Lading date. BL date must be understood as date of shipment not issuance date of the BL. If the tenor is other than the sight or after certain days of sight, it must be possible to establish maturity date from the data in draft itself. In this case, draft may show tenor in one of the following ways if Bill of Lading is dated 15 May 2023:

i. "60 days after Bill of Lading date 15 May 2023" **or**

ii. "60 days after 15 May 2023" **or**

iii. "60 days after Bill of Lading date" elsewhere on face of the document
state BL date 15 May 2023 **or**

iv. "60 days date" on a draft dated 15 May 2023 **or**

v. "14 July 2023", i.e 60 days after the Bill of Lading date

5. Draft must be signed and dated
6. Amount demanded under the draft is not to exceed the maximum amount permitted by the credit
7. The amount in words is to accurately reflect the amount in figures when both are shown and indicate the currency as stated in the credit. When the amount in words and figures are in conflict, the amount in words is to be examined as the amount demanded, although this is will be considered as discrepancy.
8. A credit must not be issued as available by draft drawn on the applicant. However, if a credit requires the presentation of a draft drawn on the applicant as one of the required documents (as specified under Field 46A in the MT 700), the draft is to be examined only to the extent expressly stated in the credit. Otherwise, the draft will be accepted as presented, provided it fulfils the function of the document and does not contain any conflicting data with other documents or the terms of the credit (Ref: Article 14f of UCP 600).
9. The words “from” and “after” when used to determine maturity date, the date of the event i.e shipment date must be excluded
10. Determination of payment dates in the case of a non-complying presentation, when the Drawee Bank has provided a Notice of Refusal as per Article 16 of UCP 600:
 - a. **At sight:** Payment is due immediately upon the issuing bank's acceptance of the waiver of discrepancies by the applicant.

b. **60 days after sight:**

- If the drawee is the issuing bank, the maturity date is at the latest 60 days after the issuing bank accepts the waiver of discrepancies by the applicant.

Example:

Date of Presentation: August 20th

Notice of Refusal: August 22nd

Applicant waives discrepancies: September 1st

Issuing bank accepts waiver: September 2nd

Maturity Date (60 days after waiver acceptance): Latest by November 1st

- If the drawee is the confirming bank or nominated bank, the maturity date is at the latest 60 days after the issuing bank provides an acceptance advice.

Example:

Date of Presentation: August 20th

Notice of Refusal: August 22nd

Applicant waives discrepancies: September 1st

Issuing bank accepts waiver: September 2nd

Issuing bank provides acceptance advice: September 3rd

Maturity Date (60 days after waiver acceptance): Latest by November 2nd

- If the confirming bank or nominated bank does not agree to act on the acceptance advice of the issuing bank, the obligation to honour on the due

date rests with the issuing bank. It means, the confirming bank is not bound by the issuing bank's decision to accept the applicant's waiver of discrepancies.

c. **60 days after BL date:** The maturity date is calculated as 60 days from the Bill of Lading (BL) date. This calculation remains unchanged, regardless of whether the presentation is complying or non-complying

11. Drawee bank is to advise or confirm the maturity date to the presenter
12. When the due date is a non-banking day, payment is due on the first banking day following due date
13. Calculation of maturity dates is the same for credits available by deferred payment.
14. Any correction of data on a draft must be authenticated by the beneficiary. If no corrections are allowed on the draft as per the local regulations of the country, the issuing bank must include this restriction in the Letter of Credit.