DP06

International Trade Finance

3 SEPTEMBER 2007

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. Bank A issued two documentary credits (DCs) as follows:

Item	**DC001-07**	**DC002-07**
Amount	RM50,000.00	USD50,000.00 Ex-Works (incoterm 2000)
Expiry date and place	Malaysia, 31 May 2007	Issuing bank, 1 June 2007
Advising bank	Bank B, Kuala Lumpur, Malaysia	Bank D, Bangkok, Thailand
Reimbursement	Payment upon receipt of complied documents at the issuing bank	Claim reimbursement from Bank C, New York
Beneficiary	ABX Trading Sdn Bhd, Kuala Lumpur	DHL Trading Ltd, Thailand (DHL)
Other information	-	DC confirmation by Bank D is requested

The above DCs also stipulated:

- Issuing bank: Bank A, Kuala Lumpur, Malaysia.
- Available by negotiation at sight at the counter of any bank.
- Document checking fee is RM50.00 and discrepancies fee is RM100.00, if any, are for the account of beneficiary.

(a) Briefly explain the liability of a confirming bank under a documentary credit. [2]

(b) Complied documents under DC001-07 were subsequently presented at Bank B, Sandakan (branch of Bank B, Kuala Lumpur) on 31 May 2007 and later forwarded and reached Bank A, Kuala Lumpur on 2 June 2007.

Documents under DC002-07 were presented to Bank A, Bangkok, Thailand (branch of Bank A, Kuala Lumpur) by DHL via its bank, Bank D, on 29 May 2007 and later forwarded and reached Bank A, Kuala Lumpur on 2 June 2007.

Assuming 29 May 2007 till 2 June 2007 were banking days in Malaysia and Thailand, did the presentations meet the stipulations of the DCs? Explain your answer. [6]

(c) Assume that the DC issuing bank checked and noted discrepancies on the documents and sought waiver from the DC applicant who eventually accepted the discrepancies. However, the discrepancies and checking fees were deducted from the proceeds, which were contested by the beneficiary.

Was the action of the DC issuing bank in accordance with ICC Uniform Customs and Practice for Documentary Credits (UCP500)? [4]

(d) When reimbursement was claimed from Bank C, New York under DC002-07, the reimbursing bank refused payment, citing that no instruction was given for payment under the DC.

What should Bank D do? Explain your answer and indicate who is responsible to the beneficiary. [6]

(e) Briefly describe the Ex-Works incoterm. [2]

(Total:20 marks)

2. One set of documents under collection was received by Bank A from the supplier's bank, Bank B, which was subject to ICC Uniform Rules for Collections (URC522). However, the collection instruction did not specify the instruction on the delivery of the documents. Nevertheless, Bank A was notified by the customer that they were given a term of 30 days from the shipment date which was consistent with the invoice that was enclosed in the collection. The customer also informed that this was the term they normally receive from their supplier. The bill of lading was consigned to Bank A.

(a) Explain the following terminologies as per URC522:

(i) Clean collection [2]

(ii) Financial documents [2]

(iii) Presentation [2]

(b) Under URC522, what are Bank B and the customer's supplier, as the parties thereto, known as? [4]

(c) How do you handle the above-mentioned documents in accordance with URC522? [6]

(d) The bill of lading was consigned to Bank A.

Can Bank A refuse to take the delivery of the goods? Explain your answer. [4]

(Total:20 marks)

3. (a) Advance payment is seldom used as a means of securing payment.

Name **two** disadvantages of advance payment to an importer. [4]

(b) Malaysia Export Credit Insurance Berhad was set up to provide insurance coverage against certain types of risks relating to international trade with the objective of stimulating Malaysian exports. One of the insurance policies available is the Banker's Export Finance Insurance Policy (BEFIP).

Describe the BEFIP scheme and the risks covered under this scheme. [4]

(c) Explain the difference between an indemnity and a guarantee in the event of a default. [4]

(d) Briefly describe the ALADI scheme under a Bilateral Payment Agreement. [4]

(e) (i) Briefly describe the DDU incoterm. [2]

(ii) Who is in charge of the freight under the DDU incoterm? [2]

(Total:20 marks)

PART B

4. (a) Explain a Vostro account. [2]

(b) (i) Briefly describe a liner bill of lading. [2]

(ii) What is the advantage of a liner bill of lading compared with a marine bill of lading in terms of voyage? [4]

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

(i) Charter party bill of lading. [2]

(ii) Short form bill of lading. [2]

(d) (i) Briefly describe promissory notes in the context of the Bill of Exchange Act 1949 . [2]

(ii) Explain "protesting" in relation to the Bill of Exchange Act 1949 and the details that must be indicated in the form of protest. [6]

(Total:20 marks)

5. (a) (i) What is a red clause letter of credit? [2]

(ii) Describe, with **one** example, how a red clause letter of credit is used in international trade. [4]

(b) Give **two** reasons why the selling telegraphic transfer (TT) rate of a currency is higher than the buying TT rate. [4]

(c) Briefly describe **two** methods of financing available under the Export Credit Refinancing pre-shipment scheme. [4]

(d) (i) What is a documentary risk? [2]

(ii) Describe **one** example of a documentary risk that involves a bank. [2]

(e) How do international traders mitigate transit risk? [2]

(Total:20 marks)

6. A documentary credit (DC) stipulated the following:

<u>Documents required for presentation under the DC:</u>

- Commercial invoice
- Certificate of Origin in three copies
- Packing list
- Insurance policy
- 2/3 original clean-on-board marine bill of lading

<u>Additional conditions:</u>

- 1/3 original bill of lading and a copy of the invoice and packing list are to be forwarded to the applicant. Beneficiary certificate to this effect is required.
- All drafts and documents presented are to indicate the DC number and date.
- Shipment must be done immediately after the issuance of the DC.

<u>Instruction to negotiating bank:</u>

- Courier documents in one lot by DHL courier to issuing bank.
- Claim reimbursement from Bank NY, London with SWIFT/TELEX advice to the issuing bank indicating value date, DC number and that it is subject to 3 days of notification to the issuing bank prior to SWIFT/TELEX claim.

The DC is subject to the ICC Uniform Customs and Practice for Documentary Credits (UCP500).

The nominated bank paid the documents which it considered as compliance. However, the issuing bank disagreed and refused the documents for the following reasons:

- The negotiating bank's courier receipt enclosing documents did not indicate the DC number and date.
- The negotiating bank used ABC courier instead of the DHL courier service when the documents were forwarded to the issuing bank.
- A packing list is not issued by the beneficiary.
- Shipment took effect 15 days after the DC issuance date.
- Bill of lading is dated prior to the DC issuing date.
- Bill of lading is not marked "clean".
- Invoice is not signed.
- The name of the carrier is not indicated on the face of the bill of lading.

(a) Explain **four** different ways where a DC may be made available to a nominated bank. [6]

(b) Do you agree with the issuing bank on the **eight** discrepancies noted above? Explain your answer. [8]

(c) (i) What are **two** ways where a revolving DC can revolve? [3]

(ii) Explain, with **one** example, a cumulative type of revolving credit. [3]

(Total:20 marks)

7. Bank X received a documentary collection from Bank Y for USD100,000.00, which was subject to ICC Uniform Rules for Collections (URC522).

The collection instructions specified the following:

- Documents are to be delivered against payment.
- Partial payment for the collection is allowed.
- Payment for the collection must be made within 5 days from the date of the receipt of the documents by the collecting bank. If payment is made after the 5th working day, an interest charge of 5% per annum of the collection bill amount, from the date of receipt of the documents to the actual payment date, must be collected.

The drawee approached Bank X and offered a partial payment of 80% of the bill amount. Bank X released the documents and remitted the payment to Bank Y indicating that partial payment was effected and the pending balance would be paid later.

Three days later, Bank Y demanded for the balance payment of 20% of the bill amount of USD100,000.00 or the return of the documents. Bank X responded by informing Bank Y that the documents have already been given to the drawee. Bank Y replied later, asking for the remaining 20% plus the interest on the USD100,000 for the period according to the collection instruction.

(a) Did Bank X comply and act in accordance with URC522? Explain your answer. [4]

(b) Was Bank Y's demand in accordance with URC522? Explain your answer. [6]

(c) Will Bank X be liable to pay Bank Y if the drawee does not pay? Explain your answer. [2]

(d) The drawee later decided to pay USD20,000 (the remaining balance of 20% of the bill amount) to fully settle the collection bill. However, they are only willing to pay the interest portion on the balance amount of USD20,000 instead of USD100,000, claiming that only USD20,000 was paid after the 5th working day.

Do you agree with the drawee? Explain your answer. [6]

(e) Explain the term "case-of-need" in the context of URC522. [2]

(Total:20 marks)

– END OF QUESTION PAPER –

OUTLINE ANSWERS

The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

PART A

Question 1

- Candidates failed to realise that Sandakan is in Malaysia and when the DC indicated that it expires in Malaysia, any representation in Malaysia, including representation in Sandakan, is acceptable.
- Candidates did not mention that if the documents are presented under a particular DC, all its terms must be complied with, including if it indicated that certain charges/fees are required to be paid.
- Candidates missed the point that when a reimbursement is allowed in the DC, the Issuing Bank is still ultimately responsible to ensure that the reimbursing bank pays the claiming bank.
- Diligent reading of the study manual and the UCP500 articles should help candidates to answer this question and other similar questions on Documentary Credits.

1. (a) The confirming bank's liability under a Documentary Credit (DC) is similar to that of the DC issuing bank. Also, it shall be liable irrespective of whether it can eventually get reimbursement from the DC issuing bank and/or the nominated reimbursing bank for any payment paid by it under the DC.

(b) For DC number DC001-07, the presentation place is Malaysia and the expiry date 31 May 2007. Therefore, the presentation of complied documents under DC001-07 at Bank B, Sandakan, on 31 May 2007 is within the expiry date and the DC's stipulation as Sandakan is in Malaysia. Bank A is compelled to pay the documents in accordance with the DC.

For DC number DC002-07, the presentation place is the counter of the issuing bank, Bank A, Bangkok, Thailand, and the expiry date is 1 June 2007. The period 29 May till 2 June 2007 are banking days in Malaysia and Thailand. The presentation of documents under DC002-07 only reached Bank A, Kuala Lumpur, on 2 June 2007. Therefore the presentation under DC number DC002-07 did not meet the DC's stipulation as its expiry date is 1 June 2007. Bank A, Bangkok, Thailand (branch of Bank A, Kuala Lumpur) is considered as another bank by the definition of UCP500 Article no.2. Therefore, the presentation to Bank A, Thailand is not considered as a presentation to Bank A, Kuala Lumpur. Hence, Bank A does have the option to reject the documents.

(c) Under UCP500, when complied documents are presented, the DC issuing bank is compelled to pay the full amount claimed by the nominated bank as per the DC amount, provided that the goods are shipped in full.

Similarly, if the DC issuing bank when checking, notes discrepancies in the documents and seeks a waiver from the DC applicant who eventually accepts the discrepancies, the DC issuing bank is compelled to pay the full amount the nominated bank claims as per the DC amount, provided that the goods are shipped in full.

However, if any deductible fees, including discrepancies and checking fees, are mentioned in the DC, then the DC issuing bank may deduct the fees in accordance with DC's stipulations. Therefore, the DC issuing bank's action in this case is in accordance with the ICC Uniform Customs and Practice for Documentary Credits (UCP500) as the condition is considered part of the DC.

Contest by the beneficiary at this point would not be effective. The beneficiary should have rejected the terms when advised to them at the point of receipt of the DC, by asking for an amendment to the terms of the DC via the DC applicant.

(d) When reimbursement was claimed from Bank C, New York, under DC002-07, the reimbursing bank refused payment citing that no instruction was given to pay under the DC. Bank D should claim the reimbursement directly from the DC issuing bank or send a message to the DC issuing bank so that the DC issuing bank will authorise/instruct the reimbursement bank to pay accordingly, as per the terms of the DC.

The DC issuing bank is ultimately responsible to the beneficiary/Bank D. Bank D can also claim on behalf of the beneficiary any interest payable from the DC issuing bank for the delay in accordance with the UCP500 and bank to bank reimbursement arrangements.

(e) The incoterm ex-works means that the goods will be made available at the premises of the seller and the buyer must take delivery by arranging the shipment to the final destination.

Question 2

- Candidates were able to answer questions on terminologies well.
- Candidates could identify the parties named in the example given.
- Candidates failed to understand that if the collection instruction did not provide a clear instruction on the delivery of the documents, there is an option for the presenting bank if the drawee still insists on collecting the documents, i.e., to deliver the documents against full payment.
- Candidates did not understand that a collection instruction cannot be unilateral but must have the consent and agreement of all parties involved including the remitting bank. For example, it is the remitting bank's choice whether or not to accept any dispatch of goods directly to him, for his custody or to his order.
- Basic understanding of the URC522 and URC522 articles should ensure candidates' ability in answering this question well.

2. (a) (i) Clean collections under URC522 means collections of financial documents which are not accompanied by commercial documents.

(ii) Financial documents include bills of exchange, promissory notes, cheques or other similar instruments used for obtaining the payment of money. Other documents are considered commercial documents.

(iii) Presentation is the procedure whereby the presenting bank makes the documents available to the drawee as instructed.

(b) Bank B is called as "the remitting bank" and the customer's supplier is known as "the principal" under URC522.

(c) As the presenting bank, you are obliged only to the party which sent the documents to you in accordance with article 4(a)(iii) unless duly instructed otherwise in the collections instructions. In the case above, you should seek clarification from Bank B for further instruction.

Nevertheless, you may also act in accordance with article 7 of the URC522, that is, to deliver the documents against payment.

(d) Yes. Bank A can refuse to take delivery of the goods if there is no prior arrangement made with Bank B, which remain at the risk and responsibility of the party dispatching the goods even when specific instructions are given to do so in the collection instruction. Bank A has no obligation to take any action in the respect of the goods to which the collection relates.

Question 3

- Candidates were able to provide the advantages of advance payment.
- Candidates could not describe the BEFIP as a type of insurance policy to cover banks against non payment for exports via risks of insolvency and protracted defaults.
- Comprehensive reading of the DP06 study manual should help candidates to answer this question well.

3. (a) Two disadvantages of advance payment to an importer:

- The importer may not receive the goods he has ordered or to his specifications or on time.
- There is a negative impact on his cash flow.

(b) It is a type of insurance policy that provides cover to banks against default and non payment in relation to loans they provide to either exporters or indirect exporters. It encourages banks to lend to exporters by reducing the bank's risk and, indirectly, stimulates exports. The scheme covers only two types of risks i.e. insolvency and protracted defaults.

(c) If a guarantee is executed, the guarantor will be liable to pay only after a demand has been first served on the defaulter, and who is still unable to settle the debt. On the other hand, if an indemnity is executed and the defaulter does not pay, the claim can immediately be made directly to the entity that gives the indemnity.

(d) The ALADI scheme in a bilateral payment arrangement (BPA) involves credit lines between two central banks in USD, where only designated banks are authorised to issue or negotiate the DC, subject to the BPA. The exporter will be paid by its central bank while the central bank of the importer will claim from it. Hence the settlement of the trade will be done between the traders and their respective central banks in the first instance. The affected central banks will later settle their indebtness at a designated point in time on a net basis.

(e) (i) The DDU incoterm stands for "delivered duty unpaid at the named place of destination and applicable for any mode of transport".

(ii) Freight is the seller's responsibility.

PART B

Question 4

- Candidates were able to describe the various types of Bills of Lading and promissory notes.
- Candidates could explain how a protest is done and the details required in the form of a protest.
- Candidates were unable to describe a Vostro account accurately.
- Comprehensive reading of the DP06 study manual could ensure maximum marks for this question.

4. (a) A Vostro account is a local denominated currency account maintained with a local bank by a foreign bank e.g. A bank in Hong Kong maintaining a Ringgit account with a Malaysian Bank.

(b) (i) Liners are vessels designed to transport individuals on their holidays. A Liner bill of lading is a BL issued by a liner when transporting goods in its hold.

(ii) The advantages of using a liner vessel with a liner BL compared with the standard cargo vessel is that a liner has a pre-determined itinerary that obliges it to be at certain locations on stated dates. Therefore, the unloading date is certain at a particular destination with both the exporter and importer aware of it. This is in contrast to a standard cargo vessel with a marine BL.

(c) (i) Charter Party BL: This type of BL is issued by the party that has booked/chartered all the space available on a shipping vessel. There are instances when a business party decides to book all the space on a shipping vessel but cannot fill up all the space available. So he may make the unutilised space available to others. When this unutilised space is given to others, he will therefore issue a charter party BL which is marked “subject to a Charter Party”.

(ii) Short form BL: This type of BL is brief in size and content because the contract terms and conditions of carriage do not appear on the BL itself. Instead, it is referred to in a master document elsewhere.

(d) (i) A promissory note is an unconditional promise in writing made by one person to another. It is signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or bearer.

(ii) Protesting in relation to the Bills of Exchange Act 1949 is an action that involves a notary public protesting to the drawee or a certificate issued by a first class magistrate attesting the dishonour, indicating that the holder has treated the bill of exchange as being dishonoured by non-acceptance and/or non–payment in order to ensure the right of recourse against the drawer and any prior endorsers. Only a foreign bill of exchange is required to be protested in order to protect the holder’s position.

The details that must be indicated in the form of protest are as follows:

- The person at whose request the bill is protested,
- The place and date of protest,
- The cause or reason for protesting,
- The demand made, and
- The answer given, if any, or the fact that the drawee or acceptor could not be found.

Question 5

- Candidates were able to describe a Red Clause Documentary Credit and give appropriate examples of its application in international trade.
- Candidates could explain the documentary risks involved in forged documents and the method to mitigate the transit risks involved in international trade via insurance coverage.
- Candidates were unable to explain the reasons why the selling TT foreign exchange rate is always higher than the buying TT rate.
- Candidates could not accurately describe the two methods of ECR pre-shipment scheme.
- Comprehensive reading of the DP06 study manual should help candidates attain better marks.

5. (a) (i) A red clause DC is a DC that allows the beneficiary of the DC to draw on the DC before the shipment of the underlying goods i.e. it allows for advance payment to the beneficiary of the DC. Historically, the provision mentioned in the DC was typed in red, which is how its name came about.

(ii) An example is the timber trade, where the beneficiary requires the advance in cash to go up-country to purchase the timber that the DC applicant requires.

The advance payment is to facilitate the beneficiary's buying the goods, preparing the goods for shipment, shipping the goods, submitting the documents to the encashing bank/negotiating bank and drawing down the balance of the DC to which he is entitled to.

As with any advance payment, the higher the percentage allowed for advance payment, the higher the risk to the DC applicant/buyer.

A red clause DC may be issued on either a conditional or an unconditional basis.

It can also be issued as a mechanism for a possible pre-shipment financing where the cost of advancement can be passed over to the beneficiary on the strength of the DC.

(b) Reasons a currency's selling TT rate is higher than its buying TT rate:
*(Choose any **two** of the following)*

- Profitability of trading in foreign currency. Profit is higher if the spread/margin/differences are bigger.
- Transactional cost involved includes brokerage fees.
- Buffer against risks in foreign exchange rate movement in the international foreign exchange market. The more volatile the currency the bigger the spread/margin/difference.

(c) Under the Export Credit Refinancing (ECR) pre-shipment scheme, two methods of financing are available:

- The order based method
- The certificate of performance method (CP)

The order based method is available for direct and indirect exporters via submission of either a purchase order (PO), sales contract or evidence of a foreign issued DC. The eligible amount for financing is 80% of the value of the export order.

The CP method is only available to direct exporters based on the recommendation of their respective banks to EXIM Bank. EXIM Bank will determine the eligible amount of financing accordingly for a period of four months which can be renewed.

(d) (i) Documentary risk involves the presentation of documents that are forged. In international trade, this refers to documents presented by the exporter.

(ii) If a bank has negotiated the documents and later finds that the documents have been forged, it may not be able to recover the money. This includes export documents, bills of lading, etc. A forged documentary credit would also pose a documentary risk to banks.

(e) Transit risk in international trade is usually mitigated by taking up the appropriate commercial insurance cover between the two points of transit, e.g., from the seller's warehouse to the buyer's warehouse.

Question 6

- Candidates failed to explain that under UCP500 the DC may be made available by sight payment, deferred payment, acceptance or negotiation.
- Candidates had difficulty in explaining that a revolving DC revolves in relation to time or amount.
- Diligent reading of the study manual and the UCP500 articles should help candidates to answer this question and other similar questions on Documentary Credits.

6. (a) A DC may be made available with a nominated bank in four different ways as per Article 10 of the UCP500 i.e. they are available by sight payment, deferred payment, acceptance or negotiation.

Provided that the stipulated documents are presented to the issuing bank/nominated bank and the terms and conditions of the DC are complied with;

- For sight payment, the DC issuing/confirming/nominated bank is to pay at sight.
- For deferred payment, the DC issuing/confirming/nominated bank is to pay on the maturity date(s) determinable in accordance with the stipulation of the DC.
- For acceptance by the DC issuing bank, the issuing bank is to accept draft(s) drawn by the beneficiary on the issuing bank and pay them at maturity.
- For acceptance by another drawee bank, the issuing/confirming bank is to accept any payment at the draft's maturity drawn by the beneficiary on the issuing bank, in the event the drawee bank stipulated in the DC does not accept the draft(s) drawn on it, or to pay the draft(s) accepted but not paid by such drawee bank at maturity.
- For negotiation, the issuing/confirming bank is to pay without recourse to drawers and/or bona fide holders, the draft drawn by the beneficiary and/or documents presented under the DC.

(b) Agree with the issuing bank on the following discrepancies:

- The negotiating bank used ABC courier instead of DHL courier service when documents were forwarded to issuing bank. (Does not comply with the DC's stipulation)
- Name of carrier not indicated on the face of the bill of lading.(as required for a marine bill of lading as per article 23 of the UCP500)

Disagree with the issuing bank on the following discrepancies:

- The negotiating bank's courier receipt enclosing documents do not indicate the DC number and date. (Terms and condition of the DC does not cover documents not called forth by the DC/not presented by the beneficiary)
- The packing list is not issued by the beneficiary. (The DC did not mention who the issuer is supposed to be; therefore, it is not necessary to issue a packing list for the beneficiary, as per article 21 of the UCP500)

- Shipment was effected 15 days after the DC's issuance date. (not stipulated in the DC. The word "immediately" is disregarded as per article 46(b) of the UCP500. The condition "Shipment was effected 15 days after DC issuance date" is also considered as a non documentary condition.
- The BL is dated prior to the DC issuing date. (Not a discrepancy)
- The BL is not marked "clean". (The BL need not indicate the word "clean" unless stipulated in the DC)
- The Invoice is not signed. (Not required unless stipulated in the DC)

(c) (i) A revolving documentary credit (DC) can revolve in relation to two ways, i.e., in relation to either amount or time. The DC's terms and conditions will define the circumstances that must be satisfied for the DC to revolve.

(ii) For example, a cumulative type of revolving credit would have a stipulation in the DC as follows:

An irrevocable revolving DC of USD100,000.00 for six months and cumulative on monthly basis, which means the DC for USD100,000.00 is available each month and any amount not drawn for the month will be accumulated to the next month.

Question 7

- Candidates could not understand the responsibilities and rights of a collecting bank in discharging its role in collections under URC522.
- Candidates were unable to explain the terminology "case-of-need" in the context of URC522.
- Comprehensive reading of the study manual and URC522 should help candidates attain better marks.

7. (a) No. Bank X neither complied nor acted in accordance with the URC522 rules.

The collection instruction was to deliver the documents against payment. The collection instruction did not mention that delivery of documents with partial payment was allowed. Therefore, as per the URC522 rules, documents must only be delivered when full payment is made even though partial payments are allowed as per Art.19b of the URC522.

Non-compliance with the collection instruction had made Bank X liable for full payment of the collection to the remitting bank, Bank Y. Besides this, Bank X is also liable to other claims, if any, that relate to the non-compliance of the collection instruction including those contained in the collection instruction and the URC522 rules.

(b) Yes. Bank Y's demand is consistent with the URC522 rules because Bank X failed to act in accordance with the collection instruction to collect full payment before releasing the documents.

Furthermore, Bank X did not, in any way, refuse to handle the collection or any related instruction it received, including those in the collection instruction.

Bank Y's demand for interest on the USD100,000.00 is consistent with the collection instruction since full payment had not been made within five days from the date of receipt of documents by the collecting bank. Since the balance of 20% is yet to be made, the drawee is still liable for the interest charges of 5% per annum to be collected on the collection bill amount, i.e., USD100,000 and not USD20,000.00, from the date of receipt of the documents to the actual payment date.

The collection bill amount balance of 20% and the interest charges should be collected from the drawee.

It is now the onus of Bank X to ensure full payment, as well as the payment of the interest as claimed by Bank Y, as per the collection instruction and URC522 rules. The longer the payment takes, the higher will be the interest charges to be made.

(c) Yes. Bank X will be responsible for paying the collection bill amount balance in the event that it cannot be collected from the drawee, whatever the reason, because it did not comply with the collection instruction.

(d) No. The interest charges must be as per the collection instruction and the URC522 rules. The principal amount of the interest is the collection bill amount i.e. USD100,000.00, which was clearly stated. The drawee's argument may seem reasonable and logical but it is still inconsistent with the collection instruction and the URC522 rules.

Nevertheless, Bank X can still approach Bank Y to negotiate and reach a compromise on the interest claims. However, if there is no agreement or compromise, eventually, the drawee has the option not to pay accordingly as per the collection instruction since it was not mentioned that the interest charges could not be waived. So it is best if the parties involved – the principal and the drawee – made a compromise.

(e) "Case-of-need" is a representative nominated by the principal to act on its behalf in the event of non-payment and/or non-acceptance of the collection instruction. Its power should be clearly and fully indicated in the collection instruction. Otherwise, banks will not accept any instruction from such a "case-of-need".