

# Bank-to-Bank Reimbursements under Documentary Credits

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Payments under Letters of Credit (LCs) are typically effected through several methods, depending on the instructions provided in the credit. Here are the common methods by which payments are made under LCs:

## 1. Remittance Upon Receipt of Documents

- The nominated bank forwards the documents to the issuing bank.
- The issuing bank examines the documents for compliance with the terms of the Letter of Credit (LC).
- If the documents are found to be compliant, the issuing bank makes the payment to the nominated bank.

## 2. Payment Upon Receipt of Message from the nominated bank confirming that documents are in Order

- The nominated bank reviews the documents and confirms their compliance with the LC terms.
- A message is sent from the nominated bank to the issuing bank (MT 754), indicating that the documents are in order.
- Upon receiving this confirmation, the issuing bank processes the payment to the nominated bank.

## 3. Payment Upon Maturity in Usance/Deferred Payment LCs

- The nominated bank sends the documents to the issuing bank.
- The issuing bank reviews the documents for compliance with the LC terms.
- If the documents are compliant, the issuing bank confirms the maturity date to the nominated bank.
- The issuing bank arranges payment to the nominated by due date.

## 4. Payment Through a Reimbursing Bank

Documentary credits may include reimbursing bank details under Field 53A of MT 700, which is an optional field.

When a reimbursing bank is authorised to make payment based on a reimbursement claim, the credit is generally referred to as a **Clean Reimbursement LC**.

Such an LC must specify the applicable governing rules for reimbursements, typically **URR 725 (Uniform Rules for Bank-to-Bank Reimbursements, ICC Publication No. 725)**. This is indicated under SWIFT Field 40E as **UCPURR LATEST VERSION**.

In the absence of this indication, **Article 13 of UCP 600**, which covers bank-to-bank reimbursements, shall apply.

## Summary: Article 13 – Bank-to-Bank Reimbursement Arrangements

### 1. Reimbursement Subject to ICC Rules:

If the credit specifies that reimbursement is via another party (reimbursing bank), it must state whether the ICC rules for bank-to-bank reimbursements apply.

### 2. When ICC Reimbursement Rules Are Not Mentioned:

The following default provisions apply:

- Authorisation: The issuing bank must issue a reimbursement authorisation that aligns with the availability under the credit. It should not include an expiry date.
- No Certificate Required: The claiming bank is not obliged to provide a certificate of compliance to the reimbursing bank.
- Issuing Bank Liability: The issuing bank is liable for interest loss and expenses if the reimbursing bank fails to reimburse on first demand.
- Reimbursing Bank Charges: These are typically borne by the issuing bank unless the credit explicitly states that they are for the beneficiary's account. In such cases:
  - Charges are deducted from the reimbursed amount.
  - If no reimbursement occurs, the issuing bank remains liable for the charges.

### 3. Issuing Bank's Continued Obligation:

Even if the reimbursing bank fails to honour the reimbursement, the issuing bank's obligation to provide reimbursement remains unaffected.

**URR 725 is a comprehensive set of rules governing bank-to-bank reimbursements and is consistent with Article 13 of UCP 600, without any contradictions. The following notes explain the functionality under URR 725:**

## Reimbursement Authorisation (RA)

When reimbursing bank details are provided in the LC, the issuing bank must send a separate Reimbursement Authorisation (RA) to the reimbursing bank named in the credit. This must be sent through an authenticated tele-transmission (e.g., SWIFT MT 740) or a signed letter. The issuing bank must not send a copy of the LC to the reimbursing bank in lieu of or in addition to the RA. If the reimbursing bank receives a copy of the LC, it must disregard it.

Each Reimbursement Authorisation must be sent as a separate message unless there is an agreement between the issuing bank and the reimbursing bank to allow multiple reimbursement authorisations within a single message.

The issuing bank must not include any requirement in the reimbursement authorisation for the reimbursing bank to require a certificate from the claiming bank that documents comply with the terms and conditions of the credit.

### Key Features of Reimbursement Authorisation

- **Revocability:** The Reimbursement Authorisation (RA) is revocable. It can be amended without the consent of the reimbursing bank or canceled by the issuing bank at any time before payment by the reimbursing bank. The RA should not be subject to an expiry date or latest date for presentation of claim. If an expiry date of the credit is indicated in the RA, it shall be disregarded. The issuing bank must cancel its RA for any unutilized portion of the credit amount.
- **Cancellation/Amendment:** If the issuing bank cancels the RA before expiry date of the credit, it must issue a new RA to another bank and inform the LC advising bank of the change. Any amendments to the RA must also be advised to the advising bank as appropriate.
- **No Obligation to Honour:** The reimbursing bank is not obligated to honour a claim under the RA. If the claim is not honoured on the first demand, the issuing bank remains liable to the claiming bank for the payment, including interest and any additional charges.
- **Independence from LC Terms:** The reimbursing bank is not bound by the terms and conditions of the letter of credit, even if a reference to the credit is included in the reimbursement authorisation.

### Required Information in Reimbursement Authorisation

- Applicable Rules
- Documentary Credit Number
- Credit Amount with Currency Code
- Additional amounts payable and tolerance, if any
- Claiming Bank (if the LC is available with any bank, any bank may act as the claiming bank)
- Reimbursing Bank Charges: Indicate whether these are to be borne by the applicant or the beneficiary as specified in the LC. In the absence of specific instructions, the charges are to the account of the applicant. If reimbursing charges are to the account of the beneficiary, the reimbursing bank must deduct its charges from the proceeds.

### Time Drafts on Reimbursing Bank

At times, an LC may call for time drafts (must not be sight drafts) to be drawn on the reimbursing bank. This facilitates trade finance arrangements between the issuing bank and the reimbursing bank, enabling payment to the beneficiary on a sight basis, even if the LC is established on a usance basis.

In this arrangement, the reimbursing bank accepts the bill of exchange drawn by the beneficiary of the credit and discounts their own draft to provide sight payment to the beneficiary. As the

reimbursing bank relies on the credibility of the issuing bank to arrange the funds for the beneficiary, it may need to block the credit limits of the issuing bank. On the other hand, the issuing bank must rely on the credibility of the applicant. This arrangement may be preferred when the issuing bank faces liquidity issues, while the applicant has sufficient credit limits available.

If time drafts are to be drawn on the reimbursing bank as per the LC, the RA must include the following additional details:

- **Tenor of the Draft**
- **Drawer:** The beneficiary of the credit
- **Parties Responsible for Acceptance and Discount Charges**

## Reimbursement Undertaking:

In a sales contract, it may be agreed that payment will be made under a letter of credit, with reimbursement facilitated through a **reimbursement undertaking** issued by a reputable bank. This undertaking provides an **irrevocable and independent payment obligation**, enhancing the seller's assurance of payment.

The seller may request such an arrangement to mitigate **country and commercial risks** associated with the issuing bank. Alternatively, the seller's bank may require a reimbursement undertaking as a **precondition for adding confirmation** to the credit, in order to manage its own exposure to the issuing bank's risk.

In such cases, the issuing bank may request the reimbursing bank to issue a Reimbursement Undertaking (RU) in favour of a named claiming bank as per LC. Such a Reimbursement Authorisation is irrevocable, and the RA **must indicate the expiry date** for the presentation of the claim. Reimbursement Authorisation must include following in addition to the details discussed as above:

Latest date for presentation of claim including any usance period

Full name and address of the claiming bank

It is important to note that there is no obligation for the reimbursing bank to issue a reimbursement undertaking as requested by the issuing bank. If the reimbursing bank is unwilling to act upon the RA, it must inform the issuing bank without delay. However, if the reimbursing bank agrees to issue the reimbursement undertaking, it may do so against the blocking of the credit limit of the issuing bank. The reimbursement undertaking issued by the reimbursing bank is irrevocable and requires the claiming bank's consent for any cancellation or amendment.

A Reimbursement Undertaking (RU) typically includes the following details:

- Credit number and name of the issuing bank
- Currency and amount
- Additional amounts payable and tolerance, if any
- Latest date for the presentation of a claim, including any usance period
- Reimbursement bank charges to be deducted from the claim amount (if any)

Any subsequent amendments to an irrevocable **Reimbursement Authorisation** (sent via MT 747) require the **consent of the reimbursing bank**. The reimbursing bank can communicate its

acceptance of the RA amendment only after the **claiming bank (nominated bank)** consents to the corresponding amendment in the **Reimbursement Undertaking (RU)** issued by the reimbursing bank.

## Reimbursement Claim:

When the nominated bank receives the presentation of documents by the beneficiary under a LC that allows for clean reimbursement, the nominated bank (also referred to as the claiming bank) has two options:

### 1. Examine the Documents:

The nominated bank may examine the documents to determine whether the presentation complies with the terms and conditions of the LC. If the documents are found to be in compliance, the nominated bank may send a reimbursement claim to the reimbursing bank, in accordance with the terms of the LC or under terms of a reimbursement undertaking (RU).

### 2. Forwarding the Documents to the issuing bank without examination:

If the nominated bank chooses not to examine the documents or if the documents contain discrepancies, it may forward the documents to the issuing bank and seek authorisation to send a claim to the reimbursing bank.

If the issuing bank determines that the documents are complying, or agrees to waive the discrepancies, the issuing bank may authorise the nominated bank to proceed with sending a claim to the reimbursing bank.

### Pre-notification of the Claim:

The issuing bank may require the claiming bank to send a pre-notification of a claim—indicating the number of days in advance—so that it can arrange funds with the reimbursing bank. This requirement is typically stipulated in the letter of credit.

In such cases, the claiming bank must send the pre-notification of claim to the issuing bank and submit the reimbursement claim only after the specified pre-notification period.

### Reimbursement Claim Details:

The reimbursement claim (must not include multiple claims under single message) usually sent via MT 742 must include the following key details:

- Reimbursing bank's reference number for claim under RU
- LC Number and the name of the issuing bank
- Amount claimed with the currency unit indicating separately principal amount & additional amount - if any

In the case of time drafts drawn on the reimbursing bank, the claiming bank must forward the time drafts along with the reimbursement claim to the reimbursing bank. In such cases, the reimbursement claim should include the following additional information:

- A general description of the goods, services, or performance
- The country of origin of the goods
- Routing details of the goods (from the place of dispatch to the place of destination)
- The shipment date

## Processing of a Reimbursement Claim

### 1. Claim Processing Timeframe

- The reimbursing bank must process a claim within **three banking days** following the day of receipt of the claim
- If the claim is received after banking hours, it is to be considered as presented on the following banking day.
- If the claim is under Reimbursement Undertaking and latest date for presentation of a claim falls on a non-banking day, it will be extended to following banking day. However, if the reimbursing bank is closed due to force majeure circumstances, the latest date will not be extended.

### 2. Pre-Debit Notification

- If the reimbursing bank is required to provide a **pre-debit notification** to the issuing bank under the reimbursement authorisation (which is also included in the LC for the information of claiming bank to arrive at a value date after considering number of days required for pre-debit notification), it must send the notification via authenticated SWIFT. This enables the issuing bank to arrange funds.
- The pre-debit notification period is **in addition to** the three banking days allowed for processing the reimbursement claim.

### 3. Non-Reimbursement Notification

- If the reimbursing bank determines not to provide reimbursement, it must inform the claiming bank and the issuing bank **no later than the close of the third banking day** of receipt of the claim, plus any additional period allowed for the pre-debit notification.
- For claims under a reimbursement undertaking, the reasons for refusal must be stated. A claim under a reimbursement undertaking must comply **strictly with the terms and conditions** stated in it.
- Notice must be given to the claiming bank and the issuing bank by telecommunication or by other expeditious means

### 4. Future-Dated Reimbursements

- If reimbursement is due at a **future date** and no reimbursement undertaking is provided, the claim must specify the **predetermined reimbursement date**.
- A reimbursement claim must not be presented to the reimbursing bank more than **ten banking days prior** to the predetermined date. If it is presented earlier:
  - The reimbursing bank may disregard the claim.
  - If disregarded, the reimbursing bank must inform the claiming bank **without delay**.

### 5. Notice of Non-Reimbursement for Future Dates

- If the predetermined reimbursement date is more than **three banking days** following the receipt of the claim, the reimbursing bank is not obligated to provide notice of non-reimbursement until:
  - The predetermined date, or
  - No later than the close of the third banking day following receipt of the claim, plus any additional period for the pre-debit notification.

6. **Payment Under Reserve or Indemnity**

- A reimbursing bank assumes no liability or responsibility if it honors a reimbursement claim that indicates payment was made **under reserve** or **against an indemnity**. Such indications shall be **disregarded** by the reimbursing bank.

7. **Back Value Requests and Timely Claims:** If the claiming bank fails to submit a claim on time, it cannot request for back value date (value date prior to the date of reimbursement claim).

8. **Interest Claims / Loss of Value:** The reimbursing bank is not responsible for any loss of interest or value caused by exchange rate changes, revaluation, or devaluation. Such claims must be settled directly between the claiming bank and the issuing bank, unless the loss is due to the reimbursing bank's failure to perform under a reimbursement undertaking.