DP06

International Trade Finance

6 OCTOBER 2003

1.	Time allowed	: Three (3) hours
2.	Total number of questions	: Seven (7) questions
3.	Number of questions to be answered	: Five (5) questions of which at least two (2) must be from Part A [20 marks each]

4. Candidates must obtain a minimum of 16 marks in Part A as well as pass the paper as a whole.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.
7. A blank page is provided at the end of the question paper for rough work.

PART A

ANSWER AT LEAST TWO (2) QUESTIONS

1. Keris Steel Sdn Bhd (“Keris Steel”) requested Rosbank Bhd (“RB”) to issue a letter of credit in favour of Swiss Steel Ltd, Switzerland (“Swiss Steel”), advised and confirmed by the National Bank of Switzerland (“NBS”). The letter of credit required, among other documents:

   - A full set of clean on board bills of lading consigned to the order of RB, marked freight prepaid, evidencing shipment from Port Rotterdam to Port Klang.
   - Special condition: Documents must arrive at RB’s office before arrival of vessel.

   The letter of credit was subsequently amended to extend the expiry date and the shipment date.

   NBS advised the amendment to Swiss Steel and at the same time, informed Swiss Steel that NBS’s confirmation of the original credit was not applicable to the extended period of validity of the credit. Upon shipment, Swiss Steel presented the documents to NBS, and upon examination, NBS found the documents to be in accordance with the terms and conditions of the letter of credit. Swiss Steel was paid upon negotiation and NBS forwarded the documents to RB to claim reimbursement.

   When RB examined the documents, two discrepancies were noted. RB contacted Keris Steel for a waiver but was refused. RB sent the following telex to NBS:

   “Our credit number LC-12324 documents for USD456,000 – Applicant refused the documents for the following reasons:

   - On board date does not indicate that the goods were placed on board the vessel at Port Rotterdam on or before the latest shipment date as required by the credit. The transport documents presented indicate the place of taking charge as Container Freight Yard.
   - Late presentation of documents. Documents received by RB the day after the arrival of the vessel.

   We hold documents at your disposal. Please instruct.”

   Based on the above scenario, briefly explain your answers for the following:

   (a) If you were a RB banker, would you have issued the credit? [4]

   (b) If you were a NBS banker, would you have advised the credit? [4]

   (c) Do you agree with the **two** discrepancies noted by RB? [4]

   (d) Can NBS withdraw its confirmation of the credit? [4]

   (e) Is it appropriate for RB to state that the applicant refused the documents? [4]

   (Total:20 marks)

2. (a) Explain the use and purpose of Incoterms in international trade. [6]

   (b) Incoterms are classified under **four** distinct categories.

   Briefly explain and provide **one** example for each of the categories. [12]

   (c) What type of bill of lading does a Malaysian exporter need to produce as proof of fulfilment of a contract with the term “DDP buyer’s premises in Chicago”? [2]

   (Total:20 marks)

3. RediCycle Sdn Bhd (“RediCycle”) manufactures mountain bicycles and is finding ready markets in France and Germany. Sales have always been invoiced in Euro but RediCycle’s cash flow position has suffered because of some delays in receiving payments on due dates.

The French buyer readily accepts bills of exchange drawn at 30-day sight sent directly to him by RediCycle but the funds do not arrive until at least six weeks after the bills fall due. The German buyer usually forwards his own cheques drawn in Euro and this takes some time to clear, thus putting additional pressure on RediCycle's cash flow position.

RediCycle's financial manager, En Khairuddin, calls to ask you if there is any way in which you can assist RediCycle in reducing the time before cleared funds are credited to RediCycle's account. You understand that the French buyer is unwilling to arrange for a letter of credit. Nevertheless, En Khairuddin asked if there is any scheme where the bank can assist in trying to cut down the delay before funds are received for the credit of RediCycle's account.

Required:

(a) Describe the following:

(i) A basic method by which the bank can help RediCycle to obtain payment without any unacceptable delays. [4]

(ii) A specific variation of the basic method which would be suitable to the needs of the French buyer, who requires a period of credit before paying for the goods. [5]

(iii) A specific variation of the basic method which would be suitable for the German buyer, who is willing to pay as soon as he is required to do so. [5]

(b) Explain how the methods in (a)(ii) and (a)(iii) above will give some protection to RediCycle and indicate the reasons why the buyers in France and Germany would be expected to comply with any conditions regarding payment. [6]

(Total:20 marks)

PART B

4. (a) Same Bank ("SB") issued an irrevocable negotiable letter of credit in favour of Takamiya Ltd ("TL") and advised it through Osaka National Bank, Japan ("ONB"). Part of the letter of credit requirements was a full set of clean on board ocean bills of lading and that the shipment was to be effected from any Japanese port to Port Klang.

When TL presented the documents for negotiation under the credit, the bill of lading indicated the following:

- Port of loading : Osaka Port, Japan
- Port of discharge : Port Tanjung Pelepas, Malaysia
- Place of final destination : Port Klang, Malaysia

ONB rejected the documents as discrepant because the ocean bill of lading did not indicate shipment to Port Klang as required in the credit. TL disputed the discrepancy and stated that the bill of lading did indicate shipment as required in the credit. In addition, the credit allowed for transhipment and the goods were being transhipped at Port Tanjung Pelepas for final destination to Port Klang.

ONB responded that their position was valid since the credit clearly required an ocean bill of lading as provided by ICC Uniform Customs and Practice for Documentary Credits (UCP 500) Article 23. The bill of lading had to evidence that the ocean leg of the journey had to be from any Japanese port to Port Klang. The bill of lading presented only indicated that the ocean leg of the journey was from a Japanese port to Port Tanjung Pelepas and not to Port Klang.

Required:

(i) Was ONB correct in its interpretation and application of the UCP 500 Article 23? [2]

(ii) If the contract between the importer and the exporter states that the shipment is as described by the beneficiary, was the credit issued correctly or should it be amended? Explain your answer. [5]

(iii) If you were a SB banker, what would be your decision in this case? [4]

(b) Briefly describe **three** main functions of a bill for lading in an international trade transaction. [3]

(c) Briefly define the following types of bill of lading:

(i) Through (combined) [3]

(ii) Short form [3]

(Total:20 marks)

5. LowCom Auto Sdn Bhd ("LowCom"), a valued customer of your bank, has been regularly importing their motor accessories from Taiwan on a collection basis. The airway bill is always accompanied by a bill of exchange at 120-day sight.

In the past, however, some problems had arisen due to the following reasons:

- Goods were consigned to your bank without any authority.
- Collection orders contained no indication as to whether documents are to be released against payment (D/P) or against acceptance (D/A).
- LowCom accepted a bill of exchange, examined the goods and subsequently offered partial payment of the accepted bill of exchange.
- LowCom refused to pay the bank charges claimed by the remitting bank in their collection order.

You are meeting up with LowCom to explain your bank's position under the Uniform Rules for Collection, as all collections have been presented to you under the protection of these international rules.

Required:

(a) Briefly explain the responsibilities of your bank under the present Uniform Rules for Collection in relation to the following:

(i) Goods being consigned to your bank without authority. [4]

(ii) Failure of the collection order to facilitate the basis upon which the documents are released. [4]

(iii) The offer of a partial payment to you by LowCom after the company has obtained the underlying documents by accepting the bill of exchange. [3]

(iv) LowCom's refusal to pay the charges claimed by the remitting bank. [3]

(b) In relation to (a)(iii) above, explain how you would deal with an offer of partial payment in accordance with the standard banking practice. [6]

(Total:20 marks)

6. Uptown Ace Sdn Bhd enjoys the following credit facilities from your bank:

Type of facilities	Limit (RM)	Pricing
Overdraft	2,500,000	Base lending rate (BLR) + 2.0%
Multi trade facilities:		
• Letter of credit	3,000,000	0.1% per month
• Trust receipt	(3,000,000)	BLR + 2.0%
• Banker's acceptance	(3,000,000)	Acceptance commission – 2.0%
• Shipping guarantee	(3,000,000)	0.1% flat
• Export credit facilities	5,000,000	EXIM bank rate + 1%
• Foreign bills purchase	2,000,000	LIBOR + 1.5%

Uptown Ace Sdn Bhd imported 1,000metric tonnes of resin for SGD1,254,250 from Singapore against a 3-month letter of credit and requested your bank for a 90-day finance.

Required:

(a) Explain the features of any **two** of the following credit facilities:

(i) Overdraft [3]

(ii) Trust receipt [3]

(iii) Banker's acceptance [3]

(b) Based on the additional information below, which financing alternative would you advise Uptown Ace Sdn Bhd to choose and why? Show your workings.

BLR	6.0%
Banker's acceptance discount rate	5.2%
SGD/RM exchange rate	2.2350

[10]

(c) Besides getting the importer to sign a trust receipt, some banks may require the importer to accept a usance bill of exchange, on which the financing bank is both the drawer and payee, and the importer is the drawee.

Briefly explain **two** main reasons for these requirements. [4]

(Total:20 marks)

7. Marjan Sdn Bhd ("Marjan") presented a full set of documents drawn under Banco Bank PLC ("Banco") letter of credit to Rayasia Bank Bhd ("Rayasia") for negotiation. Marjan was informed that there were some discrepancies and instructed Rayasia to forward the documents to Banco for approval and payment under the credit.

Upon receipt of the documents, Banco determined that the discrepancies were not acceptable, and informed the applicant, Gonzalez Pte Ltd ("Gonzalez"). Gonzalez did not waive the discrepancies and rejected the documents.

Banco sent a telex to Rayasia advising them of the rejection and that Gonzalez had been contacted. Meanwhile, Banco is holding the documents at Rayasia's disposal and requested for further instruction.

When Marjan was advised of the rejection, they requested Rayasia to inform Banco to hold the documents at Rayasia's disposal pending further instruction to Marjan's disposition.

Upon receipt of Rayasia's telex, Banco contacted Gonzalez, who then instructed Banco to pay the documents as presented since they wanted the merchandise. Banco sent a telex to Rayasia advising them that Gonzalez has now accepted the discrepancies and has remitted payment to Rayasia's account after releasing the documents to Gonzalez. Marjan was informed accordingly of the payment made.

Marjan rejected the payment because they have re-sold the merchandise to another buyer at a higher price when the market turned in their favour. Marjan asked for the documents to be held at their disposal pending further instruction.

Rayasia claimed that Banco's releasing of the documents entrusted by Rayasia to them and be held at Rayasia's disposal was unauthorised and in violation of ICC Uniform Customs and Practice for Documentary Credits (UCP 500). Banco, however, argued that they processed the documents as a "documentary collection" since the term of the credit had not been complied with.

Required:

(a) What is the responsibility of Banco in this transaction? [5]

(b) What are your comments on Banco's claim that they were acting only as a collecting bank since the documents presented did not conform to the terms and conditions of their credit? [8]

(c) Which term should not be used when sending non-conforming documents under a credit to the issuing bank? [5]

(d) How can the transaction be resolved? [2]

(Total:20 marks)

OUTLINE ANSWERS

Question 1

- Many candidates were not able to relate their answers to the Articles in the Uniform Customs and Practice (UCP500).
- Candidates should read the question thoroughly to get the key message/point before answering.

1. (a) No. The credit is incorrectly issued since it stipulates a date of expiry of the credit for presentation of documents at the counters of the negotiating bank and permits negotiation. Yet, there is a special condition that requires that the documents arrive at the office of the Issuing Bank before arrival of the vessel, a condition that may or may not materialise or is not comfortable by the beneficiary or the negotiating bank.

(b) Perhaps. But it would be prudent to inform the beneficiary of the special condition relative to receipt of the documents by the issuing bank prior to the arrival of the vessel. Also, the beneficiary should be informed that if the documents presented to the advising bank, such bank would only act as a remitting bank and would not negotiate there under (provided it has not agreed to confirm the credit)

(c) Yes and no. The discrepancies relative to the on board notation is valid since the credit required a presentation of a marine bill of lading evidencing shipment from Port Rotterdam to Port Kelang. The bill of lading presented did not indicate that the goods were shipped, loaded on board a named vessel or bore a special dated notation that the goods were loaded on board a named vessel as required by UCP 500 sub-Article 23 (a)(ii).

The discrepancies concerning late presentation of the documents to the issuing bank are INVALID. The special condition stated in the credit applies to UCP 500 sub-Article 13(c), which states that if a credit contains a condition without stating the document(s) to be presented in compliance therewith, banks will deem such conditions as stated and will disregard them. The onus is placed on the applicant and the issuing bank to issue the credit properly. They cannot be allowed to shift the responsibility to other parties. The applicant and the issuing bank must determine the documents required to satisfy a non-documentary requirement.

(d) No. While UCP 500(d)(ii) states that a confirming bank may choose to advise an amendment to the beneficiary without extending its confirmation, and, if it does so, must inform the issuing bank and the beneficiary without delay, the beneficiary must still consent to such withdrawal. He may, thus, refuse such withdrawal of the confirming bank's cancellation of its confirmation by rejecting the amendment condition.

(e) No. UCP 500 sub-Article 14(b) clearly states that the issuing bank must determine on the basis of the documents alone whether or not they appear on their face to be in compliance with the terms and conditions of the credit. The decision to accept or reject the documents rests exclusively with the bank and not the applicant.

Question 2

Most of the candidates were able to explain the use and purpose of Incoterms in international trade.

2. (a) Incoterms, which is drawn up by the ICC, provide an internationally accepted set of standardised terms which set out where the exporter's responsibility ends as regards to the insurance and transport of goods. When two traders are in the process of negotiating an international commercial contract, one of the matters to be mutually decided upon relates to the shipping or trade term that will be used. The Incoterm agreed upon between the traders details the main obligations of the exporter and importer in the contract. The main elements are delivery, cost and transfer of risk. The main categories of costs are:

- dispatch, carriage and delivery – Who is responsible for arranging the contract of carriage and the freight charges?

- customs clearance for export and import – Who is responsible for obtaining and paying the fees for an export/import license?
- service assistance rendered by one party to the other in addition to what the assisting party is required to do under the trade term – Who is responsible for paying the fees relating to loading and unloading?
- insurance – Who is responsible in insuring the goods and at what point in transit does the onus shift from the exporter to the importer?

(b) The ICC has categorised Incoterms under four distinct categories; these being the C terms; D terms; E terms; and F terms. The letters C, D, E, and F relate to the first letter of the Incoterms, which are as follows:

<u>C terms</u>

Here, the seller has to contract and pay for carriage. He is not responsible for any loss or damage to the goods after shipment and dispatch. Examples of C terms are:

- CFR : Cost and Freight
- CIF : Cost Insurance and Freight
- CPT : Carriage Paid To
- CIP : Cost and Insurance Paid To

<u>E terms</u>

Here, the seller makes his goods available to the buyer at the seller's own premises. The only E term is:

- EXW : Ex Works

<u>D terms</u>

Here, the seller has to bear all the cost and risk to bring the goods to the country of destination. Examples of the D terms are:

- DAF : Delivered at Frontier
- DES : Delivered Ex Ship
- DEQ : Delivered Ex Quay
- DDU : Delivered Duty Unpaid

<u>F terms</u>

Here, the seller delivers the goods to a carrier nominated by the buyer. Examples of F terms are:

- FCA : Free Carriage
- FAS : Free Along Ship
- FOB : Free on Board

(c) The documents would be a combined transport bill of lading that shows the ultimate destination at buyer's premises in Chicago. It would be marked "Freight Prepaid".

<u>Question 3</u>

Some candidates were not able to identify the correct type of collection that would be suitable for the situations given in the question. They were also unsure of the protection that is available for the exporter under the different collection.

3. (a) (i) Because bills of exchange are sent direct to the buyer, the exporter is selling on an open account. We are told that letter of credit is unobtainable. Hence, the only available method is **documentary collection:**

- The exporter is the principal and drawer of the bill of exchange.
- We are the remitting bank.
- The overseas bank is the collecting/presenting bank.
- The buyer is the drawee of the bill of exchange.
- Documents of title are attached to the bill of exchange, and the presenting bank will release the documents against payment or acceptance, depending on the collection order.

(ii) For the French buyer, RediCycle will draw bill of exchange due 30 days after sight, and will authorise release of **documents against acceptance (D/A)**.

- The French buyer will obtain the goods 30 days before he need to pay for them.
- The collection order should say “If unpaid protest” and “Remit proceeds by TT”.
- This will ensure that if the buyer does not pay on the due date, the bill will be protested. If he does pay, cleared funds will be remitted at once.
- An alternative guarantee of payment would be to call for acceptance bill to be avalised. In this case, the French bank would endorse the accepted bill and add its own guarantee of payment on due date.
- The prior approval of buyer and his bank would be required for the acceptance bill to be avalised.

(iii) The principles would be similar for the German buyer, except the collection includes sight draft and would be on a **documents against payment (D/P)** basis. This would ensure that the importer would have to pay before he could obtain the goods.

In case of both French and German buyer, the buyers should be happy on the documentary collection basis. This method is governed by Uniform Rules for Collection which is internationally accepted set of rules drawn up by the ICC governing rights and duties of all parties to collections.

(b) Protection to RediCycle will come from:

- protest instruction.
- acceptance bill be avalised, if available.
- store and insure clause in case the German refuses to pay or the French buyer refuses to accept the bill of exchange.
- a case of need clause, but only if RediCycle has a reliable agent in France or Germany.

In addition, RediCycle should take out a status report, and could insure against bad debts.

The reason for the French and German buyer could be expected to comply is due to this method being governed by Uniform Rules for Collection, which is internationally accepted set of rules drawn up by the ICC governing rights and duties of all parties to collections. The documents will only be released to them once they have complied with the terms indicated in the collection schedule.

Question 4

Candidates who did not do well in this question were not able to apply the UCP500 Article 23 (specified in the question) to their answers. Their definition for the types of bills of lading given was also unsatisfactory.

4. (a) (i) ONB was correct in its interpretation and application of the UCP 500 Article 23, that the credit as issued required a presentation of an ocean bill of lading under article 23.

(ii) The credit should have been amended prior to the shipment by the beneficiary. If the importer, Issuing Bank and the exporter intend to allow for the combined, multimodal transport document, the credit should have asked for a Multimodal Transport document, as stated in UCP Article 26, covering **transport** from any Japanese port to Port Kelang via Port Tanjung Pelepas in Malaysia.

(iii) The issue is whether the Marine Bill of Lading has to show the port mentioned in the documentary credit as “for transportation to, etc.” in the field “Port of Discharge”, or whether “Place of final destination” may be acceptable. The credit required presentation of an Ocean Bill of Lading, for the port-to-port shipment. The credit stipulated shipment from “a port in Japan” to “Port Kelang, Malaysia”. Therefore, the only acceptable transport document was an Ocean Bill of Lading indicating loading on board a Japanese Port and unloading at Port Kelang, Malaysia.

An Ocean Bill of Lading that indicated "Port Tanjung Pelepas" as port of discharge was not in compliance with the terms and conditions and was therefore unacceptable.

(b) The **three** main functions of bill of lading are:

- The bill of lading acts as the acknowledgement receipt for the underlying goods.
- It contains the terms and conditions of the contract of carriage.
- It acts as the documents of title for the underlying goods.

(c) (i) Through (Combined) bill of lading – used when the goods to be transported using different mode of transport by two or more carrier. The shipping company that issues the bill of lading assumes liability for the goods while in transit, even when they are not under its control. The bill of lading will indicate where the goods are to be taken in charge, the name of port of lading and discharge and the place where the goods are to be delivered to

(ii) Short form bill of lading – It is briefer in size and content as compared bill of lading. The brevity arises because of the contract terms and conditions do not appear on the bill of lading itself. Instead, the exporter is referred to a master document which is "located" somewhere else.

Question 5

This was a generally well-answered question on the responsibility of a bank under the URC.

5. (a) (i) Uniform Rules for Collection states that a bank has no responsibility at all to deal with goods which have been consigned to it without authority. It could tell the local airport authority to refer to the shipper (exporter) if it wished to.

(ii) Documents can only be released on payment (D/P) if the collection order does NOT indicate either "D/P" of "D/A".

(iii) Partial payments can be accepted in the case of a clean collection, but cannot be accepted with documentary collection (unless the collection order specifies so).

(iv) Our bank will treat the collection as honoured if the charges are merely stated on the collection order without any clause such as "do not waive".

If the charges are incorporated into the financial documents (i.e. bill of exchange), refusal by LowCom to pay the charges will tantamount to dishonour.

(b) As the collecting/presenting bank, we are acting as the agent for the remitting bank and under Uniform Rules for Collection; our duty is to the remitting bank. We would accept part payment, and either remit it to the remitting bank or hold it to their order under advice. The collection is now "clean", as the commercial documents will have been released on acceptance.

Receipt for the bill of exchange for the amount paid and protest for the full amount if the collection order says to protest. Tactfully, explain to LowCom that we have no alternative but to protest the bill of exchange, if the instruction say protest.

Question 6

Candidates could perform the calculations in this question, as they knew the formula. They were also able to define some of the credit facilities and explain the requirements of a trust receipt.

6. (a) Types of facilities

(i) <u>Overdraft</u> – This is a working capital facility, which allows the importer to draw in excess of their current account balance up to the limit that has been approved. The importer can choose to utilise their Overdraft facility for the purpose of payment for the import by authorising the bank to debit their account.

(ii) <u>Trust Receipt</u> – This is a short-term facilities whereby the bank (entrustor) releases the goods to the buyer (trustee) who acknowledges his undertaking to hold the documents, or the goods or any proceed from that in trust for the bank. Goods must be properly stored in the buyer's warehouse – able to dispose of the goods and receive payment before he is called upon to pay the bill. The bank remains as the legal owner of the goods.

(iii) <u>Bankers acceptance</u> – This is a very popular and cheap way of financing purchases, sales, import and export. It is a usance bill of exchange drawn by the customer on the bank and accepted by the bank. BA may be discounted with the accepting bank and proceed utilised to pay for sight purchases or import bills. The rate which is discounted is normally based on the money market rate which is normally much lower than the OD or TR rate. This is because BA can be sold down in the secondary market by the financing bank to other financial institution or fund managers.

(b) Value of Import : SGD1,254,250 x 2.2350 = RM2,803,248.75
LC Commission : RM2,803,248.75 x 0.1% x 3 = RM8,409.75

TR Financing	**BA Financing**
Interest Rate : 6.0 + 2.0 = 8.0% **Interest Amount** $I = \frac{PRT}{365}$ $= \frac{90 \times 2,803,248.75 \times 8.0\%}{365}$ = <u>RM55,296.96</u> Cost : LC Comm. : 8,409.75 Interest : 55,296.96 Total : <u>63,706.71</u>	Discount Rate : 5.2% Acceptance Rate : 2.0% <u>Interest Amount</u> $FV \left[1 - \frac{(r \times t)}{365}\right]$ $2,803,000 \times \left[1 - \frac{(5.2 \times 90)}{36500}\right]$ = 2,803,000 x [1 – 0.0128219] = 2,803,000 x 0.98717808 Int = 2,803,000 – 2, 767,060.16 = <u>35,939.84</u> <u>Acceptance Comm.</u> $= \frac{2,803,000 \times 90 \times 2.0}{36500}$ = <u>13,823.01</u> <u>Cost :</u> LC Comm. : 8,409.75 Interest : 35,939.84 Acc. Comm. : 13,823.01 Total : <u>58,172.60</u>

BA offers cheaper financing as customer can save up to RM5,534.11 in interest for same tenor financing. However, they may not be able to enjoy savings should they settle before maturity unless the bank has not re-discounted or sold their BA in the secondary market.

TR becomes an alternative if the customer is aware of their pattern of scale proceeds whereby they may receive sales proceeds before maturity of their TR bills as they will then save on interest according to the number of days.

(c) **Two** reasons why banks get importer to accept a usance bill of exchange:

- The bank may not want to solely rely on the goods as security.
- The goods may not always be in the control of the bank; e.g. if the customer holds the document of title, or if the customer places the goods in the warehouse of his choice, or if the customer attends to the delivery of the goods to the onward buyers, etc. To protect the bank from the customer committing a wrong (fraud); e.g. by pledging the goods to someone else, or getting the proceeds of the sales but not placing them into the importer's account maintained with the bank, the bank can take an action against the accepted bills of exchange. This means that in the event of default, the financing bank present the accepted bills of exchange to the importer at maturity. If he does not honour the bill of exchange, it can be enforced against him under the provisions of the Bill of Exchange Act. This is simpler than trying to sue someone for a default of debt.

Question 7

Many candidates were unable to answer this question on the bank's position pertaining to documentary collection.

7. (a) Banco Bank was responsible for adhering to its own position. Banco Bank had rejected the documents in accordance with UCP 500 sub-Article 14(d) and informed Rayasia Bank that the documents were being held at their disposal and requested for instruction. Banco Bank acted in ERROR by releasing the documents to Gonzalez while the transaction was still pending resolution by all parties.

(b) The documents were sent to Banco Bank for their approval and payment under the credit. Rayasia bank did not indicate or infer that the transaction was being processed by them on collection basis subject to ICC's Rules for Collection. Moreover, if Banco bank considered their processing of the transaction to be on collection basis, they should not have sent the telex informing Rayasia bank that the documentary remittance under the letter of credit was rejected, and they should have followed the conditions of UCP 500 sub-Article 14(d).

(c) It is suggested that when forwarding discrepant documents under a credit for payment consideration by the issuing bank, the term "collection" should not be used. The use of this term could create misunderstanding with the issuing bank, leading them to believe that the transaction is now subject to ICC's Uniform Rules for Collections instead of the UCP and thereby, removing all protection to the beneficiary from the application of the UCP Rules.

(d) The applicant and bank can agree to split the difference in the increased value of the goods and pay the beneficiary the sum demanded.