

APPLICATION TO OPEN A DOCUMENTARY CREDIT

The buyer (applicant) makes an application in a standard format of their bank (issuing bank) to open a documentary credit incorporating terms and conditions against which bank is authorised to pay the beneficiary requiring all the relevant documents as a proof of compliance of such conditions

Applicant must consider following while making an application:

- Terms and conditions must be precise. Non performance conditions such as force majeure, penalty clauses for non-performances, legal jurisdiction, dispute resolution etc, must not be included in LC application
- Must not include any ambitious terms. Applicant bears the risk of any ambiguous terms incorporated in the LC not the issuing bank
- Must require a document as a proof of compliance of each condition. Any condition without requiring a document as a proof of compliance is treated as non-documentary condition and banks will disregard such conditions while honouring.
- Must specify the issuer of documents and the data content needed while requiring documents other than invoice, transport document or insurance document
- Avoid terms such as official, competent, first class, well known, qualified, independent or local to describe the issuer of a document. If such terms are used, beneficiary may present document issued by any party other than beneficiary.
- Though a copy of sales contract or a pro-forma invoice is enclosed with application, bank is not concerned about the contents of such contract. Bank consider only the terms and conditions incorporated in the application form while issuing the LC
- Banks deal with only documents and not concerned with the goods or any other performances
- Bank assumes no liability to check on genuineness / falsification of the documents presented by the beneficiary before effecting the payment
- Must ensure import licences if required are in place
- The applicant shall be bound by and liable to indemnify a bank against all obligations and responsibilities imposed by foreign laws and usages

It is always advisable for the applicant to send a copy of LC application or preferably a draft copy of LC to the beneficiary for their verification. By scrutinising all terms and conditions of LC by both applicant and beneficiary before issuance of the LC, they can avoid further amendments to the LC and can avoid costs and time.

LC application contain following:

- Name and address of the Applicant
- Name and address of the Beneficiary
- Beneficiary's bank details
- Expiry date
- Period for presentation of documents
- Confirmation instructions
- Currency and amount with tolerance if any
- Terms of Payment - Available with By sight/ deferred payment/ acceptance/ negotiation
- Full description of the goods including quality specifications, packing, marking etc
- Quantity with unit of measurement with tolerance if any
- Currency, unit price with Incoterms
- Shipment from and to
- Latest date of shipment/ shipment period
- Partial shipment allowed or not
- Transshipment allowed or not
- Documents required
- Additional conditions (if any)
- Charges